

SOUTH DAKOTA  
RISK POOL  
FISCAL YEAR 2008

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SIXTH ANNUAL REPORT TO THE SOUTH  
DAKOTA LEGISLATURE

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## **GOVERNANCE**

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The South Dakota legislature convened on June 26 and 27, 2003 for a special session requested by Governor M. Michael Rounds to consider legislation that would establish the South Dakota Risk Pool. On June 27, 2003, Governor Rounds signed the enabling legislation that was passed by the South Dakota legislature.

### **The FY08 Risk Pool Governing Board members**

Chairperson Kevin Forsch  
Governors Office

Janet Griffin  
Insurance Carrier

Chairperson Kathi Mueller  
Governor's Office

Dave Hewett  
Health Care Facility & Providers

Vice-Chairperson Tom Martinec  
Department of Health

Randy Moses  
Division of Insurance

Dennis Studer  
Bureau of Personnel

Larry Iversen  
Department of Social Services

Kevin Forsch served as Chairperson until October 2007. At that time Governor Rounds appointed Kathi Mueller to the Governing Board and she was selected to serve as chairperson.

### **Advisory Panel Members**

Dr. Mary Carpenter ~ Health Care  
Provider

Lonnie McKittrick ~ Insurance Producer

Senator Jason Gant

Representative Kathy Miles

David Link ~ Health Care Facility

David Owen ~ Employers

Damian Prunty ~ lay member

Jean Reed ~ Health Care Facility

Mike Shaw ~ Insurance Carriers

Barb Smith ~ Health Care Provider

Cheryl Stone ~Self Insurer & Employers

Rick Stracqualursi ~ Health Care Facility

Bob Clark ~ Insurance Producer

Dr. Tom Krafka ~ Health Care Provider

## **OPERATIONS**

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The South Dakota Risk Pool has been operational since July 28, 2003. The South Dakota Bureau of Personnel under Commissioner Sandra Zinter administers the Risk Pool. Administrative functions include but are not limited to: application eligibility determination, initial point of contact for all Risk Pool inquires, customer service, premium collection, day to day management, and oversight of the plan. The program is overseen by Risk Pool Program Manager Jill Kruger with additional services provided by Melissa Klemann, Division of Insurance, and Mary Keeler, Bureau of Finance and Management.

The creation of the South Dakota Risk Pool established the methodology to allocate the risk and cost to the state; insurance carriers; medical providers, facilities, and pharmacists; insurance agents; and Risk Pool enrollees. The methodology includes the premise the Risk Pool Members would pay a higher than average premium, the agents would receive a lower than normal commission, and the state, the providers, and the carriers would have a financial partnership in the risk pool. The review of the FY08 financial information indicates the state contributed \$707,168 of an appropriated \$707,172. The carriers, through an allocation set by statute, contributed

\$860,722. To determine the financial contribution to the Risk Pool by medical providers, the difference between 85% of the billed charges (an average insurance company network discount) and the amount actually payable to providers for Risk Pool enrollees was calculated. The specific contribution categories are as follows:

