

HF1819 - 0 - "MA Drug Dispensation Provisions Modified"

Chief Author: **Nick Zerwas**
 Committee: **Health and Human Services Finance**
 Date Completed: **03/13/2017**
 Agency: **Human Services Dept**

| State Fiscal Impact | Yes | No |
|---------------------------|-----|----|
| Expenditures | X | |
| Fee/Departmental Earnings | | X |
| Tax Revenue | | X |
| Information Technology | X | |
| Local Fiscal Impact | | X |

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

| State Cost (Savings) Dollars in Thousands | Biennium | | | Biennium | |
|--|----------|--------------|--------------|--------------|--------------|
| | FY2017 | FY2018 | FY2019 | FY2020 | FY2021 |
| General Fund | - | 3,875 | 3,702 | 2,968 | 1,147 |
| Total | - | 3,875 | 3,702 | 2,968 | 1,147 |
| Biennial Total | | | 7,577 | | 4,115 |

| Full Time Equivalent Positions (FTE) | Biennium | | | Biennium | |
|--------------------------------------|----------|------------|------------|------------|------------|
| | FY2017 | FY2018 | FY2019 | FY2020 | FY2021 |
| General Fund | - | 1.5 | 1.5 | 1.5 | 1.5 |
| Total | - | 1.5 | 1.5 | 1.5 | 1.5 |

Executive Budget Officer's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with MMB's Fiscal Note policies.

EBO Signature: Ahna Minge Date: 3/13/2017 11:48:01 AM
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State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

| State Cost (Savings) = 1-2 | | Biennium | | | Biennium | |
|--|----------|-----------------|--------------|--------------|-----------------|--------------|
| Dollars in Thousands | FY2017 | FY2018 | FY2019 | FY2020 | FY2021 | |
| General Fund | - | 3,875 | 3,702 | 2,968 | 1,147 | |
| Total | - | 3,875 | 3,702 | 2,968 | 1,147 | |
| | | | 7,577 | | | 4,115 |
| 1 - Expenditures, Absorbed Costs*, Transfers Out* | | | | | | |
| General Fund | - | 3,875 | 3,702 | 2,968 | 1,147 | |
| Total | - | 3,875 | 3,702 | 2,968 | 1,147 | |
| | | | 7,577 | | | 4,115 |
| 2 - Revenues, Transfers In* | | | | | | |
| General Fund | - | - | - | - | - | |
| Total | - | - | - | - | - | |
| | | | - | | | - |

Bill Description

This bill changes the pharmacy reimbursement formula for outpatient prescription drugs purchased under the Medical Assistance (MA) fee-for-service program. The new reimbursement would be effective for claims with dates of service on or after April 1, 2017 or upon federal approval, whichever is later.

This bill would use the National Average Drug Acquisition Cost (NADAC) to determine the acquisition cost for brand and generic prescriptions. Specialty products and generic products without a listed NADAC would continue to be priced based on the existing methodology. Drug products for which no NADAC cost data is available would be priced based on the wholesale acquisition cost (WAC) minus 2%.

The drug acquisition cost for 340B medications is currently estimated at WAC minus 40%. This proposal would change the drug acquisition cost component to an aggregate approximation of the Health Resources and Services Administration (HRSA) 340B ceiling price. The 340B ceiling price is the maximum amount that a manufacturer can charge a 340B entity for a drug sold through the 340B program.

The dispensing fee for drugs in MA is currently \$3.65 per prescription for most prescriptions. Unit dose prescriptions for beneficiaries in long term care facilities receive an additional \$0.30 per prescription. A dispensing fee of \$8.00 per bag is paid for sterile compounded prescriptions and a fee of \$14 per bag is paid for cancer chemotherapy prescriptions. This bill changes the professional dispensing fee to \$11.35 per prescription. This fee is prorated when dispensing quantities equal to or greater than the number of units in the manufacturer's original packaging.

Assumptions

This proposal makes several changes to MA fee for service pharmacy rates including changes to the drug acquisition cost and the dispensing fee.

