



## Legislative Fiscal Bureau

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May 25, 2005

Joint Committee on Finance

Paper #400

### **Health Insurance Risk-Sharing Plan Benefits and Administration (DHFS -- HIRSP and Public Health)**

[LFB 2005-07 Budget Summary: Page 263, #2]

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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 as a result of having health insurance coverage rejected or limited by an insurer, as a result of having certain diseases or disabilities, or as a result of losing employer-sponsored health care coverage.

There are three sources of funding used to support HIRSP: (a) premiums paid by participants (60 percent); (b) assessments on health insurance companies doing business in Wisconsin (20 percent); and (c) a pro rata reduction in the billed charges of health care providers (20 percent). Additionally, premium and deductible subsidies for low-income policyholders are funded 50 percent by insurers and 50 percent by providers. 2003 Wisconsin Act 33 eliminated state general purpose revenues (GPR) as a source of funding used to support HIRSP.

HIRSP premiums are determined by gender, age, plan, and location. HIRSP offers two types of plans, both of which provide coverage for major medical expenses. Plan 1 is for individuals who meet the HIRSP eligibility criteria but are not eligible for Medicare. Plan 1 offers two medical deductible options to enrollees. Option 1A has a \$1,000 medical deductible for enrollees with annual household income of \$20,000 or more; the medical deductible is less for enrollees with annual household incomes below \$20,000. Option 1B has a \$2,500 medical deductible for all enrollees. Plan 2 is for individuals who meet the HIRSP eligibility criteria and are eligible for Medicare, either because of a disability or because they turned 65 while enrolled in HIRSP. Coverage for Plan 2 is limited to those benefits not paid by Medicare Part A or B, regardless of whether the individual is enrolled in Part B.

HIRSP policyholders must also pay medical coinsurance of 20 percent, with out-of-pocket limits ranging from \$500 to \$7,000 depending on family size and plan, and prescription drug coinsurance of 20 percent up to a maximum of \$25 per prescription, with out-of-pocket limits from \$125 to \$1,000, depending on the policyholder's income and plan.

2003 Wisconsin Act 33 provided a total of \$135,718,000 SEG in 2003-04 and \$192,481,500 SEG in 2004-05 to support HIRSP benefits and administration costs. Of this amount, \$130,940,600 SEG in 2003-04 and \$187,465,200 SEG in 2004-05 represented the estimated costs for benefits provided to HIRSP enrollees, and \$4,777,400 SEG in 2003-04 and \$5,016,300 SEG in 2004-05 was provided for HIRSP administration costs. Segregated revenues are available from the HIRSP fund, which consists of premium revenue and insurer assessments, but does not include the providers' contribution because 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 the budget represent only estimates of the costs for HIRSP benefits and not a limit on the amount of funding available for HIRSP benefits. However, DHFS spending on administrative services is limited to the amounts appropriated by the Legislature. Further, DHFS is required to develop an annual budget for HIRSP in consultation with the HIRSP Board of Governors. DHFS cannot implement a budget for HIRSP that has not been approved by the Board.

Act 33 removed the provision that required that the HIRSP plan administrator be the Medicaid fiscal agent. In April, 2005, following a competitive bid process, WPS Health Insurance began a three-year contract term as the HIRSP plan administrator.

As of March 31, 2005, 18,725 policyholders were enrolled in HIRSP.

## **GOVERNOR**

Reduce funding by \$37,827,200 SEG in 2005-06 and by \$6,692,200 SEG in 2006-07 to reflect a reestimate of benefits that will be paid by HIRSP and the costs of administering the plan in the 2005-07 biennium, based on current law.

*Benefits.* Reduce funding by \$39,621,900 SEG in 2005-06 and \$8,741,300 SEG in 2006-07 to reflect the administration's estimates of benefit claims in 2005-06 and 2006-07. Base funding for benefits is \$187,465,200.