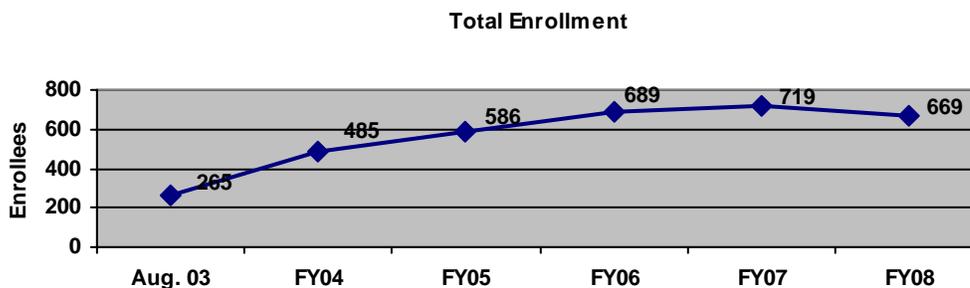
<b>Risk Pool Contributions</b>				
<b>Fiscal Year</b>	<b>Physicians</b>	<b>Hospitals</b>	<b>Provider Total</b>	<b>Insurance Carriers</b>
FY04	\$350,271 <sup>1</sup>	\$411,187 <sup>1</sup>	\$761,459	\$781,766
FY05	\$852,338	\$1,072,100	\$1,924,438	\$839,645
FY06	\$800,662	\$1,420,304	\$2,220,966	\$855,450
FY07	\$892,295	\$1,116,149	\$2,008,444	\$862,311
FY08	\$967,381	\$1,467,242	\$2,434,623	\$860,722
<b>Totals</b>	<b>\$3,862,947</b>	<b>\$5,486,982</b>	<b>\$9,349,930</b>	<b>\$4,199,894</b>
<b>Fiscal Year</b>	<b>State General Funds</b>	<b>State Administrative Costs</b>	<b>Federal Funds</b>	<b>Total Government</b>
FY04	\$1,998,508 <sup>2</sup>	\$70,000 <sup>3</sup>		
FY05	\$501,494	\$70,000		
FY06	\$502,610	\$70,000		
FY07	\$600,411	\$70,000		
FY08	\$707,168	\$70,000		
<b>Totals</b>	<b>\$4,310,191</b>	<b>\$350,000</b>	<b>\$2,823,037</b>	<b>\$7,483,228</b>
Average Provider contribution per year			\$ 1,869,986	
Average State & Federal contribution per year			\$ 1,496,645	
Average State Contribution per year			\$ 932,038	
Average Insurance Carrier contribution per year			\$ 839,979	
Average Federal Contribution per year			\$ 564,607	
<sup>1</sup> FY04 Physician & Hospital Breakouts are estimated numbers <sup>2</sup> Includes State funding of a \$1,500,000 reserve fund <sup>3</sup> Administrative Costs \$70,000/year are based on State Risk Pool FY08 Administration Costs (enrollment/premium collection) : \$56,734 Estimated Extra staffing costs for legal and other administrative \$20,000				

# ENROLLMENT

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The Risk Pool is providing coverage to those individuals who lose their creditable coverage through no fault of their own and make application to the Risk Pool within sixty-three days of losing coverage. Additionally, by securing federal funds and the enactment of SB 200 (2006), the Risk Pool has been able to allow individuals to enter the pool based on their having health insurance premiums at least 200% of the risk pool premiums. The target population is those individuals who are in closed blocks of business and whose premiums are spiraling upward.

There were 669 members in the Risk Pool at the end of FY08. Of the 669 members, 57 have enrolled due to the passage of SB 200. There have been 890 members who have discontinued Risk Pool coverage since inception of the Risk Pool. Termination of coverage is primarily due to enrollees obtaining creditable coverage through another source. There have been 35 terminations due to failure to pay premiums. Ninety one (91) applications have been denied due to the applicant not meeting eligibility requirements and 157 applications have been denied due to the applicant not completing the application process.



The current member population of the Risk Pool consists of approximately 50% men and 50% women with 11% being tobacco users. Approximately 57% of the Risk Pool enrollees are age 51 or older. The Risk Pool offers three plans to members. Plan A is a \$1,000 deductible, Plan B is a \$3,000 deductible, and Plan C is a \$10,000 deductible. There is an additional option on Plan B that offers a Health Savings Account (HSA). There are approximately 43% of the Risk Pool members enrolled in Plan A, 39% in Plan B, 5% in Plan B with the HSA option, and 13% in Plan C. The only differences in the three plans are the deductibles and out-of-pocket maximums. With the HSA option an enrollee must meet the deductible for medical and pharmacy services combined before the 75/25% coinsurance begins.

## **CLAIMS**

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The claims for medical benefits are administered by Dakotacare Administrative Services. There is a delay between the time services are rendered and the time the claim for services are submitted. Due to the normal delay in payment of claims, paid claims data does not accurately reflect all of the claim expenses that have actually been incurred, but not reported (IBNR). During FY08 \$3,707,056\* was paid for medical benefits with an additional \$903,865 estimated IBNR. Express Scripts is the Risk Pool's Pharmacy Benefit Manager. Pharmacy claims are submitted electronically at the time the services are rendered. In FY08 \$1,517,954 was paid in pharmacy benefits.

*\*the FY08 paid claims includes claims incurred in FY07 but paid in FY08*

## **EXPENSES**

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Operating expenses and expenditures, other than claim benefit payments, totaled \$388,896 during FY08. The expenses category includes costs for contracting for medical management, claims processing services, agent commissions, and other miscellaneous expenses.

## **ASSESSMENTS**

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Annually insurance carriers are asked for an updated report based on the number of member months for the preceding calendar year. Assessments to insurance carriers are set at \$0.25 per member per month. Carriers were assessed \$860,890 for calendar year 2008 and \$860,722 was received. The difference in the amount assessed and the amount received is due to carriers having credits due to overpayment. Carriers who pay in advance were provided credits for the next calendar year.

