STATE OF WISCONSIN

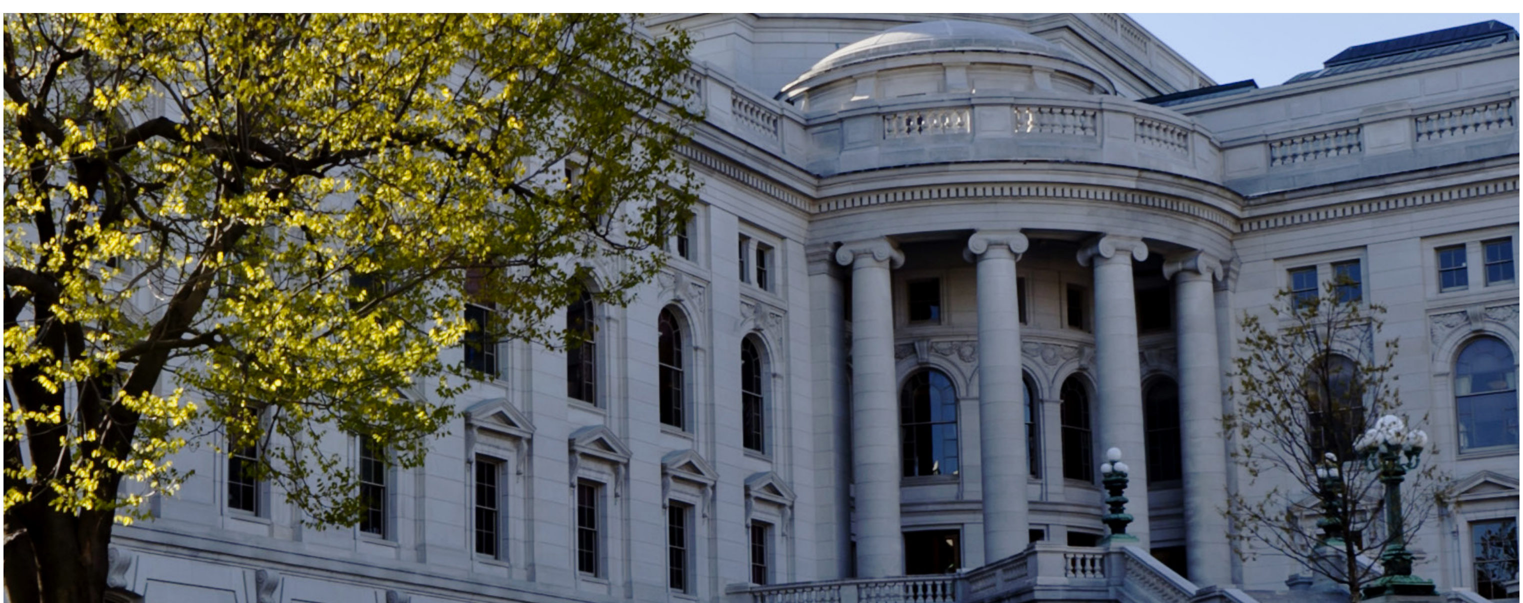
Legislative Audit Bureau

NONPARTISAN • INDEPENDENT • ACCURATE

Report 22-6
June 2022

Injured Patients and Families Compensation Fund

FY 2018-19, FY 2019-20, and FY 2020-21



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June 7, 2022

Senator Robert Cowles and
Representative Samantha Kerkman, Co-Chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

As required by s. 13.94 (1) (de), Wis. Stats., we have completed a financial audit of the Injured Patients and Families Compensation Fund, which insures health care providers in Wisconsin against medical malpractice claims that exceed the primary malpractice insurance thresholds established in statutes. The Fund is overseen by a Board of Governors and administered by the Office of the Commissioner of Insurance (OCI). We have provided unmodified opinions on the Fund's financial statements as of and for the years ended June 30, 2021, June 30, 2020, and June 30, 2019.

The Fund's net position continued to increase during our audit period, and was $1.3 billion as of June 30, 2021. In an attempt to reduce the Fund's net position, the Board reduced rates for assessments on providers participating in the Fund by 10.0 percent in fiscal year (FY) 2018-19. In response to requests from stakeholders, during the public health emergency the Board approved waiving assessments for FY 2020-21. The Board subsequently extended the assessment waiver through June 30, 2023. The increase in the Fund's net position was driven primarily by positive investment income and generally declining estimated loss liabilities.

There is no limit to the compensation the Fund will pay on behalf of participating providers for economic damages, such as medical costs and loss of income. Since April 6, 2006, compensation paid by the Fund for noneconomic damages, such as loss of companionship and affection, has been statutorily limited to $750,000.

We report two material weaknesses in internal control related to the financial reporting process. These deficiencies are included in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which begins on page 51. Given that we have identified financial reporting concerns for several years, we also recommend OCI review its financial reporting process and take additional steps to improve.

We appreciate the courtesy and cooperation extended to us by the staff of OCI. A response from OCI follows our report.

Respectfully submitted,

Joe Chrisman
State Auditor

JC/BG/ss

Introduction

2003 Wisconsin Act 111 established the Fund as an irrevocable trust for the sole benefit of participating health care providers and claimants.

The Injured Patients and Families Compensation Fund insures participating physicians and other health care providers in Wisconsin against medical malpractice claims that exceed the primary malpractice insurance thresholds established in statutes. The Fund was created as the Patients Compensation Fund in Chapter 37, Laws of 1975, in response to concerns over the cost and availability of medical malpractice insurance. 2003 Wisconsin Act 111 changed the Fund's name to the Injured Patients and Families Compensation Fund and established it as an irrevocable trust for the sole benefit of health care providers participating in the Fund and claimants. Wisconsin is one of at least eight states with active compensation funds for patients, although the structure of each fund varies by state.

Most health care providers in Wisconsin are required to purchase secondary medical malpractice insurance from the Fund.

Statutes require most health care providers that operate or have permanent practices in Wisconsin to maintain primary medical malpractice coverage of $1.0 million for each incident and $3.0 million per policy year. Statutes also require participation in the Fund, which provides unlimited secondary medical malpractice coverage for economic damages that exceed the primary medical malpractice coverage.

The Fund insures individual health care providers, such as physicians and nurse anesthetists; institutions, such as hospitals, ambulatory surgery centers, and certain nursing homes; entities, such as medical partnerships, corporations, and cooperatives; and hospital-owned or -controlled entities. Certain providers are statutorily exempt from participation in the Fund, including public employees and those providing services for 240 hours or less in a fiscal year. As of June 30, 2021, 18,975 individual providers, institutions, and other entities participated in the Fund.

The Fund, which is administered by the Office of the Commissioner of Insurance (OCI), is governed by a 13-member Board of Governors chaired by the Commissioner of Insurance. The Commissioner has statutory responsibility for administering the Fund. During the three-year audit period, OCI contracted with external firms for services including claims administration, actuarial, risk management, and accounting.

The Fund's investments are managed by the State of Wisconsin Investment Board.

The Fund's investments are managed by the State of Wisconsin Investment Board (SWIB), which during our audit period contracted with external investment managers to oversee the Fund's investment portfolio. The Fund invests primarily in fixed-income securities and equity securities. The Fund's investment policy allows investment in equity securities to be up to 20.0 percent of the Fund's total investment portfolio. The Fund's cash balances are accounted for in the State Investment Fund, which is a short-term pool of state and local funds managed by SWIB, and in the Short-Term Investment Fund, which is a commingled fund managed by the external investment managers.

In September 2020, the Board of Governors authorized its Finance, Investment, and Audit Committee to oversee certain private equity investments. The Board authorized an allocation up to 10.0 percent of the Fund's equity portfolio to these investments. That allocation would be approximately $25.0 million or 1.5 percent of the Fund's total investment portfolio. These investments would primarily be in private equity and limited partnerships in early-stage healthcare and health-related companies. As of June 30, 2021, no such private equity investments had been made by the Fund.

We reviewed the Fund's financial statements as of and for the years ended June 30, 2021, June 30, 2020, and June 30, 2019.

Statutes require the Legislative Audit Bureau to perform a financial audit of the Injured Patients and Families Compensation Fund at least once every three years. In completing our audit, we reviewed the Fund's internal controls; assessed the fair presentation of its financial statements as of and for the years ended June 30, 2021, June 30, 2020, and June 30, 2019; and reviewed compliance with certain statutory provisions. We also followed up on a recommendation from our prior audit (report 19-9) related to the management of the Fund's net position, and on recommendations for OCI to improve financial reporting for the Fund.

Claim Payments

There is no limit to the compensation the Fund will pay on behalf of participating providers for economic damages, such as medical costs and loss of income.

There is no limit to the compensation the Fund will pay on behalf of participating providers for economic damages, such as medical costs and loss of income. If the Fund does not have sufficient funds to pay the claims, Wisconsin Statutes allow up to $100.0 million to be supplemented by general purpose revenue. Prior to April 6, 2006, awards of noneconomic damages in medical malpractice claims, which include compensation for suffering, mental distress, and loss of companionship and affection, were also not limited because a 2005 Wisconsin Supreme Court ruling found the limit in place at that time to be unconstitutional. Since April 6, 2006, awards of noneconomic damages have been limited by Wisconsin Statutes to $750,000. This limit was upheld by the Wisconsin Supreme Court in a June 2018 ruling.

From its inception through June 30, 2021, the Fund has paid $944.8 million for 684 claims.

From its inception in 1975 through June 30, 2021, the Fund has paid $944.8 million for 684 claims. During this period, individual claim payments ranged from $4,000 to $34.3 million. As shown in Table 1, 69.9 percent of paid claims were for amounts less than $1.0 million. However, these 478 paid claims account for only 17.5 percent of the Fund's total payments for all claims through June 30, 2021. In contrast, 48 claims with payments of $5.0 million or more represent 47.5 percent of the total claim payments over that time period.

Table 1

Paid Claims from the Fund's Inception through June 30, 2021

Claim Amount	Number of Paid Claims	Percentage of Paid Claims	Amount Paid for All Claims	Percentage of Total Payments for All Claims
$5.0 Million or More	48	7.0%	$449,115,901	47.5%
At Least $1.0 Million but Less Than $5.0 Million	158	23.1	330,608,126	35.0
Less Than $1.0 Million	478	69.9	165,032,082	17.5
Total	**684**	**100.0%**	**$944,756,109**	**100.0%**

As required by s. 655.015, Wis. Stats., for each claim for which future medical expense payments from the Fund exceed $100,000, the Fund is required to establish an account for the claimant. The Fund is to credit to each account the future medical expense payments to be made as well as its share of interest earned by the Fund. Medical expenses are subsequently paid from the account and, if a balance remains at the time of the claimant's death, it is returned to the Fund. As of June 30, 2021, the Fund held $61.9 million in these accounts.

The Fund made claim payments of $10.0 million or more for twelve claims from its inception through June 30, 2021.

As shown in Table 2, the Fund made claim payments of $10.0 million or more for twelve claims from its inception through June 30, 2021. The two largest claim payments were for incidents that occurred prior to April 2006, and included significant noneconomic damage awards that were not subject to any limit. The largest noneconomic damages award was $11.5 million, which was included as part of a $34.3 million claim paid in FY 2007-08.

