

Department of Planning and Budget 2020 Fiscal Impact Statement

1. Bill Number: SB 568

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

2. Patron: Dunnavant

3. Committee: Passed Both Houses

4. Title: Medical Assistance Services, Board of; state pharmacy benefits manager

5. Summary: The enrolled bill requires the Department of Medical Assistance Services (DMAS) to require its contracted managed care organizations (MCO) to prohibit the conduct of “spread pricing” with the MCOs’ contracted pharmacy benefits manager. Spread pricing is defined in the bill as a model of prescription drug pricing in which the pharmacy benefits manager charges a managed care plan a contracted price for prescription drugs, and the contracted price for these drugs differs from the amount the pharmacy benefits manager (PBM) directly or indirectly pays the pharmacist or pharmacy for pharmacist services. The provisions of this bill would apply to agreements entered into, amended, extended, or renewed on or after July 1, 2020

6. Budget Amendment Necessary: See Item 8

7. Fiscal Impact Estimates:

Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2020	-	-
2021	(\$4,115,274)	General
2021	(\$6,805,641)	Nongeneral
2022	(\$4,289,871)	General
2022	(\$7,067,880)	Nongeneral
2023	(\$4,289,871)	General
2023	(\$7,067,880)	Nongeneral
2024	(\$4,289,871)	General
2024	(\$7,067,880)	Nongeneral
2025	(\$4,289,871)	General
2025	(\$7,067,880)	Nongeneral
2026	(\$4,289,871)	General
2026	(\$7,067,880)	Nongeneral

8. Fiscal Implications: This bill requires DMAS to prohibit “spread pricing” between Medicaid MCOs and their PBMs. DMAS reports that this bill may generate savings to the state; however, such savings would be highly dependent on the nature of the altered relationships between DMAS, Medicaid MCOs and their PBMs. Further, the number of

MCOs utilizing spread pricing at the time of this bill's implementation would also affect any savings assumptions.

Based on data and findings included in a recent pharmacy benefit study conducted by DMAS (released November 27, 2019), two of the six MCOs that currently contract with DMAS utilize a spread pricing model. The provisions of this bill would prohibit further use of this model beginning July 1, 2020. Using FY 2019 savings estimates included in the study as a starting point, DMAS assumes a four percent trend increase for costs since FY 2019. As such, DMAS estimates a potential savings of 10,920,915 (\$4,115,274 general fund and \$257,096 special funds) in FY 2021 and \$11,357,752 (\$4,289,871 general fund and \$267,380 special funds) in FY 2022. DMAS indicates that the savings associated with the provisions of this bill are not expected to increase once accounted for in the upcoming biennium.

9. Specific Agency or Political Subdivisions Affected:

Department of Medical Assistance Services

10. Technical Amendment Necessary: No

11. Other Comments: None