



## **FISCAL YEAR 2013**

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ELEVENTH 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.

<b>The FY13 Risk Pool Governing Board members</b>	
<b>Chairperson Matt Michels</b> Lt. Governor	<b>Vice-Chairperson Tom Martinec</b> Department of Health
<b>Dave Hewett</b> Health Care Facility & Providers	<b>Randy Moses</b> Division of Insurance
<b>Frank Stork</b> VP & Senior Counsel, Regulatory & Government Affairs, Board Secretary; Wellmark	<b>Dennis Studer</b> Bureau of Human Resources

<b>Advisory Panel Members</b>	
<b>Dr. Mary Carpenter</b> Health Care Provider	<b>Damian Prunty</b> Lay Member
<b>David Christensen</b> Health Care Facility	<b>Barb Smith</b> Health Care Provider
<b>Bob Clark</b> Insurance Producer	<b>Jesse Smith</b> Health Care Facility
<b>Dr. Tom Huber</b> Health Care Provider	<b>Cheryl Stone</b> Lay Member
<b>Senator Jean Hunhoff</b> Legislative Representative	<b>Rick Stracqualursi</b> Health Care Facility
<b>Shawn Lyons</b> Retailers Association	<b>Representative Mark Willadsen</b> Legislative Representative
<b>Lonnie McKittrick</b> Insurance Producer	<b>Kirk Zimmer</b> Insurance Carrier

## OPERATIONS

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The South Dakota Risk Pool has been operational since July 28, 2003. The South Dakota Bureau of Human Resources, previously under Commissioner Sandra Zinter, and currently by Commissioner Laurie Gill, 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 the Director of Benefits with assistance from the Division of Insurance and the Bureau of Finance and Management.

The creation of the South Dakota Risk Pool established the methodology on how to allocate the risk and cost to Risk Pool enrollees, the state, insurance carriers, insurance producers, medical providers, facilities, and pharmacists. The methodology included the premise the Risk Pool members would pay a higher than average premium, the insurance agents would receive a lower than normal commission, and the state, the providers, and the insurance carriers would have a financial partnership in the Risk Pool. The specific contribution categories are as follows:

Risk Pool Contributions				
Fiscal Year	Physicians	Hospitals	Provider Total	Insurance Carriers
FY04	\$350,271	\$411,187	\$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	\$860,721
FY09	\$1,146,620	\$2,121,135	\$3,267,755	\$810,193
FY10	\$1,276,154	\$1,705,380	\$2,981,534	\$1,258,757
FY11	\$1,461,659	\$2,488,913	\$3,950,572	\$1,213,214
FY12	\$1,274,576	\$2,323,331	\$3,597,907	\$1,189,623
FY13	\$1,442,102	\$2,718,984	\$4,161,086	\$1,232,923
<b>TOTALS</b>	\$10,464,058	\$16,844,725	27,308,784	\$9,904,603

Risk Pool Contributions				
Fiscal Year	State General Funds <sup>1</sup>	Administrative Costs <sup>2</sup>	Federal Funds	Total Government
FY04	\$1,998,508	\$70,000	\$1,000,000	\$3,068,508
FY05	\$501,494	\$70,000		\$571,494
FY06	\$502,610	\$70,000		\$572,610
FY07	\$600,411	\$70,000	\$1,098,428	\$1,768,839
FY08	\$707,168	\$70,000		\$777,168
FY09	\$710,475	\$70,000	\$724,609	\$1,505,084
FY10	\$710,480	\$70,000	\$889,500	\$1,669,980
FY11	\$711,020	\$70,000	\$826,451	\$1,607,471
FY12	\$642,371	\$70,000	\$636,320	\$1,348,691
FY13	\$644,533	\$70,000	\$736,071	\$1,450,604
<b>TOTALS</b>	<b>\$7,729,070</b>	<b>\$700,000</b>	<b>\$5,911,379</b>	<b>\$14,340,449</b>

<sup>1</sup>Includes State funding of a \$1,500,000 reserve fund.