Table 2

Claim Payments of $10.0 Million or More through June 30, 2021
(in millions)

Fiscal Year of Incident	Fiscal Year of Payment	Claimant Allegations	Economic Damages	Noneconomic Damages	Total[1]
2003-04	2007-08	Negligent blood transfusion caused cardiac arrest and brain damage.	$22.8	$11.5	$34.3
2004-05	2010-11	Negligent labor and delivery caused brain damage.	11.0	11.0	22.0
2015-16	2018-19	Negligent prolonged low blood pressure during surgery that caused brain damage.	20.7	0.8[3]	21.5
1985-86	1992-93	Diet pills prescribed without a complete physical evaluation caused cardiac arrest and brain damage.	9.0	9.0	18.0
2006-07	2008-09	Improperly performed surgical procedure caused brain damage.	–[2]	–[2]	16.3
1993-94	1996-97	Negligent treatment caused quadriplegia.	–[2]	–[2]	15.6
1993-94	2000-01	Initial surgery and follow-up treatments of pinched nerve were negligent, which caused continuing pain.	4.3	9.3	13.6
2000-01	2012-13	Negligent delivery caused brain damage.	8.9	3.1	12.0
2016-17	2020-21	Negligent delivery caused brain damage.	11.2	0.8[3]	12.0
2003-04	2006-07	Negligent delivery caused brain damage.	11.0	0.0	11.0
1996-97	2005-06	Negligent treatment caused brain damage.	9.1	1.0	10.1
2001-02	2006-07	Negligent labor and delivery caused brain damage.	–[2]	–[2]	10.0

[1] Includes interest on losses paid and amounts credited to future medical expense accounts.

[2] The claim payment was based on a settlement in which the economic and noneconomic damage amounts were not specified.

[3] Since April 6, 2006, awards of noneconomic damages have been statutorily limited to $750,000.

A small number of large-value claims can significantly affect the Fund's operations and cash flow. Both the uncertainty and long-term nature of medical malpractice claims make it difficult to predict if or when large claims will be settled and paid from the Fund. As a result, total annual claim payments can fluctuate from year to year and sufficient reserves need to be set aside to ensure funds are available to pay these claims.

The Fund uses an actuary to project the estimated loss liabilities.

To estimate the amount of reserves that needs to be set aside to pay potential claims, the Fund uses an actuary to project the estimated loss liabilities for medical malpractice incidents that have occurred but may not yet have been settled or even reported. The estimated loss liabilities include an additional risk margin of 25.0 percent to account for the uncertainties related to the estimates. The Board of Governors relies on the Fund's actuary to help estimate loss liabilities and it contracts for an actuarial audit to be completed once every three years to assess the reasonableness of the methodology and assumptions used by the actuary in developing the estimated loss liabilities. The most recent actuarial audit was initiated in November 2021 after we made inquiries to the Fund regarding the status of the audit. The actuarial audit examined the actuarial reports issued for the years ended September 30, 2019, and September 30, 2020, and found the methods and assumptions used conformed with generally accepted actuarial standards of practice; the actuary reached reasonable conclusions regarding the reserves required for the Fund; and the actuary made use of an appropriate risk margin.

Accurately estimating the Fund's loss liabilities is challenging because:

- secondary medical malpractice insurance claims typically are infrequent and involve severe cases;
- a medical malpractice claim may be filed years after an incident occurred;
- there is no limit on the amount of economic losses the Fund may be required to pay;
- legislation and court decisions can significantly affect the Fund's loss liabilities; and
- the methodology and assumptions used by an actuary can significantly affect the result of an analysis.

The Fund's loss liabilities fluctuate and were $422.4 million as of June 30, 2021.

The Fund's actuary reviews and revises total loss liability estimates each year, based on an additional year of claims experience and other information. The estimate of the Fund's loss liabilities over the past several years has fluctuated, as shown in Table 3. For example, reported loss liabilities to cover future claim payments decreased from $665.8 million as of June 30, 2012, to $279.8 million as of June 30, 2019, but increased to $422.4 million as of June 30, 2021. Due to the significant uncertainties involved, the actuarial estimates are emphasized in our unmodified audit opinion on the Fund's financial statements.

Table 3

Total Loss Liabilities
As of June 30
(in millions)

Year	Total Loss Liabilities	Percentage Change
2012	$665.8	–
2013	628.0	(5.7)%
2014	596.5	(5.0)
2015	486.0	(18.5)
2016	424.5	(12.7)
2017	357.1	(15.9)
2018	366.5	2.6
2019	279.8	(23.7)
2020	387.8	38.6
2021	422.4	8.9

One factor contributing to the recent increase in the estimated loss liabilities relates to the amount of reserves to be set aside for reported cases. Beginning in FY 2019-20, the Fund changed its methodology and increased the amount it reserved to more accurately reflect the potential claim. The Fund established a default reserve level for all open claims based on an analysis the Fund completed of the average claim payouts. In addition, the Fund further modified the reserves for certain potential claims aimed to reflect the specifics of those claims. As a result, the Loss Liability for Reported Losses on the Statement of Net Position increased from $29.0 million as of June 30, 2019, to $138.5 million as of June 30, 2021. This also affected the overall loss liability used by the actuary in projecting the reserves.

The change in the estimated loss liability each year also affects the underwriting expenses reported on the financial statements each year. Absent other changes, as the estimated loss liabilities decrease, underwriting expenses also decrease. This may result in the reporting of a negative expense on the financial statements that improves the Fund's net position. For example, total underwriting expenses were ($69.3) million for FY 2018-19, which were reported on the Statement of Revenues, Expenses, and Changes in Net Position. Also as the estimated loss liabilities increase, the underwriting expenses increase. Underwriting expenses were $130.5 million for FY 2019-20 and $54.6 million for FY 2020-21, and reflect the increase in the estimated loss liability as of June 30, 2020, and June 30, 2021.

Annual Assessments

Assessment rates vary by provider type and specialty area.

To cover claims against the Fund, participating providers pay annual assessments based on their type and specialty area. For example, among individual providers, assessment rates are higher for physicians than for nurses, and are higher for physicians who perform surgery than for those who do not. Physicians were assessed rates for FY 2019-20 coverage that ranged from $382 for general practice physicians to $2,521 for obstetric and neurological surgeons.

In consultation with the Fund's actuary, and within established statutory limits, the Board of Governors attempts to set annual assessment rates so that the assessments for the period of insurance coverage will cover the ultimate claims that are associated with events that occurred during the same period of insurance coverage. In establishing assessment rates, the Board also considers the Fund's financial position, its cash flow needs, and Wisconsin's medical malpractice environment. Because of the Fund's financial position and investment income, the Board of Governors has generally decreased assessment rates in the past five fiscal years, as shown in Table 4.

The Board of Governors has approved a waiver of assessments for Fund participants from July 1, 2020, through June 30, 2023.

In June 2020, in response to requests from stakeholders due to the public health emergency, the Board of Governors approved waiving assessments for FY 2020-21 for the health care professionals and providers enrolled in the Fund. In Board meeting materials, it was indicated that the assessment waivers would not jeopardize the solvency of the Fund and would provide aid to the medical systems and providers affected by the public health emergency. Further, in December 2020 and again in December 2021, the Board of Governors extended the assessment waiver for FY 2021-22 and FY 2022-23, respectively. According to Fund staff, it is anticipated that assessments will be collected by the Fund again beginning on July 1, 2023.

Table 4

Assessment Rates and Revenues

Policy Year	Percentage Change in Provider Assessment Rates	Assessment Revenues
FY 2016-17	(30.0)%	$16,217,175
FY 2017-18	(30.0)	11,399,860
FY 2018-19	(10.0)	10,966,623
FY 2019-20	0.0	11,035,074
FY 2020-21	–[1]	(205,937)[2]

[1] The Board of Governors approved a waiver on assessments for FY 2020-21. The assessment waiver was later extended through FY 2022-23.

[2] This represents refunds of assessments paid by providers in prior policy years.

The assessments for FY 2020-21 were not sufficient to cover the ultimate claims that were associated with events that occurred during FY 2020-21.

As a result of the decreases in assessment rates and the assessment waiver in effect, the assessments were not sufficient to cover the ultimate claims that were associated with events that occurred during the same period of insurance coverage. For example, the actuary estimated the ultimate claims for events that occurred during FY 2020-21 to be $47.5 million and the assessments for FY 2020-21 were ($205,937). Positive investment income has enabled this disparity to occur without having a detrimental effect on the Fund’s current net position.

Investment Income

The investment income of the Fund contributed to the decision of the Board of Governors to decrease the assessment rates and to approve the recent assessment waiver. As shown in Table 5, the Fund has earned positive investment income in all of the last ten years. The positive investment income has significantly contributed to the increase in the Fund’s net position.

Table 5

Investment Income
(in millions)

Fiscal Year	Investment Income
2011-12	$ 67.5
2012-13	30.7
2013-14	86.2
2014-15	30.2
2015-16	72.1
2016-17	48.4
2017-18	22.3
2018-19	115.1
2019-20	135.8
2020-21	111.0

Financial Position of the Fund

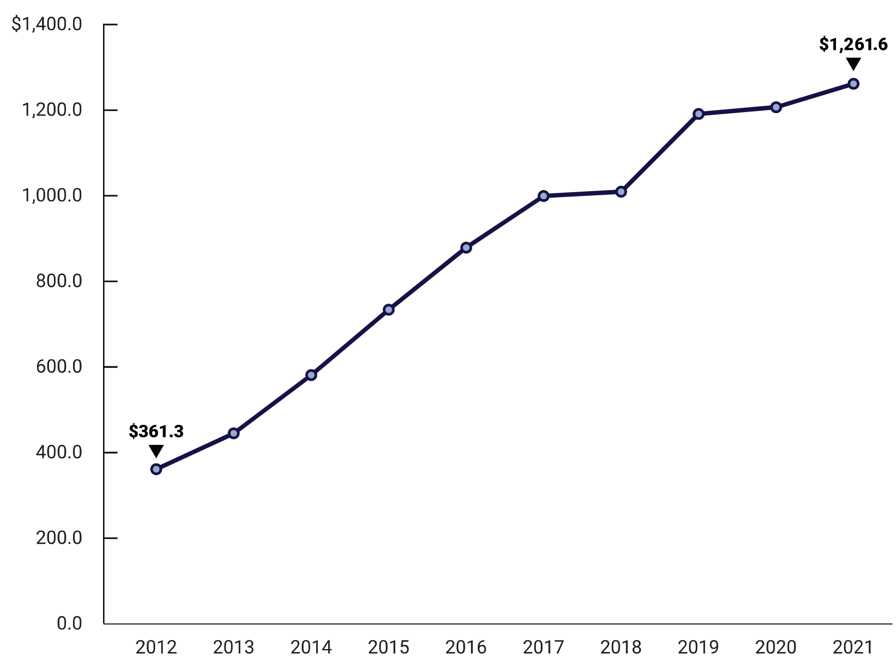
In any insurance operation, a positive financial position is important to ensure adequate resources are available to pay unexpected claims. The uncertainties associated with the long-term nature of the Fund as a secondary medical malpractice insurer increase the importance of maintaining a positive financial position. Although their interests and priorities differ, health care providers, users of health care services, and attorneys in malpractice cases all benefit by having confidence in the reliability and soundness of the Fund's financial operations.

The Fund had a net position of $1.3 billion as of June 30, 2021.

The Fund's financial position is represented by its net position on the Statement of Net Position. A positive net position indicates that sufficient assets have been set aside to fully fund the estimated loss liabilities and other liabilities. As shown in Figure 1, from FY 2011-12 through FY 2020-21, the Fund's net position increased steadily from $361.3 million as of June 30, 2012, to $1.3 billion as of June 30, 2021.

Figure 1

Net Position
As of June 30
(in millions)



The Fund's net position is affected by factors including its assessments, investment income, and underwriting expenses, which primarily consists of changes to its estimated loss liabilities. As noted, over the past 10 years the Fund's investment income has been positive. Further, estimated loss liabilities have generally declined since 2012. These factors have substantially contributed to the increase in the Fund's financial position. The Board of Governors has limited control of these factors and can only decrease assessment rates in order to reduce the Fund's net position. As noted, the Board of Governors has taken steps to consistently reduce assessment rates, and waived assessments beginning in FY 2020-21.

In response to our prior recommendation, the Board of Governors established a minimum net position level for the Fund.

