

Fiscal Estimate — 2001 Session

- Original Updated
 Corrected Supplemental

LRB Number
-1284/3
 Bill Number
AB-120

Amendment Number if Applicable
 Administrative Rule Number

Subject
Prescription Drug Benefit

Fiscal Effect

State: No State Fiscal Effect

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

- Increase Existing Appropriation Increase Existing Revenues
 Decrease Existing Appropriation Decrease Existing Revenues
 Create New Appropriation

Increase Costs — May be possible to absorb within agency's budget.

- Yes No

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 Chapter 20 Appropriations
20.435(4) (a); (b); (n); and (o)

Assumptions Used in Arriving at Fiscal Estimate

See Narrative

Long-Range Fiscal Implications

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Bill Summary

Assembly Bill 120 provides state assistance to pay a portion of the cost of prescription drugs for certain elderly individuals in Wisconsin. This proposal provides drug coverage to Wisconsin residents age 65 or over, who are ineligible for Medicaid and whose income does not exceed 185% FPL. In addition, this proposal increases to 100% of the federal poverty level (FPL) the maximum income level of eligibility for MA for individuals who are 65 years or age or older, blind, or permanently disabled.

Participation in the program requires recipients to pay an annual enrollment fee of \$25. In addition, recipients are required to pay an annual deductible of \$840 and, after paying the deductible, will be responsible for a \$10 and \$20 co-payment for generic drugs and brand name drugs respectively.

The bill mandates the program to provide a reimbursement rate that would be equivalent to approximately 105% of Medicaid rate for prescription drugs and requires the Department to monitor compliance by pharmacies. In addition, the bill prohibits the Department from expanding MA prior authorization requirements for drugs for the period of Feb 28, 2002 through March 1, 2004.

Fiscal estimate

Administrative expenses

The bill appropriates \$1,000,000 in FY 02 in general purpose revenues (GPR) for administration of the program. In addition, the bill appropriates \$1,000,000 in GPR to the Joint Committee on Finance and authorizes DHFS to submit a proposal for review and approval for expenditure of these funds. Administering this program would involve evaluating eligibility for an estimated 84,156 people each year, developing a system that can process claims with deductibles and co-payments, processing approximately 3 million claims per year, establishing information and assistance for recipients and providers, and negotiating and collecting rebates from manufacturers. The Department has estimated that these tasks could be completed at a cost of \$20 per potential eligible per year. As a result, the estimated administrative costs of eligibility determination would be approximately \$1,683,120 million annually. This estimate assumes a simpler eligibility process than the current Medicaid eligibility determination. The Department also projects a one-time administrative cost of \$2 million for information system start-up costs.

In addition, the Department projects that a new Drug Program Section with an additional 5.5 FTE will be needed to administer the program. The newly created positions will include: 1.) 1.0 FTE Section Chief to oversee administrative responsibilities; 2.) 1.0 FTE Pharmacy Consultant responsible for clinical areas of program administration; 3.) 1.0 FTE Contract Monitor to establish and monitor technical specifications with the claims processing agent; 4.) 2.0 FTE Program and Planning Analyst 5 for general program administration and to monitor pharmacy compliance; and 5.) 0.5 Program Assistant 2 as support staff. The estimated total annual cost for these positions is \$346,600 with one-time costs of \$26,400. A table summarizing the fiscal effects of the necessary positions is attached.

Program Benefit Costs

The bill mandates that the program begin operations on March 01, 2002. In SFY 03, the first full year of program implementation, the estimated annualized net cost of benefits for the program is expected to be \$27.7 million. This figure includes \$63.7 million in state assistance for benefits, the collection of \$14.9 million in copayment revenues, and the collection of \$21.1 million in manufacturers rebates.

MA Expansion and MA Prior Authorization Costs

The Department estimates that the expansion of MA eligibility will increase expenditures by \$6,251,000 GPR and \$8,725,000 FED. This estimate assumes an increase of 2,400 MA recipients at an average cost of \$520 per recipient per month.

