



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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DATE: August 22, 2014

TO: The Honorable Alberta Darling
The Honorable John Nygren
Co-Chairs of the Joint Committee on Finance

FROM: Theodore Nickel

SUBJECT: Report on the Operations of the Health Insurance Risk Sharing Plan

Background

The Health Insurance Risk Sharing Plan (HIRSP) Authority was a quasi government body that largely operated independently, but the state maintained control of certain aspects of the plan.. The HIRSP Authority was established effective July 1, 2006 by ch. 149, Wis. Stats., for the purpose of maintaining and administering the insurance risk-sharing pool that provided individual health care insurance policies to Wisconsin residents who were at high risk for adverse health care costs and who could not obtain health insurance in the commercial individual health insurance market. HIRSP also provided health care policies to persons who are entitled to continuation of coverage under federal law, including the Health Insurance Portability and Accountability Act (HIPAA) under Title XXII, P.L. 104-191. In addition, the HIRSP Authority operated a temporary federal high-risk pool (HIRSP Federal) under contract with the U.S. Department of Health and Human Services (HHS). Temporary risk pools were created under Section 1101 of Title I of the Patient Protection and Affordable Care Act (ACA) of 2010. Previously, Wisconsin's high risk pool programs had been run by the Office of Commissioner of Insurance and later the Department of Health and Family Services.

The ACA included several provisions that would address issues of insurability for the individual health insurance market and current HIRSP members, and would reduce or eliminate the need for state high-risk pools like HIRSP. These reforms, which went into effect on January 1, 2014, included a prohibition on charging premiums based on health status (known as "modified community rating"),

required insurers to provide guaranteed issue of health insurance coverage, and prohibited pre-existing condition exclusions. The law also included significant subsidies to low income individuals purchasing coverage through health insurance exchanges.

As a result, the Wisconsin legislature passed 2013 Wisconsin Act 20 and 2013 Wisconsin Act 116. These acts made a number of changes to Wisconsin law relating to the HIRSP Authority, including ending coverage for HIRSP members after March 31, 2014, and ending coverage for HIRSP Federal members as of January 1, 2014 or a later date under specified conditions. Those conditions were met and, as a result, coverage for HIRSP Federal plan members also ended after March 31, 2014.

Further, Wisconsin Act 116 requires The Wisconsin Office of the Commissioner of Insurance (OCI) to, no later than 30 days before distribution of any surplus remaining after the dissolution of the plan, or within 30 days after completion of the dissolution of the plan if there is no surplus to distribute, submit a final report to the Joint Committee on Finance on the operation and dissolution of the plan, including the proposed distribution of any remaining surplus. This document serves as the report OCI is required to submit to the committee.

OCI has overseen the “wind- down” of plan activities. On February 28, 2014, the assets, liabilities, and contract agreements of the HIRSP Authority transferred to OCI. There are also agreements in place to ensure that the vendors will carry out their contractual duties during the wind-down period. Due to the financial position of the Authority, there are no concerns that the financial obligations of the Authority will not be met and all recorded reported receivables are expected to be collected.

Unaudited Financial Information (State Program)

Assets	02/29/2014	07/31/2014
Cash and Cash Equivalents	12,328,702	5,957,425
Other Receivables	701,377	1,219,307
Drug Rebates Receivable	2,651,455	296,926
Assessments Receivable	124,109	124,109
Prepaid Items	876	-
State Intercompany - Due From/(To) Federal Program	126,076	87,582
Total Assets	15,932,595	7,685,379
Liabilities and Fund Equity		
Liabilities:		
Unpaid Medical Loss Liabilities	4,273,390	47,134
Unpaid Prescription Drug Loss Liabilities	205,471	-
Unpaid Loss Adjustment Expense	244,000	1,000
Unearned Premiums	2,012,775	-
Unearned Assessments	-	-
Accounts Payable and Other Accrued Liabilities	1,537,219	214,880
Total Liabilities	8,272,855	263,014
Fund Equity:		
Policyholder	4,406,281	5,195,020
Providers	1,338,250	1,191,549
Insurers	1,915,209	1,035,796
Total Retained Earnings	7,659,740	7,422,365
 Total Liabilities and Fund Equity	 15,932,595	 7,685,379

	Feb	Jul
Operating Revenues		
Gross Premiums	2,788,224	3,883
Premium Subsidized	(308,516)	-
Net Premium Revenues	2,479,708	3,883
Provider Contribution	721,828	102,754
Insurer Assessments	-	-
Total Operating Revenues	3,201,536	106,637
Operating Expenses		
Medical Losses:		
Losses Paid or Approved for Payment	4,816,188	488,981
Increase (Decrease) in Unpaid Losses	(2,997,153)	38,293
Deductible Subsidy Paid	60,290	892
Total Medical Losses	1,879,325	528,188
Pharmacy Losses:		
Losses Paid or Approved for Payment	1,649,636	(14,644)
Increase (Decrease) in Unpaid Losses	(61,568)	-
Drug Rebates	(80,688)	-
Subsidy - Coinsurance Out-of-Pocket Max	888	-
Total Pharmacy Losses	1,508,268	(14,644)
Total Losses	3,387,593	513,522
Loss Adjustment Expenses	(6,000)	(13,000)
Total Administrative Expenses	809,447	45,469
Total Operating Expenses	4,191,040	545,991
Net Operating Income (Loss)	(989,504)	(439,354)

Distribution Plan

On October 30, 2013 the HIRSP Authority Board made recommendations regarding a distribution plan in the event funds remain at the end of the wind down. The recommendations are summarized below.

