

FISCAL ESTIMATE FORM

1999 Session

ORIGINAL

UPDATED

CORRECTED

SUPPLEMENTAL

LRB # -4189/1

INTRODUCTION # SB335

Admin. Rule #

Subject

Prescription Drug Assistance for the Elderly

Fiscal Effect

State: No State Fiscal Effect

Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation.

Increase Costs - May be possible to Absorb Within Agency's Budget Yes No

Increase Existing Appropriation

Increase Existing Revenues

Decrease Existing Appropriation

Decrease Existing Revenues

Decrease Costs

Create New Appropriation

Local: No local government costs

1. Increase Costs

Permissive Mandatory

3. Increase Revenues

Permissive Mandatory

5. Types of Local Governmental Units Affected:

Towns Villages Cities

2. Decrease Costs

Permissive Mandatory

4. Decrease Revenues

Permissive Mandatory

Counties Others _____

School Districts WTCS Districts

Fund Sources Affected

GPR FED PRO PRS SEG SEG-S

Affected Ch. 20 Appropriations

Assumptions Used in Arriving at Fiscal Estimate:

See Attached Narrative.

Long-Range Fiscal Implications:

Prepared By: / Phone # / Agency Name
Richard T. Chao / 267-0356
DHFS/OSF

Authorized Signature / Telephone No.
John Kiesow
John Kiesow, 266-9622

Date *20*
01/25/2000

Bill Summary

Senate Bill 335 provides state assistance to pay a significant portion of the cost of prescription drugs for most elderly in Wisconsin. In addition, enrollees would pay 25% coinsurance for the cost of drugs, and a \$5 or \$10 co-payment for each filled prescription. Eligibility includes all Wisconsin residents age 65 and over who are ineligible for Medicaid and whose income does not exceed \$50,000 if single or \$75,000 if married. The state would pay 75% of the cost of prescription drugs up to \$10,000 annually. Recipients would pay the remaining 25% in addition to a \$5 co-payment for generic drugs and \$10 for brand name drugs.

The bill mandates that pharmacies charge enrollees no more than the Medicaid rate for prescription drugs. Drugs dispensed under this program would be reimbursed at the Medicaid rate of AWP – 10% plus a dispensing fee or Maximum Allowable Cost. In order for its products to be made available through this program, a manufacturer must enter into a rebate agreement with the state to provide rebates equal to those provided under the Medicaid program. The bill creates a sum sufficient appropriation to fund the program benefits. In addition, the bill appropriates \$1 million per year for the administration of the program.

Fiscal estimate

Administrative expenses

The bill appropriates \$1,000,000 in general purpose revenues (GPR) for administration of the prescription drug assistance program. This funding level significantly underestimates the cost of administering the plan. Administering this program would involve evaluating eligibility for over 600,000 people each year, developing a system that can process claims with deductibles, co-insurance, and co-payments, processing approximately 12 million claims per year, administering lines of communication and assistance for recipients and providers, and negotiating and collecting rebates from manufacturers. Assuming these tasks could be completed at a cost of \$20 per potential eligible per year, these administrative costs would be approximately \$12 million annually. The Department also anticipates a one-time administrative cost of \$2 million for information system start-up costs.

In addition, the Department estimates that an additional 4.5 FTE will be needed to administer the program. The estimated total annual cost for these positions is \$233,200, with one-time costs of \$21,300. A table summarizing the fiscal effects of the necessary positions is attached.

Total Cost of the Program

In the first full year of program implementation, SFY 02, the estimated annualized net cost of the program is expected to be \$151,198,900. This figure includes \$228,371,600 in state assistance for benefits, \$12,233,200 in annual administrative expenses, the collection of \$46,015,200 in copayment revenues, and the collection of \$43,390,600 in manufacturers rebates. If collection of manufacturer rebates is not possible, the estimated total annualized cost of the program is approximately \$194 million in SFY 02. A more detailed explanation can be found in the attached worksheets.

Major Assumptions

Current trends indicate that Medicaid drug expenditures have been increasing by approximately 15% per year. The proposed program pays for all drugs covered by the Wisconsin Medicaid program, which operates under an "open formulary" system. Without any significant statutory or policy changes at the federal or state levels, it is assumed that the rate of increase for drug expenditures for this program will rise at 15% per year.

This estimate assumes a 19% rebate from drug manufacturers. The bill mandates that in order for its products to be made available through this program, a manufacturer must enter into a rebate agreement with the state to provide rebates equal to those provided under the Medicaid program. However, unlike the Medicaid program, there is no federal law mandating that manufacturers provide rebates for this type of program.

