

**Fiscal Estimate — 2001 Session**

- Original       Updated  
 Corrected       Supplemental

|                       |                                |
|-----------------------|--------------------------------|
| LRB Number<br>-0185/6 | Amendment Number if Applicable |
| Bill Number<br>AB-132 | 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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| Authorized Signature            | Telephone No.             | Date (mm/dd/ccyy) |

**Bill Summary**

Assembly Bill 132 provides state assistance to pay a significant portion of the cost of prescription drugs for many elderly individuals in Wisconsin. This proposal would provide drug coverage to Wisconsin residents age 65 or over, who are ineligible for Medicaid and whose income does not exceed 300% of the federal poverty level (FPL). In addition, persons with incomes above 300% FPL would be eligible for coverage if, after deducting their out-of-pocket costs for prescriptions from their incomes, they have income at or below 300% FPL.

The bill creates a sum sufficient appropriation to fund the program benefits. The bill mandates the program to provide a reimbursement rate that would be equivalent to 105% of Medicaid rate for prescription drugs. However, eligible recipients above 300% FPL will not be eligible to purchase prescriptions at this rate until after the individual has "spent down" his/her income to 300% FPL. In addition, the bill appropriates \$1 million per year for the administration of the program.

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 \$500 and, after paying the deductible, will be responsible for a \$5 and \$10 co-payment for generic drugs and brand name drugs respectively. Eligible recipients with incomes at or below 175% FPL are exempt from the deductible.

**Fiscal estimate**

**Administrative expenses**

The bill appropriates \$1,000,000 in FY 02 in general purpose revenues (GPR) for administration of 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 174,420 people each year, developing a system that can process claims with deductibles and co-payments, processing approximately 5 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 would be approximately \$3,488,400 million annually. This estimate assumes a simpler eligibility process than the current Medicaid eligibility determination. If the Medicaid expansion requires more rigorous eligibility procedures, these costs may increase. The Department also anticipates a one-time administrative cost of \$2,250,000 million for information system start-up costs. This estimate includes \$250,000 for special contracts to assist in start-up operations to ensure implementation by January 01, 2002, as proposed in the bill.

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 write and negotiate the required federal waiver request; 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 and other administrative costs is attached.

**Program Benefits Cost**

The bill mandates that the program begin operations on January 01, 2002. In SFY 03, the first full year of program implementation, the estimated annualized net cost of benefits for program is expected to be \$132.9 million. This figure includes \$196.6 million in state assistance for benefits, the collection of \$22.2 million in copayment revenues, and the collection of \$41.5 million in manufacturers rebates.

**MA Expansion Cost**

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.

## 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.

It is assumed that if the U.S. DHHS approves the waiver request described in this bill, the expansion of Medicaid under the waiver would be cost neutral and would have a net fiscal effect of zero.

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            |
|--------------------------------|--------|-------------|----------|-------------------|
| Section Chief                  |        | 1.00        | \$ 20.73 | \$ 43,110         |
| Pharmacy Consultant            |        | 1.00        | \$ 35.64 | \$ 74,131         |
| Contract Monitor               |        | 1.00        | \$ 16.37 | \$ 34,050         |
| Program and Planning Analyst 5 |        | 2.00        | \$ 16.37 | \$ 68,116         |
| Prog Assist -2                 |        | 0.50        | \$ 10.21 | \$ 10,615         |
| <b>Total</b>                   |        | <b>5.50</b> |          | <b>230,022.00</b> |

|   |                     |
|---|---------------------|
| Ongoing Eligibility and Administrative Expenses per Recipient | \$ 20.00            |
| Number of Recipients  | 174,420             |
| Recipient Administrative Expense                              | \$ 3,488,394        |
| State Personnel Expense                                       | \$ 346,560          |
| <b>Total On-going Administrative Expenses</b>                 | <b>\$ 3,834,954</b> |
| One-time Systems Modification                                 | \$ 2,250,000        |
| One-time Staff Expenses                                       | \$ 26,400           |
| <b>Total One-time Administrative Expenses</b>                 | <b>\$ 2,276,400</b> |

| <b>Fringe</b>    | <b>S &amp; S</b> | <b>Rent</b>      | <b>Int<br/>Services</b> | <b>Total</b>      | <b>One-time</b>  |
|------------------|------------------|------------------|-------------------------|-------------------|------------------|
| \$ 15,347        | \$ 1,200         | \$ 2,000         | \$3,100                 | \$ 64,757         | \$ 4,800         |
| \$ 26,391        | \$ 1,200         | \$ 2,000         | \$3,100                 | \$ 106,822        | \$ 4,800         |
| \$ 12,122        | \$ 1,200         | \$ 2,000         | \$3,100                 | \$ 52,471         | \$ 4,800         |
| \$ 24,249        | \$ 2,400         | \$ 4,000         | \$6,200                 | \$ 104,965        | \$ 9,600         |
| \$ 3,779         | \$ 600           | \$ 1,000         | \$1,550                 | \$ 17,544         | \$ 2,400         |
| <b>81,887.83</b> | <b>6,600.00</b>  | <b>11,000.00</b> | <b>17,050.00</b>        | <b>346,559.83</b> | <b>26,400.00</b> |

## Fiscal Estimate Worksheet — 2001 Session

Detailed Estimate of Annual Fiscal Effect

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|                       |                                |
|-----------------------|--------------------------------|
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Subject  
 Prescription Drug Benefit

One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):  
 \$2,276,400

| Annualized Costs:                        | Annualized Fiscal Impact on State Funds from: |                          |
|--|---|--------------------------|
|  | Increased Costs                               | Decreased Costs          |
| <b>A. State Costs by Category</b>        |   |                          |
| State Operations — Salaries and Fringes  | \$ 346,600                                    | \$ -                     |
| (FTE Position Changes)                   | ( 5.50 FTE )                                  | (- FTE )                 |
| State Operations — Other Costs           | 3,488,400                                     | -                        |
| Local Assistance                         |   | -                        |
| Aids to Individuals or Organizations     | 211,576,000                                   | -                        |
| <b>Total State Costs by Category</b>     | <b>\$ 215,411,000</b>                         | <b>\$ -</b>              |
| <b>B. State Costs by Source of Funds</b> |   |                          |
| GPR                                      | \$ 138,576,000                                | \$ -                     |
| FED                                      | 8,725,000                                     | -                        |
| PRO/PRS                                  | 68,110,000                                    | -                        |
| SEG/SEG-S                                |   | -                        |
| <b>State Revenues</b>                    | <b>Increased Revenue</b>                      | <b>Decreased Revenue</b> |
| GPR Taxes                                | \$  | \$ -                     |
| GPR Earned                               |   | -                        |
| FFD                                      |   | -                        |
| PRO/PRS                                  | 68,110,000                                    | -                        |
| SEG/SEG-S                                |   | -                        |
| <b>Total State Revenues</b>              | <b>\$ 68,110,000</b>                          | <b>\$ -</b>              |

### Net Annualized Fiscal Impact

|                        | <u>State</u>   | <u>Local</u> |
|------------------------|----------------|--------------|
| Net Change in Costs    | \$ 215,411,000 | \$           |
| Net Change in Revenues | \$ 68,110,000  | \$           |

|                                 |                           |                   |
|---------------------------------|---------------------------|-------------------|
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