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## Correspondence Memorandum

**Date:** December 17, 2024

**To:** Group Insurance Board

**From:** Cindy Klimke, Chief Trust Finance Officer  
Division of Trust Finance

Renee Walk, Director  
Office of Strategic Health Policy

**Subject:** Group Health Insurance Program Reserve Status

**This memo is for informational purposes only. No Board action is required.**

### Background

In advance of benefit change and rate setting discussions for plan year 2026, ETF is providing an update on the status of the reserves of the Group Health Insurance Program (GHIP). The GHIP reserve is experiencing negative cash flows. To pay premiums and claims, the GHIP is using cash from the Core Trust Fund, where other benefit programs in addition to the GHIP are invested. This will result in the GHIP being allocated negative earnings for the year. This memo summarizes the factors contributing to the current status of the GHIP reserve and considerations for the Board in maintaining program funding.

### Contributing Factors

Several factors have contributed to the cash flow condition of the GHIP:

- Reserve projections on accrual basis: Reserves have historically been presented to the Board and projected forward by the Board's actuary, Segal, on an accrual basis instead of a cash basis. This means that receivables, or cash to be received in the future, have been included. Receivables include a significant amount of pharmacy rebates and subsidies to be paid but the cash has not yet been received.
- Pharmacy costs continue to increase: As reported to the Board regularly over the years, pharmacy costs continue to increase. Actual pharmacy costs have also exceeded projections in recent years, causing larger claims payments from the program.

Reviewed and approved by Diana Felsmann, General Counsel (incoming Deputy Secretary)  
Electronically Signed 01/07/2025

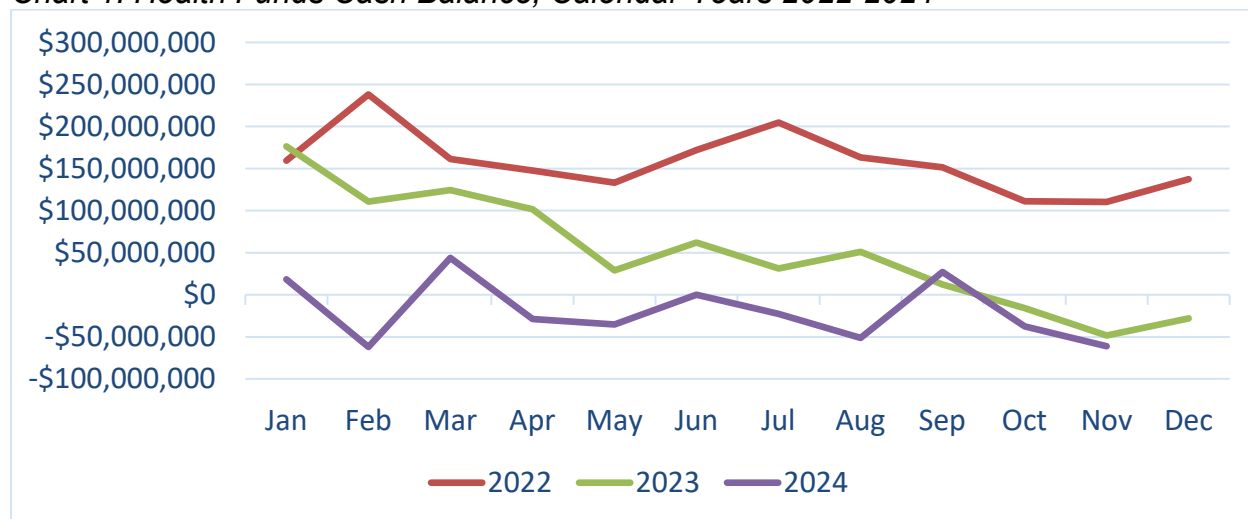
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| GIB   | 01.15.25 | 12     |

- Rate buy-down in 2023: The Board approved a buy-down of rates in 2023 to reduce member and employer rate increases. This used approximately \$91M in cash between the state and local programs.
- 2024 rates did not include a buy-up: ETF and Segal did not propose, and the Board did not opt, to increase rates to replenish cash or a reserve balance during 2024 ([Ref. GIB | 08.16.23 | 4D](#)).
- Reserve policy did not address a negative cash position or being below a minimum cash target: Prior to 2023, the Board's reserve policy was silent on what to do if the reserve balance fell below the reserve target. Revisions made to the policy in 2023 addressed this to an extent, but did not specifically address the cash position of the reserve or require a minimum.

### GHIP Cash Balance

Throughout calendar year 2022 and prior, the cash balance of the GHIP reserve remained high. The reserve decreased throughout 2023, driven by the approximately \$91M buy-down approved by the Board. The chart below shows the monthly cash balance of the reserve from January 2022 through November 2024. ETF projects the December 2024 balance to increase but remain negative.

Chart 1. Health Funds Cash Balance, Calendar Years 2022-2024\*



\*For reference, the Net Position as of December 31, 2022 = \$149.6 million, 2023 = \$46.5 million (unaudited). 2024 is not available.

### Considerations for Future Rate Setting Discussions

The Board approved a premium stabilization credit (PSC) of 1.6% of average premiums for the state group and 1.4% for the local group as a part of 2025 rates. This charge was primarily intended to incrementally build the reserve to reach the target range by the end of 2027. The PSC is estimated to result in approximately \$17M additional dollars in 2025. This will help to return the program to a positive cash flow position.

As a reminder, the Board's contract with Dean Health Plan for the Access and State Maintenance Plans includes a risk-sharing arrangement. As discussed at the May 2024 Board meeting ([Ref. GIB | 05.23.24 | 4](#)), the Board was projected to owe Dean another settlement payment for 2024. This is expected to be another ~\$8M that will need to be paid by the reserve.

Additionally, at the May 2024 meeting, ETF provided information on administrative fee increases that are due, in part, to the implementation of the Insurance Administration System (IAS) ([Ref. GIB | 05.23.24 | 4B](#)). These increases will continue to factor into rates in the coming years.

### **Next Steps**

ETF and Segal are working on additional projections for the reserve that consider the monthly cash reserve needs and will use those projections to inform the coming rate setting cycle. That cycle kicks off in earnest in January, and ETF plans to bring a preliminary discussion of rates to the Board at the February meeting. ETF will also review the Board's health insurance reserve policy and offer any appropriate changes for the Board's consideration at the May Board meeting.

Staff will be at the Board meeting to answer any questions.