To assist in managing the Fund's net position, the Board of Governors, with the help of the Fund's actuary, established an annual target range for the Fund's net position. In addition, at its quarterly meetings, the Board of Governors monitors the Fund's financial information. In response to our recommendation in report 19-9, the Board of Governors requested the Fund's actuary develop information for the Board's consideration on insurance industry guidance on actuarially sound levels of net position balances. As part of this analysis, the Fund's actuary provided information regarding both the Fund and similar programs, including both government insurance programs and private sector insurance companies. In August 2020, the Fund's actuary provided the Board of Governors with several options to consider for the Fund's net position target range, and recommended the Board use a risk-based capital model. Risk-based capital is the minimal level of capital that an insurance entity must have to maintain its solvency and fulfill all of its financial operating needs. In September 2020, the Board of Governors set the Fund's minimum net position level to be 500.0 percent of risk-based capital, which was approximately $211.0 million at that time. The actuary recommended this level and indicated that a lower net position would expose the Fund to significant risk from a single claim and result in high leverage ratios.

It is important that the Board of Governors continue to monitor the level of the Fund's net position.

Although the Fund's net position continues to be significantly above the minimum net position level set by the Board of Governors, it is important that OCI continue to manage the Fund prudently for the benefit of both the participating providers and the claimants. To further support the prudent management of the Fund, it is important that the Board of Governors continue to monitor the Fund's net position on a quarterly basis and determine a level of net position at which action will need to be taken by the Board to prevent it from decreasing to or below the minimum net position level. During future audits, we will continue to monitor the efforts of OCI and the Board of Governors in this area.

Fund Provider System

2021 Wisconsin Act 58 provided the Fund with $9.0 million to replace its current computer system used to administer the Fund.

The Fund uses a computer system, which was implemented in March 2010, to maintain the accounts of participating health care providers, including billing and primary insurance coverage information, and to track medical malpractice claims. 2021 Wisconsin Act 58, the 2021-23 Biennial Budget Act, provided the Fund with $9.0 million in budget authority for the replacement of its current system with the Oracle Insurance Policy Administration system. OCI anticipates the new system will be implemented in FY 2022-23. We will review the new system as part of our next audit of the Fund.

Internal Control over Financial Reporting

Accurate financial reporting is important to help ensure that interested parties have confidence in the Fund's financial operations and the Board of Governors has the best information available to make decisions regarding the Fund's financial operations. Therefore, it is important that effective procedures and controls are in place to prevent, or to detect and correct in a timely manner, financial statement errors.

We continued to identify concerns with the Fund's financial reporting process.

We have reported concerns with the Fund's financial reporting over several years. In our prior audit (report 19-9), we reported significant deficiencies in internal control related to the financial reporting process for FY 2015-16 and FY 2017-18. Although the Fund subsequently contracted with an external accounting firm to provide assistance in preparing and reviewing its financial statements, we continued to identify deficiencies in internal control related to the financial reporting process for the Fund.

We report two material weaknesses in internal control over financial reporting for the Fund.

During our current audit, we identified material misstatements in the financial statements caused by an inadequate understanding of relevant accounting standards requirements and an inadequate review process in the compilation of the financial statements. In our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which begins on page 51, we report material weaknesses in internal control related to the financial reporting process for FY 2018-19 (Finding 1) and for FY 2019-20 and FY 2020-21 (Finding 2).

Given that financial reporting concerns have continued for several years, OCI should review its financial reporting process and take additional steps to improve its procedures for preparing and reviewing the financial statements.

☑ Recommendation

We recommend the Wisconsin Office of the Commissioner of Insurance, Injured Patients and Families Compensation Fund:

- *review its financial reporting process;*
- *establish adequate procedures and controls to ensure the accuracy of the Fund's financial statements; and*
- *report to the Joint Legislative Audit Committee by October 28, 2022, on the status of its efforts to implement these recommendations.*

■ ■ ■ ■

Audit Opinion

STATE OF WISCONSIN
Legislative Audit Bureau

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Independent Auditor's Report on the Financial Statements and Other Reporting Required by *Government Auditing Standards*

Senator Robert Cowles and
Representative Samantha Kerkman, Co-Chairpersons
Joint Legislative Audit Committee

Members of the Board of Governors, and
Mr. Nathan Houdek, Commissioner of Insurance
Injured Patients and Families Compensation Fund

Report on the Financial Statements

We have audited the accompanying financial statements and the related notes of the Injured Patients and Families Compensation Fund of the State of Wisconsin as of and for the years ended June 30, 2021, June 30, 2020, and June 30, 2019, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management of the Injured Patients and Families Compensation Fund is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on these financial statements.

Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Injured Patients and Families Compensation Fund as of June 30, 2021, June 30, 2020, and June 30, 2019, and the respective changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphases of Matter

As discussed in Note 1 to the financial statements, the financial statements referred to in the first paragraph present only the Injured Patients and Families Compensation Fund and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2021, June 30, 2020, and June 30, 2019, the changes in its financial position, or where applicable, its cash flows for the year then ended, in accordance with the accounting principles generally accepted in the United States of America.

As discussed in Notes 2F and 4 to the financial statements, the Injured Patients and Families Compensation Fund's projected ultimate loss liabilities are estimates based on recommendations of a consulting actuary and approved by the Fund's Board of Governors. Uncertainties inherent in projecting the frequency and severity of medical malpractice insurance claims, the Fund's unlimited liability coverage for economic damages, and extended reporting and settlement periods make it likely that amounts paid will ultimately differ from the reported estimated liabilities.

Our opinions are not modified with respect to these matters.

Other Matter

Required Supplementary Information—Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 21 through 28 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be essential for placing the financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information that included inquiries of management about the methods of preparing the information. We further compared the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated June 1, 2022, on our consideration of the Injured Patients and Families Compensation Fund's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, and contracts; and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Injured Patients and Families Compensation Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering the Injured Patients and Families Compensation Fund's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU

Legislative Audit Bureau

June 1, 2022

Management's Discussion and Analysis

Prepared by Management of the Wisconsin Injured Patients and Families Compensation Fund

This section presents Management's Discussion and Analysis of the financial performance of the Wisconsin Injured Patients and Families Compensation Fund during the fiscal years ended June 30, 2021, June 30, 2020, and June 30, 2019. This discussion should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes, and this discussion are the responsibility of the management of the Fund.

Overview of the Fund

The Fund, formally known as the Patients Compensation Fund, was created in 1975 to provide excess medical malpractice insurance for Wisconsin health care providers. Under broad authority granted to it by s. 655.27(2), Wis. Stats., the Fund is governed by a 13-member Board of Governors. The Board consists of three insurance industry representatives appointed by the Commissioner of Insurance; a member named by the Wisconsin Association for Justice; a member named by the State Bar of Wisconsin; two members named by the Wisconsin Medical Society; a member named by the Wisconsin Hospital Association; four public members appointed by the Governor; and the Commissioner of Insurance, who serves as the chair. The Fund's administrative staff is provided by the Office of the Commissioner of Insurance.

The Board is assisted by its Actuarial and Underwriting Committee; Legal Committee; Claims Committee; Finance, Investment, and Audit Committee; Risk Management and Patient Safety Committee; and Peer Review Council. The Board and its committees meet quarterly. On December 16, 2020, the Board authorized the expansion of the Peer Review Council from five members to seven, consisting of three members of the public, three physicians, and one certified registered nurse anesthetist, who is licensed and in good standing to practice medicine in this state.

The Fund operates on a July 1 through June 30 fiscal year basis. Administrative costs and operating costs, including claim payments, are funded through assessments on participating health care providers.

Financial Statements

The Fund's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Financial statements for each of the past three fiscal years follow this discussion and analysis. Only significant sections of the financial statements are discussed in the following pages.

Assets

The Fund's assets consist primarily of investments, which are managed by the State of Wisconsin Investment Board. Wisconsin Statutes, program policy provisions, appropriate governing bonds, and general resolutions contained in revenue bond indenture documents define the types of securities authorized as appropriate investments and the conditions for making investment transactions. The Board of Governors and its Finance, Investment, and Audit Committee provide oversight through statutory guidelines in the investment structure of the Fund's portfolio. Compliance with these guidelines is reviewed quarterly by the Finance, Investment, and Audit Committee.

The Fund's investment strategy is to invest at least 75.0 percent of its assets in fixed-income securities that have a reasonable degree of safety of principal, as well as income-paying ability. The rest may be invested in equities or held as a cash reserve with a maximum of 20.0 percent being in equities. High priority is given to matching the maturity of assets with the liquidity needs of the liabilities. Equities made up 16.8 percent of total investments as of June 30, 2021, 16.2 percent as of June 30, 2020, and 16.8 percent as of June 30, 2019. Consequently, the Fund remained in compliance with the investment guideline that limits equities to no more than 20.0 percent of total investments. Investments are reported at fair value.

As shown in Table A, there have been increases in total assets over the last three years. Total assets for the Fund, which are primarily comprised of investments, increased from $1.39 billion as of June 30, 2018, to $1.52 billion as of June 30, 2019, $1.62 billion as of June 30, 2020, and $1.70 billion as of June 30, 2021. The increases are primarily attributed to gains on investments.

Table A

Total Assets
As of June 30

Year	Total Assets	Percentage Change from Prior Year
2021	$1,696,893,706	4.62%
2020	1,622,019,781	6.54
2019	1,522,397,258	9.41
2018	1,391,504,388	–

Loss Liabilities

Loss liabilities are the amounts expected to be paid in the future for incidents that have already occurred, and they account for nearly all the liabilities of the Fund. Total loss liabilities, which are shown in Table B, include the total of individual case estimates for reported losses, the actuarially determined estimate for losses that have been incurred but have not yet been reported to the Fund, and provisions for the estimated future payment of loss adjustment costs associated with the outstanding claims, future investment earnings, accounts managed by the Fund for future medical expenses, and contributions from the primary insurer on a current claim. The expressed amounts of loss liabilities in Table B include current and noncurrent portions.

Table B

Total Loss Liabilities
As of June 30

Year	Total Loss Liabilities	Percentage Change from Prior Year
2021	$422,441,479	8.93%
2020	387,827,414	38.63
2019	279,752,195	(23.68)
2018	366,549,593	–

Changes in loss liabilities from one year to the next reflect a combination of another year's loss experience, plus or minus any change to prior years' loss liability estimates based on actuarial studies. The uncertainties inherent in projecting the frequency and severity of claims because of the Fund's unlimited liability coverage for economic damages, extended reporting and settlement periods, and the effect of court decisions and legislative initiatives make it likely that the amounts ultimately paid will differ from the reported estimated liabilities. These differences cannot be quantified. The estimated amounts included in the balance of Total Loss Liabilities are continually reviewed and adjusted as the Fund gains additional experience. Such adjustments are reflected in current operations. Because of the changes in these estimates, the benefit expense for the fiscal year is not necessarily indicative of the loss experience for the year. The Fund's actuary performs an annual review of the outstanding estimated liabilities for each year and makes adjustments for each year as deemed appropriate.

The loss liabilities can also be affected by the interest rate assumption and corresponding discount factor used in determining their present value, as required by Wisconsin Administrative Code. Changes in the discount factor, as well as the amount of the estimated loss liabilities and available assets, affect the contra liability account—amount representing interest—and the change in that account, which is reflected as an underwriting expense. The investment rate assumption for the Fund approved by the Board of Governors was 2.0 percent effective for the loss liabilities as of June 30, 2021, June 30, 2020, and June 30, 2019. The investment rate assumptions resulted in discount factors of 0.927 for FY 2020-21, 0.926 for FY 2019-20, and 0.935 for FY 2018-19.

Net Position

The Fund's net position, which is the assets plus deferred outflows less the liabilities and deferred inflows, for the past four years are shown in Table C. The changes in net position are largely attributable to the difference between revenues earned and expenses incurred; changes made to loss liability estimates for previous years as determined by the actuary; and unrealized investment gains and losses, which reflect changes in the fair value of held investments.

Table C

Net Position
As of June 30

Year	Net Position	Percentage Change from Prior Year
2021	$1,261,576,614	4.54%
2020	1,206,778,391	1.32
2019	1,191,069,542	17.98
2018	1,009,527,768	–

The Fund’s net position increased from June 30, 2018, to June 30, 2019, by $181.6 million from $1,009.5 billion on June 30, 2018, to $1,191.1 billion on June 30, 2019. The increase in net position from June 30, 2019, to June 30, 2020, was $15.7 million and the increase from June 30, 2020, to June 30, 2021, was $54.8 million. The increase of net position for the years represented is primarily comprised of investment income, along with favorable development of the claims paid.

