

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

**L.R. NO.:** 3774-03  
**BILL NO.:** Perfected HCS for HB 1711  
**SUBJECT:** Elderly; Health Care; Medicaid; Pharmacy  
**TYPE:** Original  
**DATE:** April 12, 2000

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$3,373,509)	(\$4,383,865)	(\$3,940,929)
Insurance Dedicated	\$10,050	\$0	\$0
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$3,363,459)</b>	<b>(\$4,383,865)</b>	<b>(\$3,940,929)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Federal			
<b>Total Estimated Net Effect on <u>All</u> Federal Funds*</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

\*Revenues and expenditures of at least \$5.2 million annually net to \$0.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 8 pages.

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**FISCAL ANALYSIS**

**ASSUMPTION**

Officials from the **Department of Health**, the **Department of Conservation**, the **Department of Public Safety - Missouri State Highway Patrol**, and the **Department of Economic Development - Division of Professional Registration** assume this proposal would not fiscally impact their agencies.

**Department of Social Services (DOS)** officials assume this proposal would only apply to prescription charges for Medicare recipients billed by pharmacies who participate in the Medicaid program and does not apply to the Medicaid Fee-for-Service pharmacy claims.

DOS states the proposal would require pharmacies that participate in the Medicaid program to charge Medicare recipients an amount equal to the current Medicaid program plus other costs. The proposal specifically mentions current Medicaid rate plus transmission cost and cost of adjudication. The proposal states that the rate shall be determined from calculations performed on operating cost of community pharmacies as it appears in the most recent publication of NCPA - Searle Digest. DOS assumed that this was specifically addressing how much dispensing fee cost should be included in the charge amount. The proposal does not mention that the rate should also include the ingredient cost but DOS assumes that the ingredient cost would be included in the rate by this proposal and would continue to be determined based on current Medicaid policy. DOS assumes that the required charge would be calculated as ingredient cost plus cost of claim transmission plus cost of adjudication plus dispensing fee.

DOS states the proposal does not dictate how the department is supposed to provide the current Medicaid reimbursements to the pharmacies but seems to infer that the current POS claims adjudication system should be used since the cost of claim transmission would be included in the total charge. DOS assumes the best avenue to provide this information to the pharmacies would be for the pharmacies to send a POS transaction through existing networks. DOS would respond with the total charge amount as calculated above.

DOS assumes that the dispensing fee would be determined based on calculations information from the NCPA - Searle Digest. DOS states that in the event the digest is no longer published and no successor publication exists, DOS would be required to conduct a cost of dispensing survey at least every two years to determine the cost to fill a prescription. DOS assumes that the NCPA - Searle Digest or a successor publication would exist and therefore did not include any costs for conducting a cost of dispensing fee survey.

The proposal would require DOS to monitor recipient participation. DOS assumes that intent of the portion of the proposal was only to monitor the number of people who participate. DOS feels that they can estimate the number of Medicare eligibles in Missouri with no pharmacy coverage. DOS assumes that the provider would submit the recipient's Medicare number along with the NDC, quantity, and date of service. By providing the Medicare number, DOS would know the number of recipients participating, number of claims per person, etc. However, DOS would not be able to verify that the information is 100% correct. For instance, if a provider inadvertently entered an incorrect Medicare number, DOS would overstate the actual participation rate. If DOS is required to enroll the recipients for the purpose of validation of the participation rate it would require significant time and resources which were not included in this fiscal note.

DOS assumes that they would not be responsible for monitoring the providers to ensure that the total charge billed to the Medicare recipient is not in excess of the total charge as described above. If DOS is required to perform additional monitoring than described above it would require significant time and resources which were not included in this fiscal note. The proposal requires DOS to monitor provider participation in the Medicaid program; specifically reasons that providers terminated. DOS currently does not monitor this but feel that they could perform this monitoring with existing staff and resources.