<sup>2</sup>Administrative Costs: \$70,000/year are based on the estimated staffing costs for legal, other administrative, and board member time.

Note: To determine the financial contribution by 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.

## ENROLLMENT

The Risk Pool provides coverage to those individuals who have lost 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 had been able to allow individuals to enter the pool based on having health insurance premiums at least 200% of the Risk Pool premiums. The target populations are those individuals who are in closed blocks of

business and whose premiums are spiraling upward. As of July 1, 2009, legislation allowed uninsurable children to join the Risk Pool (SB 109).

There were 610 members in the Risk Pool at the end of FY13. Since SB 200 was passed, 78 people have enrolled based on that eligibility. There have been 1,795 members who have discontinued Risk Pool coverage since its inception, primarily due to enrollees obtaining creditable coverage through another source. The enrollment chart delineates the member's reason for termination from the plan by Fiscal Year (FY) and the number of members.

<b>Enrollment at Year End</b>	<b>All Years</b>	<b>FY13</b>	<b>FY12</b>	<b>FY11</b>	<b>FY10</b>	<b>FY09</b>	<b>FY08</b>	<b>FY07</b>	<b>FY04-FY06</b>
Number of members	<b>2,405</b>	610	611	662	632	632	669	719	587 Avg
<b>Reasons for Termination</b>	<b>All Years</b>	<b>FY13</b>	<b>FY12</b>	<b>FY11</b>	<b>FY10</b>	<b>FY09</b>	<b>FY08</b>	<b>FY07</b>	<b>FY04-FY06</b>
Medicare	729	83	85	69	68	71	101	87	165
Obtained other insurance	592	41	76	93	61	78	88	70	85
Per enrollee's request	214	25	6	0	0	5	17	50	111
Non payment	67	4	5	6	10	8	10	9	15
Deceased	63	7	10	6	1	6	12	5	16
Other	28	1	0	3	4	4	5	3	8
Medicaid	31	1	1	3	8	2	0	0	16
Moved out of state	41	5	6	5	6	9	2	3	5
Cannot afford rate increase	30	0	5	8	4	11	2	0	0
<b>TOTAL</b>	<b>1,795</b>	<b>167</b>	<b>194</b>	<b>193</b>	<b>162</b>	<b>194</b>	<b>237</b>	<b>227</b>	<b>421</b>

As of June 30, 2013, the member population of the Risk Pool consisted of 324 males and 286 females. Almost 72% of the Risk Pool enrollees are over age 50.

The Risk Pool offers seven plans to members. The plan chart on the following page outlines the plans and the number of members enrolled in each plan type.

<b>Deductible</b>	<b>Members at Year End</b>	<b>Percentage</b>
\$1,000 deductible	125	20%
\$2,000 deductible	27	4%
\$3,000 deductible	166	27%
\$3,000 deductible with health savings account option	65	11%
\$5,000 deductible	101	17%
\$7,500 deductible	36	6%
\$10,000 deductible	90	15%

## **CLAIMS**

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The claims for medical benefits are administered by DakotaCare Administrative Services. There is a delay between the time medical services are provided and the time the claim for services are submitted for payment. Due to the normal lag in payment of claims, paid claims data does not accurately reflect all of the claim expenses that have been "Incurred, but not reported" (IBNR).

During FY13 \$4,238,417\* was paid for medical services with an additional \$580,813 in 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 FY13 \$2,348,901 was paid in pharmacy benefits.

*\*The FY13 paid claims included claims incurred in FY12 but paid in FY13.*

## **EXPENSES**

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Operating expenses and expenditures, other than claim benefit payments, totaled \$673,321 during FY13. 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 covered lives for the preceding calendar year. Legislation which took effect on July 1, 2009, increased the carrier assessment from \$0.25 to \$0.35 per member per month.

