



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #304

Pharmacy Purchasing Pool (ETF -- Departmentwide)

[LFB 2003-05 Budget Summary: Page 154, #11]

CURRENT LAW

The Group Insurance Board is authorized to contract directly with providers of hospital, medical, or related services to provide insured employees with the health and disability benefits authorized under Chapter 40 of the statutes. However, the Board may not enter into any agreements to modify or expand group insurance coverage in a manner that conflicts with state law or Department of Employee Trust Funds (ETF) rules or that materially affects either the level of premiums required to be paid by the state or its employees or the level of benefits to be provided under any group insurance coverage. This restriction does not prevent the Board from making modifications required by law nor does it prohibit the Board from providing optional insurance coverage (if the additional premium costs are paid by the employee).

GOVERNOR

Beginning January 1, 2005, require each governmental unit that offers or is required to provide health insurance coverage to any of its employees, together with every other such governmental unit, to develop a common purchasing pool for pharmacy benefits that uses a preferred list of covered prescription drugs. Require the governmental units to seek to develop the preferred list of covered prescription drugs under an evidence-based analysis that first, identifies the relative effectiveness of prescription drugs within therapeutic classes for particular diseases and conditions and second, identifies the least costly prescription drugs, including those that are generic among those found to be equally effective.

Provide that, after the pool is developed, it would be available to any employer who: (1) is not a governmental unit; (2) provides health insurance coverage to any of its employees; and (3) is requested by the Governor to participate in the pool.

Define a "governmental unit" as: (1) the state, including any body in the state created or authorized to be created by the Wisconsin Constitution or any state law; (2) an instrumentality of the state, or any corporation or other body created by the state; (3) a political subdivision of the state; (4) a special purpose district; (5) an instrumentality, corporation, or other body of a political subdivision or special purpose district; and (6) any combination or subunit of the above.

DISCUSSION POINTS

1. The intent of the provision is to address increasing state costs for health care in a manner that could benefit both state and local units of government and the private sector.

2. The Group Insurance Board currently has the authority to enter into contracts to effect cost savings for the state and local government employer group health insurance plans that it administers. ETF officials indicate that under the Board's current grant of authority, there is already an initiative underway to establish a prescription drug purchasing coalition managed by a professional pharmacy benefits manager (PBM). It is anticipated that the PBM would manage a prescription drug purchasing coalition on behalf of the group, which may have both public and private group health insurance pools participating.

3. As envisioned by the Board, the PBM would provide such participant services as enrollment, providing information, answering questions, and administering drug claims. The PBM would also assemble the network of pharmacies necessary to adequately serve the insured participants of the employers in the coalition. The acquisition of prescription drugs would be negotiated directly by the PBM with drug manufacturers. Finally, the PBM would coordinate the processes for developing a prescription drug formulary in conjunction with the coalition participants.

4. Currently the state group health insurance plans spend in excess of \$100 million annually in prescription drug costs. This coverage is managed separately under each plan participating in the state's group insurance program. It is anticipated that under the Board's initiative, this coverage would be carved out of each participating plan and would be bid as a separate benefit, in order to leverage better prescription drug discounts. The Board has cited cost savings of 3% to 5% as the experience of other programs that have used a purchasing pool concept. However, agency staff indicate that many current participants in the state group health insurance already administer their drug coverage in an efficient manner, so it is unknown the exact level of savings that might accrue to the state program under the purchasing pool approach.

5. The current initiative has been a joint effort between the Group Insurance Board, the Wisconsin Education Association (WEA) Insurance Trust, which provides health insurance coverage for many school districts, and the Fond du Lac Area Businessmen on Health (FABOH), an employer group health purchasing coalition. To date, this coalition has developed and released a request for proposals (RFP) to provide the PBM services, received competitive responses to the proposals, and has now selected five finalists for further consideration as the PBM contractor. A

major focus of the Board in the selection process is to ensure that the successful contractor will be an independent advocate of the coalition's interests with respect to prescription drug cost containment. A final decision to select a PBM provider is expected before June 30, 2003. ETF officials believe that it will be possible to have the purchasing coalition operational by January 1, 2004.