Revenues

The Fund’s revenues consist primarily of assessments and investment income. All Fund participants are billed annually in accordance with an assessment rate determined by the Board of Governors. Investment income varies for reasons that include the economy in general, the operating experience of the Fund, and the amount of new money available for investing.

On June 17, 2020, the Board of Governors voted to waive assessments for the next fiscal year for the health care professionals and providers enrolled in the Fund. The assessment waiver was originally requested by the Wisconsin Medical Society and endorsed by the Fund's Actuarial and Underwriting and Finance, Investment, and Audit committees before it was approved by the Board. The assessment waiver, which was in effect from July 1, 2020, until June 30, 2021, was extended during FY 2020-21 through the end of FY 2021-22.

As shown in Table D, total revenues increased significantly by $92.4 million from FY 2017-18 to FY 2018-19, and from FY 2018-19 to FY 2019-20, a modest increase was reported of $21.0 million as a result of increased investment income. From FY 2019-20 to FY 2020-21, there was a $36.3 million decrease as a result of market volatility due to the public health emergency and the waiver of assessments approved by the Board for FY 2020-21.

Table D

Total Revenues

Fiscal Year	Total Revenues	Percentage Change from Prior Year
2020-21	$110,842,215	(24.68)%
2019-20	147,155,253	16.65
2018-19	126,156,359	273.44
2017-18	33,782,252	–

Assessment revenues, which are shown in Table E, depend on the number of each type of provider participating in the Fund and the assessment rates in effect for each provider type. The Board of Governors authorized changes in assessment rates as follows: a 10.0 percent decrease for FY 2018-19, there were no rate changes for FY 2019-20, and a waiver of assessments for FY 2020-21. Total assessments can fluctuate at a rate somewhat different than the approved rate change because of variances in the number and classification of providers.

Table E

Assessment Revenues

Fiscal Year	Assessment Revenues	Percentage Change from Prior Year
2020-21	$ (205,937)	(101.87)%
2019-20	11,035,074	0.62
2018-19	10,966,623	(3.80)
2017-18	11,399,860	–

Physicians are classified into one of four classes based upon a risk assessment of their specialty. Hospitals are assessed based upon the number of beds and outpatient visits. As shown in Table F, as of June 30, 2021, Fund participants were mostly physicians.

Table F

Providers by Type
As of June 30, 2021

Provider Type	Number of Providers	Percentage of Total Providers
Physicians	16,447	86.6%
Nurse Anesthetists	1,161	6.1
Corporations	1,101	5.8
Hospitals	162	0.9
Partnerships	12	0.1
Hospital-affiliated Nursing Homes	18	0.1
Hospital-owned or -controlled Entities	17	0.1
Ambulatory Surgery Centers	56	0.3
Cooperatives	1	0.0
Total	**18,975**	**100.0%**

Investment income, which includes fixed-income portfolio interest, stock dividends, and investment gains and losses is shown in Table G. The Fund earned investment income ranging from $22.3 million to $135.8 million over the four-year period. Annual investment income can also be significantly affected by changes in unrealized gains and losses associated with changes in the fair value of the Fund's investments, which can be affected by the Fund's experience in the equities market, changes in the ratings within the fixed-income portfolio, and changes in the interest rate environment. The Fund recognized unrealized investment gains of $37.2 million in FY 2020-21, $83.5 million in FY 2019-20, and $27.3 million in FY 2018-19.

Table G

Investment Income

Fiscal Year	Investment Income	Percentage Change from Prior Year
2020-21	$111,048,099	(18.21)%
2019-20	135,769,116	17.92
2018-19	115,140,814	415.28
2017-18	22,345,190	–

Underwriting Expenses

The Fund's underwriting expenses, which are shown in Table H, consist of loss and loss adjustment expenses paid, plus changes to the liabilities for unpaid claims. The changes to the liabilities can be either positive or negative amounts, depending upon the annual actuarial analysis of the outstanding loss liabilities on a year-by-year basis.

Table H

Underwriting Expenses

Fiscal Year	Underwriting Expenses	Percentage Change from Prior Year
2020-21	$ 54,611,516	(58.15)%
2019-20	130,492,408	288.30
2018-19	(69,301,813)	(411.45)
2017-18	22,251,073	–

The major cause of the significant changes in the underwriting expenses are changes in actuarial projections related to the outstanding liabilities for unpaid losses and loss adjustment expenses. Also, any changes to the interest rate used in the discounting of the loss liabilities will flow through to the underwriting expenses.

In FY 2018-19, the Fund reported negative underwriting expenses, primarily due to the Change in Liability for Incurred but not Reported Losses and the Change in Liability for Loss Adjustment Expense over the prior year. These two component changes to underwriting expenses for FY 2018-19 resulted in a significant decrease in the Fund's loss liabilities for the period. The liability includes an explicit risk margin that is established to ensure that loss liabilities will remain adequate in the event a court decision or law change could adversely affect the amount of future claim payments.

In FY 2019-20, the Fund reported positive underwriting expenses in total, because of the significant changes in actuarial re-estimations and lower claim payments. In FY 2020-21, continued positive underwriting expenses were primarily the result of the Fund's reserving methodology changes implemented in 2021, in which reserves were established on all open case reserves, particularly high-risk exposure cases, resulting in a significant Change in Liability for Reported Losses.

Summary

The Wisconsin Injured Patients and Families Compensation Fund, a segregated fund administered by the Office of the Commissioner of Insurance, operates as a risk-sharing fund. Assessments are collected from participating health care providers and are used to pay underwriting and administrative expenses. The Fund's Board of Governors determines the assessment rates annually, based on actuarial advice. While the investments of the Fund currently can be used to meet current claim obligations, the Board is closely monitoring the revenues, assets, and net position of the Fund. Investments are predominantly conservative (approximately 80.0 percent in fixed-income securities and 20.0 percent in equities), with the intent to match assets with liabilities while maximizing return.

Contacting the Fund's Financial Management

This financial report is designed to provide the Legislature, the executive branch of government, the Board of Governors, the public, and other interested parties with an overview of the financial results of the Fund's activities and to show the Fund's financial position. If you have questions about this report or need additional information, contact the director of the Wisconsin Injured Patients and Families Compensation Fund at:

Office of the Commissioner of Insurance
125 South Webster Street
P.O. Box 7873
Madison, Wisconsin 53707-7873

■ ■ ■ ■

Financial Statements

Statement of Net Position
June 30, 2021, June 30, 2020, and June 30, 2019

	June 30, 2021	June 30, 2020	June 30, 2019
ASSETS			
Current Assets:			
Cash and Cash Equivalents (Notes 2C and 3)	$ 23,688,890	$ 19,226,470	$ 22,700,000
Investments (Note 3)	6,186,700	12,329,690	2,900,843
Investment Income Receivable	13,425,610	22,810,577	57,239,199
Other Assets	1,034,789	37,752	1,484
Total Current Assets	44,335,989	54,404,489	82,841,526
Noncurrent Assets:			
Investments (Note 3)	1,590,476,326	1,510,119,114	1,384,462,215
Advance to the Mediation Fund	0	146,200	0
Restricted Cash and Cash Equivalents (Notes 3 and 4D)	61,895,507	11,900,000	12,157,400
Restricted Investment (Notes 3 and 4D)	0	45,357,001	42,936,117
Sick Leave OPEB	22,058	0	0
Net Pension Asset	163,826	92,977	0
Total Noncurrent Assets	1,652,557,717	1,567,615,292	1,439,555,732
TOTAL ASSETS	**1,696,893,706**	**1,622,019,781**	**1,522,397,258**
Deferred Outflow of Resources	**344,518**	**257,667**	**296,729**
Total Assets and Deferred Outflows of Resources	**1,697,238,224**	**1,622,277,448**	**1,522,693,987**
LIABILITIES			
Current Liabilities:			
Loss Liabilities—Current Portion (Note 4)	56,038,122	55,463,200	54,384,000
Assessments Received in Advance	0	0	510,293
Provider Refunds Payable	513,579	1,007,712	888,604
General and Administrative Expense Payable	192,320	246,084	369,096
Investment Purchases Payable	11,841,615	25,889,635	49,639,631
Other Liabilities	29,171	31,561	13,399
Total Current Liabilities	68,614,807	82,638,192	105,805,023
Noncurrent Liabilities:			
Loss Liabilities (Note 4):			
Loss Liability for Incurred but not Reported Losses	187,876,662	262,300,188	173,067,283
Loss Liability for Reported Losses	138,525,782	37,161,965	29,033,530
Loss Liability for Loss Adjustment Expense	62,486,656	57,663,486	38,005,582
Estimated Loss Liabilities	388,889,100	357,125,639	240,106,395
Amount Representing Interest	(28,343,128)	(26,555,226)	(15,654,168)
Discounted Loss Liabilities	360,545,972	330,570,413	224,452,227
Liabilities for Future Medical Expense	61,895,507	57,257,001	55,299,968
Total Loss Liabilities	422,441,479	387,827,414	279,752,195
Less: Loss Liabilities—Current Portion	(56,038,122)	(55,463,200)	(54,384,000)
Noncurrent Loss Liabilities	366,403,357	332,364,214	225,368,195
Net Pension Liability	0	0	105,595
Compensated Absences and OPEB Liabilities	199,514	171,936	149,697
Total Noncurrent Liabilities	366,602,871	332,536,150	225,623,487
TOTAL LIABILITIES	**435,217,678**	**415,174,342**	**331,428,510**
Deferred Inflow of Resources	**443,932**	**324,715**	**195,935**
NET POSITION			
Net Position (Note 2I):			
Restricted for Other Purposes	185,884	92,977	0
Restricted for Injured Patients and Families	1,261,390,730	1,206,685,414	1,191,069,542
TOTAL NET POSITION	**$ 1,261,576,614**	**$ 1,206,778,391**	**$ 1,191,069,542**

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2021, June 30, 2020, and June 30, 2019

	Year Ended June 30, 2021	Year Ended June 30, 2020	Year Ended June 30, 2019
OPERATING REVENUES			
Assessments (Note 2E)	$ (205,937)	$ 11,035,074	$ 10,966,623
Assessment Interest and Administrative Fee Income	53	351,063	32,692
Total Operating Revenues	**(205,884)**	**11,386,137**	**10,999,315**
OPERATING EXPENSES			
Underwriting Expenses:			
Net Losses Paid	16,366,157	17,539,191	24,565,352
Loss Adjustment Expenses Paid	2,973,359	3,364,805	3,696,024
Risk Management Expenses	1,866	1,841	27,558
Medical Expenses Paid	656,069	1,396,090	1,076,522
Change in Liability for Incurred but not Reported Losses	(74,423,526)	89,232,905	(86,258,775)
Change in Liability for Reported Losses	101,363,817	8,128,435	(4,461,956)
Change in Liability for Loss Adjustment Expense	4,823,170	19,657,904	(27,857,531)
Change in Amount Representing Interest	(1,787,902)	(10,785,796)	7,882,052
Change in Liability for Future Medical Expense	4,638,506	1,957,033	12,028,941
Total Underwriting Expenses	54,611,516	130,492,408	(69,301,813)
General and Administrative Expenses	1,101,733	942,429	2,035,888
Total Operating Expenses	**55,713,249**	**131,434,837**	**(67,265,925)**
OPERATING INCOME (LOSS)	**(55,919,133)**	**(120,048,700)**	**78,265,240**
NONOPERATING REVENUES (EXPENSES), AND TRANSFERS			
Investment Income	111,048,099	135,769,116	115,140,814
Miscellaneous Revenue (Expense)	0	0	16,230
Net Income Before Transfers	55,128,966	15,720,416	193,422,284
Transfers:			
Transfers to the General Fund	(330,743)	(11,567)	(10,639)
CHANGE IN NET POSITION	**54,798,223**	**15,708,849**	**193,411,645**
NET POSITION			
Net Position—Beginning of the Year	1,206,778,391	1,191,069,542	1,009,527,768
Prior Period Adjustment (Note 8)			(11,869,871)
Net Position—End of the Year	$ 1,261,576,614	$ 1,206,778,391	$ 1,191,069,542

The accompanying notes are an integral part of this statement.

