

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4574-24
Bill No.: HCS for SS for SS for SCS for SB 1371
Subject: Elderly
Type: Original
Date: April 28, 2004

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2005 | FY 2006 | FY 2007 |
| | | | |
| | | | |
| Total Estimated Net Effect on General Revenue Fund | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|--|------------|--------------------|--------------------|
| FUND AFFECTED | FY 2005 | FY 2006 | FY 2007 |
| Missouri Senior Rx Fund | \$0 | \$13,832,992 | \$28,357,632 |
| Missouri Senior Prescription Drug Plan Fund* | \$0 | (\$6,538,569) | (\$23,158,270) |
| Total Estimated Net Effect on All State Funds | \$0 | \$7,294,423 | \$5,199,362 |

*Costs of program subject to appropriations
 Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 10 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2005 | FY 2006 | FY 2007 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|--|----------------|----------------|----------------|
| FUND AFFECTED | FY 2005 | FY 2006 | FY 2007 |
| Local Government | \$0 | \$0 | \$0 |

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Missouri House of Representatives**, the **Department of Social Services**, the **State Treasurer's Office**, and the **Department of Mental Health** assume this proposal would not fiscally impact their agencies.

Officials from the **Missouri Senate** and **Lieutenant Governor's Office** did not respond to our fiscal note request. In a similar proposal, these agencies assumed the proposal would not fiscally impact their agencies.

The **Office of Attorney General** assume that any potential costs arising from this proposal can be absorbed with existing resources.

Officials from the **Office of the Secretary of State (SOS)** state this proposal establishes procedures for establishing the Missouri Senior Prescription Plan. The Department of Health and Senior Services would promulgate rules to enact the legislation. Based on experience with other divisions, the rules, regulations and forms issued by the Department of Health and Senior Services could require as many as 24 pages in the Code of State Regulations. For any given rule,
ASSUMPTION (continued)

roughly one-half again as many pages are published in the Missouri Register as are published in the Code because cost statements, fiscal notes and notices are not published in the Code. The estimated cost of a page in the Missouri Register is \$23.00. The estimated cost of a page in the Code of State Regulations is \$27.00. The actual costs could be more or less than the numbers given. The fiscal impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded and withdrawn. The SOS estimates the cost of this legislation to be \$1,476 in FY 05.

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 Health and Senior Services (DOH)** assume this proposal would have a significant impact on the DOH. It replaces a current program with a similar one that is designed to compliment changes in the federal Medicare law.

This proposal would reduce costs for the DOH. The current Senior Rx Program covers 60% of prescription drug costs for low-income seniors after they meet an annual deductible of \$250 to \$500, with a maximum benefit of \$5,000. The new Plan would cover approximately the same group of seniors but the benefit does not start until the senior has \$2,250 in annual drug costs. Then the new Plan will pay 75% of drug costs, up to a maximum payout of \$2,137.50.

Potential Enrollment – DOH states census data for seniors below 200% of the federal poverty level were obtained from the state's demographer. For seniors below 150% of the federal poverty level, only those with assets above \$10,000 (single) and \$20,000 (married) would not be eligible for the federal low-income assistance program and would require assistance through the proposed Senior Rx Plan. Trying to estimate the number of seniors that would not meet the assets test has been problematic. DOH has consulted the federal Department of Health and Human Services, reports from the Kaiser Foundation, a private firm, and the Missouri Division of Medical Services. All sources agree that there is no data available on assets of low-income seniors. All sources did agree that the number of seniors that would not meet the asset test for the federal low-income subsidy would be quite low. For the purpose of this fiscal note DOH estimated that 10% of Missouri seniors below 150% of the poverty level would not meet the federal assets test and would qualify for the new Senior Rx Program. DOH further assumes all seniors that both qualify for and would benefit from the Program would enroll.

Drug Costs –DOH estimates of drug utilization and costs were based on those experienced by the ASSUMPTION (continued)

Senior Rx Program between July 1, 2003 and January 31, 2004 adjusted as needed for operating periods in FY2006 and FY2007. Drug costs were estimated to increase by 7% per annum.

Personnel and Related Costs – DOH assumed that the current Senior Rx Program staff plus four health Rep III’s would be sufficient staff to meet the needs of the new Plan plus the clearinghouse. There is sufficient space currently to house this staff and only three of the new Health Reps would need some equipment.

| | Fiscal Year 2006 | Fiscal Year 2007 |
|----------------------|------------------|------------------|
| Commission Expense | \$1,250 | \$2,500 |
| Outreach | \$125,000 | \$250,000 |
| Drug Costs | \$3,173,256 | \$16,150,365 |
| Coordination expense | \$60,778 | \$302,237 |
| Network Allocation | \$10,000 | \$20,000 |
| Indirect costs | <u>\$108,963</u> | <u>\$219,726</u> |
| Total | \$3,479,247 | \$16,944,828 |

DOH states travel costs and other expenses for the new commission are based on expenses actually incurred by the current Senior Rx Program.