It is important to note that the HIRSP Authority, like other insurers, maintained a required surplus/equity to ensure its ongoing ability to meet its legal obligation. These equity positions are divided

between the entities that fund HIRSP, namely policyholders, insurers, and medical providers. Throughout the history of HIRSP, each entity was required to maintain their share of the equity.

The Board recommended returning the policyholder equity to policyholders through a “premium refund”. Because the policyholder equity has been built-up over time, with the newest HIRSP policyholders contributing little to the policyholder surplus, the Board recommended limiting refunds to members enrolled in HIRSP for 12 consecutive months as of December 31, 2013. Under their recommendation all policyholders would receive the same refund regardless of benefit plan.

Insurer contributions were received through assessments levied on the companies that write policies in Wisconsin. The Board recommended that any remaining insurer equity be disbursed through an assessment refund to insurers. The allocation of any refund would be calculated on the same basis used to calculate the assessment for 2013. In other words, if a company paid 2% of the 2013 HIRSP assessment, it would receive 2% of any refund. The Board also recommended that the minimum threshold for any individual refund to an insurer be set at \$100. In order for at least one insurer to receive a refund check of \$100, total insurer equity would need to be \$969.

Provider contributions were received as a discount from billed medical charges billed by providers that serve HIRSP members. The HIRSP Board recommended that a portion of the provider equity would be returned to providers by changing the provider discount in the later part of 2013 and first quarter of 2014. The Board voted to reduce the discount by 4.4% for claims paid beginning on November 1, 2013. However, at its November 25th meeting, the Board voted to bring the discount back up to the October level given the uncertainty about a possible extension of HIRSP coverage into 2014. The Board further recommended that any residual provider equity remaining in the fall of 2014 be directed to the Wisconsin Hospital Association Foundation with the contingency that the funds be used exclusively to support the initiatives of the Wisconsin Council on Medical Education and Workforce, Incorporated (WCMEW), a multi-stakeholder health care workforce focused initiative of the Wisconsin Hospital Association, the Wisconsin Medical Society and the Rural Wisconsin Health Cooperative. (The Wisconsin Hospital Association Foundation serves as the fiscal agent for WCMEW).

After the remaining equity is disbursed in the summer and fall of 2014, it is possible that HIRSP will receive additional monies. Such monies could be the result of subrogation lawsuit settlements

and awards or claim and provider recovery payments. These monies would be forwarded by WPS to OCI for deposit in the newly created appropriation to wind down HIRSP operations. These monies could subsequently be disbursed by OCI or they could remain in the appropriation until the appropriation is ultimately repealed by the Legislature at which time the monies would lapse to the general fund. A reasonable time frame for repeal of the appropriation would be the 2017-2019 Biennial Budget. At this time, it is not expected that there will be significant deposits into the account after the fall of 2014. Under the law, the Commissioner of Insurance could disburse the remaining funds at his/her discretion or allow the monies to lapse to the general fund through the repeal process.

Estimated Distribution

The estimated amounts to be distributed are \$5,195,020 for policyholders, \$1,035,796 for insurers, and \$1,191,549 for providers. Factors that may impact these estimates include:

- Claims are higher or lower than estimates
- There are retroactive enrollment adjustments
- Administrative expense are higher or lower than accrued amounts
- Amounts receivable are higher or lower than estimates

Using the above estimates 17,455 policyholders would receive checks in the amount of \$297.62 each, 136 insurers would receive checks totaling \$1,033,287.30, and \$1,191,549 would be contributed to the Wisconsin Hospital Association Foundation for use by WCMEW as described above.

There would be \$2,508.70 of insurer equity remaining after the payment of checks amounting to \$100 or greater. These funds could be lapsed into the general fund or distributed to the Wisconsin Hospital Association Foundation. .

The dissolution of HIRSP would essentially be complete after the distribution. There likely be some activity after the funds have been distributed. For example, subrogation claims in which HIRSP has an interest could be settled several years after the final distribution. Such activity will be sporadic and is expected to be immaterial. As stated above, the law allows Commissioner of Insurance to disburse the remaining funds at his/her discretion or allow the monies to lapse to the general fund through the repeal process.