

FISCAL ESTIMATE FORM

1999 Session

- ORIGINAL UPDATED
- CORRECTED SUPPLEMENTAL

LRB # - 4576/1

INTRODUCTION # AB 815

Admin. Rule #

Subject
Prescription Drug Assistance for Medicare Recipients

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
- Create New Appropriation

Decrease Costs

Local: No local government costs

1. Increase Costs
- Permissive Mandatory
2. Decrease Costs
- Permissive Mandatory

3. Increase Revenues
- Permissive Mandatory
4. Decrease Revenues
- Permissive Mandatory

5. Types of Local Governmental Units Affected:
- Towns Villages Cities
 - Counties Others _____
 - School Districts WTCS Districts

Fund Sources Affected
 GPR FED PRO PRS SEG SEG-S

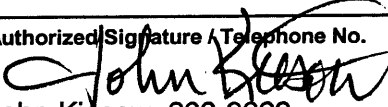
Affected Ch. 20 Appropriations
20.435 (4) (a), 20.435 (4) (j), 20.435 (4) (b), 20.435 (4) (n), 20.435 (4) (o)

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, 266-9622

Date
2-29-00

Bill Summary

The bill mandates that as a condition of participation in the State's Medicaid program, pharmacies may not charge program recipients an amount for certain prescription drugs for outpatient care that exceeds the Average Wholesale Price (AWP) minus 11% or the Maximum Allowable Cost (MAC), as determined by the Department, whichever is lower, for providing that drug, plus a dispensing fee. Prescription drugs covered in the program are for the treatment of a chronic condition as defined in the bill. Program eligibility includes persons who are eligible for Medicare, ineligible for Medicaid and whose incomes do not exceed 185% of the Federal Poverty Level.

The Department is directed to enter with drug manufacturers into rebate agreements, which are modeled on federal Medicaid rebate agreements. The Department must in turn pay the rebate payments to pharmacies that have reduced charges for prescription drugs for the eligible persons. In addition, the bill restricts the Department from subjecting drug manufactures to prior authorization requirements in the Medicaid program from January 01, 2001 through July 01, 2003. Specifically, the Department is prohibited from requiring Medicaid prior authorization for: 1) All prescription drugs used for the treatment of chronic diseases, including those currently on prior authorization; and 2) All new drugs regardless of type, which enter the market after January 01, 2001. The bill also appropriates \$1.0 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 does not cover the full cost of administering the plan. Administering this program includes eligibility determination for over 300,000 people each year, developing a system that can collect transaction data from pharmacies, administering lines of communication and assistance for recipients and providers, production and distribution of enrollee identification cards, and negotiating and collecting rebates from manufacturers. The Department estimates the annual administrative expenditures to be \$2.0 million per year of which \$1.5 million will be allocated for eligibility verification and \$0.5 million for other administrative services. The Department anticipates the use of the Medicaid Point of Sale (POS) Information System to collect necessary data from pharmacies, which will be used to determine the amount and distribution of the manufacturer drug rebates. It is estimated that \$1.5 million dollars will be needed in one-time information systems modifications.

In addition, the Department estimates that an additional 3.0 FTE will be needed to administer the program. These positions include a program administrator, an information systems analyst, and a pharmacy consultant. The estimated total annual cost for these positions is \$177,735 with one-time costs of \$14,400. A table summarizing the costs of the necessary positions is attached.

Cost of the Program

The estimated annualized net cost of the program is expected to be \$24,948,900 AF. This figure includes \$13,389,500 FED and \$9,381,700 GPR in increased expenses due to the loss of prior authorization authority by the Department and \$2,177,735 GPR in annual administrative expenses. It is estimated that the Department will collect \$9,246,900 PRO in manufacturer's rebates, which will then be distributed to the pharmacies. As a result, the net fiscal effect of the rebates and subsequent distribution is zero, not including the cost of rebate administration. A more detailed explanation of the fiscal estimates can be found in the attached worksheets.