Statement of Cash Flows
for the Years Ended June 30, 2021, June 30, 2020, and June 30, 2019

	Year Ended June 30, 2021	Year Ended June 30, 2020	Year Ended June 30, 2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Providers for Assessments	$ 0	$ 10,683,251	$ 10,357,228
Cash Paid for Losses	(17,533,311)	(17,502,441)	(24,500,631)
Cash Paid for Loss Adjustment Expenses	(2,973,359)	(3,362,963)	(3,696,024)
Cash Paid for Future Medical Expenses	(656,069)	(1,432,840)	(1,076,522)
Cash Paid for Other Expenses	(1,093,812)	(832,113)	(990,182)
Cash Paid to Providers for Refunds of Assessments	(689,602)	(134,752)	(73,932)
Cash Paid for Medical Mediation Panel Fees	0	(125,100)	(334,950)
Net Cash Provided by (Used for) Operating Activities	**(22,946,153)**	**(12,706,958)**	**(20,315,013)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to the General Fund	(169,800)	(11,567)	(10,639)
Net Cash Provided by (Used for) Noncapital Financing Activities	**(169,800)**	**(11,567)**	**(10,639)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Received	34,942,484	40,540,130	36,402,464
Cash Received as Proceeds from Sales of Investments	626,073,605	449,596,601	286,565,483
Cash Paid for Purchase of Investment Securities	(583,442,209)	(481,149,136)	(320,375,689)
Net Cash Provided by (Used for) Investment Activities	**77,573,880**	**8,987,595**	**2,592,258**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**54,457,927**	**(3,730,930)**	**(17,733,394)**
Cash and Cash Equivalents—Beginning of the Year	31,126,470	34,857,400	52,590,794
Cash and Cash Equivalents—End of the Year	$ 85,584,397	$ 31,126,470	$ 34,857,400
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES			
Operating Income	$ (55,919,133)	$ (120,048,700)	$ 78,265,240
Adjustments to Reconcile Operating Income to			
Net Cash Provided by Operating Activities:			
Depreciation Expense	0	0	913,529
Miscellaneous Nonoperating Income (Expense)	(58,268)	(25,332)	(10,639)
Changes in Assets and Liabilities:			
Decrease (Increase) in Other Assets	(1,088,019)	(593,607)	(83,862)
Increase (Decrease) in Deferred Inflows of Resources	119,216	(116,945)	(10,322)
Decrease (Increase) in Deferred Outflows of Resources	(86,852)	41,116	(120,866)
Increase (Decrease) in Loss Liabilities	34,614,065	108,075,219	(98,981,041)
Increase (Decrease) in Other Liabilities	(527,162)	(38,709)	(287,052)
Total Adjustments	32,972,980	107,341,742	(98,580,253)
Net Cash Provided by (Used for) Operating Activities	**$ (22,946,153)**	**$ (12,706,958)**	**$ (20,315,013)**
Noncash Activities:			
Net Change in Unrealized Gains (Losses)	37,204,822	83,549,860	27,290,412
Amortization of Bond Discounts	(2,544,594)	(2,230,977)	(2,442,416)

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

1. DESCRIPTION OF THE FUND

The Injured Patients and Families Compensation Fund is part of the State of Wisconsin financial reporting entity and is reported as an enterprise fund in the State's basic financial statements, which are included in the State's Annual Comprehensive Financial Report (ACFR). These statements only present the financial position and results of operations of the Fund and are not meant to present the financial activity for the State of Wisconsin as a whole. The Fund, formerly the Patients Compensation Fund, was created in 1975 for the purpose of paying that portion of medical malpractice claims exceeding the legal primary insurance limits prescribed in s. 655.23 (4), Wis. Stats., or the maximum liability limit for which the health care provider is insured, whichever limit is greater. Most health care providers permanently practicing or operating in the State of Wisconsin are required to pay annual assessments.

Management of the Fund is vested with the 13-member Board of Governors, which is chaired by the Commissioner of Insurance. The Board has designated the Commissioner of Insurance as the administrator of the Fund. Similarly, under s. 655.27 (2), Wis. Stats., the Commissioner shall either provide staff services necessary for the operation of the Fund or, with the approval of the Board, contract for all or part of these services. During FY 2020-21, FY 2019-20, and FY 2018-19, the Board contracted for the Fund's actuarial, risk management, claims administration, and accounting services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Fund Accounting and Basis of Presentation

The financial statements of the Injured Patients and Families Compensation Fund have been prepared in conformance with generally accepted accounting principles (GAAP) for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). The accompanying financial statements were prepared based upon the flow of economic resources focus and full accrual basis of accounting, with revenues recognized when earned and expenses recognized when incurred.

The Statement of Revenues, Expenses and Changes in Net Position classifies the Fund's fiscal year activity as either operating or nonoperating. Because the Fund is an enterprise fund, which also is a type of proprietary fund, it accounts for its activities similar to that of a private business. Enterprise funds provide goods or services to the general public for a fee. Operating revenues are derived from exchange transactions. Assessments, which are received from health care providers in exchange for coverage under the Fund, represent a significant component of operating revenues. Operating expenses include underwriting and administrative expenses.

Certain revenues and expenses that are not related to the Fund's primary purpose are reported as nonoperating revenues and expenses. The most significant source of the Fund's nonoperating income is investment income.

B. Accounting Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant changes in future years are the liabilities for unpaid losses and loss adjustment expenses. In estimating these liabilities, management uses the methodology discussed in Note 4 on ultimate and discounted loss liabilities.

C. Cash and Cash Equivalents

Cash and cash equivalents include cash balances deposited with the State and shares in the State Investment Fund, which is a short-term pool of state and local funds, and shares in a Short-Term Investment Fund, which is a commingled fund with the investment objective of safety of principal and liquidity while earning a competitive money market rate of return. The State Investment Fund and Short-Term Investment Fund shares are included in both the current portion of cash and cash equivalents and noncurrent portion restricted for future medical expenses as noted in Note 4D. Balances pooled in the State Investment Fund and Short-Term Investment Fund are restricted to legally stipulated investments valued consistent with GASB Statement Number 72, *Fair Value Measurement and Application.*

D. Investment Valuation

Investments of the Fund consist of fixed-income securities, preferred securities, and shares in equity index funds. All investments are managed by the State of Wisconsin Investment Board (SWIB) and are reported at fair value. Fair value information is determined using quoted market prices.

E. Assessments

Assessments are billed and recognized as revenues on a fiscal year basis, which is also the policy year. Assessments received for the next fiscal year are treated as unearned revenue and reported as assessments received in advance. Accounts of providers are automatically credited and reported as provider refunds payable when primary insurance lapses.

F. Loss Liabilities

Loss liabilities are estimated based on recommendations of a consulting actuary and are discounted to the extent that they are matched by cash and invested assets. The uncertainties inherent in projecting the frequency and severity of claims, the Fund's unlimited liability coverage for economic damages, and extended reporting and settlement periods make it likely that the amounts ultimately paid will differ from the reported estimated liabilities.

G. Policy Acquisition Costs

Since the Fund has no marketing staff and incurs no sales commissions, acquisition costs are minimal and charged to operations as incurred.

H. Capital Assets

The Fund capitalizes all assets, both tangible and intangible, which have a historic cost or estimated historic cost in excess of $5,000 and a useful life of two or more years. As of June 30, 2021, June 30, 2020, and June 30, 2019, the Fund held no capital assets.

I. Net Position

Section 655.27 (6), Wis. Stats., requires the Injured Patients and Families Compensation Fund to be held in an irrevocable trust and used for future claim payments for injured patients and families. For the three-year period, net position totaled $1,261,576,614 as of June 30, 2021, $1,206,778,391 as of June 30, 2020, and $1,191,069,542 as of June 30, 2019, and was primarily restricted for injured patients and families. On September 16, 2020, the Board approved setting the Fund's minimum surplus (net position) level at 500 percent of risk-based capital.

J. Employee Compensated Absences

The Fund's compensated absence liability consists of accumulated unpaid leave, compensatory time, personal holiday hours, and Saturday/legal holiday hours earned and vested as of June 30. The compensated absences liability is classified as either a short-term liability under general and administrative expenses payable or a long-term liability under compensated absences and other postemployment benefit (OPEB) liabilities based upon an estimate determined by management. The long-term liability portion of the compensated absences liability generally is not paid out until retirement.

3. DEPOSITS AND INVESTMENTS

The Fund's deposits consist of cash deposited in the State's bank, which totaled $935,963 as of June 30, 2021, ($5,699) as of June 30, 2020, and $29,614 as of June 30, 2019.

Although classified as cash and cash equivalents on the Statement of Net Position and the Statement of Cash Flows, shares in the State Investment Fund and Short-Term Investment Fund, are subject to investment risk disclosures. The State Investment Fund is a short-term investment pool of State and local funds managed by SWIB, with oversight by its Board of Trustees and in accordance with Wisconsin Statutes. It is not registered with the Securities and Exchange Commission as an investment company. Shares in the State Investment Fund are reported at fair value as of June 30. The Short-Term Investment Fund is a commingled fund with the investment objective of safety of principal and liquidity while earning a competitive money market rate of return.

The various types of securities in which the State Investment Fund may invest are enumerated in ss. 25.17 (3) (b), (ba), (bd), and (dg), Wis. Stats., and include direct obligations of the United States or its agencies, corporations wholly owned by the United States or chartered by an act of Congress, securities guaranteed by the United States, unsecured notes of financial and industrial issuers, direct obligations of or guaranteed by the government of Canada, certificates of deposit issued by banks in the United States including solvent financial institutions in Wisconsin, and bankers acceptances. SWIB's Board of Trustees may specifically approve other prudent legal investments. Interest income, gains, and losses of the State Investment Fund are allocated monthly.

The Fund's investments are managed by SWIB, whose objective is to maintain a portfolio of investments to provide a balance between capital appreciation, preservation of capital, and current income consistent with the needs of the Fund. Section 25.17 (3) (a), Wis. Stats., allows investments in loans, securities, and any other investments as authorized by s. 620.22, Wis. Stats. Classes of investments permitted by s. 620.22, Wis. Stats., include bonds of governmental units or private corporations, loans secured by mortgages, preferred or common stock, real property, and other investments not specifically prohibited by statute.

In addition, the Board of Governors established a more specific investment policy that limits equity investments to 20.0 percent of the Fund's total portfolio. During FY 2020-21, the Board approved an investment portfolio automatic rebalancing policy, changing the threshold to trigger the rebalancing from 20.0 percent to 17.5 percent. The automatic rebalancing policy minimum and maximum allocation ranges are determined by desired objectives and risk tolerances of the Fund. Should the percentage investment in any asset class rise above the stated maximum or fall below the stated minimum as of any month end, an automatic rebalancing will be triggered to bring the asset class to the midpoint between the target and the minimum or maximum, whichever has been breached. On a quarterly basis, SWIB will report the actual market value of equity investments by sub-asset class, in relation to the target. At that time, decisions will be made on rebalancing within the sub-asset class, through discussions with the Fund's Finance, Audit, and Investment Committee. Also, in FY 2020-21, the Board authorized the allocation up to 10.0 percent of the Fund's equity portfolio to alternative investments; that would be approximately $25 million or 1.5 percent of the Fund's investment portfolio. As of June 30, 2021, the Fund had not made any alternative investments.

