

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1684-06
Bill No.: Perfected HS for HCS for HB 824
Subject: Elderly; Drugs and Controlled Substances; Social Services Department
Type: Original
Date: April 2, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	\$0	(\$22,837,003 to Unknown)	(\$37,693,669 to Unknown)
Total Estimated Net Effect on <u>All</u> State Funds*	\$0	(\$22,837,003 TO UNKNOWN)	(\$37,693,669 TO UNKNOWN)

***Unknown does not include costs for persons above income limits with expenses greater than 10% of their income.**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
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

Officials from the **Department of Health** did not respond to our fiscal impact request. However, in responding to a similar proposal DOH assumed this proposal would not fiscally impact their agency.

Office of Secretary of State (SOS) officials state the proposal would establish the Pharmaceutical Investment Program for Seniors. SOS states that based on experience with other divisions, the rules, regulations, and forms issued by the Department of Social Services could require as many as 32 pages in the Code of State Regulations. For any given rule, roughly half again as many pages would be published in the Missouri Register in the Code because cost statements, fiscal notes, and the like are not repeated in Code. These costs were estimated. The estimated cost of a page in the Missouri Register is \$23. The estimated cost of a page in the Code of State Regulations is \$27. The actual cost (\$1,968) could be more or less than the numbers given. The fiscal impact of this proposal in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded, or withdrawn.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Department of Social Services - Division of Medical Services (DMS)** assume a start date of October 1, 2002. DMS assumes that the Pharmacy Benefit Manager (PBM) contract in the Governor's budget for FY 2002 would include bid specifications for this program. DMS would amend that contract so that the program would actually begin operation on October 1, 2002. DMS states that if the PBM contract included in the Governor's recommendation is not approved this program would be delayed until January 1, 2003 approximately. DMS assumes that the contract for enrollment would be rebid with the MC+ enrollment re-bid. The MC+ enrollment contract terminates June 30, 2002. DMS assumes the following:

Missouri Adjusted Income - For the purpose of this fiscal note, DMS used the Circuit Breaker Income definition. DMS stated this is a more comprehensive count of the eligible population. DMS obtained the number of persons by income range from the Economic and Policy Analysis Research Center at the University of Missouri through the Office of Administration.

According to information obtained on the New York senior pharmacy assistance program, 40% of their population had other pharmacy insurance. DMS ranged the percent with no insurance (60% in NY) from 45% to 60% for the purposes of this fiscal note. The New York program also experienced a participation rate of 45%. Based on this and the fact that the benefit package

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ASSUMPTION (continued)

defined in this proposal is less, DMS assumed a participation rate ranging from 30% to 45%. Based on information obtained from the New York program, DMS estimates the total yearly cost for each participant at \$2,803. DMS inflated the cost of the New York program of \$2,230 for 2000 by 15% for two years to obtain the cost and then reduced the cost by 5% for pricing differences between Missouri and New York ($\$2,230 * 115\% * 115\% * 85\% * 95\%$). Since a PBM would not be allowed to assist DMS in the administration of the program, the yearly cost per eligible was not reduced by 15. Participants in the New York program average 38 claims annually. For the purposes of this fiscal note, DMS estimated the yearly claims at 40 claims per participant, due to increased utilization.

DMS assumed that a contractor would be hired to enroll the recipients and collect the application fee of \$25. DMS estimates the cost of the contractor to enroll the persons in the program at \$12 per enrollment for a cost of \$1,083,144 ($90,262 * \12). DMS further estimated the cost to collect the application fee at \$60,000 per month for an annual cost of \$720,000. DMS assumed that the application fee would be an annual fee and would remain at \$25, unless modified by the General Assembly.

DMS assumed the contractor would provide the recipients a card that would be presented to the pharmacy. The cost to produce and mail a card is \$.85. The total cost is estimated at \$76,723 ($90,262 * \$.85$).

DMS assumed that the contractor could perform an initial screening for Medicaid eligibility and refer the eligibles to DFS for the final eligibility determination. There are a number of issues with this section of the proposal, primarily related to spenddown. At this point, it is thought that persons being referred to DFS would primarily be spenddown eligibles. There may be situations where it is in the state's best interest that the person is spenddown versus only eligible for the pharmacy benefit and vice versa. Since Spenddown is a federally required program, the State cannot preclude Spenddown participation.

DMS assumed that one Medicaid Manager and six Correspondence and Information Specialists would be needed to respond to provider and recipient inquiries.

DMS assumes that was not able to determine what the administrative costs would be to the department. Oversight has not reflected any administrative costs.

DMS assumed that DMS would receive all pharmacy claims, including claims that count toward the deductible amount so that DMS can track the deductible amounts and reimburse claims appropriately.

There may be an unintended consequence to this proposal where a senior is currently using prescription drug costs to qualify for the Medicaid spenddown program. If they no longer incur

ASSUMPTION (continued)

this cost, they may no longer be eligible for spenddown, or they may become ineligible at a later date. They may decide to forgo this new benefit to maintain spenddown.

The proposal would dictate \$5 co-pay for generics and \$15 for trade name, when a generic is available. For the purpose of this fiscal note, DMS state that there would be 50% generics and 50% trade name drugs.

The proposed language specifies that married couples would be considered collectively for the purpose of eligibility, in terms of income and pharmaceutical expenses. The proposal also dictates that the monthly deductible would be a combined deductible. This requirement would be more administratively burdensome.

