WISCONSIN LEGISLATIVE AUDIT BUREAU
AUDIT SUMMARY

Report 00-13

November 2000

HEALTH INSURANCE RISK-SHARING PLAN

The Health Insurance Risk-Sharing Plan (HIRSP) is a state program that provides major medical insurance and Medicare supplemental insurance for individuals who cannot obtain private coverage because of the severity of their health conditions. At the end of calendar year 1999, 7,904 policyholders were enrolled in the plan, which is funded by general purpose revenue (GPR), the premiums paid by policyholders, contributions from health insurers doing business in Wisconsin, and health care providers serving HIRSP policyholders. In the 1999-2001 biennium, GPR funding for HIRSP totaled $23.4 million.

The Department of Health and Family Services (DHFS) has oversight responsibility for HIRSP. A private firm that is also the State's fiscal agent for Medicaid administers the plan on a day-to-day basis.

HIRSP's Financial Position Has Improved

We audited HIRSP's financial statements for fiscal year (FY) 1998-99. We found that as a result of legislative changes and management efforts, many concerns related to HIRSP's funding have been addressed. Therefore, we have issued an unqualified, or "clean," opinion on HIRSP's FY 1998-99 financial statements. Additionally, the plan's financial position has improved. HIRSP had net income of $6.6 million during FY 1998-99, which was a considerable improvement over the $9.4 million loss in the previous year.

Drug Claims Have Been Overpaid by an Estimated $3.7 Million

Prescription drug claims, which totaled $12.6 million in FY 1998-99 and $16.5 million in FY 1999-2000, represent approximately 45 percent of HIRSP's total claim costs. Despite the significant costs of these claims, DHFS has insufficient controls in place to ensure that they are paid at the allowable rates.

Since July 1, 1998, HIRSP has reimbursed prescription drug benefit claims at the same rates paid by the Medicaid program. Under Medicaid, pharmacies are required to submit claims showing the usual and customary rates they charge for prescription drugs; the Medicaid program then reimburses the pharmacies at Medicaid-approved rates. Under HIRSP, it is policyholders rather than pharmacies who typically seek reimbursement for drug claims. During HIRSP's transition to Medicaid-based drug pricing, policyholders who had paid the pharmacies' usual and customary rates when their prescriptions were filled received reimbursement at lower, Medicaid-allowed rates when they submitted their claims to HIRSP. These policyholders were then required to seek additional reimbursement for covered prescription drugs directly from the pharmacies. This process resulted in confusion and complaints from both policyholders and pharmacies.

In response to the complaints, DHFS instructed the plan administrator to suspend controls that had limited drug reimbursement payments to the allowed Medicaid-based rates. These measures may have been necessary in the short term to ensure continuity of services, but DHFS did not take steps to subsequently reinstate system controls or to ensure that pharmacies were charging appropriate rates for prescription drugs. As a result, we estimate that HIRSP overpaid drug claims by at least $3.7 million over the last two fiscal years. In a test of claims paid for prescription drugs, we found that over 75 percent of the tested prescriptions had been paid in excess of allowed rates. We alerted DHFS to the overpayments, and it is currently taking steps to recover the overpayments and reinstate system pricing controls.

DHFS Is Considering Options to Improve the Drug Claims Process

DHFS and HIRSP's Board of Governors are also considering longer-term options to improve the understandability and efficiency of the drug claims payment process, including contracting with a pharmacy benefit management company to administer pharmacy claims and implementing a "point-of-sale" system specific to HIRSP. Both options could help improve service delivery by eliminating the need for policyholders to submit drug claims.

DHFS and the HIRSP Board are also considering options to obtain contributions from pharmaceutical providers toward funding HIRSP. However, obtaining contributions from pharmaceutical providers is difficult because a significant portion of drug costs are charged by drug companies, which are not direct providers of services to HIRSP policyholders. Two options under consideration are pursuing rebates from drug companies and establishing discounted payment rates for drugs.

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