

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2580-01
Bill No.: SB 680
Subject: Pharmacy
Type: Original
Date: April 16, 2007

Bill Summary: Regulates pharmacy benefit managers.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	(Unknown, could exceed \$615,780)	(Unknown, could exceed \$615,780)	(Unknown, could exceed \$615,780)
Total Estimated Net Effect on General Revenue Fund	(Unknown, could exceed \$615,780)	(Unknown, could exceed \$615,780)	(Unknown, could exceed \$615,780)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Board of Pharmacy	(Unknown less than \$100,000)	(Unknown less than \$100,000)	(Unknown less than \$100,000)
Other State	(Unknown, could exceed \$121,290)	(Unknown, could exceed \$121,290)	(Unknown, could exceed \$121,290)
Total Estimated Net Effect on <u>Other</u> State Funds	(Unknown, could exceed \$121,290)	(Unknown, could exceed \$121,290)	(Unknown, could exceed \$121,290)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Federal	(Unknown, could exceed \$195,930)	(Unknown, could exceed \$195,930)	(Unknown, could exceed \$195,930)
Total Estimated Net Effect on <u>All</u> Federal Funds	(Unknown, could exceed \$195,930)	(Unknown, could exceed \$195,930)	(Unknown, could exceed \$195,930)

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on FTE	0	0	0

☒ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government	(Unknown, could exceed \$15,600)	(Unknown, could exceed \$15,600)	(Unknown, could exceed \$15,600)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Administrative Hearing Commission** and **Office of State Courts Administrator** assume the proposal will have no fiscal impact on their organizations.

Officials from the **Office of Attorney General (AGO)** assume any potential costs arising from this proposal can be absorbed with existing resources.

Officials from the **Missouri Consolidated Health Care Plan (HCP)** state currently the HCP requires prior authorization for certain drugs in order to promote clinically appropriate and cost-effective care. The proposed legislation appears to prevent pharmacy benefit managers (PBMs) from requiring prior authorization. In 2006, HCP's Prior Authorization Program saved the state approximately \$1,018,000. The proposal may also limit generic substitution which has become a significant cost saver to HCP. Currently, the generic utilization rate is 67%. For each 1% decrease in generic utilization, the state will incur costs of approximately \$933,000. The public entity generic utilization rate is 64%. For each 1% decrease in generic utilization, the public entity plan will incur approximately \$15,600 in additional costs.

The legislation would also prohibit mail order facilities from having lower co-payments for 90-day prescriptions than for retail. Currently, HCP members are able to fill a 90-day prescription at a mail order facility for 2 ½ co-payments rather than 3 co-payments. This could cost HCP members that utilize the mail order option 15%-20% more than they are paying today.

Requiring PBMs to publicly disclose manufacturer agreements and reimbursements to pharmacies may also cause increases in drug costs. Price disclosure could easily limit the PBMs' ability to compete with one another and to negotiate directly with pharmaceutical manufactures. However, the fiscal impact of complete public disclosure as indicated in this proposal is not truly measurable.

Officials from the **Department of Insurance, Financial and Professional Regulation (DIFP)** state the Board of Pharmacy has no mechanism in place to estimate the possible increase in complaints and investigations under this proposal. The fiscal impact to the board is unknown.

The Board of Pharmacy is now organized under the DIFP. The board would refer any complaints involving business and financial issues to the Insurance divisions within the department. It is estimated that the insurance divisions could handle the increase in complaints with existing staff and appropriations. However, should there be many more complaints than anticipated, the department may need to ask for additional staff and expenses through the budget process.

ASSUMPTION (continued)

The DIFP estimates there are fewer than 20 pharmacy benefit managers in Missouri. As a result, although the DIFP cannot accurately estimate the cost of this proposal, they believe the costs would be less than \$100,000.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE FUND			
<u>Costs - HCP</u>			
Increase in prescription drug program costs	<u>(Unknown, could exceed \$615,780)</u>	<u>(Unknown, could exceed \$615,780)</u>	<u>(Unknown, could exceed \$615,780)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(Unknown, could exceed \$615,780)</u>	<u>(Unknown, could exceed \$615,780)</u>	<u>(Unknown, could exceed \$615,780)</u>
BOARD OF PHARMACY FUND			
<u>Costs - DIFP</u>			
Increase in complaints and investigations	<u>(Unknown less than \$100,000)</u>	<u>(Unknown less than \$100,000)</u>	<u>(Unknown less than \$100,000)</u>
ESTIMATED NET EFFECT ON BOARD OF PHARMACY FUND	<u>(Unknown less than \$100,000)</u>	<u>(Unknown less than \$100,000)</u>	<u>(Unknown less than \$100,000)</u>

FISCAL IMPACT - State Government

FY 2008
(10 Mo.)

FY 2009

FY 2010

OTHER STATE FUNDS

Costs - HCP

Increase in prescription drug program costs

(Unknown,
could exceed
\$121,290)

(Unknown,
could exceed
\$121,290)

(Unknown,
could exceed
\$121,290)

**ESTIMATED NET EFFECT ON
OTHER STATE FUNDS**

(Unknown,
could exceed
\$121,290)

(Unknown,
could exceed
\$121,290)

(Unknown,
could exceed
\$121,290)

FEDERAL FUNDS

Costs - HCP

Increase in prescription drug program costs

(Unknown,
could exceed
\$195,930)

(Unknown,
could exceed
\$195,930)

(Unknown,
could exceed
\$195,930)

**ESTIMATED NET EFFECT ON
FEDERAL FUNDS**

(Unknown,
could exceed
\$195,930)

(Unknown,
could exceed
\$195,930)

(Unknown,
could exceed
\$195,930)

FISCAL IMPACT - Local Government

FY 2008
(10 Mo.)

FY 2009

FY 2010

ALL LOCAL GOVERNMENTS

Costs - All local governments

Increase in share of prescription drug costs

(Unknown,
could exceed
\$15,600)

(Unknown,
could exceed
\$15,600)

(Unknown,
could exceed
\$15,600)

**ESTIMATED NET EFFECT ON ALL
LOCAL GOVERNMENTS**

(Unknown,
could exceed
\$15,600)

(Unknown,
could exceed
\$15,600)

(Unknown,
could exceed
\$15,600)

FISCAL IMPACT - Small Business

This proposal could directly impact small business pharmacies and small businesses that provide insurance with pharmacy benefits, if it were to result in an increase in premiums.

FISCAL DESCRIPTION

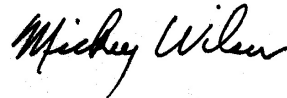
This proposal regulates pharmacy benefits managers who are third party administrators of prescription drug programs primarily responsible for processing and paying prescription drug claims. This individual acts as a fiduciary for pharmacies and pharmacists.

The proposal outlines audit procedures, reimbursement procedures and contract and disclosure requirements.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Attorney General
Office of Administration -
 Administrative Hearing Commission
Office of State Courts Administrator
Department of Insurance, Financial and Professional Regulation
Missouri Consolidated Health Care Plan



Mickey Wilson, CPA
Director
April 16, 2007