

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0202-07
Bill No.: SCS for SB 22 and 106
Subject: Elderly; Drugs and Controlled Substances; Health Care; Pharmacy; Physicians;
 Taxation and Revenue - Income
Type: Original
Date: February 25, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue*	\$0 to (\$216,000,000)	\$89,300,000 to (\$126,700,000)	\$89,300,000 to (\$126,700,000)
Missouri Pharmaceutical Assistance	\$0	\$0	\$0
State School Moneys*	\$0	\$0	\$0
Total Estimated Net Effect on All State Funds*	\$0 TO (\$216,000,000)	\$89,300,000 TO (\$126,700,000)	\$89,300,000 TO (\$126,700,000)

***Does not include unknown transfers.**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
Total Estimated Net Effect on All Federal Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	UNKNOWN	UNKNOWN	UNKNOWN

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Conservation**, the **Department of Transportation**, and the **Department of Revenue** assume this proposal would not fiscally impact their agency.

Office of Administration - Division of Budget and Planning (BAP) officials state the elimination of the senior citizen pharmaceutical tax credit program would result in a gain to the state general revenue of \$89.3 million in FY 2003. BAP states the estimate of \$89.3 million for FY 2003 is from the Governor's budget consensus revenue estimate. DOS further states the impact beyond FY 2003 may change contingent upon changes in administrative practices of the Department of Revenue that pertain to this tax credit.

Officials from the **Department of Social Services (DOS)** assume the following:

Program Costs

DOS states 771,000 of Missouri's 5,117,073 residents are 65 or older. There are 475,002 households in this age range in Missouri. DOS states that dividing the number of persons by the number of households yields 1.6 persons per household ($771,000 / 475,002 = 1.6$). There are 189,508 households with income below \$17,500. DOS states that \$15,447 is the 185% threshold for one person and \$20,812 is the threshold for two persons. DOS states that their data shows income only be household, not by persons, DOS chose the midpoint. DOS applying the standard of 1.6 persons per household, they estimate that there are 303,213 individuals that would meet the income eligibility standard. From this DOS deducted the number of persons receiving Medicaid. The number of Medicaid recipients over age 65 as of 12/31/00 was 77,111. Therefore, the maximum number of potential eligibles is 226,102 ($303,213 - 77,111$) and the maximum cost for the pharmaceutical assistance part of the bill is \$108,529,000 ($226,102 \times \480). DOS states the number of actual participants would depend on the price of the insurance policy as determined by the contracts with DOS. If the cost is \$480 or less, participation can be expected to be nearly universal since the policy would be basically free. DOS assumes the number of participants could be expected to decrease as the cost of the policy, especially as it compares to other policies in the marketplace, increases. Information on the cost of a policy covering only prescription drugs was not readily available in view of the fact that seniors

ASSUMPTION (continued)

generally purchase drug coverage as part of a Medicare supplement policy that includes other health care services.

DOS states the program costs do not include the costs associated with the operation of the task force, nor funds that would be allocated for tobacco cessation activities. These costs would be subject to appropriation and, therefore, cannot be estimated.

Administrative Costs

DOS could operate the program in one of two ways: either directly with DOS staff or by contracting with a pharmacy benefit management program. Either option would incur large administrative expenses. These expenses are associated with the following tasks:

- providing staff support to the task force;
- receiving and processing applications from individuals wanting to participate in the pharmaceutical assistance program;
- developing and maintaining a database of information about participants and transferring this information to the contracted insurance companies;
- forwarding payment to the insurance companies on behalf of participants;
- receiving and reviewing proposals, allocating, transmitting, and monitoring grants and expenditures for tobacco programs;
- preparing the required reports about the operation of the fund; and
- developing rules and regulations for operation of the program.

Without knowing the amount of the appropriations that would be available or the number of participants, it is very difficult to estimate a precise cost in the time allowed. DOS has looked to another pharmaceutical proposal (FN 619-01N) for a reasonable idea of what costs could be. DOS states that although the pharmaceutical programs in the two proposals are different in design, they both involve the processing of applications and the generation of payments. In that proposal the combined administration costs for were roughly \$6 million in FY 02 and \$16 million in FY 03 and FY 04 for approximately 133,000 participants.

Oversight assumes that under another program verifying eligibility, Children's Health Insurance ASSUMPTION (continued)

Program, DOS assumed that current resources would be able to verify eligibility; therefore, no

additional administrative expenses would be needed.

Department of Insurance (INS) officials state the proposal may require HMOs to develop new contracts for coverage in order to have products available for the proposed program. INS states the fiscal impact is anticipated to be minimal.

<u>FISCAL IMPACT - State Government</u>	FY 2002	FY 2003	FY 2004
	(10 Mo.)		