The total amount received for the FY13 carrier assessment based on calendar year 2012 lives was \$1,232,923.

## **PREMIUMS**

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In accordance with South Dakota legislation, Risk Pool premiums are actuarially based on 150% of the average in force premiums charged by the five carriers with the largest number of individual health benefit plans in the State of South Dakota during the preceding year. Risk Pool premiums are collected by using automatic withdrawal (ACH) from a member's checking or saving accounts unless other arrangements have been made with the Risk Pool Administrator. Premiums received during FY13 were \$4,611,874. The average rate increase for premiums from FY12 to FY13 was 7%.

## **MEDICAL MANAGEMENT & INTERVENTION**

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Medical management services are administered by DakotaCare Administrative Services and Health Management Partners (HMP).

Enrollees are triaged into medical and disease management programs based on information submitted at the time of application and yearly updated health risk assessments. DakotaCare Administrative Services handles the Disease Management Programs. HMP handles the utilization review, prior authorizations and case management for the Risk Pool.

<b>Enrollment in Disease Management and Case Management</b>	
Asthma Care - Dakotacare	29
Heartline - Dakotacare	187
Diabetes Care - Dakotacare	195
Case Management - HMP	34

## **GRIEVANCES & APPEALS**

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The South Dakota Risk Pool has grievance and appeal procedures in place. The Risk Pool Governing Board had no appeals since the last annual report.

## **NEW INSURANCE 2014**

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Federal Health Care Reform has changed the availability of coverage for these individuals, allowing them access to an individual policy in the insurance market through



private insurance carriers. This change in federal policy has removed the necessity for new enrollment after January 1, 2014.

**RISK POOL FUND CONDITION STATEMENT 06/30/13**

	GENERAL	FEDERAL	OTHER	TOTAL
<b>Appropriation</b>	<b>\$644,533</b>	<b>\$736,071</b>	<b>\$0</b>	<b>\$1,380,604</b>
<b>Premiums</b>			<b>\$4,611,874</b>	<b>\$4,611,874</b>
<b>Carrier Assessments</b>			<b>\$1,232,923</b>	<b>\$1,232,923</b>
<b>Interest</b>			<b>\$121,669</b>	<b>\$121,669</b>
<b>Refund of Prior Years Expense</b>			<b>\$193,340</b>	<b>\$193,340</b>
<b>Total Revenues</b>	<b>\$644,533</b>	<b>\$736,071</b>	<b>\$6,159,806</b>	<b>\$7,540,410</b>
<b>Expenditures</b>				
Personal Services				
Risk Pool	\$1,697		\$93,897	\$95,594
Board				\$0
<b>Total Personal Services</b>	<b>\$1,697</b>	<b>\$0</b>	<b>\$93,897</b>	<b>\$95,594</b>
<b>Operating Expenses</b>				
Travel	\$0	\$0	\$0	\$0
Contractual	\$11,411	\$225,219	\$341,097	\$577,727
Claims Medical	\$339,544	\$510,852	\$3,388,021	\$4,238,417
Claims - Pharmacy	\$291,881	\$0	\$2,057,020	\$2,348,901
<b>Total Operating Expenses</b>	<b>\$642,836</b>	<b>\$736,071</b>	<b>\$5,786,138</b>	<b>\$7,165,045</b>
<b>Total Expenditures</b>	<b>\$644,533</b>	<b>\$736,071</b>	<b>\$5,880,035</b>	<b>\$7,260,639</b>
<b>Other Fund Cash Balance 06/30/12</b>			\$4,765,624	\$4,765,624
<b>Risk Pool Available</b>	<b>\$0</b>	<b>\$0</b>	<b>\$5,045,395</b>	<b>\$5,045,395</b>
<b>Risk Pool Reserve Available</b>	<b>\$0</b>	<b>\$0</b>	<b>\$2,061,630</b>	<b>\$2,061,630</b>
<b>Total Available</b>	<b>\$0</b>	<b>\$0</b>	<b>\$7,107,025</b>	<b>\$7,107,025</b>