For the purposes of calculating co-pays and enrollment fees, DMS multiplied couple returns by 1.5.

The proposal does not define the benefit package in terms of which drugs would be covered and which would not be covered. For the purpose of this fiscal note, DMS assumed that the benefit package would be the drugs currently covered by Medicaid.

DMS assumed that the enrollment contractor would collaborate with the Division of Aging in regard to outreach, enrollment assistance, and education.

DMS assumed that DMS could produce the required quarterly reports with existing staff and resources.

For the purpose of this fiscal note, DMS assumed that the pharmacy cost per eligible would increase by 15% in FY 2004.

The yearly claims estimated for this program is 2,775,280. DMS estimates the claims processing cost at 25.3 cents per claim. This yields a yearly claims processing cost of \$702,146. DMS further estimates the cost of system enhancements and infrastructure at \$2,500,000 each year.

DMS further states the proposal states that individuals with income in excess of \$15,000 and couples with income in excess of \$25,000, who are currently not covered by a pharmacy plan or receiving Medicaid benefits, would be eligible once they have expended ten percent of their income. DMS recognized this population, but is unable to determine the cost of this requirement. In addition, DMS assumed that this population would be required to provide a co-pay, once they are eligible.

As stated previously, the number of persons eligible for this program was provided by UMC/OA, which was based on tax return data. Since not all persons file tax returns, DMS assumed that

ASSUMPTION (continued)

there are individuals who would qualify for this program, but since we are unable to quantify, they were not included in this fiscal note.

Oversight assumes that the program participants would enroll at the beginning of the program period and re-enroll annually to ensure continuity of coverage. **Oversight** assumes that those individuals and couples with catastrophic drug expenses that initially do not qualify for this program but spend ten percent of their household income would be eligible. **Oversight** assumes that if one percent of these households participate in the program at the maximum, there would be additional costs of \$9,810,000 annually. However, it is unknown how many persons would qualify in this category.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** did not respond to our fiscal impact request. However, in responding to a similar proposal BAP stated the elimination of the senior citizen pharmaceutical tax credit beginning January 1, 2002 would result in the state saving an estimated \$89.3 million in general revenue in fiscal year 2003. BAP stated the Department of Social Services would be responding to the costs of the new Pharmaceutical Investment Program created in their department.

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
GENERAL REVENUE FUND			
<u>Savings - Office of Administration</u>			
Repeal of pharmaceutical tax credit	\$0	\$89,300,000	\$89,300,000
<u>Costs - Department of Social Services - Division of Medical Services</u>			
Personal services (6 FTE)	\$0	(\$272,461)	(\$279,273)
Fringe benefits	\$0	(\$90,811)	(\$93,082)
Expense and equipment	\$0	(\$4,651,620)	(\$4,593,118)
Program costs	<u>\$0</u>	<u>(\$107,122,111)</u>	<u>(\$122,028,196)</u>
		to Unknown)	to Unknown)
Total <u>Costs</u> - DMS	<u>\$0</u>	<u>(\$112,137,003)</u>	<u>(\$126,993,669)</u>
		to Unknown)	to Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND*	<u>\$0</u>	<u>(\$22,837,003)</u>	<u>(\$37,693,669)</u>
		<u>TO</u>	<u>TO</u>
		<u>UNKNOWN)</u>	<u>UNKNOWN)</u>

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
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***Unknown does not include costs for persons above income limits with expenses greater than 10% of their income.**

<u>FISCAL IMPACT - Local Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

Small businesses (pharmacies) would expect to be fiscally impacted to the extent that they would incur additional administrative costs due to the requirements of this proposal.

DESCRIPTION

Effective January 1, 2002, this proposal would repeal the \$200 income tax credit for senior citizens to offset prescription drug costs and would establish the Pharmaceutical Investment Program for Missouri seniors in the Department of Social Services. The proposal lists 4 categories of eligibility based on an applicant's household income and estimated annual prescription drug costs. Individuals who receive Medicaid benefits would be excluded from the program. Applicants who would be eligible for prescription drug coverage under an employer-sponsored or retirement health insurance plan would receive coverage for eligible costs as long as the applicant has met the program's deductible.

The proposal would allow qualified applicants to participate in the program by meeting a cost-sharing obligation through payment of a monthly deductible that would be based on the applicant's household income. Enrollees would be required to pay certain co-payments for generic and name-brand drugs and to pay an annual \$25 co-payment to offset the administrative costs of the program.

Individuals would apply annually for participation in the program. The proposal does not require acceptance of Medicaid benefits in lieu of participation in the program. It would require interagency collaboration for education and outreach programs to inform consumers about the program. The Department of Social Services would submit quarterly reports containing specified program data to the Governor, Speaker of the House of Representatives, President Pro Tem of the Senate, Senate Appropriations Committee, and House Budget Committee.

The department would be required to apply to the U. S. Department of Health and Human Services for a Medicaid waiver amendment to Section 1115 of the Social Security Act for a demonstration waiver or any other Medicaid waivers which are necessary to establish the program.

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The program would not be an entitlement program and would be the payer of last resort. The department would be required to develop rules to implement the provisions of the proposal.

DESCRIPTION (continued)

The proposal contains an effective date of July 1, 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 Health
Department of Social Services
Office of Secretary of State
Office of Administration
Division of Budget and Planning



Jeanne Jarrett, CPA
Director

April 2, 2001