Department of Planning and Budget
2015 Fiscal Impact Statement

1. **Bill Number:** SB 1262

House of Origin	☒ Introduced	☐ Substitute	☐ Engrossed
Second House	☐ In Committee	☐ Substitute	☐ Enrolled

2. **Patron:** Newman, Stephen D.

3. **Committee:** Commerce and Labor

4. **Title:** Health insurance plans and programs; preauthorization for drug benefits

5. **Summary:** The proposed legislation requires certain health insurance contracts under which an insurance carrier or its intermediary has the right or obligation to require preauthorization for a drug benefit to include provisions governing the preauthorization process. Required provisions address (i) use of a common preauthorization form to be developed by the State Corporation Commission, (ii) the electronic submission of preauthorization requests, (iii) waiving preauthorization requirements for chronic disease management drug benefits and for mental health drug benefits, (iv) requests for supplementation of a preauthorization or waiver request, (v) preauthorization restrictions for generic drug benefits, and (vi) posting of certain information. These provisions are also applicable to Medicaid fee-for-service and Medicaid managed care health plans and the state employee health insurance program.

6. **Budget Amendment Necessary**: Yes

7. **Fiscal Impact Estimates:** Preliminary (See Item 8)

Expenditure Impact:

Fiscal Year	*Dollars*	*Fund*
2015	-	-
2016	$8,100,000	General
	$8,100,000	Nongeneral
2017	$8,100,000	General
	$8,100,000	Nongeneral
2018	$8,100,000	General
	$8,100,000	Nongeneral
2019	$8,100,000	General
	$8,100,000	Nongeneral
2020	$8,100,000	General
	$8,100,000	Nongeneral
2021	$8,100,000	General
	$8,100,000	Nongeneral

8. **Fiscal Implications:** There is no way to estimate the specific fiscal impact of requiring the preauthorization provisions prescribed in the bill. The following analysis makes assumptions

based on the best available data in an effort to provide a general estimate as to the bill's impact. The fiscal impact of the bill will vary based on which assumptions are made.

Using pharmacy claims data from prior to the implementation of a prior authorization (PA) program (approximately May 2003) and comparing them with claims following the implementation, the Department of Medical Assistance Services (DMAS) determined that the program costs decreased by approximately 20.1 percent. Therefore, for the purposes of this analysis, it is assumed that the PA program is responsible for a 20.1 percent savings in pharmacy claims. The agency notes that this assumed cost savings is less than the cost savings found in published and more thorough analysis of the impact of PA programs on Medicaid prescription drug costs in other states. Published research has put the cost savings as high as 54 percent for certain classes of drugs.

In FY 2014, DMAS expenditures for fee-for-service pharmacy was $110,557,786. Based on the 20.1 percent savings estimate above, it is assumed that DMAS would have expended an additional $27,812,409 ($110,557,786/(1-20.1%) - $110,557,786) without a PA program. Most of the provisions of the PA program that led to these savings would likely remain in any common PA system set up under the provisions of this bill; the agency maintains that some cost savings related to unique provisions of the PA programs established by individual insurers would be lost. Again, there is no way to associate specific savings amounts with provisions of the impacted PA programs. For the purpose of this analysis, the agency estimates at approximately 10 percent of these individual provisions could be lost, which would add $2.7 million to fee-for-service pharmacy expenditures.

Pharmacy costs for the managed care population make up approximate 22 percent of annual payments. In FY 2014, $2,496,300,132 was spent on non-long-term-care capitated payments with ($2,496,300,132 * 22%) or $549,186,029 spent on prescribed drugs. This is about five times greater than the cost spent on prescribed drugs in the fee-for-service program. If we presume the cost associated with this bill for capitation payments is proportional to those we calculated for the fee-for-service program, the cost in FY 2016 would be $13.5 million (5 * $2,700,000). This amount reflects the approximate annual cost of this bill for capitation payments should the agency lose 10 percent of PA programs cost savings provisions. When fee-for-services costs are added, the total impact of this bill could be approximately $16.2 million. Generally half of this amount ($8.1 million) would need to be supported with general fund dollars. As the PA cost savings assumptions vary from the 10 percent assumed in this statement, the impact to DMAS will change accordingly.

The following factors should be noted, as they may have a fiscal impact; however they were not included in item 7 has a specific dollar estimate could not be determined. The bill's exclusion of chronic disease drugs from PA may also endanger supplemental drug rebates that DMAS currently receives. That program currently generates approximately $3.0 million per year. The standardization of the length of a PA to 12 months also may increase costs. Under current practice, some drugs require periodic re-evaluation in order to renew a PA. With an extended length of the authorization, some prescriptions that might not have been filled upon re-evaluation may now result in increased costs if those re-evaluations are not completed. The exclusion of generic drugs from the PA program may also result in increased expenditures on generic drugs. The costs in this analysis does not account for that impact. It also does not account for any additional costs that may become necessary should the absence of protection from the coordinated care associated with the PA program result in a degraded standard of care and the subsequent worse health outcomes. Research on the relationship between Medicaid PA programs and quality of care has thus far been inconclusive.

The State Corporation Commission has reviewed this bill and determined that it will not have a fiscal impact on the Commission.

9. **Specific Agency or Political Subdivisions Affected:**
   Department of Medical Assistance Services
   State Corporation Commission
   Commission's Bureau of Insurance

10. **Technical Amendment Necessary:** None

11. **Other Comments:** None

Date: 1/28/15