



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #490

### **HIRSP Funding (DHFS -- Public Health)**

[LFB 2001-03 Budget Summary: Page 371, #1]

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#### **CURRENT LAW**

The state's health insurance risk-sharing plan (HIRSP) offers health insurance coverage to individuals with adverse medical histories and others who cannot obtain affordable health care coverage from the private sector. Wisconsin residents are eligible to enroll in HIRSP either as a result of having health insurance coverage rejected or limited by an insurer or as a result of having certain specific diseases or disabilities.

HIRSP is funded from policyholder premiums, assessments paid by health insurance companies doing business in Wisconsin, reduced payments to service providers and state general purpose revenue (GPR). The GPR funding is used to: (a) reduce overall program costs (\$9.9 million in 1999-00 and \$11.9 million in 2000-01); and (b) to reduce costs for premium and deductible subsidies for low-income HIRSP beneficiaries (\$780,000 annually). After accounting for GPR funding used to reduce overall program costs, the remaining program costs are distributed between revenue from policyholder premiums (60%), insurer assessments (20%) and reduced payments to providers (20%).

1999 Wisconsin Act 9 provided \$50,473,500 SEG annually to partially support HIRSP costs. Of this amount, \$46,668,500 SEG annually represented the estimated cost for benefits provided to HIRSP enrollees and \$3,805,000 SEG annually was provided for HIRSP administrative costs. Segregated revenues are available from the HIRSP fund, which consists of GPR, premium revenue and insurer assessments, but does not include the providers' contribution since the reduced payments are an offset to total expenditures for benefits provided to HIRSP enrollees.

DHFS is authorized to spend all funds received for the purpose of providing benefits to HIRSP enrollees. Therefore, the amounts appropriated in Act 9 only represent estimates of the costs for HIRSP benefits and not a limit on the amount of funding available for HIRSP benefits.

However, DHFS is limited to the amounts appropriated by the Legislature for HIRSP expenditures for administrative costs. Further, DHFS is required to develop an annual budget for HIRSP in consultation with the Board of Governors. DHFS cannot implement a budget for HIRSP that has not been approved by the Board.

At its April 25, 2001, meeting, the HIRSP Board of Governors approved a motion to change the way the HIRSP budget is established, beginning January 1, 2001, from a cash-based accounting methodology to a full-cost accounting methodology. In its November, 2000 report, the Legislative Audit Bureau recommended that DHFS seek to change the HIRSP accounting methodology from a cash-based methodology to a full-cost accounting methodology. Under a cash-based accounting method, the amount of revenue necessary to cover costs during a time period is based on the estimate of payments to be made during that time period. Under a full-cost accounting method, the amount of revenue necessary to fund costs during a time period is based on the estimated liabilities incurred during that time period. By making this change, the HIRSP budget for 2001-02, as approved by the Board of Governors, increased by approximately \$16.6 million to reflect the difference between estimated cash payments in 2001-02 and outstanding liabilities incurred during that time period.

Between April 30, 2000, and March 31, 2001, enrollment in HIRSP increased approximately 24%, from 8,714 policyholders to 10,790 policyholders.

## **GOVERNOR**

Provide \$25,907,000 (-\$1,900,000 GPR and \$27,807,000 SEG) in 2001-02 and \$28,946,200 (-\$1,900,000 GPR and \$30,846,200 SEG) in 2002-03 to modify funding for HIRSP as follows.

*Benefits Reestimate.* Provide \$26,543,800 SEG in 2001-02 and \$29,435,700 SEG in 2002-03 to reflect a reestimate of the costs that will be paid by the plan for benefits provided to HIRSP enrollees. The bill would provide a total of \$73,212,300 SEG in 2001-02 and \$76,104,200 SEG in 2002-03 to fund HIRSP benefits costs. The reestimate primarily reflects projected increases in enrollment, as well as increases in the average costs per enrollee and increased costs relating to a change in the way HIRSP reimburses hospitals for outpatient costs.

*Administration.* Provide \$1,263,200 SEG in 2001-02 and \$1,410,500 SEG in 2002-03 to increase funding for the administration of the plan, so that a total of \$5,726,700 SEG in 2001-02 and \$5,715,900 SEG in 2002-03 would be budgeted for this purpose. Funding budgeted for administration supports contracted services with the plan administrator to perform claims processing, enrollment, reporting and other functions, as well as DHFS staff that support the program.

*GPR Supplement.* Delete \$1,900,000 GPR annually to reduce GPR support for the program. The bill would provide \$10,780,000 GPR annually to support HIRSP, of which \$10.0 million would be used to offset total plan costs and \$780,000 would be used to partially support

the costs of premium and deductible subsidies for HIRSP enrollees with income below \$25,000 annually.