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

**Bureau of Human Resources  
South Dakota Risk Pool Fund  
Statement of Net Assets  
June 30, 2013, June 30, 2012, and 2011**

<b>Assets</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>Unaudited FY 2013</b>
Cash and Cash Equivalents	\$ 7,706,267	\$ 6,984,919	\$ 7,197,122
Accounts Receivable	0	65,884	86,048
Deferred Fiscal Charges and Other Assets	0	0	8,911
Interest and Dividends Receivable	39,964	24,311	18,900
<b>Total Assets</b>	<b>7,746,231</b>	<b>7,075,114</b>	<b>7,310,981</b>
<b>Liabilities</b>			
Current Liabilities:			
Accounts Payable	49,313	46,866	24,356
Accrued Liabilities	3,275	4,161	4,650
Compensated Absences Payable	2,164	1,630	3,918
Policy Claim Liabilities	832,314	1,132,431	580,813
Due to Other funds	1,640	1,325	1,458
Deferred Revenue	1,019,975	1,002,018	1,040,664
<b>Total Current Liabilities:</b>	<b>1,908,681</b>	<b>2,188,431</b>	<b>1,655,859</b>
Noncurrent Liabilities:			
Long Term Compensated Absences Payable	1,928	1,429	3,424
<b>Total Liabilities</b>	<b>1,910,609</b>	<b>2,189,860</b>	<b>1,659,283</b>
<b>Net Assets</b>			
Unrestricted Net Assets	5,835,622	4,885,254	5,651,698
<b>Total Net Assets</b>	<b>\$ 5,835,622</b>	<b>\$ 4,885,254</b>	<b>\$ 5,651,698</b>

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 Human Resources  
South Dakota Risk Pool Fund  
Statement of Revenues, Expenses, and Changes in Net Fund Assets  
For the Year Ended June 30, 2013 and For the Fiscal Year Ended June 30, 2012, and 2011**

	FY 2011	FY 2012	Unaudited FY 2012
<b>Operating Revenue:</b>			
Premiums	\$ 4,561,411	\$ 4,545,617	\$ 4,594,778
Carrier Assessments	1,218,353	1,201,515	1,211,242
Other Revenue	93,470	271,242	213,635
Interest and Dividends	42	0	0
<b>Total Operating Revenue</b>	<u>5,873,276</u>	<u>6,018,374</u>	<u>6,019,655</u>
<b>Operating Expenses:</b>			
Personal Services and Benefits	77,801	81,325	100,366
Travel	3,208	0	0
Contractual Services	519,230	348,425	546,826
Supplies	4,516	1,601	863
Insurance Claims	7,124,221	7,928,803	6,040,709
<b>Total Operating Expenses</b>	<u>7,728,976</u>	<u>8,360,154</u>	<u>6,688,764</u>
<b>Operating Income (Loss)</b>	(1,855,700)	(2,341,780)	(669,109)
<b>Non-operating Revenue (Expense):</b>			
Interest Income	255,011	168,726	101,719
Other Expense/Income	(71,483)	(56,004)	(46,770)
Grant and Other Income	826,451	636,319	736,071
<b>Total non-operating Revenue (Expense)</b>	<u>1,009,979</u>	<u>749,041</u>	<u>791,020</u>
<b>Transfers</b>			
Operating Transfers In *	711,020	642,371	644,533
<b>Net Transfers</b>	<u>711,020</u>	<u>642,371</u>	<u>644,533</u>
<b>Change in Net Assets</b>	(134,701)	(950,368)	766,444
Beginning Net Assets	5,970,323	5,835,622	4,885,254
<b>Ending Fund Balance</b>	<u>\$ 5,835,622</u>	<u>\$ 4,885,254</u>	<u>\$ 5,651,698</u>

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