DOH states outreach expense is based on what the current Senior Rx Program is spending. It would not only include outreach, education and information on the new Senior Prescription Plan but also the clearinghouse. In addition to these expenses the new Medicare Part D law has earmarked \$62,500,000 of federal year 2005 and \$62,500,00 in federal year 2006 to state pharmaceutical programs to do outreach, education, information and assistance related to the state program and the new Medicare Part D benefit. The DOH believes Missouri's share of the earmarked funds would amount to \$1,300,000 in each year. DOH also believes these funds could be used to supplement outreach efforts of for both the new Senior Prescription Plan and the clearinghouse.

Coordination expense - Medicare drug plans under the new federal law may charge state pharmacy plans that are attempting to coordinate with Medicare a fee for this service. No amount is specified under federal law for this service. Potential Medicare plan providers have ASSUMPTION (continued)

not yet identified themselves and started to enroll as providers. To estimate the fees these providers might charge DOH used the rate the current Senior Rx Program's benefit manager is charging (\$.5746 per claim) adjusted for 5% per annum inflation. DOH increased the number of claims predicted in our estimated drug costs by 24% to allow for denied and reversed claims.

Indirect costs - Represent a cost allocation charge from the DOH for shared expenses. Currently the charge is 31.3% of total personnel and fringe costs.

| Census data was derived from Information provided by the State Demographer | Below 150% of the Poverty Level | Between 150% and 200% of the Poverty Level | Total |
|--|---------------------------------|--|---------|
| Seniors Age 65 and Over | 167,695 | 89,952 | 257,647 |
| Seniors Age 65 and Over That Would Meet Asset Test (1) | 150,926 | 0 | 150,926 |
| Seniors Age 65 and Over That Will Have a Coverage Gap | 16,769 | 89,952 | 106,721 |

(1) DOH assumed 10% of the Seniors eligible for low income subsidies will not meet the asset test.

Estimates of drug costs for FY2006 were based on actual drug utilization in the Missouri Senior Rx Program during the first six months of FY2004. Because the Federal Program operates on a calendar year drug coverage under the Plan will only be available for six months of FY 2006. During the first six months of FY2004, 5.6% of Senior Rx members had drug costs high enough to reach the coverage gap. The average drug costs in the coverage gap for those members who reached it was \$621. Assuming that drug costs increase at an average rate of 7% per year, the average coverage gap amount the State would have to pay on in 2006 would be \$708 (\$621 + 14%) for each senior that reached the gap.

ASSUMPTION (continued)

FY 2006

| | |
|--|-------------|
| Number of Potential Senior Covered | 106,721 |
| Percent of senior that would have drug costs in the coverage gap FY 2006 | 5.6% |
| Potential number of seniors with drug costs in the coverage gap | 5,976 |
| Average drug costs in the coverage gap FY 2006 | \$708 |
| Total drug costs in the coverage gap | \$4,231,008 |
| State's share of those costs | 75% |
| Drug costs for the state Fy 2006 | \$3,173,256 |

Estimates of drug costs for FY2007 were based on actual drug utilization in the Missouri Senior Rx Program during the first seven months of FY2004, extrapolated to 12 months. Using the first seven months of FY2004 extrapolated to 12 months, 17.1% of Senior Rx members had drug costs high enough to reach the coverage gap. The average drug costs in the coverage gap for those members who reached the gap was \$975. Assuming that drug costs increase at an average rate of 7% per year, the average coverage gap amount the State would have to participate in by FY2007 would be \$1,180 (\$975 plus 21%) for each senior that reached the gap.

ASSUMPTION (continued)

FY 2007

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| | |
|--|--------------|
| Number of Potential Senior Covered | 106,721 |
| Percent of senior that would have drug costs in the coverage gap FY 2007 | 17.1% |
| Potential number of seniors with drug costs in the coverage gap | 18,249 |
| Average drug costs in the coverage gap FY 2007 | \$1,180 |
| Total drug costs in the coverage gap | \$21,533,820 |
| State's share of those costs | 75% |
| Drug costs for the state Fy 2007 | \$16,150,365 |

The Governor Recommendation for the Senior Rx Program was \$27,665,983 for FY05. **Oversight** assumes since this program is eliminated, one-half of this amount would be saved in FY 06 and \$28,357,632 in FY07 (applied an inflation factor) for the Senior Rx Fund.

Oversight does not have the detail information necessary to recalculate the program costs and cannot validate the DOH response. **Oversight** is presenting the cost as provided by the DOH.

| | | | |
|---|---------|--------------------|---------|
| <u>FISCAL IMPACT - State Government</u> | FY 2005 | FY 2006 (6 Mo.) | FY 2007 |
|---|---------|--------------------|---------|

MISSOURI SENIOR Rx FUND

Savings - Department of Health and Senior Services

| | | | |
|---|------------|---------------------|---------------------|
| Missouri Senior Prescription Drug program | <u>\$0</u> | <u>\$13,832,992</u> | <u>\$28,357,632</u> |
|---|------------|---------------------|---------------------|

ESTIMATED NET EFFECT ON MISSOURI SENIOR Rx FUND

| | | | |
|--|------------|---------------------|---------------------|
| | <u>\$0</u> | <u>\$13,832,992</u> | <u>\$28,357,632</u> |
|--|------------|---------------------|---------------------|