This estimate assumes no "crowd out" of current insurance coverage for prescription drugs for the elderly. However, because the proposed program provides benefits with no enrollment cost, it is possible that elderly individuals who currently have insurance coverage for drugs, e.g. Medigap prescription drug riders, may choose to drop or modify their current insurance coverage. Any occurrence of "crowd out" would increase the total benefits cost of the program and could be as high as an additional \$112.3 million per year.

Other assumptions for this estimate include:

- A program participation rate of 75% for all eligible people with no "ramp up" for enrollment.
- An annual out-of-pocket drug cost of \$1,200 for recipients without insurance.
- A 23% discount in Medicaid reimbursement levels (AWP-10%) below retail prices.
- The out-of-pocket expense of recipients with drug coverage is 35% of recipients without drug coverage.
- An average of 27.4 prescriptions per year for eligible individual.
- A 2:1 ratio of generic to brand name prescriptions.

SB 335 Drug Assistance Program for the Elderly

Total Costs for First Full Year of Operation (SFY 02)

Expenses	\$ 228,371,601	Total Cost of Benefits Assistance
	\$ 12,233,155	Administrative Expenses
Revenues	\$ 46,015,240	Copayments Collected
	\$ 43,390,604	Manufacturers Rebate
	\$ 151,198,912	Net Total Cost for First Full Year of Operation (SFY 02)

SB 335 Drug Assistance Program for the Elderly

Population and State Benefits Estimates

Estimates of Potential Enrollees

700,000	Approximate Total Elderly Population in State
608,300	Total Potential Eligibles (86.9% of total population)
215,900	Potential Eligibles without drug coverage (35.5% of Total)
392,400	Potential Eligibles with drug coverage (64.5% of Total)

State Assistance for Enrollees Without Drug Coverage

215,900	Potential eligibles without drug coverage
161,925	Enrollees without drug coverage (assumes 75% participation)
\$1,200	Annual drug cost per enrollee
\$924	Annual drug cost per enrollee at AWP - 10% (23% discount)
\$693	State share of annual drug cost (75% of total)
\$112,214,025	Annual state assistance for enrollees without drug coverage

State Assistance for Enrollees With Drug Coverage

392,400	Total eligibles with drug coverage
60,000	Less Medicaid Recipients
332,400	Potential drug assistance program eligibles with drug coverage
249,300	Enrollees with drug coverage (assumes 75% participation)
\$420	Annual out-of-pocket drug cost per enrollee (35% of 1200)
\$323	Annual drug cost per enrollee at AWP - 10% (23% discount)
\$243	State share of annual drug cost (75% of total)
\$60,467,715	Annual state assistance for enrollees with drug coverage
\$112,297,185	Annual drug expenses paid with other insurance coverage. (Potential crowd out amount)

Total State Assistance

\$112,214,025	Annual state assistance for enrollees without drug coverage
\$60,467,715	Annual state assistance for enrollees with drug coverage
\$172,681,740	Cost of state assistance
\$32,809,531	Less Drug Manufactures Rebates
\$139,872,209	Net Cost of Drug Purchase (SFY 00 dollars)

SB 335 Drug Assistance Program for the Elderly

Estimates of Revenues from Co-Payments

Generic Co-Payments for Enrollees without Drug Coverage

161,925	Enrollees without drug coverage (assumes 100% participation)
18.3	Generic scripts per year per enrollee (2/3 of MA avg)
2,957,830	Generic scripts per year
\$5	Generic script co-payment
\$14,789,150	Generic co-payment revenue from enrollees without drug coverage

Brand Co-Payments for Enrollees without Drug Coverage

161,925	Enrollees without drug coverage (assumes 100% participation)
9.3	Brand scripts per year per enrollee (2/3 of MA avg)
1,511,300	Brand scripts per year
\$10	Brand script co-payment
\$15,113,000	Brand co-payment revenue from enrollees without drug coverage

Generic Co-Payments for Enrollees with Drug Coverage

249,300	Enrollees without drug coverage (assumes 100% participation)
6.4	Generic scripts per year per enrollee (2/3 MA avg *35%)
1,593,858	Generic scripts per year
\$5	Generic script co-payment
\$7,969,290	Generic co-payment revenue from enrollees with drug coverage

Brand Co-Payments for Enrollees with Drug Coverage

249,300	Enrollees without drug coverage (assumes 100% participation)
3.3	Brand scripts per year per enrollee (2/3 of MA avg * .35%)
814,380	Brand scripts per year
\$10	Brand script co-payment
\$8,143,800	Brand co-payment revenue from enrollees with drug coverage

Total Co-Payment Revenue

\$14,789,150	Generic co-payment revenue from enrollees without drug coverage
\$15,113,000	Brand co-payment revenue from enrollees without drug coverage
\$7,969,290	Generic co-payment revenue from enrollees with drug coverage
\$8,143,800	Brand co-payment revenue from enrollees with drug coverage
\$46,015,240	Total Co-Payment Revenue

