

**COMMONWEALTH OF KENTUCKY STATE FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2018 REGULAR SESSION**

MEASURE

2018 BR NUMBER **0216**

SENATE BILL NUMBER **5**

RESOLUTION NUMBER _____

AMENDMENT NUMBER _____

SUBJECT/TITLE **An ACT relating to pharmacy benefits in the Medicaid program.**

SPONSOR **Senator Wise**

NOTE SUMMARY

FISCAL ANALYSIS: IMPACT NO IMPACT INDETERMINABLE IMPACT

LEVEL(S) OF IMPACT: STATE LOCAL FEDERAL

BUDGET UNIT(S) IMPACT: **Cabinet for Health and Family Services**

FUND(S) IMPACT: GENERAL ROAD FEDERAL RESTRICTED AGENCY _____ OTHER

FISCAL SUMMARY

FISCAL ESTIMATES	2017-2018	2018-2019	2019-2020	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES				
EXPENDITURES		\$36,000,000	\$36,000,000	\$36,000,000
NET EFFECT		(\$36,000,000)	(\$36,000,000)	(\$36,000,000)

() indicates a decrease/negative

MEASURE'S PURPOSE: The purpose of the measure is to require the Department for Medicaid Services to directly administer all outpatient pharmacy benefits.

PROVISIONS/MECHANICS: Section 1 requires the Department for Medicaid Services (DMS) to directly administer all outpatient pharmacy benefits; prohibits the renewal or negotiation of new contracts to provide Medicaid managed care that allow administration of outpatient pharmacy benefits by any entity other than the DMS; reduces the cost of future Medicaid managed care contracts by the cost of all outpatient pharmacy benefits as they existed on January 1, 2017; allows DMS to utilize managed care principles and techniques to assist with member medication adherence and cost control; and requires DMS to establish a reasonable dispensing fee pursuant to the Centers for Medicare and Medicaid Services guidelines.

Section 2 establishes an effective date of January 1, 2019.

FISCAL EXPLANATION: The Cabinet for Health and Family Services (CHFS) estimates that the proposed legislation would result in increased costs. The DMS performed a repricing analysis of Medicaid managed care organizations' (MCO) encounters to assess the impact of a pharmacy

carve out in the Medicaid program. In order to estimate the drug and dispensing fee cost, CHFS modeled data from the first and second quarters of State Fiscal Year (SFY) 2017. This time period was used to capture the National Average Drug Acquisition Cost (NADAC) that is used by DMS in its reimbursement calculations. Costs were applied to the MCO claims at the same National Drug Code (NDC) level for the same time period within SFY 2017 to provide an equalized comparison. The Medicaid fee-for-service (FFS) and MCO claims were priced based on the current FFS pricing rules and dispensing fee amount. Brand over generic logic and FFS Preferred Drug List modeling were also applied as appropriate. Federal and supplemental rebates and the applicable rebate offset amount were then applied in order to determine the net claims cost that would exist if the managed care claims were processed with the same claims reimbursement logic that is currently used in the FFS Medicaid program. Based on this analysis, DMS estimates that Medicaid expenditures would increase by an annual total cost of approximately \$1.96 billion.

DMS reports that pharmacy costs account for approximately 24 percent of the total Medicaid managed care capitation rate, or \$1.68 billion. And, accordingly, the capitation payments made to the Medicaid managed care organizations would be reduced by this amount, \$1.68 billion, if the pharmacy program is returned to the DMS. The repricing analysis conducted by DMS also indicated that additional drug rebates of approximately \$130 million would be received. Given these data, DMS estimates that there would be \$150 million in increased non-administrative costs of which about \$33 million would be in General Fund. DMS also estimates that there would be additional administrative costs of \$11 million associated with the proposed legislation including processing fees and increased personnel of which about \$3 million would be in General Fund. DMS estimates that the net increase in the state share of both non-administrative and administrative costs would be \$36 million under the proposed legislation.

DATA SOURCE(S): Cabinet for Health and Family Services
PREPARER: Miriam Fordham NOTE NUMBER: 69 REVIEW: JAB DATE: 1/29/2018