

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2418-02
Bill No.: SB 4
Subject: Elderly; Drugs; Health Care; Pharmacy; Taxation and Revenue-Income
Type: Original
Date: September 6, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	\$1,004,675	\$4,522,629	(\$1,351,005)
Total Estimated Net Effect on <u>All</u> State Funds*	\$1,004,675	\$4,522,629	(\$1,351,005)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 pages.

FISCAL ANALYSIS

ASSUMPTION

In a response to a similar proposal, officials of the **Department of Health (DOH)** assumed this proposal repeals Section 135.095 and enacts two new sections, 135.095 and 660.665. According to the Centers for Medicare and Medicaid Services, there are approximately 900,000 Missourians on Medicare. Approximately 35% or 315,000 Missourians on Medicare have an income that falls between 100% - 200% of poverty. According to the publication Health Affairs (September/October) Perspectives on the Pharmaceutical Industry, 36.5% of individuals do not have insurance coverage; therefore, 36.5 % or 115,000 senior Missourians have no prescription drug coverage.

According to the proposed legislation, the clearinghouse shall be operated by a third-party administrator which shall be a quasi-public agency. DOH assumes that the Missouri Patient Care Review Foundation operating the CLAIM program could be utilized as a model for estimating the costs.

DOH estimates a need for additional staff: one Health Program Representative III to coordinate and evaluate the functions and customer services of the third-party administrator of the clearinghouse and one clerk typist III to provide clerical support. DOH may need additional staff for the administration of the Senior Rx Program however the number of FTE and related expenses is unknown at this time.

Oversight assumes the Senior Rx Program costs to be \$81 million for FY02, \$94.8 million for FY03 and \$109.9 million for FY04. (See attached spreadsheet.)

Officials of the **Department of Revenue (DOR)** state this legislation clarifies that a taxpayer must apply for the pharmaceutical tax credit and submit proof of pharmaceutical expenses before the tax credit can be received. The proof of expenses must be provided by the taxpayer's pharmacist, and must include the claimant's name, a list of each legend drug filled by the pharmacist for the year, and the cost of the drugs, less any insurance coverage or reimbursement.

The DOR anticipates there will be a small decrease in participation once receipts are required. However, there is no basis for an assumption, so for the purpose of this fiscal note the DOR will use the same participation of the tax credit as last year.

The DOR will need 11 Tax Season Temporary Employees (\$7.50 per hour for six months) for processing and verification, in order to maintain current processing time for the tax credit. The DOR will need one Tax Processing Technician for every 20,000 errors and one Tax Processing Technician for every 3,000 pieces of correspondence. Although the DOR anticipates an increase in the number of taxpayer errors and additional correspondence, the amount of the

ASSUMPTION (continued)

increase is unknown at this time. Therefore, the DOR will not request additional FTE for this purpose. Any additional FTE needed will be requested through the normal budget process.

If the legislation is changed to require the pharmacist to provide one detailed annual list for each claimant, the DOR will only need two Tax Season Temporary Employees for processing and verification.

Officials of the **Department of Social Services (DOS)** state as of December 1999, there were 77,025 individuals age 65 or older in the Medicaid program. Since those individuals are not eligible for the tax credit, DOS staff expected no fiscal impact to their agency as a result of this legislation.

The **Office of the Lieutenant Governor** did not respond to our fiscal note request.

Officials of the **Office of Administration - Budget and Planning (BAP)** state this proposal provides a \$200 credit per claimant. Claimants have to have income as defined in RSMo 135.010 between the Medicaid income eligibility limit and \$15,000 for singles and \$17,000 for a couple. A claimant is eligible for Medicaid if they are single and have income of \$6,444 or less or they are couples and have income of \$8,712 or less. This assumes even individuals who are not eligible for Medicaid because of the asset limit will not qualify for the tax credit if their income is within the Medicaid limit. Therefore, only single claimants with income between \$6,444 and \$15,000 and couples with income between \$8,712 and \$15,000 would qualify for this credit. Tax data from the University of Missouri State & Regional Fiscal Studies Unit indicate that 167,553 Missourians would be eligible for the credit based on declared income. At a 100% participation rate the cost would be \$42.2 million in FY02, \$43.0 million in FY03, and \$43.9 million in FY04. There could be some seniors outside the tax system that may be eligible and participate; this would increase the cost of the credit. A 2% annual growth rate is assumed. Also, see the note below about the overlap in the programs. If section 135.094 is changed to begin on January 1, 2002, then there would be no FY02 cost for this new tax credit. Removing the current \$200 prescription drug credit will increase GR by \$94.5 million in FY03, and \$99.2 million in FY04. A 5% growth rate is assumed. This is based on an actual FY01 tax credit cost of \$85.7 million.

In addition, the enrollment fee for the pharmacy investment program for seniors would increase total state revenue. Department of Health and Senior Services should be providing information about the enrollment fee, as well as the costs of the pharmacy investment program for seniors.

There is a concern about the language in this fiscal note. If the provisions of section 208.550 – 208.568 are not “fully operational” by December 31, 2002, then the tax credit pursuant to

ASSUMPTION (continued)

section 135.094 would be effective for calendar year 2001 and calendar year 2002. This would require the FY 2003 budget to pay for two years' worth of tax credit costs as well as any non-fully operational costs of the program created by section 208.550 to 208.568.