Major Assumptions

- ✓ Uses current Medicaid drug expenditure trends, which indicate that expenditures will increase by approximately 15% per year.
- ✓ Assumes a 17% rebate from drug manufacturers. However, unlike the Medicaid program, there is no federal law mandating that manufacturers provide rebates for this type of program. In addition, this estimate assumes that it will be possible to calculate and distribute these rebates to the pharmacies. However,

current federal regulations have strict prohibitions on disclosure of rebate information. It is unclear if the Department will be able to carry out its mandated duties as specified in the bill.

- ✓ The Department anticipates using the Medicaid Point of Sale (POS) Information System to collect rebate data and distribute rebate revenues. Although the Department will not be responsible for processing drug claims, the bill mandates that the Department collect data for rebate calculations from pharmacies that participate in the program. Data collected through the Medicaid POS system will be used to determine how collected rebates will be distributed and to facilitate resolution of rebate disputes. The complexity of collection and analysis of this data will require an advanced system such as the Medicaid POS system. In addition, because federal rebate information is proprietary information, it is uncertain if the federal government will permit an outside vendor such as a Pharmacy Benefits Manager (PBM) to engage in these activities.
- ✓ Assumes increased Medicaid costs for: 1) Drugs for chronic conditions that are currently subject to prior authorization requirements, which will need to be removed from prior authorization requirements after the program begins on January 1, 2001; 2) Existing drugs which the Department intended to place on prior authorization after January 1, 2001; and 3) All new drugs entering the market after January 1, 2001, which the Department would have placed on prior authorization.
- ✓ Assumes no additional administrative cost for monitoring and compliance functions. It is not currently possible to evaluate the scope of the Departments responsibilities. However, these duties could require significant additional expenses.
- ✓ 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.
- ✓ 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.
- ✓ Assumes 38% of out-of-pocket drug expenditures attributed to chronic disease drugs.
- ✓ A 24% discount in Medicaid reimbursement levels (AWP-11%) below retail prices.
- ✓ The out-of-pocket expense of recipients with drug coverage is 35% of expenses of recipients without drug coverage.

**ESTIMATED INCREASED EXPENDITURES DUE TO DEPARTMENT INABILITY TO REQUIRE
PRIOR AUTHORIZATION PROCEDURES FOR PRESCRIPTION DRUGS AS DESCRIBED IN
LRB4576/1**

		CY 2001		CY 2002		CY 2003 (0.5 years)		All Years (2.5 years)
Drugs with PA as of 1/1/01								
ALL FUNDS	\$	14,887,147	\$	17,120,219	\$	9,844,126	\$	41,851,493
GPR	\$	6,133,505	\$	7,053,530	\$	4,055,780	\$	17,242,815
FED	\$	8,753,643	\$	10,066,689	\$	5,788,346	\$	24,608,678
Drugs with PA as of 1/1/02								
ALL FUNDS			\$	9,572,386	\$	5,504,122	\$	15,076,508
GPR	-		\$	3,943,823	\$	2,267,698	\$	6,211,521
FED			\$	5,628,563	\$	3,236,424	\$	8,864,987
Total								
ALL FUNDS	\$	14,887,147	\$	26,692,605	\$	15,348,248	\$	56,928,001
GPR	\$	6,133,505	\$	10,997,353	\$	6,323,478	\$	23,454,336
FED	\$	8,753,643	\$	15,695,252	\$	9,024,770	\$	33,473,664

**Annualized Costs
(2.5 years)**

ALL FUNDS	\$	22,771,200
GPR	\$	9,381,735
FED	\$	13,389,466
Admin (GPR)	\$	2,177,735
Total Annualized	\$	24,948,936
Annualized GPR	\$	11,559,470

Population and Recipient Benefit Estimates

Estimates of Potential Enrollees

800,000	Approximate Medicare population in the state
309,600	Total potential eligibles (38.7% of total)
109,900	Potential eligibles without drug coverage (35.5% of total)
140,500	Potential eligibles with drug coverage (64.5% of total)