## **PREMIUMS**

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In accordance with legislation, Risk Pool premiums are actuarially based on 150% of the average in force premiums charged by the three carriers with the largest number of individual health benefit plans in the State of South Dakota during the preceding year. Payments of premiums are collected by using automatic withdrawal from member's checking or saving accounts unless other arrangements have been

made with the Risk Pool Administrator. Premiums received during FY08 were slightly over \$4.1 million. The average rate increase from FY07 to FY08 was slightly more than thirteen percent (13.3%) with ranges of 1.8% to 19.6% in the various gender and age bands.

## **MEDICAL MANAGEMENT & INTERVENTION**

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Medical management services are administered by Health Care Medical Technology Inc. (HCMTI). Enrollees are triaged into medical and disease management programs based on information submitted at the time of application. HCMTI has 12 distinct disease management programs and an enrollee may be involved in more than one program. The metabolic syndrome program, which involves a combination of diabetes, cardiac, or obesity, has 28.8% of the Risk Pool membership enrolled in that Disease Management Program

<b>Enrollment of Disease Management Programs</b>		
Metabolic Syndrome	192	28.80%
Cardiac	178	26.70%
High Cost Claims	157	23.50%
Pharmacy	118	17.70%
Mental Health	87	13.00%
Spine	76	11.40%
Oncology	67	10.00%
Diabetes	43	6.40%
Asthma	35	5.20%
Obesity	18	2.70%
No Programs	13	1.90%
Transplant	6	0.90%
High Risk Pregnancy	2	0.30%

The HCMTI FY08 Annual Report reflected savings of \$310,076 to the South Dakota Risk Pool. These figures include hard savings from disease management programs along with pharmacy savings, case management, and benefit reduction savings.

## **GRIEVANCES & APPEALS**

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The South Dakota Risk Pool has grievance and appeal procedures in place. The Risk Pool Governing Board reviewed one appeal since the last annual report, concerning administration.

## **2008 LEGISLATION**

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There were three bills passed during the 2008 legislative session impacting the Risk Pool. Senate Bill 112 allows for an individual with 6 months of any type of prior creditable coverage to be eligible for continuation, not just those with prior group health coverage. With this legislation these individuals are required to exhaust this continuation benefit before becoming eligible for the risk pool. Senate Bill 114 allows for risk pool eligibility and rate flexibility to certain health insurance conversion plans. It clarifies that those electing other coverage and reaching their lifetime maximum would at that point qualify for the risk pool. House Bill 1087 also increased general funds to the Risk Pool in the amount of \$50,000 bringing the states' total funding contribution to \$700,000.

**Bureau of Personnel  
South Dakota Risk Pool Fund  
RISK POOL FUND CONDITION STATEMENT 06/30/08**

	GENERAL	FEDERAL	OTHER	TOTAL
<b>Appropriation</b>	\$ 707,172	\$ -	\$ -	\$ 707,172
Premiums			\$ 4,168,047	\$ 4,168,047
Carrier Assessments			\$ 860,722	\$ 860,722
Interest			\$ 192,045	\$ 192,045
Refund of Prior Years Expense			\$ 1,607	\$ 1,607
<b>Total Revenues</b>	<b>\$ 707,172</b>	<b>\$ -</b>	<b>\$ 5,222,421</b>	<b>\$ 5,929,593</b>
<b>Expenditures</b>				
<b>Personal Services</b>				
Risk Pool	\$ 74,079			\$ 74,079
Board				\$ -
<b>Total Personal Services</b>	<b>\$ 74,079</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 74,079</b>
<b>Operating Expenses</b>				
Travel	\$ -		\$ 3,304	\$ 3,304
Contractual	\$ 59,349		\$ 252,164	\$ 311,513
Claims Medical	\$ 515,012	\$ -	\$ 3,192,044	\$ 3,707,056
Claims - Pharmacy	\$ 58,728		\$ 1,459,226	\$ 1,517,954
<b>Total Operating Expenses</b>	<b>\$ 633,089</b>	<b>\$ -</b>	<b>\$ 4,906,738</b>	<b>\$ 5,539,827</b>
<b>Total Expenditures</b>	<b>\$ 707,168</b>	<b>\$ -</b>	<b>\$ 4,906,738</b>	<b>\$ 5,613,906</b>
<b>Other Fund Cash Balance 06/30/07</b>			<b>\$ 5,198,730</b>	<b>\$ 5,198,730</b>
<b>Risk Pool Available</b>	<b>\$ 4</b>	<b>\$ -</b>	<b>\$ 5,514,413</b>	<b>\$ 5,514,417</b>
<b>Risk Pool Reserve Available</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,688,622</b>	<b>\$ 1,688,622</b>
<b>Total Available</b>	<b>\$ 4</b>	<b>\$ -</b>	<b>\$ 7,203,035</b>	<b>\$ 7,203,039</b>