SB 335 Drug Assistance Program for the Elderly

Benefits Costs

Cost for First 6 Months -- January 2001 to June 2001

Total state assistance	\$172,681,740
Less Drug Rebates	\$32,809,531
Annual Benefits Cost (SFY 00 dollars)	\$139,872,209
Estimated rate of increase in drug expenditures	1.15
Annual Benefits Cost in SFY 01 dollars	\$160,853,041
Less Co-payment revenue	\$46,015,240
Net Annual Benefits Cost in SFY 01 dollars	\$114,837,801
Portion of year in operation	0.5
Total Cost for First 6 Months of Program (SFY 01)	\$57,418,900

Cost for the First Full Year of Operation -- July 2001 to June 2002

Total state assistance (SFY 00 dollars)	\$ 172,681,740
Estimated rate of increase in drug expenditures	1.32
Total state assistance (SFY 02 dollars)	\$ 228,371,601
Less Drug Rebates (SFY 00 dollars)	\$ 32,809,531
Estimated rate of increase in drug expenditures	1.32
Drug Rebates (SFY 02 dollars)	\$ 43,390,604
Total state assistance (SFY 02 dollars)	\$228,371,601
Less Drug Rebates (SFY 02 dollars)	\$43,390,604
Less Co-payment revenue	\$46,015,240
Total Benefit Cost for First Full Year of Program (SFY 02)	\$138,965,757

SB 335 Drug Assistance Program for the Elderly

Administrative Expenses

Personnel Classification	FTE	\$/hr	Salary	Fringe	S & S	Rent	Int		Total	One-time
							Services	Total		
Section Chief	1.00	\$ 17.81	\$ 37,045	\$ 13,188	\$ 1,200	\$ 2,000	\$ 3,100	\$ 56,533	\$ 4,800	
IS Consultant	1.00	\$ 17.60	\$ 36,608	\$ 13,032	\$ 1,200	\$ 2,000	\$ 3,100	\$ 55,940	\$ 4,800	
Program and Planning Analyst 5	2.00	\$ 16.05	\$ 66,768	\$ 23,769	\$ 2,400	\$ 4,000	\$ 6,200	\$ 103,137	\$ 9,600	
Prog Assist -2	0.50	\$ 10.21	\$ 10,615	\$ 3,779	\$ 600	\$ 1,000	\$ 1,550	\$ 17,544	\$ 2,400	
Total	4.50		151,036.08	53,768.84	5,400.00	9,000.00	13,950.00	233,154.92	21,600.00	

Ongoing Eligibility and Administrative Expenses \$20/Recipient

Number of Recipients 600,000

Recipient Administrative Expense \$ 12,000,000

Personnel Expense \$ 233,155

Total On-going Administrative Expenses \$ 12,233,155

One-time Systems Modification

One-time Staff Expenses \$ 2,000,000

Total One-time Administrative Expenses \$ 2,021,600

FISCAL ESTIMATE WORKSHEET

Detailed Estimate of Annual Fiscal Effect

1999 Session

- ORIGINAL UPDATED
 CORRECTED SUPPLEMENTAL

LRB #-4189/1

Admin. Rule #

INTRODUCTION # SB 335

Subject
 Prescription Drug Assistance for the Elderly

I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):
 \$2,021,600

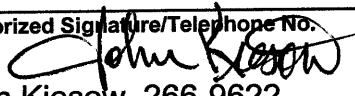
II. Annualized Costs:	Annualized Fiscal impact on State funds from:	
	Increased Costs	Decreased Costs
A. State Costs by Category		
State Operations - Salaries and Fringes	\$	\$ -
(FTE Position Changes)	(4.5 FTE)	(- FTE)
State Operations - Other Costs	12,233,200	-
Local Assistance		-
Aids to Individuals or Organizations	228,371,600	-
TOTAL State Costs by Category	\$ 240,604,800	\$ -
B. State Costs by Source of Funds	Increased Costs	Decreased Costs
GPR	\$ 240,604,800	\$ -
FED		-
PRO/PRS		-
SEG/SEG-S		-
State Revenues Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)	Increased Rev.	Decreased Rev.
GPR Taxes	\$	\$ -
GPR Earned		-
FED		-
PRO/PRS	89,405,800	-
SEG/SEG-S		-
TOTAL State Revenues	\$	\$ -

NET ANNUALIZED FISCAL IMPACT

STATE

LOCAL

NET CHANGE IN COSTS \$ 151,198,900 \$ _____
 NET CHANGE IN REVENUES \$ _____ \$ _____

Prepared By: / Phone # / Agency Name Richard T. Chao / 267-0356 DHFS/OSF	Authorized Signature/Telephone No.  John Kiesow, 266-9622	Date 1-26-00
--	---	-----------------