6. While the current ETF initiative would begin with the joint involvement of group health insurance coverage pools comprised of state employees, school teachers, and private sector employees, agency officials indicate that the pharmacy purchasing pool would be open on a voluntary basis to participation by additional public and private groups health coverage pools. Each additional party in the coalition would contract separately with the same PBM.

7. The coalition's strength derives from the fact that the PBM would be in a position to negotiate with drug manufacturers on the basis of both a common drug formulary and the total number of participants in all participating groups. The negotiating position of the coalition would be strengthened as other public and private group health insurance pools join the coalition.

8. ETF officials advise that the Board's current initiative is consistent with the proposed language in the budget bill. The Board's initiative parallels the Governor's recommendations in that it also establishes a pharmacy purchasing pool and includes the development of a common formulary of prescription and generic drugs.

9. However, the voluntary aspect of the Board's initiative is a point of contrast with the provision in SB 44. Under the bill, each governmental unit that offers or is required to provide health insurance coverage to any of its employees would be required to participate in the development of a common purchasing pool for pharmacy benefits, beginning January 1, 2005.

10. Agency staff believe that the January 1, 2005, date for mandatory participation in the pool by many local units of government could pose problems for some of these entities. Most governmental employers that provide group health insurance coverage to their employees have the provision of those benefits, coverage levels and similar details spelled out in multi-year collective bargaining agreements. It is believed that a number of these agreements may contain language that would preclude their participation in a state prescription drug purchasing pool by the mandatory January 1, 2005, date.

11. In addition, ETF officials have expressed concerns about the ability of their prospective PBM to initially enroll by January 1, 2005, a membership of the magnitude that might result under the mandatory features of the bill. Under the Board initiative that is currently being developed, new participants would become involved on a voluntary basis over an extended period. Each new participant would then have to plan for its own transition to the state's prescription drug purchasing pool. Similarly, the state's prescription drug purchasing pool would need to plan for the incorporation of additional participants.

12. The ETF approach assumes that the size of the purchasing pool will continue to

grow, even with a voluntary governmental employer participation requirement, provided the purchasing pool is effective and well run. Initially, it is anticipated that the pool will have over 500,000 participants, which should be of sufficient size to negotiate important prescription drug cost savings. It can be argued that as the purchasing pool becomes more effective in reducing prescription drug costs as it grows, there will be strong incentives for other public and private group health plans to opt into the purchasing pool. Consequently, a mandatory enrollment feature may not be required, in order to ensure the program's success. If the Committee chooses to delete the mandatory participation aspect of the Governor's proposal for local units of government, it may wish to authorize the Board to establish orderly enrollment procedures those participants that voluntarily elect to join the pool.

13. It appears that the Governor's recommendation, if adopted, would further encourage the movement to a state prescription drug pool operated in partnership with other public and private group health insurance plans. If the Committee believes that this type of approach would provide the opportunity for the state to mitigate the impact of increasing health insurance costs, it could adopt the Governor's recommendation.

14. Alternatively, the Committee may wish to modify the Governor's recommendation to make the participation of non-state governmental units in the purchasing pool voluntary, rather than mandatory.

15. Finally, the Committee could choose to delete the provision. The Group Insurance Board intends to proceed with the development of a prescription drug purchasing pool concept under the Board's current law authority. To the extent that the pool is successful and other public or private entities wished to participate in the pool, there does not appear to be any current law impediment to their joining such a pool in the future.

ALTERNATIVES

1. Approve the Governor's recommendation requiring each governmental unit that provides health insurance coverage to its employees to develop and enter into a common purchasing pool for prescription drug benefits by January 1, 2005, and that would be available to any employer who: (a) is not a governmental unit; (b) provides health insurance coverage to any of its employees; and (c) is requested by the Governor to participate in the pool.

2. Modify the Governor's recommendation by deleting the requirement that each governmental unit, other than the state, be required to participate in the purchasing pool by January 1, 2005, and instead authorize such entities to join the plan on a voluntary basis, on a schedule and under conditions prescribed by the Board.

3. Delete provision.

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