## **DISCUSSION POINTS**

### **HIRSP Fund Reestimate**

1. It is estimated that expenditures from the HIRSP fund will total \$67,489,300 SEG in 2001-02 and \$87,071,000 SEG in 2002-03. This represents a reduction of \$11,449,700 SEG in 2001-02 and an increase of \$5,250,900 in 2002-03, compared with the amounts in the bill.

*Benefit Costs.* Of the amounts estimated for HIRSP expenditures, \$62,551,300 in 2001-02 and \$82,587,000 in 2002-03 would support benefit costs under HIRSP. This represents a reduction of \$10,661,000 in 2001-02 and an increase of \$6,482,800 in 2002-03 compared with the amounts budgeted in the bill for HIRSP benefit costs. The funding provided for benefit costs differs from the amounts in the bill in three ways. First, the amount of funding reflects a reestimate of total costs based on updated caseload and cost per enrollee information available since the Governor's recommendations were developed. These estimates are based on assumptions that enrollment in HIRSP would average approximately 12,150 enrollees in 2001-02 and 13,870 in 2002-03 and that average costs per member per month would total \$556.48 in 2001-02 and \$612.13 in 2002-03.

Second, this estimate reflects the Board of Governors' decision to change from a cash-based accounting methodology to a full-cost accounting methodology, effective January 1, 2001, while the estimate included in the bill does not reflect this change.

Third, this estimate does not include HIRSP benefit costs that would be absorbed by providers in the form of reduced payments, while the amounts in the bill include the estimated value of these reductions. It is estimated that providers would fund program costs totaling approximately \$18.6 million in 2001-02 and \$19.3 million in 2002-03. These amounts should not be included in the bill for two reasons. First, these costs do not represent expenditures, but rather costs that are never paid. Second, current statutory provisions regarding the HIRSP fund do not include the providers' contribution among the components of the fund and the amounts included in the bill only reflect expenditures from fund, not the entire costs of providing benefits to HIRSP enrollees.

*Administrative Costs.* The remainder of estimated HIRSP expenditures, \$4,938,000 in 2001-02 and \$4,484,000 in 2002-03, would be provided to fund administrative costs of the plan. This estimate reflects a reduction of \$788,700 in 2001-02 and \$1,231,900 in 2002-03 compared with the amounts provided in the bill. The estimate for administrative costs reflect: (a) inflationary increases for the costs paid to the HIRSP plan administrator; (b) estimates of costs for medical and actuarial consultants; (c) legal services previously funded by the Department of Justice; and (d) one-time charges for administrative costs incurred in 2000-01 but paid in 2001-02. Without the one-time charges for administrative costs, HIRSP administrative costs would increase 2.9% in 2001-02 and another 3.0% in 2002-03. The funding provided in the bill would have increased HIRSP administrative funding to correspond to the increases in enrollment growth.

## GPR Funding

2. The bill would decrease GPR support for HIRSP by \$1.9 million annually. Based on the statutory division of net program costs (60% to policyholders, 20% to insurers and 20% to providers), this loss of revenue for the plan would result in increases in premiums (\$1,140,000 annually), insurer assessments (\$380,000 annually) and reduced provider payments (\$380,000 annually). This cost would represent an estimated increase in: (a) premium revenue of approximately 2.7% in 2001-02 and 2.1% in 2002-03; (b) insurer assessments of approximately 2.2% in 2001-02 and 2.1% in 2002-03; and (c) provider payment reductions of approximately 2.1% in 2001-02 and 2.1% in 2002-03. The Committee could choose to delete the provision in the bill to reduce GPR support for HIRSP if it determines that it is not appropriate to transfer to policyholders, insurers and providers, a portion of program costs that would otherwise be borne by the state.

3. Alternatively, since other revenue sources are available to fund HIRSP costs, the Committee could reduce GPR support for HIRSP further than the amounts provided in the bill so that the GPR funds could be used to support other needs in the budget. Before 1997-98, no GPR funding was budgeted to support HIRSP program costs, other than to provide subsidies to low-income policyholders, \$780,000 GPR annually.

4. The alternatives presented in this paper reflect different options for modifying the amount of GPR funds provided to offset total HIRSP costs. Table 1 identifies how alternative reductions in GPR support for the program would increase program costs funded from policyholders, insurers and providers. Table 2 identifies how alternative reductions in GPR support would affect the program as a percent of projected revenue.