Investments of the Fund are governed by chapters 655 and 620 of Wis. Stats., which limits the type of investments in which funds may be invested. Wisconsin Statutes provide the necessary framework for GASB Statement Number 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement also provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of an asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

The Fund has the following fair value measurements for the Fund's investments noted in the tables entitled Investments Measured at Fair Value as of June 30, 2021, June 30, 2020, and June 30, 2019, respectively:

Investments Measured at Fair Value as of June 30, 2021 ($ in millions)		Fair Value Measurements Using		
	Total as of June 30, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
U.S. Government and Agency Bonds	$ 714.7	$8.0	$ 706.7	$0.0
Municipal Bonds	24.4	0.0	24.4	0.0
Foreign Governments	51.3	0.0	51.3	0.0
Corporate Bonds	521.6	0.0	521.6	0.0
Preferred Securities	1.5	0.0	1.5	0.0
Total Investments by Fair Value Level	$1,313.5	$8.0	$1,305.5	$0.0
Investments valued at Net Asset Value (NAV):				
Equity Index Funds	$ 283.1			
State Investment Fund	72.2			
Short-Term Investment Fund	12.7			
Total Investments by NAV	$ 368.0			
Total Investments	$1,681.5			

Investments Measured at Fair Value as of June 30, 2020 ($ in millions)		Fair Value Measurements Using		
	Total as of June 30, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
U.S. Government and Agency Bonds	$ 654.3	$5.6	$ 648.7	$0.0
Municipal Bonds	26.5	0.0	26.5	0.0
Foreign Governments	50.4	0.0	50.4	0.0
Corporate Bonds	576.3	0.0	576.3	0.0
Preferred Securities	1.5	0.0	1.5	0.0
Total Investments by Fair Value Level	$1,308.9	$5.6	$1,303.4	$0.0
Investments valued at Net Asset Value (NAV):				
Equity Index Funds	$ 258.9			
State Investment Fund	9.3			
Short-Term Investment Fund	21.8			
Total Investments by NAV	$ 290.0			
Total Investments	$1,598.9			

Investments Measured at Fair Value as of June 30, 2019 ($ in millions)		Fair Value Measurements Using		
	Total as of June 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
U.S. Government and Agency Bonds	$ 643.5	$0.0	$ 643.5	$0.0
Municipal Bonds	22.7	0.0	22.7	0.0
Foreign Governments	41.6	0.0	41.6	0.0
Corporate Bonds	476.1	0.0	476.1	0.0
Total Investments by Fair Value Level	$1,183.9	$0.0	$1,183.9	$0.0
Investments valued at Net Asset Value (NAV):				
Equity Index Funds	$ 246.4			
State Investment Fund	23.3			
Short-Term Investment Fund	11.9			
Total Investments by NAV	$ 281.6			
Total Investments	$1,465.5			

Debt securities categorized as Level 2 are valued by third-party pricing services using a matrix-pricing technique that values securities based on their relationship to quoted market prices for securities with similar interest rates, maturities, and credit ratings.

The fair values of investments in commingled equity index funds are based on the investment's net asset value (NAV) per share (or its equivalent), as of fiscal years ending June 30, 2021, June 30, 2020, and June 30, 2019. The trustees roll pricing of the underlying investments designed to track the performance of the given indices into the NAV. There were no unfunded commitments relating to these funds for the periods described.

The equity index funds are invested in portfolios of equity securities with the objective of approximating as closely as practicable the capitalization weighted total rate of return of a given segment of the U.S. or international markets for publicly traded equity securities. The U.S. equity index fund is invested in a portfolio of equity securities with the objective of approximating the 3,000 largest capitalized companies (the Russell 3000R Index). The investment can be redeemed daily with one day's notice. The international equity fund is invested in a portfolio of equity securities with the objective of approximating the MSCI World ex USA Net Dividend Return Index for the country or countries represented. The investment can be redeemed daily with two days' notice.

The fair value of the investments in the State Investment Fund, a pooled short-term investment fund managed by SWIB, is based on NAV per share (or its equivalent) as of fiscal years ending June 30, 2021, June 30, 2020, and June 30, 2019. The State Investment Fund is a commingled fund with the investment objective of safety of principal and liquidity while earning a competitive money market rate of return. The valuation of the underlying investments of the State Investment Fund depends on asset class. Repurchase agreements and non-negotiable certificates of deposit are valued at cost. All remaining short-term investments (U.S. government/agency securities, banker's acceptances, commercial paper, and negotiable certificates of deposit) are carried at fair value. Because quoted market prices for State Investment Fund securities are often not available, at month end, BNY Mellon, as SWIB's custodial bank, compiles fair values from third-party pricing services, which use matrix pricing models to estimate a security's fair value. There are no unfunded commitments relating to the State Investment Fund, and shares of this fund can be fully redeemed at any time with no notice or other restrictions.

The fair value of the investment in the Short-Term Investment Fund, a pooled investment fund, is based on NAV per share (or its equivalent), as of the periods described. The Short-Term Investment Fund is a commingled fund with the investment objective of safety of principal and liquidity while earning a competitive money market rate of return. There are no unfunded commitments relating to the Short-Term Investment Fund, and shares of the Short-Term Investment Fund can be fully redeemed at any time with no notice or other restrictions.

The fair values of the Fund's investments at fiscal year-end are as follows:

	June 30, 2021	June 30, 2020	June 30, 2019
Short-Term Investment Pool			
State Investment Fund[1]	$ 72,168,000	$ 9,320,000	$ 23,318,000
Short-Term Investment Fund[1]	12,715,560	21,812,170	11,893,572
Subtotal	84,883,560	31,132,170	35,211,572
Fixed Income:			
U.S. Government and Agency	714,705,825	654,273,021	643,511,704
Municipal Bonds	24,394,372	26,488,857	22,725,329
Foreign Governments	51,315,292	50,357,682	41,554,670
Corporate Bonds	521,550,533	576,317,209	476,110,663
Subtotal	1,311,966,022	1,307,436,769	1,183,902,366
Equities:			
Russel 3000 Index Fund	250,525,653	228,201,038	213,993,405
MSCI World Ex-US Index Fund	32,625,286	30,678,824	32,403,402
Subtotal	283,150,939	258,879,862	246,396,807
Preferred Securities	1,546,065	1,493,739	0
Total Investments	$1,681,546,586	$1,598,942,540	$1,465,510,745

[1] State Investment Fund and Short-Term Investment Fund shares are reported as cash and cash equivalents on the Statement of Net Position.

Custodial Credit Risk for Deposits—Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Fund will not be able to recover deposits that are in possession of an outside party. The Fund does not have a deposit policy specifically for custodial credit risk. As of June 30, 2021, June 30, 2020, and June 30, 2019, the Fund had no bank balances exposed to custodial credit risk.

Custodial Credit Risk for Investments—Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investments that are in possession of an outside party. The Fund's investment policy does not address custodial credit risk. The Fund's investment portfolio as of June 30, 2021, June 30, 2020, and June 30, 2019, identified no custodial credit risk exposure.

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Fund. As of June 30, 2021, the Fund's investment guidelines require that the bond portfolio maintain an average quality rating of A or better by nationally recognized statistical rating organizations at the time of purchase, using the lower of split ratings. The State Investment Fund and Short-Term Investment Fund are unrated; however, its guidelines establish specific maximum exposure limits by security type based on the minimum credit ratings as issued by nationally recognized statistical rating organizations.

The credit exposures aggregated by credit rating for fixed-income securities as of June 30, 2021, June 30, 2020, and June 30, 2019, were as follows:

	June 30, 2021		June 30, 2020		June 30, 2019	
	Fair Value	Percentage	Fair Value	Percentage	Fair Value	Percentage
Credit Rating:						
AAA	$ 28,978,385	2.1%	$ 572,637,436	42.8%	$ 23,176,887	1.9%
AA	744,688,961	53.3	146,561,418	11.0	677,791,322	55.6
A	150,109,807	10.7	190,323,074	14.2	127,637,549	10.4
BBB	321,036,077	23.0	334,610,645	25.0	299,484,799	24.6
BB	65,542,132	4.7	60,159,056	4.5	55,810,959	4.6
B	1,588,760	0.1	3,132,990	0.2	0	0.0
C or Lower	0	0.0	0	0.0	0	0.0
Not Rated	21,900	0.0	12,150	0.0	850	0.0
Subtotal	1,311,966,022	93.9	1,307,436,769	97.7	1,183,902,366	97.1
State Investment Fund (unrated)[1]	72,168,000	5.2	9,320,000	0.7	23,318,000	1.9
Short-Term Investment Fund (unrated)[1]	12,715,560	0.9	21,812,170	1.6	11,893,572	1.0
Total	$1,396,849,582	100.0%	$1,338,568,939	100.0%	$1,219,113,938	100.0%

[1]State Investment Fund and Short-Term Investment Fund shares are reported as cash and cash equivalents on the Statement of Net Position.

Concentration of Credit Risk—Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment in a single issuer. As of June 30, 2021, the Fund's investment guidelines do not allow for investments in any one single issuer that are in excess of 5.0 percent (investment grade) and 3.0 percent (non-investment grade) of the Fund's bond portfolio based on fair value at the time of purchase. Securities of the United States government and its agencies are excluded from that limitation. As of June 30, 2021, June 30, 2020, and June 30, 2019, the Fund did not have more than 5.0 percent of its total investments in a single issuer, excluding the United States government and its agencies. Concentration of credit risk requirements are also not applicable to pooled investments, such as the State Investment Fund and Short-Term Investment Fund.

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Fund uses the duration method to identify and manage its interest rate risk. As of June 30, 2021, the Fund's investment guidelines related to interest rate risk require that the effective duration of the bond portfolio remains within 15 percent of the assigned benchmark's duration. The State Investment Fund uses the weighted average maturity method to analyze interest rate risk. Its investment guidelines mandate that the weighted average maturity for the entire portfolio does not exceed one year.

The following were the durations for each type of fixed-income security held, as well as for the State Investment Fund and Short-Term Investment Fund:

	June 30, 2021		June 30, 2020		June 30, 2019	
	Fair Value	Duration (in years)	Fair Value	Duration (in years)	Fair Value	Duration (in years)
Type of Security:						
Government/Agency	$ 714,705,825	6.44	$ 654,273,021	5.95	$ 643,511,704	5.57
Corporate	521,550,533	8.23	576,317,209	8.36	476,110,663	7.35
Municipal	24,394,372	11.08	26,488,857	11.87	22,725,329	11.81
Foreign Gov't	51,315,292	5.53	50,357,682	5.57	41,554,670	5.19
Subtotal	1,311,966,022	7.20	1,307,436,769	7.12	1,183,902,366	6.40
State Investment Fund[1]	72,168,000	0.20	9,320,000	0.09	23,318,000	0.04
Short-Term Investment Fund[1]	12,715,560	0.08	21,812,170	0.06	11,893,572	0.05
Total	$1,396,849,582	6.78	$1,338,568,939	6.96	$1,219,113,938	6.21

[1] State Investment Fund and Short-Term Investment Fund shares are reported as cash and cash equivalents on the Statement of Net Position.

Foreign Currency Risk—Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Fund's investment guidelines do not specifically address foreign currency risk. As of June 30, 2021, June 30, 2020, and June 30, 2019, the Fund did not own any foreign denominated currency.

4. TOTAL LOSS LIABILITIES

A. Estimated Loss Liabilities

Loss liabilities include individual case estimates for reported losses and estimates for incurred but not reported (IBNR) losses based upon the projected ultimate losses recommended by a consulting actuary as approved by the Board of Governors. The liability for IBNR losses as of June 30, 2021, is determined by deducting individual case estimates of the liability for reported losses and net losses paid from inception of the Fund, and adding a risk margin to the projected ultimate loss liabilities as follows:

	June 30, 2021	June 30, 2020	June 30, 2019
Projected Ultimate Loss Liability	$1,205,711,654	$1,167,793,263	$1,072,365,000
Less:			
Net Losses Paid from Inception	(944,589,698)	(928,223,541)	(910,684,350)
Liability for Reported Losses	(138,525,783)	(37,161,964)	(29,033,529)
Risk Margin	65,280,489	59,892,430	40,420,163
Liability for IBNR Losses	$ 187,876,662	$ 262,300,188	$ 173,067,284

The Fund's consulting actuary developed a best estimate of the loss liabilities, and the Board of Governors approved the addition of an explicit 25.0 percent risk margin to the best estimate for June 30, 2021, June 30, 2020, and June 30, 2019. The explicit risk margin is applied to ensure that the loss liability estimates remain adequate in the event a court decision or law change adversely affected the amount of future claim payments.