*Administration.* Increase funding by \$1,794,700 SEG in 2005-06 and \$2,049,100 SEG in 2006-07 to support projected increases in the costs of administering HIRSP. Base funding for administration is \$5,041,400.

## DISCUSSION POINTS

1. In 2003-05, the HIRSP caseload grew less than what was projected in the 2003-05 biennial budget. Based on actuarial estimates available in September, 2004, the administration projected that enrollment would increase by just over eight percent in each year of the 2005-07 biennium. Based on more recent actuarial estimates, the DHFS projects that the average monthly enrollment will increase by approximately four percent in 2005-06 and five percent in 2006-07, from an estimated 18,434 in 2004-05, to 19,132 in 2005-06 and 20,089 in 2006-07.

2. In April, 2005, the HIRSP Board approved a budget for 2005-06. The budget, which was prepared by Milliman, Inc., as actuarial consultant for the HIRSP Board, would provide a total of \$7,071,000 to support administrative costs of the plan and a total of \$151,298,900 to support projected benefits costs in 2005-06.

3. 2003 Wisconsin Act 33 removed a provision that required that the HIRSP plan administrator be the Medicaid fiscal agent. In April, 2005, following a competitive bid process, WPS Health Insurance began a three-year term as the HIRSP plan administrator -- although the final contract has not yet been signed. According to DHFS, WPS is still finalizing its agreements with its subcontractors. Additionally, the contract has a provision that allows DHFS to give 180 days' written notice to the plan administrator terminating the contract if it is in the best interest of DHFS or HIRSP.

4. Based on the WPS contract, administrative costs are projected to total nearly \$7.1 million in 2005-06, an increase of approximately 37 percent over 2004-05 levels. For 2005-06, projected total administrative costs are 4.5 percent of the projected total program costs. In 2003-04, total administrative costs were 4.6% of total program costs. Traditional HIRSP administrative costs include expenses for plan administration, policy management, actuarial services, DHFS administration, medical consultants, pharmacy benefits administration, postage, and legal and referral fees. Administrative costs are projected on the basis of costs per HIRSP enrollee. Although total administrative expenditures are expected to increase by 37 percent under the new contract with WPS, the WPS contract includes a number of additional services that were not provided by the previous plan administrator, such as: (a) disease management services; (b) case management services; (c) on-line application services and other on-line service options including electronic fund transfer and credit card payment options; and (e) expanded customer service phone lines and hours. DHFS expects that these additions will improve service to HIRSP enrollees, and WPS has indicated that a new subcontract for pharmacy benefits management will reduce HIRSP benefit payments.

Disease management services will be available for enrollees with chronic illnesses such as diabetes, asthma, coronary artery disease, and congestive heart failure. Disease management services are designed to increase a patient's adherence to a treatment plan and decrease the relapse behavior of patients with chronic illnesses in order to improve the patient's health and quality of life, while reducing healthcare costs of preventable acute care episodes. Some studies have shown that many patients do not comply with prescribed treatment regimens and cost their health plans significantly more money than those who comply; however, WPS has not quantified

any savings that might be expected from its disease management program. Disease management services include pre-certification of hospital admissions and pre-authorization of high-cost services, as well as frequent telephone contacts, information and education, and close contact with physicians to coordinate services. DHFS estimates it will pay more than \$300,000 for disease management services under the WPS contract in 2005-06, based on projected enrollment and the assumption that 75 percent of HIRSP enrollees will require the services.

Case management services are designed to ensure that individuals with catastrophic injuries or complex health care needs receive appropriate services. Nurse case managers will work with HIRSP enrollees and their physicians to establish a care plan when an enrollee requires extensive or complex medical care due to an injury or illness. Additionally, the case manager will help to coordinate services required in the enrollee's home and clarify HIRSP benefits, such as the purchase or rental of medical equipment.