**TABLE 1**

**Effect of Alternatives to Modify GPR Funds  
Used to Offset Total HIRSP Costs**

<u>Alternative</u>	<u>Annual GPR Change to Base</u>	<u>Premium Revenue</u>	<u>Insurer Assessments</u>	<u>Provider Payments</u>
B1 (Governor)	-\$1,900,000	\$1,140,000	\$380,000	\$380,000
B2	-3,000,000	1,800,000	600,000	600,000
B3	-6,900,000	4,140,000	1,380,000	1,380,000
B4 (Current Law)	0	0	0	0

**TABLE 2**

**Effect of Alternatives to Modify GPR Funds  
Used to Offset Total HIRSP Costs**

<u>Alternative</u>	<u>Premiums</u>		<u>Insurer Assessments</u>		<u>Provider Contributions</u>	
	<u>2001-02</u>	<u>2002-03</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2001-02</u>	<u>2002-03</u>
B1 (Governor)	2.7%	2.1%	2.2%	2.1%	2.1%	2.1%
B2	4.3	3.3	4.3	3.3	3.4	3.3
B3	10.6	8.0	8.4	8.0	8.2	8.0
B4 (Current law)	0.0	0.0	0.0	0.0	0.0	0.0

5. The actual effect on HIRSP policyholders would vary based on an individual's annual premium. The amount of an individual's premium would vary depending on the plan in which the individual is enrolled, the age of the individual, where they live in the state, and whether the individual is male or female. Premiums vary from \$1,176 annually for a male child, living in the Milwaukee area and enrolled in Plan 2 to \$7,200 annually for a male, 60 years of age or older, enrolled in Plan 1A and living in the Milwaukee area. Additionally, policyholders with household income at or below \$25,000 may be eligible for reduced premiums.

As an example for illustrative purposes, a 58-year old woman, living in the Milwaukee area, with income above \$25,000 and enrolled in HIRSP Plan 1A currently pays an annual premium of \$5,220. Based on the budget approved by the Board of Governors, for 2001-02, which reflects the Governor's recommendations, it is estimated that this woman would pay an annual premium of \$5,397 in 2001-02. Under Alternative B2, it is estimated that this woman would have an annual premium of \$5,484 in 2001-02, or \$86 more than the estimated premium she would pay under the Governor's recommendations. Under Alternative B3, it is estimated that this woman would have an annual premium of \$5,810, or \$412 more than the estimated premium she would pay under the Governor's recommendations. Under Alternative B4, which would maintain the current level of GPR support for HIRSP, it is estimated that this woman would pay an annual premium of \$5,257, or \$141 less than she would pay under the Governor's recommendations.

**ALTERNATIVES TO BILL**

**A. HIRSP Fund Reestimate**

Reduce funding in the bill by \$11,449,700 SEG in 2001-02 and increase funding in the bill by \$5,250,900 SEG in 2002-03 so that a total of \$67,489,300 SEG in 2001-02 and \$87,071,000 SEG in 2002-03 would be budgeted for HIRSP costs. Of the amounts budgeted, \$62,551,300 SEG in 2001-02 and \$82,587,000 SEG in 2002-03 would be budgeted for HIRSP benefit payments. The remainder, \$4,938,000 SEG in 2001-02 and \$4,484,000 SEG, in 2002-03 would be budgeted for HIRSP administrative costs.

<b>Modification</b>	<b>SEG</b>
<b>2001-03 FUNDING</b> (Change to Bill)	- \$6,198,800

## **B. GPR Funding**

1. Adopt the Governor's recommendations to reduce GPR support for HIRSP by \$1.9 million annually so that \$10.0 million GPR annually would be budgeted to support HIRSP total program costs.

2. Reduce funding in the bill by an additional \$1,100,000 GPR annually so that \$8.9 million GPR annually would be budgeted to support HIRSP total program costs.

<b>Alternative B2</b>	<b>GPR</b>
<b>2001-03 FUNDING</b> (Change to Bill)	- \$2,200,000

3. Reduce funding in the bill by an additional \$5,000,000 GPR annually so that \$5.0 million GPR annually would be budgeted to support HIRSP total program costs.

<b>Alternative B3</b>	<b>GPR</b>
<b>2001-03 FUNDING</b> (Change to Bill)	- \$10,000,000

4. Delete the Governor's recommendation by increasing funding in the bill by \$1,900,000 GPR annually so that \$11.9 million GPR annually would continue to be budgeted to support HIRSP total program costs.

<b>Alternative B4</b>	<b>GPR</b>
<b>2001-03 FUNDING</b> (Change to Bill)	\$3,800,000

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