\* Medical claims are paid at 135% of Medicaid. Therefore total paid claims to medical providers reflect a reduction in payment for providing to enrollees. The difference between 85% of billed charges and 135% of Medicaid is determined to be the provider contribution

**Bureau of Personnel**  
**South Dakota Risk Pool Fund**  
**Statement of Net Assets**  
**June 30, 2008, June 30, 2007, and 2006**

<b>Assets</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>Unaudited FY 2008</b>
Cash and Cash Equivalents	\$ 5,890,301	\$ 7,034,617	\$ 7,609,210
Accounts Receivable	24,533	0	0
Grants Receivable	0	0	0
Securities Lending Collateral	745,504	1,220,636	677,761
Interest and Dividends Receivable	57,623	76,133	77,481
<b>Total Assets</b>	<b>6,717,961</b>	<b>8,331,386</b>	<b>8,364,452</b>
<b>Liabilities</b>			
Current Liabilities:			
Accounts Payable	46,135	50,131	48,410
Accrued Liabilities	3,950	4,618	5,340
Compensated Absences Payable	3,252	2,567	2,649
Policy Claim Liabilities *	714,981	1,118,182	903,865
Securities Lending Collateral Liability	745,504	1,220,636	677,761
Deferred Revenue	317,613	807,006	827,904
Total Current Liabilities:	1,831,435	3,203,140	2,465,929
Noncurrent Liabilities:			
Long Term Compensated Absences Payable	2,930	2,324	2,371
<b>Total Liabilities</b>	<b>1,834,365</b>	<b>3,205,464</b>	<b>2,468,300</b>
<b>Net Assets</b>			
Unrestricted Net Assets	4,883,595	5,125,922	5,896,152
<b>Total Net Assets</b>	<b>\$ 4,883,595</b>	<b>\$ 5,125,922</b>	<b>\$ 5,896,152</b>

\*At year end the Policy Claims Liability is calculated by the actuarial firm of Oliver Wyman.

The financial statements are prepared in conformity with generally accepted accounting principles (GAAP) applicable to government as prescribed by the Governmental Accounting Standards Board (GASB).

**Bureau of Personnel**  
**South Dakota Risk Pool Fund**  
**Statement of Revenues, Expenses, and Changes in Net Fund Assets**  
**For the Year ended June 30, 2008 and For the Fiscal Year Ended June 30, 2007 and 2006**

	FY 2006	FY 2007	Unaudited FY 2008
<b>Operating Revenue:</b>			
Premiums	\$ 3,390,222	\$ 3,820,942	\$ 4,146,354
Carrier Assessments	891,426	834,060	861,517
Other Revenue	8,440	0	1,607
Interest and Dividends	301	388	736
<b>Total Operating Revenue</b>	<u>4,290,389</u>	<u>4,655,390</u>	<u>5,010,214</u>
<b>Operating Expenses:</b>			
Personal Services and Benefits	54,386	56,788	74,930
Travel	3,088	3,501	3,304
Contractual Services	336,970	345,202	309,792
Insurance Claims	3,965,916	6,037,704	5,010,693
<b>Total Operating Expenses</b>	<u>4,360,360</u>	<u>6,443,194</u>	<u>5,398,719</u>
<b>Operating Income (Loss)</b>	(69,971)	(1,787,804)	(388,505)
<b>Non-operating Revenue (Expense):</b>			
Interest Income	169,674	394,370	489,041
Other Expense/Income	(28,473)	(63,077)	(37,474)
Grant and Other Income	0	1,098,428	0
<b>Total non-operating Revenue (Expense)</b>	<u>141,201</u>	<u>1,429,720</u>	<u>451,567</u>
<b>Transfers</b>			
Operating Transfers In *	501,346	600,411	707,168
<b>Net Transfers</b>	<u>501,346</u>	<u>600,411</u>	<u>707,168</u>
<b>Change in Net Assets</b>	572,576	242,327	770,230
Beginning Net Assets	4,312,187	4,883,595	5,125,922
Prior Period Adjustment	(1,168)	0	0
<b>Ending Fund Balance</b>	<u>\$ 4,883,595</u>	<u>\$ 5,125,922</u>	<u>\$ 5,896,152</u>

\*Represents the State's annual general fund appropriation.