Additionally, WPS, through its subcontractor, promises aggressive management of all aspects of the HIRSP pharmacy benefit to minimize total pharmaceutical costs under the program. DHFS estimates that HIRSP will pay approximately \$1.26 million for the pharmacy benefits program in 2005-06, based on projected enrollment. The program includes a variety of cost saving mechanisms, including manufacturer contracting and rebate administration, pharmacy claims processing, formulary management and tablet splitting, prior authorization, and other account management services. Based on HIRSP pharmacy spending in 2003-04, WPS projects annual benefits savings of more than \$3 million annually over 2003-04 spending on pharmaceuticals as a result of its subcontractor's pharmacy benefits management. In addition to projecting over \$3 million in savings from these cost saving mechanisms, WPS, under the terms of the proposed contract, will return 100 percent of all rebate dollars received from pharmaceutical manufacturers to the state, as opposed to 68 percent of drug rebates under the pharmacy benefits contract in effect in 2004. In calendar year 2004, HIRSP received over \$1.48 million in drug rebates and paid \$758,400 for pharmacy benefits management. Under the WPS contract, assuming the 2004 level of drug rebates, HIRSP would receive over \$2.18 million in drug rebates and pay \$1.26 million for pharmacy benefits management.

5. HIRSP Plan 1 premium rates cannot be less than 140 percent of the rate that would be charged under an individual policy providing substantially the same coverage and deductibles as HIRSP. The 2005-06 budget assumes a total of \$151,298,900 will be required to support projected benefits costs, an increase of over 19 percent from the projected 2004-05 total benefits costs. Additionally, the HIRSP 2005-06 budget approved by the HIRSP Board sets Plan 1 policyholder premiums at 143.6 percent of the standard rate, an increase of 15 percent over 2004-05.

6. Based on the April, 2005, HIRSP Board-approved estimates of enrollment, cost per enrollee, and the contract with WPS for administrative services, HIRSP benefit and administrative costs would total \$158,369,923 in 2005-06 and \$196,463,851 in 2006-07. Compared to the base, these estimates represent increased administrative services costs of \$2,029,600 in 2005-06 and \$2,374,500 in 2006-07, decreased benefits costs of \$36,166,300 in 2005-06, and increased benefits costs of \$1,582,800 in 2006-07. Compared to the bill these estimates represent increased administrative services costs of \$234,900 in 2005-06 and \$325,400 in 2006-07, and increased

benefits costs of \$3,455,500 in 2005-06 and \$10,324,100 in 2006-07. Attachment 1 lists the base amounts for HIRSP administrative services and benefits as well as the amounts proposed for administrative services and benefits in AB 100, and as revised according to the most recent actuarial estimates and the 2005-06 budget approved by the HIRSP Board.

**MODIFICATION**

Increase expenditure authority by \$3,690,400 SEG in 2005-06 and \$10,649,500 SEG in 2006-07 for HIRSP administration and benefits costs based on reestimates of enrollment and costs approved by the HIRSP Board of Governors in April, 2005.

<u>Modification</u>	<u>SEG</u>
<b>2005-07 FUNDING</b> (Change to Bill)	\$14,339,900

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Attachment



**ATTACHMENT**

**HIRSP Administrative and Benefits Costs Summary**

	<u>Base</u>		<u>AB 100</u>		<u>Current Estimates</u>		<u>Change to AB 100</u>	
<u>HIRSP Program Summary</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2005-06</u>	<u>2006-07</u>
Administrative Costs	\$5,041,400	\$5,041,400	\$6,836,100	\$7,090,500	\$7,071,000	\$7,415,900	\$234,900	\$325,400
Benefits Costs	<u>187,465,200</u>	<u>187,465,200</u>	<u>147,843,400</u>	<u>178,723,900</u>	<u>151,298,900</u>	<u>189,048,000</u>	<u>3,455,500</u>	<u>10,324,100</u>
Total Costs	\$192,506,600	\$192,506,600	\$154,679,500	\$185,814,400	\$158,369,900	\$196,463,900	\$3,690,400	\$10,649,500