Drug Expenditures for Recipients Without Drug Coverage

109,900	Potential eligibles without drug coverage
82,425	Enrollees without drug coverage (75% participation rate)
\$1,587	Annual drug cost per enrollee (\$1,200 in 1999, inflated to \$1,587 in 2001)
\$600	Annual drug cost for drugs used primarily for chronic conditions (37.8% of total)
\$456	Annual drug cost for drugs per enrollee at AWP - 11% (24% discount)
\$144	Amount of discount received per enrollee
\$37,578,659	Total drug cost for drugs used primarily for chronic conditions
\$11,866,945	Total amount of discounts received

Drug Expenditures for Recipients With Drug Coverage

140,500	Potential eligibles without drug coverage
105,375	Enrollees without drug coverage (75% participation rate)
\$555	Annual drug cost per enrollee (35% of \$1,200 in 1999, inflated to \$1,587 in 2001)
\$210	Annual drug cost for drugs used primarily for chronic conditions (37.8% of total)
\$160	Annual drug cost for drugs per enrollee at AWP - 11% (24% discount)
\$50	Amount of discount received per enrollee
\$16,814,655	Total drug cost for drugs used primarily for chronic conditions
\$5,309,891	Total amount of discounts received

Total Drug Expenditures, Discounts and Rebates

\$54,393,313	Total drug cost for chronic conditions for all enrollees
\$17,176,836	Total amount of discounts received by all enrollees
\$80	Average Annual Discount per enrollee
\$9,246,863	Annual rebate collections (assumes rebates at 17% of total drug costs)

Administrative Expenses
LRB 4576/1

Personnel

Classification	FTE	\$/hr	Salary	Fringe	S & S	Rent	Int Services	Total	One-time
Pharmacy Practices Consultant	1.00	\$ 22.96	\$ 47,746	\$ 16,998	\$ 1,200	\$ 2,000	\$ 3,100	\$ 71,044	\$ 4,800
IS PAL-Senior	1.00	\$ 17.31	\$ 36,005	\$ 12,818	\$ 1,200	\$ 2,000	\$ 3,100	\$ 55,123	\$ 4,800
Program and Planning Analyst 5	1.00	\$ 16.05	\$ 33,384	\$ 11,885	\$ 1,200	\$ 2,000	\$ 3,100	\$ 51,569	\$ 4,800
Total	3.00		\$ 117,135	\$ 41,700	\$ 3,600	\$ 6,000	\$ 9,300	\$ 177,735	\$ 14,400

Annual Recipient Administrative Expense	\$ 2,000,000
Annual Personnel Expense	\$ 177,735
Total On-going Administrative Expenses	\$ 2,177,735
One-time Systems Modification	\$ 1,500,000
One-time Staff Expenses	\$ 14,400
Total One-time Administrative Expenses	\$ 1,514,400

FISCAL ESTIMATE WORKSHEET

Detailed Estimate of Annual Fiscal Effect

1999 Session

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LRB #-4576/1

Admin. Rule #

INTRODUCTION # AB 815

Subject
Prescription Drug Assistance for Medicare Recipients

I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):
\$1,514,400

II. Annualized Costs:		Annualized Fiscal impact on State funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations – Salaries and Fringes		\$ 177,735	\$ -
(FTE Position Changes)		(3.0 FTE)	(- FTE)
State Operations – Other Costs		2,000,000	-
Local Assistance			-
Aids to Individuals or Organizations		32,018,000	-
TOTAL State Costs by Category		\$ 34,195,800	\$ -
B. State Costs by Source of Funds		Increased Costs	Decreased Costs
GPR		\$ 11,559,500	\$ -
FED		13,389,500	-
PRO/PRS		9,246,900	-
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		9,246,900	-
SEG/SEG-S			-
TOTAL State Revenues		\$ 9,246,900	\$ -

NET ANNUALIZED FISCAL IMPACT

STATE

LOCAL

NET CHANGE IN COSTS \$ 24,948,900 \$ _____

NET CHANGE IN REVENUES \$ _____ \$ _____

Prepared By: / Phone # / Agency Name Richard T. Chao / 267-0356 DHFS/OSF	Authorized Signature/Telephone No. <i>John Klesow</i> John Klesow, 266-9622	Date <i>2-29-00</i>
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