The actual number of individuals receiving credits during the first year of implementation was 449,416. According to DOR, verification of qualifying factors was not performed. It may be possible that individuals receiving the credit did not qualify. Due to the generous implementation strategy employed by DOR, **Oversight** is unable to use the 2000 tax filings as a basis for estimating this proposal.

According to the 2000 U. S. Census Bureau, Statistical Abstract of the United States, 7,286,829 households, 65 years and over, have household income under \$15,000. Using the percentage of total U.S. population to Missouri population of 2.16%, Oversight assumes the number of Missouri households with income less than \$15,000 is 157,334 (approximately 251,735 individuals). By subtracting the number of Medicaid eligible(77,025), the total number of individuals eligible for the pharmaceutical tax credit would be 174,710.

Oversight assumes that eligible seniors would claim the full pharmaceutical tax credit of \$200. No reduction was made for private insurance as Oversight assumes most seniors' prescription drug costs would exceed their insurance coverage. In addition, according to the U.S. Census Bureau, the percent of total expenditures for health care exceeds 10% for age 65 and over, nationally, so no adjust was made for the 2% of income spent on prescription drugs requirement. Oversight assumes costs to be \$34.9 million annually. However, Oversight assumes the Missouri Senior Rx Program will be more than 50% operational and therefore this credit will be eliminated.

This proposal would result in a decrease in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2002	FY 2003	FY 2004
	(6 Mo.)		
<u>GENERAL REVENUE FUND</u>			
<u>Savings to General Revenue Fund</u>			
Repeal of Pharmaceutical Tax Credit	\$0	\$94,500,000	\$99,200,000
<u>Loss to General Revenue Fund</u>			
Pharmaceutical Tax Credit	\$0	\$0	\$0

<u>FISCAL IMPACT - State Government</u>	FY 2002	FY 2003	FY 2004
	(6 Mo.)		
Missouri Senior Rx Program	\$0	(\$94,770,000)	(\$109,933,000)
<u>Income from MO Senior Rx Program</u>			
Enrollment Fees	\$1,047,575	\$1,047,575	\$1,047,575
Pharmaceutical Rebates	\$0	<u>\$12,329,185</u>	<u>\$14,301,855</u>
Total	\$1,047,575	\$13,376,760	\$15,349,430
<u>Cost - Department of Health</u>			
Personal Services (2 FTE)	\$0	(\$65,382)	(\$67,017)
Fringe Benefits	\$0	(\$21,792)	(\$22,337)
Equip. & Expenses	\$0	(\$28,842)	\$0
Data Collection & Reporting	\$0	(\$72,100)	(\$74,263)
Professional Services (Consultants)	\$0	(\$309,000)	(\$318,270)
Program Administrative Expenses	<u>\$0</u>	<u>(\$6,736,010)</u>	<u>(\$5,485,548)</u>
Total Costs - DOH	\$0	(\$7,233,126)	(\$5,967,435)
<u>Cost - Department of Revenue</u>			
Personal Services (11 Temp. FTE)	<u>(\$42,900)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND*	<u>\$1,004,675</u>	<u>\$4,522,629</u>	<u>(\$1,351,005)</u>
<u>FISCAL IMPACT - Local Government</u>			
	FY 2002	FY 2003	FY 2004
	(6 Mo.)		
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

Small pharmacies may see an increase in bookkeeping and paperwork resulting from this legislation.

DESCRIPTION

This legislation modifies the pharmaceutical tax credit for the elderly by changing the current language requiring a taxpayer, age 65 or older, to have less than \$15,000 of Missouri adjusted gross income to income defined in Section 135.101 of \$15,000 or less. The legislation keeps the

DESCRIPTION (continued)

credit amount at \$200 and requires proof of the pharmaceutical expenses and proof that at least two percent of the claimant's income was spent on prescription drugs during the calendar year.

In addition, claimant couples must claim the credit on a combined Missouri income tax return or claim return. Claimants must be Missouri residents all year and must apply for their own credit.

No claimant who meets Medicaid eligibility requirements or has pharmaceutical benefits through another policy may be eligible for the tax credit unless the claimant's pharmaceutical expenses exceed coverage limits, then the credit is available for the additional expenses up to \$200.

This legislation establishes the "Missouri Senior Rx Program" within the Division of Aging and a commission consisting of eleven members. The Commission will solicit RFPs from private contractors for administration of the Program and for an insurance-based program to provide prescription drug coverage to eligible seniors. Eligible individuals are age 65 or older without access to health insurance with a pharmacy benefit for at least 6 months prior to application and have household income at or below \$12,000 for individuals and \$17,000 for couples. Medicaid participants are not eligible for this program. Each participant will apply annually, pay a \$250 deductible and a 40% coinsurance and an annual \$25 coinsurance. Maximum expenditures per enrollee are \$5,000.

Section 208.559 sets open enrollment dates of April 1 to May 30, 2002; with the program fully operational by July 1, 2002.

Section 208.568 establishes the "Missouri Senior Rx Clearinghouse" within the Commission to be a quasi-public agency created to assist and educate Missouri residents in accessing prescription drugs and serve as a pharmaceutical benefit resource.

This act contingently reenacts the current prescription drug tax credit, with modifications, if the Missouri Senior Rx Program is not fully operational by December 31, 2002.

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 Revenue
Department of Health
Office of Administration- Budget and Planning
Department of Social Services
Department of Insurance

NOT RESPONDING: Office of the Lieutenant Governor



Jeanne Jarrett, CPA
Director
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