Loss liabilities also include a provision for the estimated future payment of costs to settle claims. The actuary estimates the ultimate loss adjustment expense (LAE) using data available through September 30 of the fiscal year. The actuary estimates LAE at 18.0 percent of the estimated unpaid loss liabilities as of June 30, 2021, 18.0 percent of the estimated unpaid loss liabilities as of June 30, 2020, and 30.51 percent of the estimated unpaid loss liabilities as of June 30, 2019. Because the actuary's estimate occurs before the end of the fiscal year and is based on an estimate of the cumulative payments, the percentage used by the actuary in determining the LAE will differ slightly from the percentages calculated using actual LAE payments in the financial statements. The LAE paid from inception of the Fund are deducted from the projected ultimate LAE provision to arrive at the liability for LAE as follows:

	June 30, 2021	June 30, 2020	June 30, 2019
Projected Ultimate LAE Liability	$ 161,547,836	$ 154,715,941	$137,101,000
Less:			
Net LAE Paid from Inception	(111,558,511)	(108,585,152)	(106,696,535)
Risk Margin	12,497,331	11,532,697	7,601,116
Liability for LAE	$ 62,486,656	$ 57,663,486	$ 38,005,581

B. Re-estimated Loss Liabilities

Because of the uncertainties inherent in projecting medical malpractice claims with unlimited liability coverage, estimates of the Fund's loss liability and liability for LAE are continually reviewed and adjusted as the Fund gains additional experience. Such adjustments are reflected in current operations. Because of the changes in these estimates for prior years, the total underwriting expenses reported for the year are not necessarily indicative of the loss experience for that year.

C. Discounted Loss Liabilities

Section Ins. 17.27 (3), Wis. Adm. Code, requires the liability for reported losses, liability for IBNR losses, and liability for LAE to be maintained on a present-value basis, with the difference from full value being reported as a contra account to the loss liabilities. The loss liabilities are discounted only to the extent that they are matched by cash and invested assets. The actuarially determined discount factors, which are based on investment yield assumptions of 2.0 percent for FY 2018-19, FY 2019-20, and FY 2020-21 that were approved by the Board of Governors, were 0.935 for FY 2018-19, 0.926 for FY 2019-20, and 0.927 for FY 2020-21.

D. Future Medical Expense Liability

Section 655.015, Wis. Stats., requires accounts to be established if a settlement or judgment provides for future medical expense (FME) payments in excess of $100,000. In addition to amounts provided by the Fund, this account may also include deposits provided by the primary insurer for any portion of future medical expenses for which they are liable. The accounts are managed by the Fund and earn a proportionate share of the Fund's interest. Any account balance remaining when a claimant dies reverts back to the Fund. The accounts are restricted for future medical expenses on the Statement of Net Position.

E. Contributions Being Held Liability

A primary insurer may voluntarily present a nonrefundable payment to the Fund generally equal to the amount of primary coverage in effect for the related claim. This payment from the primary insurer is negotiable with the Fund in exchange for a release of payment for any future defense costs that may be incurred on the claim. This amount is held as a liability on the Fund's financial statements until the time a payment is made on the claim. There were no contributions being held as of June 30, 2021, June 30, 2020, and June 30, 2019.

F. Loss Liabilities Balances and Activities (in thousands)

	FY 2020-21	FY 2019-20	FY 2018-19
Total Loss Liabilities, Beginning of the Year	$387,827	$279,752	$366,550
Incurred Losses and Related Expenses for the Current Year and Changes in the Estimated Liabilities for Prior Year Losses and Related Expenses	54,610	130,375	(57,460)
Less: Current Year Payments for Losses, LAE, and FME Incurred in the Current and Prior Years	(19,995)	(22,300)	(29,338)
Total Loss Liabilities, End of the Year	422,442	387,827	279,752
Less: Current Portion	(56,038)	(55,463)	(54,384)
Noncurrent Portion	$366,404	$332,364	$225,368

5. MEDICAL MEDIATION PANEL FEES

Section Ins. 17.27 (3), Wis. Adm. Code, requires the fees collected for administration of the Medical Mediation Panel to be included in the Fund's financial reports, but that they should not be regarded as assets or liabilities of the Fund or otherwise taken into consideration in determining assessment levels to pay claims. The Wisconsin Supreme Court requested panel fees of $146,200 in FY 2020-21, $125,100 in FY 2019-20, and $279,200 in FY 2018-19.

6. CLAIM ANNUITIES

The settlement of a claim may result in the purchase of an annuity. Under specific annuity arrangements, the Fund may have ultimate responsibility for annuity payments if the annuity company and the reassignment company default on annuity payments.

One of the Fund's annuity providers defaulted on $124,820 in annuity payments through June 30, 2021, which the Fund subsequently paid. The annuity provider is currently making the majority of these annuity payments, but the Fund continues to make monthly annuity payments of $130, and additional lump-sum payments due every five years through 2025, to cover defaulted payments. Through June 30, 2021, the Fund has received a total reimbursement of $194,038, which includes interest. It is unclear when the annuity provider will be able to make the remaining annuity payments and whether the Fund will be able to recover the remaining annuity payments made on behalf of the annuity provider. The total estimated replacement value of the Fund's annuities of which the Fund remains the owner was $32.8 million as of June 30, 2021, June 30, 2020, and June 30, 2019. Of this amount, $651,753 represents the replacement value of the annuity in default as of June 30, 2021.

7. AUDIT ADJUSTMENTS

The unaudited financial statements presented in the annual reports of the Commissioner of Insurance to the Governor and the Legislature have been adjusted to reflect suggested audit adjustments.

8. PRIOR PERIOD ADJUSTMENT

There was one prior period adjustment for FY 2018-19 of ($11,869,871) made for the financial statements under review. The adjustment was made for retroactive interest rate adjustments on Future Medical Expense accounts extending back to FY 2007-08.

9. SUBSEQUENT EVENT

The Board of Governors approved the implementation of the 12-category insurance services office (ISO) classification rating with a maximum rate increase of 25 percent per class per year until the Fund achieves the recommended rate change. The implementation is to take place upon legislative change and implementation of the Fund's new policy administration system.

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Auditor's Report

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Legislative Audit Bureau

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Senator Robert Cowles and
Representative Samantha Kerkman, Co-Chairpersons
Joint Legislative Audit Committee

Members of the Board of Governors, and
Mr. Nathan Houdek, Commissioner of Insurance
Injured Patients and Families Compensation Fund

We have audited the financial statements and the related notes of the Injured Patients and Families Compensation Fund as of and for the years ended June 30, 2021, June 30, 2020, and June 30, 2019, and have issued our report thereon dated June 1, 2022. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* which is issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Injured Patients and Families Compensation Fund is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audits of the financial statements, we considered the Injured Patients and Families Compensation Fund's internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Injured Patients and Families Compensation Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Injured Patients and Families Compensation Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent misstatements, or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the Injured Patients and Families Compensation Fund's financial statements will not be prevented, or that a material misstatement will not be detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses.

We consider the deficiency included in the accompanying Findings and Responses Schedule as Finding 1 to be a material weakness for the year ended June 30, 2019. We consider the deficiency included in the accompanying Findings and Responses Schedule as Finding 2 to be a material weakness for the years ended June 30, 2020, and June 30, 2021.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Injured Patients and Families Compensation Fund's financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Wisconsin Injured Patients and Families Compensation Fund's Response to Findings

The Injured Patients and Families Compensation Fund's written responses to the findings identified in our audit are included in the accompanying Findings and Responses Schedule. The Injured Patients and Families Compensation Fund's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering the Injured Patients and Families Compensation Fund's internal control and compliance. The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Injured Patients and Families Compensation Fund's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU

Legislative Audit Bureau

June 1, 2022

FINDINGS AND RESPONSES SCHEDULE

Finding 1: Financial Reporting Process (FY 2018-19)

Background:

The Injured Patients and Families Compensation Fund, which is administered by the Office of the Commissioner of Insurance, insures participating physicians and other health care providers in Wisconsin against medical malpractice claims that exceed the primary insurance thresholds established by statutes.

Criteria:

The Fund is responsible for preparing accurate financial statements, the related notes, and required supplementary information. To ensure accurate financial reporting, the Fund is responsible for understanding generally accepted accounting principles (GAAP), as promulgated by the Governmental Accounting Standards Board (GASB), and for maintaining effective internal controls to ensure the financial information is fairly presented and that misstatements are prevented, or detected and corrected, in a timely manner.

Condition:

In report 19-9, we reported concerns related to the Fund's financial reporting process and recommended that the Fund improve its process for preparing and reviewing financial statements. Although we found the Fund had taken some steps to improve its process, during our current audit we again identified concerns that its process was not sufficient to prevent, or detect and correct in a timely manner, certain substantive misstatements.

For example, the Fund did not fully consider the financial reporting implications of changes to its activity during the year. Although the information the Fund staff prepared included an appropriate total amount of restricted assets, the Fund's staff classified a portion of the total restricted assets in an incorrect restricted account. Specifically, we found that the Fund's staff reported $55.1 million as restricted cash even though the Fund only had $34.9 million of cash available to be restricted.

In addition, although the Fund changed its methodology for calculating interest credited to accounts held for the benefit of specific claimants, the Fund's staff did not prepare an assessment of whether this change in methodology should be classified as a change in an accounting estimate or a correction of an error. After we explained the GASB requirements, the Fund's staff determined that the change in its methodology should be reported as a correction of an error, for which a prior-period adjustment and note disclosure were required.

Context:

We reviewed the FY 2018-19 financial information that the Fund's staff prepared for its financial statements, discussed the process used in compiling the information with the Fund's staff, and examined supporting documentation. We also compared the information the Fund staff prepared for its financial statements to the Fund's financial statements included in the State's Annual Comprehensive Financial Report (ACFR).

Questioned Costs:

None.

Effect:

The Fund financial statements prepared by Fund staff were misstated. Examples of the most significant misstatements we identified include:

- Restricted Cash and Cash Equivalents was overstated and Restricted Investment was understated by $42.9 million on the Statement of Net Position;

- Medical Expenses Paid was overstated by $10.6 million, Investment Income was overstated by $11.9 million, Change in Liability for Future Medical Expense was overstated by $11.9 million, and Net Position—Beginning of the Year was overstated by $11.9 million on the Statement of Revenues, Expenses, and Changes in Net Position;

- Cash Received as Proceeds from Sales of Investments was understated by $20.8 million and Cash Paid for Purchase of Investment Securities was understated by $42.4 million on the Statement of Cash Flows; and

- Cash and Cash Equivalents—End of the Year on the Statement of Cash Flows was $9.5 million higher than Cash and Cash Equivalents on the Statement of Net Position.

After we discussed our concerns with the Fund's staff, the financial statements were corrected for the misstatements we identified.

Cause:

The Fund's staff did not demonstrate an adequate understanding of relevant GAAP requirements in the compilation of financial reporting information or in its application of such requirements, in part, due to significant staff turnover. As part of its response and corrective action plan to address a recommendation from report 19-9, the Fund contracted with an external accounting firm to provide a secondary review of its financial information. However, in its first year of providing this service, the Fund may not have adequately educated the external accounting firm on the Fund's operations and the financial reporting process to enable the firm to be fully effective in its review of the financial information.