Based on experiences in the state of California, DOS assumes it would be necessary to request one FTE. The staff person would be needed to handle the questions from the pharmacies as a result of this proposal. The staff person is a correspondence and information specialist. DOS estimates it would cost \$300,000 to make the necessary system changes to process these transactions. Since the transactions would be for non-Medicaid eligibles, DOS assumes that there would be no federal matching funds available. DOS estimates that the adjudication cost would be seven cents to process these transactions. DOS also estimates that there would be 12,000,000 transactions per year which would yield a yearly cost of \$840,000 to DOS. This cost would also be General Revenue since the claims processing would be done for non-Medicaid eligibles. DOS estimates that one Correspondence and Information Specialist would be necessary to respond to phone calls and correspondence that would be generated as a result of this proposal.

**Oversight** assumes there would be costs for the last six months in FY2001, twelve months in FY2002, and the first six months in FY2003.

**Department of Insurance (INS)** officials state that they anticipate that current appropriations and staff would be able to absorb the work for implementation of this proposal. However, if additional proposals are approved during the legislative session, INS may need to request an increase in appropriations due to the combined effect of multiple proposals.

ASSUMPTION (continued)

INS states there are 259 health insurers and 30 HMOs that offer health insurance coverage. INS states that of the health insurers, many offer coverage through out-of-state trusts which are not typically subject to such mandates. INS estimates that 171 health insurers and 30 HMOs would each submit one policy form amendment resulting in revenues of \$10,050 to the Insurance Dedicated Fund.

*Obesity Section*

Officials from the **Department of Social Services (DOS)** assumed that the proposal is specific to the product orlistat (Xenical) by HLR. Xenical is the only non-systemic prescription product for the treatment of obesity that is currently available. DOS assumes that the proposal does not address over-the-counter products that make similar claims.

DOS states they recently had dialog regarding this product with an advisory panel composed of health care professionals.

The discussion points were: 1) the success of this product is highly dependent upon changing patient behaviors with regard to eating habits and exercise; 2) evidence of effectiveness beyond two years has not been determined at this point but it appears that maintenance of weight loss would probably require the continued use of the drug product; and, 3) the cost of this product is approximately \$110 per month per patient. Patients would generally have to be on the product for three months (\$330 per patient) before it would be apparent whether or not it is working. DOS assumes that the state would not have any flexibility to require results before continuing coverage under this proposal.

DOS states that statistics indicate the most important, and most difficult, facet of any weight loss program is behavior modification. The data suggest a nationwide resistance to appropriate lifestyles and healthy behaviors with regard to nutrition and exercise. Modifying behaviors in the Medicaid population to the extent necessary for this therapy to be effective is problematic. If DOS would be required to cover this drug, DOS feels that the agency should be given the authority to require evidence of changes in behavior prior to authorizing the initiation or continuation of therapy. In addition, DOS should receive funding - for the drug - but also to study the pharacoeconomic impact/cost effectiveness of covering the product. DOS states this would be the first time that coverage of a specific drug product by the Missouri Medicaid program has been legislated. DOS currently has processes in place to seek the advice of experts in making policy decisions.

DOS states that according to the Department of Health, the prevalence of obesity in the adult population in Missouri is 32.9%. DOS states there are currently 291,401 Medicaid eligibles age 21 and older. If the prevalence of obesity is the same for the Medicaid population as the entire Missouri, the estimated number of obese adult persons on Medicaid would be 95,871 (291,401 x 32.9%). DOS is unable to determine the percent of adults that would take advantage of these medications. DOS assumes that the cost would range from \$100,000, if very few take the medications, to \$126,549,720, if everyone took the drug. Costs would be split 40% General Revenue, 60% Federal participation.