MISSOURI SENIOR PRESCRIPTION DRUG PLAN FUND

Costs - Department of Health and Senior Services

| | | | |
|--|------------|----------------------|-----------------------|
| Personal service (existing Senior Rx FTE and 4 more—total of 21 FTE) | \$0 | (\$581,994) | (\$1,168,195) |
| Fringe benefits | \$0 | (\$240,946) | (\$483,633) |
| Expense and Equipment | \$0 | (\$2,236,382) | (\$4,561,614) |
| Program costs (see table) | <u>\$0</u> | <u>(\$3,479,247)</u> | <u>(\$16,944,828)</u> |

ESTIMATED NET EFFECT ON MISSOURI SENIOR PRESCRIPTION DRUG PLAN FUND

| | | |
|------------|----------------------|-----------------------|
| <u>\$0</u> | <u>(\$6,538,569)</u> | <u>(\$23,158,270)</u> |
|------------|----------------------|-----------------------|

| | | | |
|---|------------|--------------------|------------|
| <u>FISCAL IMPACT - Local Government</u> | FY 2005 | FY 2006 (6 Mo.) | FY 2007 |
| | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

FISCAL IMPACT - Small Business

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

DESCRIPTION

This proposal closes the standard drug benefit coverage gap for certain seniors that was created due to the enactment of the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

MISSOURI SENIOR PRESCRIPTION DRUG PLAN - The "Missouri Senior Prescription Drug Plan" is created within the Department of Health and Senior Services. Subject to appropriations, the state shall pay 75% of the standard drug benefit coverage gap of \$2,850 for eligible individuals in the first year of the plan and adjusted annually thereafter.

The enrollment period for the state plan shall correspond with the enrollment period for the federal program. This plan is not an entitlement and is only a payer of last resort. Benefits are limited to the amounts appropriated for the plan. If the costs exceed the amounts appropriated, then the Commission may direct the prescription drug plan (PDP) sponsors to implement

DESCRIPTION (continued)

cost-control measures, such as increasing the amount of co-insurance.

ELIGIBILITY - Individuals who are 65 and older and are a participant in the Medicare Part D benefit will be eligible for the plan if their income is:
-within 150% to 200% of the federal poverty level; or
-below 150% of the federal poverty level and they fail the asset test.

COVERAGE - The plan shall provide coverage for only the prescription drugs covered in the PDP sponsors' formulary under the federal program. The plan shall not include coverage for any of the following drugs:

- those used for anorexia and weight gain;
- those used to promote fertility;
- those used for cosmetic purposes or hair growth;
- those used for coughs or colds;
- prescription vitamins;
- nonprescription drugs;
- barbiturates; and
- benzodiazepines.

The plan shall also exclude any drugs that are not "reasonable and necessary" as defined pursuant to the federal program. For covered prescription drugs, the state plan shall not be charged an amount in excess of the price charged pursuant to the federal program.

MISSOURI SENIOR PRESCRIPTION DRUG PLAN COMMISSION - The "Missouri Senior Prescription Drug Plan Commission" is created and will be composed of twelve members. Members appointed by the Governor shall serve for three years.

Members of the Commission shall receive no compensation, but may be reimbursed for any expenses incurred. The Commission may also employ administrative staff as necessary to assist the Commission.

AUTHORITY OF THE COMMISSION - The Commission shall have the authority to:
-contract with PDP sponsors for implementing and administering the plan and determining eligibility;
-adjust the fee payments with PDP sponsors;
-set and adjust co-insurance at different amounts;
-apply for federal waivers and grants;
-promulgate rules; and

DESCRIPTION (continued)

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-perform any other function necessary for the implementation of the plan.

MISSOURI SENIOR PRESCRIPTION DRUG PLAN CLEARINGHOUSE - The "Missouri Senior Prescription Drug Plan Clearinghouse" is created within the Commission. The purpose of the Clearinghouse is to assist all Missourians in accessing prescription drugs programs, to educate the public on quality drug programs, to maintain a toll-free number, and to provide information on eligibility, enrollment, and benefits for the plan on the Department's website.

TERMINATION OF THE MISSOURI SENIOR RX PROGRAM - The Missouri Senior Rx Program shall terminate thirty days after notice is provided to the Revisor of Statutes that the Medicare Prescription Drug, Improvement and Modernization Act of 2003 has been fully implemented.

MISSOURI SENIOR Rx PROGRAM

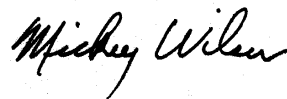
This proposal also provides that any current enrollee in the Missouri Senior Rx program shall remain in the program unless the enrollee specifically opts out.

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

Missouri House of Representatives
Department of Mental Health
Office of the Secretary of State
Office of Attorney General
Department of Health and Senior Services
Department of Social Services
State Treasurer's Office

NOT RESPONDING: Missouri Senate and the Lieutenant Governor's Office



Mickey Wilson, CPA
Director
April 28, 2004