☑ Recommendation

We recommend the Wisconsin Office of the Commissioner of Insurance, Injured Patients and Families Compensation Fund, take steps to adequately understand and appropriately apply financial reporting requirements, including by:

- *attending relevant training on financial reporting and government accounting standards;*

- *proactively identifying and applying applicable changes in accounting standards;*

- *seeking guidance and clarification on relevant financial reporting requirements to the Fund from other resources, such as the Department of Administration State Controller's Office and the State of Wisconsin GAAP Conversion Manual; and*

- *further educating the Fund's external accounting firm on the Fund's operations and financial reporting process.*

Response from the Wisconsin Office of the Commissioner of Insurance (report 19-30): IPFCF has reviewed, and agrees with, the findings. The Fund has taken/will take the following steps:

> **Item #1:** The Fund's internal accountant has joined the Government Finance Officers Association (gfoa.org) and has attended an ACFR training session organized by the GFOA in January and will be attending another in July. The Fund met with SCO and will be attending the GAAP Accountant User Group meetings.
>
> **Item #2:** The Fund will be utilizing the vast resources of the GFOA, along with any information provided by SCO, to stay up to date on relevant changes. This information will be shared with the Fund's external accountants. The Fund has also let SCO know that it will purchase a subscription to the GARS Professional View once it is made available.
>
> **Item #3:** Fund staff met with SCO staff to walk through the ACFR process and identify areas of concern.
>
> **Item #4:** The Fund will set up a follow-up meeting with its external accountants and the SCO to review the 2nd quarter Stand Alone and ACFR entries, once the 2nd Quarter Stand Alone has been completed.

The Fund will be segregating the Future Medical Accounts funds effective July 1, 2020, which should facilitate a clearer reporting of these Funds within the ACFR.

Finding 2: Financial Reporting Review Process (FY 2019-20 and FY 2020-21)

Background:

The Injured Patients and Families Compensation Fund, which is administered by the Office of the Commissioner of Insurance, insures participating physicians and other health care providers in Wisconsin against medical malpractice claims that exceed the primary insurance thresholds established by statutes.

Criteria:

The Fund is responsible for preparing accurate financial statements, the related notes, and required supplementary information. To ensure accurate financial reporting, the Fund is responsible for maintaining effective internal controls to ensure the financial information is fairly presented, reviewed, and that misstatements are prevented, or detected and corrected, in a timely manner.

The Fund relies on its actuary to estimate loss liabilities and it contracts for an actuarial audit to be completed once every three years to assess the reasonableness of the methodology and assumptions used by its actuary in developing the estimated loss liabilities. The estimated loss liabilities are affected by the investment rate assumption and corresponding discount factor, which determine the present value of the estimated loss liabilities. Changes in the discount factor, as well as the amount of the estimated loss liabilities and available assets, affect the contra liability account, which appears as Amount Representing Interest on the financial statements. The change in that account is reflected as an underwriting expense on the financial statements. The investment rate assumption for the Fund was 2.0 percent effective for the estimated loss liabilities as of June 30, 2019, June 30, 2020, and June 30, 2021.

Condition:

We found that the Fund staff used an incorrect discount factor of 0.755 when determining the estimated loss liabilities for the FY 2019-20 financial statements. Although Fund staff relied on information found in the September 30, 2019 actuarial report that was reviewed and approved by the Board of Governor's Actuarial and Underwriting Committee, we found that the actuarial report incorrectly calculated the discount factor. After we informed Fund staff of this error, the Fund's actuary revised its report in May 2022. Fund staff then determined the estimated loss liability using a discount factor of 0.926 for FY 2019-20 based on revised information found in the draft May 2022 actuarial report.

Context:

We reviewed the financial information that the Fund prepared for its financial statements, discussed the process used in compiling the information with Fund staff, examined supporting documentation, and discussed the Fund's financial review process. We also reviewed the reports from the actuary and the actuarial audit.

Questioned Costs:

None.

Effect:

The Fund financial statements prepared by IPFCF were misstated. The most significant misstatements we identified include:

- for FY 2019-20, the Amount Representing Interest was overstated by $60.9 million, which resulted in Total Loss Liabilities being understated, and Net Position—Restricted for Injured Patients and Families being overstated by $60.9 million on the Statement of Net Position;

- for FY 2019-20, the Change in Amount Representing Interest was overstated by $60.9 million, which resulted in Total Underwriting Expenses being understated, and Net Position—End of the Year being overstated by $60.9 million on the Statement of Revenues, Expenses, and Changes in Net Position;

- for FY 2019-20, the Increase (Decrease) in Loss Liabilities was understated by $60.9 million on the Statement of Cash Flows;

- for FY 2020-21, the Change in Amount Representing Interest was overstated by $60.9 million, which resulted in Total Underwriting Expenses being overstated on the Statement of Revenues, Expenses, and Changes in Net Position; and

- for FY 2020-21, the Increase (Decrease) in Loss Liabilities was overstated by $60.9 million on the Statement of Cash Flows.

After we discussed our concerns with Fund staff in April 2022 and the actuarial report was revised, the financial statements were corrected for the misstatements we identified.

Cause:

The Fund did not demonstrate an adequate review process in the compilation of financial reporting information. Although the financial statement error we identified was the result of an error in an actuarial report, Fund staff did not adequately assess the significant change in the discount rate that occurred even though the investment rate assumption was held constant. The discount factor of

0.755, which the Fund originally used, was significantly different from the discount factors of 0.935 for FY 2018-19 and 0.927 for FY 2020-21. In addition, Fund staff did not adequately assess the significant change in the resulting account balances from prior years when preparing the financial information. We note the error in the actuarial report was not identified by the Board of Governor's Actuarial and Underwriting Committee, the Board of Governors, or the Fund's actuarial auditor. The significant change in the account balance also was not adequately analyzed at any stage of the financial reporting review process, including reviews by the Fund's external accounting firm and Fund staff.

☑ Recommendation

We recommend the Wisconsin Office of the Commissioner of Insurance, Injured Patients and Families Compensation Fund, take steps to improve its financial reporting and review process, including by:

- *completing a year-to-year comparison of the Fund financial statements, and analyzing and resolving significant changes in account balances or unusual trends; and*
- *documenting its year-to-year comparison for the external accounting firm and other reviewers to access in their review of the financial statements.*

Further, we recommend the Fund reassess the scope and depth of the actuarial audits performed to ensure these audits meet the needs of the Fund.

Response from the Wisconsin Office of the Commissioner of Insurance: The error identified by LAB was a transcription error in the actuarial report dated February 10, 2020, and was not detected primarily because the current review process does not require comparisons between years. Staff agree with the LAB's recommendations to improve its financial reporting and review processes to ensure such errors do not occur in the future.

Specifically, staff and the Fund's external accountants, have built a "mapping document" that assists in bridging the Annual Comprehensive Financial Report (ACFR) and the Fund's separately issued financial statements. This document will allow staff and consultants to do a comparison between years and create a report identifying any changes or trends as recommended. Staff will implement this report for FY 2022-23.

Staff is also reviewing its processes to determine what changes could be made to discover such errors. Staff will discuss improvement options with the Fund's Board at its next meeting, including asking for approval to expand the scope of the independent actuarial audit from auditing one year in a three-year period, to a comparative and comprehensive review of all three years of actuarial reports.

Rebuttal from the Wisconsin Legislative Audit Bureau: We disagree with the characterization by Fund staff of the error as a transcription error. The discount factor was incorrectly computed and applied in the actuarial report. In fact, the actuary updated its original report with a revised draft issued on May 5, 2022. Therefore, the error involved more than a transcription error. Fund staff used this incorrect discount factor from the actuarial report and a material misstatement resulted. The material misstatement was corrected after we brought the concern we identified in the actuarial report to the attention of management.

■ ■ ■ ■

Response

IPFCF

Injured Patients & Families Compensation Fund

Tony Evers, Governor of Wisconsin
Nathan Houdek, Commissioner of Insurance

June 2, 2022

Legislative Audit Bureau
Attn: Joe Chrisman
22 E Mifflin St, Ste 500
Madison WI 53703

Re: Final Audit of the Injured Patient and Families Compensation Fund FY2018-19 through FY2020-21

Dear Mr. Chrisman,

The Injured Patients and Families Compensation Fund (the Fund) appreciates the opportunity to respond to the findings and recommendations provided in the Injured Families and Patient Compensation Fund Audit Report for FY2018-19 through FY2020-21.

The Fund accepts the report's recommendations and has begun the work to implement the recommendations. Please note our responses to specific items below:

Finding 1: Financial Reporting Process (FY2018-19)

We recommend the Wisconsin Office of the Commissioner of Insurance, Injured Patients and Families Compensation Fund, take steps to adequately understand and appropriately apply financial reporting requirements, including by:

1. ***Attending relevant training on financial reporting and government accounting standards:***
2. ***Proactively identifying and applying applicable changes in accounting standards:***
3. ***Seeking guidance and clarification on relevant financial reporting requirements to the Fund from other resources, such as the Department of Administration State Controller's Office and the and the State of Wisconsin GAAP Conversion Manual, and:***
4. ***Further educating the Fund's external accounting firm on the Fund's operations and financial reporting process.***

The Fund's June 2020 response to this finding is included in the current report. Below is a summary of the additional actions the Fund has taken to address this finding since June 2020.

Item 1: The Fund's accountant has successfully completed the Government Accounting Intensive Series in the field of Accounting (Governmental), and Preparing a Comprehensive Annual Financial Report, with the GFOA (Government Finance Officers Association). He is pursuing his CPA license as well.

Item 4: The Fund's external accountants attend the quarterly meetings of the Fund's Actuarial and Finance, Investment and Audit Committees, and the Board of Governor's meetings. Staff, and the Fund's external accountants, have built a "mapping document" that assists in bridging the Annual Comprehensive Financial Report (ACFR) and the Fund's separately issued financial statements.

Finding 2: Financial Reporting Process (FY 2019-20 & FY 2020-21):

We recommend the Wisconsin Office of the Commissioner of Insurance, Injured Patients and Families Compensation Fund, take steps to improve its financial reporting and review process, including by:

1. ***Completing a year-to-year comparison of the Fund financial statements, and analyzing and resolving significant changes in account balances or unusual trends; and***

2. ***Documenting its year-to-year comparison for the external accounting firm, and other reviewers, to access in their review of the financial statements.***

Further we recommend the Fund reassess the scope and depth of the actuarial audits performed to ensure these audits meet the needs of the Fund.

The error identified by LAB was an error in the actuarial report dated February 10th, 2020 and was not detected primarily because the current review process does not require comparisons between years. As a result, the Fund's reserves were understated with the understated amount being recorded as surplus instead of included in reserves. Correction of the error resulted in a decrease in the estimated surplus of $57.8 million from $1,265.1 million, to $1,207.3 million and a corresponding increase was made to the Fund's reserves. During this time period, the Fund's reserves were sufficient to pay all claims and claims expenses.

To address this recommendation, staff and the Fund's external accountants, have built a "mapping document" that assists in bridging the Annual Comprehensive Financial Report (ACFR) and the Fund's separately issued financial statements. This document will allow staff and consultants to do a comparison between years and create a report identifying any changes or trends as recommended. Staff will implement this report for FY 2022-23.

Staff is also reviewing our processes to determine what changes could be made to discover such errors. Staff will discuss improvement options with the Fund's Board at its next meeting, including asking for approval to expand the scope of the independent actuarial audit from auditing one year in a three-year period, to a comparative and comprehensive review of all three years of actuarial reports.

The Fund has already broadened its financial oversight significantly during the audit period with the addition of an outside CPA firm reviewing the Fund's ACFR and separately issued financial statements, and another outside vendor tracking the Fund's investments.

The Fund would also like to clarify language in the report regarding alternative investments. As noted in the report, in FY '21 the Board authorized the allocation of up to 10% of its equity portfolio to alternative investments. However, it was subsequently determined that the Fund lacked the legal authority to make such investments.

The Fund supports the recommendations made in the audit report and will work diligently to implement them in a timely fashion.

In closing, the Office of the Commissioner of Insurance, and the Injured Patients and Families Compensation Fund, wish to express their appreciation to the Legislative Audit Bureau Staff for their constructive, cooperative, and comprehensive approach to the audit process.

Thank you again for the opportunity to respond to the recommendations resulting from this audit. Please feel free to contact me should you have additional questions or concerns.

Sincerely,

Nathan Houdek
Commissioner of Insurance