GENERAL REVENUE FUND

<u>Savings - Office of Administrative -</u>			
<u>Division of Budget and Planning</u>			
Repeal of pharmaceutical tax credit	\$0	\$89,300,000	\$89,300,000

<u>Transfer In - Department of Social</u>			
<u>Services</u>			
Up to 30% from Missouri			
Pharmaceutical Assistance Funds	Unknown	Unknown	Unknown

<u>Transfer - Out - Department of Social</u>			
<u>Services</u>			
To Missouri Pharmaceutical Assistance	\$0 to	\$0 to	\$0 to
Fund	<u>(\$216,000,000)</u>	<u>(\$216,000,000)</u>	<u>(\$216,000,000)</u>

ESTIMATED NET EFFECT ON			
GENERAL REVENUE FUND*	<u>\$0 TO</u>	<u>\$89,300,000 TO</u>	<u>\$89,300,000 TO</u>
	<u>(\$216,000,000)</u>	<u>(\$126,700,000)</u>	<u>(\$126,700,000)</u>

***Does not include transfers out.**

STATE SCHOOL MONEYS FUND

<u>Transfer In - Department of Social</u>			
<u>Services</u>			
Up to 10% from Missouri			
Pharmaceutical Assistance Funds	Unknown	Unknown	Unknown

<u>Costs - Department of Elementary and</u>			
<u>Secondary Education</u>			
Distributions to local school districts	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
ESTIMATED NET EFFECT ON STATE SCHOOL MONEYS FUND	<u>(UNKNOWN)</u>	<u>(UNKNOWN)</u>	<u>(UNKNOWN)</u>
 MISSOURI PHARMACEUTICAL ASSISTANCE FUND			
 <u>Transfer - In - Department of Social Services</u>			
From General Revenue Fund	\$0 to \$216,000,000	\$0 to \$216,000,000	\$0 to \$216,000,000
 <u>Costs - Department of Social Services</u>			
Pharmaceutical assistance program	\$0 to (\$108,000,000)	\$0 to (\$108,000,000)	\$0 to (\$108,000,000)
 <u>Costs - Department of Social Services</u>			
Tobacco cessation and treatment programs	\$0 to (\$108,000,000)	\$0 to (\$108,000,000)	\$0 to (\$108,000,000)
 <u>Transfer Out - Department of Social Services</u>			
Up to 10% to School Foundation Formula	(Unknown)	(Unknown)	(Unknown)
 <u>Transfer Out - Department of Social Services</u>			
Up to 30% to the General Revenue Fund	(Unknown)	(Unknown)	(Unknown)
 ESTIMATED NET EFFECT ON MISSOURI PHARMACEUTICAL ASSISTANCE FUND*	 <u>\$0</u>	 <u>\$0</u>	 <u>\$0</u>

***Does not include transfers out.**

<u>FISCAL IMPACT - Local Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
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LOCAL SCHOOL DISTRICTS

<u>Income - Local School Districts</u>			
Distributions from foundation formula	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>

ESTIMATED NET EFFECT ON LOCAL SCHOOL DISTRICTS	<u>UNKNOWN</u>	<u>UNKNOWN</u>	<u>UNKNOWN</u>
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FISCAL IMPACT - Small Business

Small health insurance companies would be expected to be fiscally impacted to the extent they would participate in the program established by this proposal.

DESCRIPTION

This proposal creates the Missouri Pharmaceutical Assistance Program (MOPAP) and Task Force to allow elderly to purchase pharmaceutical insurance from the state. The Department of Social Services would administer MOPAP. The MOPAP Task Force would consist of fourteen members. The task force would conduct public hearing, promote and improve public health, and evaluate the health needs of senior citizens. The task force would also reserve up to 50% of all moneys deposited in the Missouri Pharmaceutical Assistance Fund to pay for prescription drugs and pharmaceutical services for the elderly. A quarterly expenditures report would be submitted to the Governor. 50% of moneys in the Fund would be allocated to prevent and treat tobacco use. It would allow up to 30% of all revenues deposited into the fund to be redirected to the General Revenue Fund. It would allow up to 10% of all revenues deposited into the fund to be redirected to the school foundation formula funds. The task force would seek matching funds from other sources and may also provide grants to certain organizations.

DESCRIPTION (continued)

The Department of Social Services (DOS) would enter into contracts with private health insurers in order to provide insurance policies to senior citizens for the coverage of prescription drugs and pharmaceutical services. Seniors 65 and older may purchase the policy and receive a grant from the state to pay a portion of the insurance cost. The senior must be a resident of the state for at least one year and his or her household income may not be above 185% of poverty level (approximately \$15,444 per year). The subsidy cannot exceed the total cost of the insurance or \$480, whichever is less.

In order to receive a subsidy, the senior citizen must apply to DOS and provide necessary proof. Any amounts would be paid directly to the insurer. DOS may deny grants if filed with fraudulent intent. The applicant has appeal rights.

This proposal repeals Section 135.095 which currently allows a prescription drug tax credit for the elderly.

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

Department of Insurance
Department of Social Services
Office of Administration
 Division of Budget and Planning
Department of Revenue
Department of Conservation
Department of Transportation



Jeanne Jarrett, CPA
Director

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