

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2016-07
Bill No.: Perfected SS#2 for SB 695
Subject: Appropriations; Medicaid
Type: Original
Date: April 30, 2003
#Corrected bill number

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Senior Rx	\$5,200,000	\$6,200,000	\$6,500,000
Total Estimated Net Effect on Other State Funds	\$5,200,000	\$6,200,000	\$6,500,000

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Elementary and Secondary Education** and the **Department of Corrections** state this proposal would not fiscally impact their agencies.

Officials from the **Office of Attorney General** assume any costs arising from this proposal could be absorbed.

Officials from the **Department of Social Services - Division of Medical Services (DMS)** state that the Medicaid program is an entitlement program. The DMS states it is mandated to provide services authorized by the Missouri General Assembly to Medicaid eligibles regardless of the amount of funding. The DMS states the language in this proposal attached to each section of statute dealing with appropriations seems to imply that statutorily authorized services can be discontinued without specific General Assembly action.

The DMS states adding the words “subject to appropriation” is not anticipated to cost the DMS more than today’s operations of the Medicaid program. The DMS states savings are not anticipated either by adding the words “subject to appropriation” due to the ensuing litigation resulting from discontinued or limited services without specific legislative authorization. Therefore, the DMS assume no fiscal impact.

ASSUMPTION (continued)

Officials from the **Department of Health and Senior Services (DOH)** state this proposal has an unknown fiscal impact because all funding for any services provided pursuant to all sections listed are limited to the appropriations made available for such services.

Officials from the DOH believe that this proposal, over time, will increase participation by generic drug manufacturers in the Missouri Senior Rx program. RSMO currently requires generic manufacturers to pay the program a 15% rebate on their drugs that are utilized by the program participants while the national trend (including the Missouri Medicaid program) is 11%.

William M. Mercer, Inc. provided the DOH with an estimated cost savings associated with a reduction in the generic rebate percentage. DOH states that the current rebate contracts with generic drug companies expire on either 5-31-03 or 6-30-03. DOH states many of the generic companies have notified the program they will withdraw from the program at the end of this contract period if the rebate percentage for generic companies is not reduced to 11%. Therefore, the assumption made by Mercer, Inc and DOH is that if the rebate reduction for generic companies is not passed, generic companies will withdraw from the program, thus making the program a brand name drug only program for FY 04 and beyond. DOH and Mercer also assume the primary factor driving the estimated savings in total program costs is the increase in the average cost of a prescription resulting from only brand name drugs being available. By removing the generic medications from the program, Mercer, Inc estimated the average cost of the prescription will increase from \$74 to \$88 in FY 04; from \$80 to \$95 in FY 05; and from \$86 to \$102 in FY 06.

DOH assumptions in calculating cost savings:

Population

- Estimates for the total number of seniors in Missouri were based on the 1990 and 2000 census projected forward through SFY06.
- The total senior population in Missouri grows by an average of 3% per year.
- Estimated enrollment is assumed to be 22,000 in SFY04; 28,325 in SFY05 and 31,160 in SFY06.

Claim Costs/Trends/Financial Analysis

- Discounts are legislated at 10.43% of AWP (Average wholesale price) for brand and 20% of AWP for generic drugs.
- Rebates are provided at 15% of AMP (Average manufacturer's price) for brand and generic drugs in SFY03.

ASSUMPTION (continued)

- Rebates are provided at 15% of AMP for brand drugs and 11% of AMP for generic drugs in SFY04, SFY05 and SFY06.
- Generic manufacturers will be willing to participate in the program if the rebate amount is reduced from 15% to 11%.
- There is a 6 month lag in rebate payments.
- Dispensing fee of \$4.09 per prescription.
- Projected yearly number of scripts per person--40 scripts per participant per year in FY03 in total (of which the program benefits will cover 30 scripts per participant per year)
43 scripts per participant per year in FY04 in total (of which the program benefits will cover 34 scripts per participant per year).
- Number of scripts per participant per year is trended at 8% to SFY05 and 7.5% to SFY06.
- Projected average cost per script \$69 in FY03 (before discounts & rebates); \$74 in FY04 if the legislation passes and \$88 if the legislation does not pass (before discounts & rebates).
- Average cost per script is trended at 8% to SFY05 and 7.5% to SFY06.

The DOH states the program savings will be \$5,200,000 in FY 03; \$6,200,000 in FY 04; and \$6,500,000 in FY 05.

Oversight was not provided the Mercer, Inc assumptions since this information is proprietary information of Mercer, Inc. **Oversight** does not have the detail information to recalculate the saving and cannot validate the DOH response. **Oversight** is presenting the cost savings as provided by the DOH.

Officials from the **Department of Mental Health (DMH)** state this proposal limits funding to appropriations for any benefit payments for medical assistance not mandated by federal law, including those medical benefits available for federal financial participation in the state Medicaid program. Several of these statutory sections involve Medicaid programs for which state match are provided from the DMH budget.

The DMH states based on changes to section 208.162.1, benefit payments for medical assistance shall be made on behalf of those individuals who would have been eligible for general relief benefits as defined on June 30, 2003. This appears to freeze the general relief eligibility requirements to the policies in place as of June 30, 2003. Any DMH client who would no longer be eligible for the general relief payments would be more at risk of greater need of services provided by DMH and community providers. Loss of the monthly cash assistance payments currently received by those eligible for general relief could result in the inability to pay rent, purchase necessary prescription drugs, etc. The inability to have access to these necessities can result in destabilization, and cause further deterioration of the client's mental health, resulting in

ASSUMPTION (continued)

greater utilization of the DMH service system. DMH would only be able to provide the additional mental health services required due to the loss of general relief payments, to the extent of the appropriations available to DMH for such services.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
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SENIOR Rx FUND

Savings - Department of Health and Senior Services

Program Savings	<u>\$5,200,000</u>	<u>\$6,200,000</u>	<u>\$6,500,000</u>
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ESTIMATED NET EFFECT ON SENIOR Rx FUND

	<u>\$5,200,000</u>	<u>\$6,200,000</u>	<u>\$6,500,000</u>
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FISCAL IMPACT - Local Government

	FY 2004 (10 Mo.)	FY 2005	FY 2006
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This act stipulates that funding for Medicaid services shall be limited to the appropriations made available for the services.

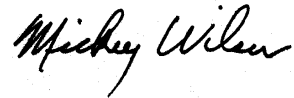
This proposal modifies the rebate amount for prescription drugs in the Missouri Senior Prescription Program. Current law requires pharmaceutical manufacturers participating in the Senior Prescription Program to pay a rebate of 15% on all prescription drugs. This proposal changes the rebate amount to 15% for all transaction occurring prior to July 1, 2003 for brand name drugs and 11% for all transaction occurring on or after July 1, 2003 for generic drugs.

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 Elementary and Secondary Education
Department of Health and Senior Services
Department of Mental Health
Department of Corrections
Office of Attorney General



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DIRECTOR
APRIL 30, 2003