**Oversight** assumes that the condition of prior authorization before an eligible individual could use this drug would allow DOS to control the usage of the drug. **Oversight** assumes that, based on experience in California and Minnesota, that usage of this drug would be limited during the fiscal note period. **Oversight** assumes that only a ten percent participation rate of eligible individuals would be approved to use the drug for a minimum of three months. At the end of the three month period, DOS would evaluate whether usage by an individual would continue. **Oversight** estimates a cost of at least (\$8,742,030) annually. **Oversight** is unable to estimate any increases in participation as more medical personnel and eligible individuals become more aware of the coverage of the drug.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003 (6 Mo.)
<b>GENERAL REVENUE FUND</b>			
<u>Costs - Department of Social Services</u>			
Personal services (1 FTE)	(\$17,233)	(\$35,326)	(\$18,105)
Fringe benefits	(\$5,299)	(\$10,863)	(\$5,567)
Expense and equipment	<u>(\$436,967)</u>	<u>(\$840,864)</u>	<u>(\$420,445)</u>
Total <u>Costs</u> - DOS	<u>(\$459,499)</u>	<u>(\$887,053)</u>	<u>(\$444,117)</u>
<u>Costs - Department of Social Services</u>			
Medical assistance payments	<u>(\$2,914,010)</u>	<u>(\$3,496,812)</u>	<u>(\$3,496,812)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>\$3,373,509</u></b>	<b><u>(\$4,383,865)</u></b>	<b><u>(\$3,940,929)</u></b>

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<u>FISCAL IMPACT - State Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003 (6 Mo.)
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**INSURANCE DEDICATED FUND**

Income - Department of Insurance

Filing fees	<u>\$10,050</u>	<u>\$0</u>	<u>\$0</u>
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**ESTIMATED NET EFFECT ON  
 INSURANCE DEDICATED FUND**

	<u>\$10,050</u>	<u>\$0</u>	<u>\$0</u>
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**FEDERAL FUNDS**

Income - Department of Social Services

Medicaid reimbursements	\$4,371,015	\$5,245,218	\$5,245,218
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Costs - Department of Social Services

Medical assistance payments	<u>(\$4,371,015)</u>	<u>(\$5,245,218)</u>	<u>(\$5,245,218)</u>
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**ESTIMATED NET EFFECT ON  
 FEDERAL FUNDS**

	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Local Government

	FY 2001 (6 Mo.)	FY 2002	FY 2003
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

Small business pharmacies would expect to be fiscally impacted to the extent they would incur additional administrative costs as a result of the requirements of this proposal.

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## DESCRIPTION

This would set a limit on what pharmacies participating in the Medicaid program can charge Medicare recipients who are residents of Missouri for their legend drug prescriptions. Such charges would be limited to the current Medicaid reimbursement rate for the prescription drug, plus an amount established by the Division of Medical Services within the Department of Social Services to cover the costs to pharmacies for claims transmission, any adjudication costs incurred by the division, and an additional pharmacy administration charge. The total charge to Missouri Medicare recipients would approximate the pharmacies' cost to dispense a prescription. The administrative charge would be determined by consulting the most recent publication of NCPA-Searle Digest or, if the digest or a successor publication is no longer published, through a dispensing cost survey conducted by the division at least once every 2 years. The division would be responsible for determining the manner in which to transmit information and the rate charged for a prescription to the community pharmacy. Pharmacies would be prohibited from charging a patient an aggregate rate greater than the usual and customary rate for patients who pay by cash.

The division would be required to submit an annual report to the General Assembly by January 1, describing the participation rates, the number of pharmacies terminating their participation in the Medicaid program, and the reasons given for such termination.

The proposal would also provide that the health care utilization review process outlined in existing statutes does not apply to this program. If the new prescription drug benefit would be added to the federal Medicare program, the appropriate committees within the General Assembly are to evaluate whether to continue providing Medicare prescriptions at the Medicaid rate. The provisions of the proposal would be effective January 1, 2001, and terminate on December 31, 2002.

A portion of the proposal would allow eligible persons who receive medical assistance under Section 208.151 be authorized to receive outpatient prescription drug coverage of non-systemic FDA-approved anti-obesity drug therapies according to appropriate criteria established by the department. The drug coverage would be subject to a prior authorization and/or a retrospective drug utilization process. The criteria would include a body mass index as stated and the presence of a specified risk factor which includes diabetes or hypertension.

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

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SOURCES OF INFORMATION

Department of Social Services  
Department of Health  
Department of Economic Development  
Division of Professional Registration  
Department of Conservation  
Department of Public Safety  
Missouri State Highway Patrol  
Missouri Consolidated Health Care Plan



Jeanne Jarrett, CPA  
Director  
April 12, 2000