In addition, the Department estimates an increase in MA expenditures of \$11.0 AF (\$4.5 million GPR and \$6.5 million FED) due to prohibitions on expansion of MA prior authorization requirements. This estimate assumes that lost savings in the MA program in FY 03, due to the prohibition of expanding prior authorization requirements will be the same as the savings achieved by the implementation of new prior authorization requirements in FY 02.

Major Assumptions

Current trends indicate that Medicaid drug expenditures have been increasing by approximately 18% per year. The proposed program pays for all drugs covered by the Wisconsin Medicaid program, which operates under an "open formulary" system. It is assumed that the rate of increase for drug expenditures for this program will rise at 18% per year.

This estimate assumes an 18% 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, 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.

Other assumptions for this estimate include:

- A program participation rate of 75% for all eligible people without drug coverage with no "ramp up" for enrollment.
- A program participation rate of 65% for all eligible people with drug coverage with no "ramp up" for enrollment.
- An 18% discount below retail prices for reimbursement at 105% of Medicaid rates.
- 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.

Administrative Expenses

Personnel	Classification	Approp	FTE	\$/hr	Salary	Fringe	S & S	Rent	Int		Total	One-time
									Services	Total		
	Section Chief		1.00	\$ 20.73	\$ 43,110	\$ 15,347	\$ 1,200	\$ 2,300	\$ 3,100	\$ 64,757	\$ 4,800	
	Pharmacy Consultant		1.00	\$ 35.64	\$ 74,131	\$ 26,391	\$ 1,200	\$ 2,300	\$ 3,100	\$ 106,822	\$ 4,800	
	Contract Monitor		1.00	\$ 16.37	\$ 34,050	\$ 12,122	\$ 1,200	\$ 2,300	\$ 3,100	\$ 52,471	\$ 4,800	
	Program and Planning Analyst 5		2.00	\$ 16.37	\$ 68,116	\$ 24,249	\$ 2,400	\$ 4,300	\$ 6,200	\$ 104,965	\$ 9,600	
	Prog Assist -2		0.50	\$ 10.21	\$ 10,615	\$ 3,779	\$ 600	\$ 1,300	\$ 1,550	\$ 17,544	\$ 2,400	
	Total		5.50		230,022.00	81,887.83	6,600.00	11,000.00	17,050.00	346,559.83		28,400.00

Ongoing Eligibility and Administrative Expenses per Recipient \$ 20.00

Number of Recipients 84,156

Recipient Administrative Expense \$ 1,683,120
 State Personnel Expense \$ 346,560

Total On-going Administrative Expenses \$ 2,029,680

One-time Systems Modification \$ 2,000,000
 One-time Staff Expenses \$ 26,400

Total One-time Administrative Expenses \$ 2,026,400

Fiscal Estimate Worksheet — 2001 Session
 Detailed Estimate of Annual Fiscal Effect

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One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):
 \$2,026,400

Annualized Costs:		Annualized Fiscal Impact on State Funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations — Salaries and Fringes		\$ 346,600	\$ -
(FTE Position Changes)		(5.50 FTE)	(- FTE)
State Operations — Other Costs		1,683,100	-
Local Assistance			-
Aids to Individuals or Organizations		89,676,000	-
Total State Costs by Category		\$ 91,705,700	\$ -
B. State Costs by Source of Funds			
GPR		\$ 38,374,180	\$ -
FED		15,231,500	-
PRO/PRS		38,100,000	-
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 Revenue	Decreased Revenue
GPR Taxes		\$	\$ -
GPR Earned			-
FED			-
PRO/PRS		38,100,000	-
SEG/SEG-S			-
Total State Revenues		\$ 38,100,000	\$ -

Net Annualized Fiscal Impact

	<u>State</u>	<u>Local</u>
Net Change in Costs	\$ 91,705,700	\$
Net Change in Revenues	\$ 38,100,000	\$

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