This estimate assumes that payment under the new rates will begin in July 2017. The change is limited to fee for service MA only. This estimate assumes no impact to managed care pharmacy payment rates.

Based on modeling of claims data using the existing methodology compared to the new methodology, it is estimated that the new methodology for brands and generics will result in a 4.25% increase to overall fee-for-service pharmacy spending. The cost will be offset by a projected 1.68% reduction in pharmacy spending due to the savings associated with changing 340B reimbursement to the HRSA ceiling plus a professional dispensing fee. The result is a net increase of 2.57% for FFS pharmacy reimbursement.

Roughly 75 percent of the rate increase described above is related to the 2 percent tax applied to the wholesale cost of the drug under Minnesota Statutes 295.52 which sunsets in December 2019. The bill applies a 2 percent rate add on to the acquisition cost of the drug to cover the value of the tax and applies the increase on the claim. The sunset of the provider tax under current law eliminates this portion of the rate increase, resulting in a lower cost for the rate increase in FY2020-21 relative to the cost in FY2018-19.

Implementing this bill will require additional staff resources (estimated at 1.5 FTE) to record 340B pharmacy data, obtain pricing benchmark data, and calculate and maintain the new rates. The cost for this additional staff is included in this estimate. This bill also makes several changes to the payment rate logic within the MMIS system. The state share of cost for the systems work needed to pay these new rates is also included in this estimate.

Expenditure and/or Revenue Formula

| Minnesota | | | | | |
|---|---------|---------|---------|---------|---------|
| MEDICAL ASSISTANCE | | | | | |
| Fiscal Analysis of a Proposal to Modify Pharmacy Payments | | | | | |
| FFS Pharmacy Payments (\$000) | | | | | |
| February 2017 Forecast | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
| MA Elderly & Disabled | 168,869 | 165,385 | 178,685 | 194,590 | 211,219 |
| MA Adults without Kids | 41,351 | 44,799 | 45,063 | 49,095 | 52,552 |
| MA Families w Ch | 61,306 | 64,006 | 68,087 | 73,864 | 80,114 |
| MA Non-cit. | 276 | 288 | 310 | 334 | 360 |
| MA IMD | 6,754 | 7,507 | 13,046 | 9,489 | 9,791 |
| | | | | | |
| | | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
| Effects on FFS reimbursement of 2.57% Average Increase in Reimbursement Effective April '17 But Not Paid before July '17 | | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
| MA Elderly & Disabled | 2.57% | 4,974 | 4,592 | 3,751 | 1,357 |
| Federal share % | | 50.00% | 50.00% | 50.00% | 50.00% |
| Federal share | | 2,487 | 2,296 | 1,875 | 679 |
| State share | | 2,487 | 2,296 | 1,875 | 679 |
| | | | | | |
| MA Adults without Kids | 2.57% | 1,328 | 1,158 | 946 | 338 |
| Federal share % | | 94.50% | 93.50% | 91.50% | 90.00% |
| Federal share | | 1,255 | 1,083 | 866 | 304 |
| State share | | 73 | 75 | 80 | 34 |
| | | | | | |
| MA Families w Children | 2.57% | 1,908 | 1,750 | 1,424 | 515 |
| Federal share % | | 50.00% | 50.00% | 50.00% | 50.00% |
| Federal share | | 954 | 875 | 712 | 257 |
| State share | | 954 | 875 | 712 | 257 |
| | | | | | |

| | | | | | |
|----------------------------------|-------|----------------|----------------|----------------|----------------|
| MA Non-cit. | 2.57% | 9 | 8 | 6 | 2 |
| Federal share % | | 88.00% | 88.00% | 65.00% | 65.00% |
| Federal share | | 8 | 7 | 4 | 2 |
| State share | | 1 | 1 | 2 | 1 |
| | | | | | |
| MA IMD | 2.57% | 222 | 335 | 183 | 63 |
| | | | | | |
| Fiscal Summary: (\$000's) | | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
| MA E&D | | 2,709 | 2,631 | 2,058 | 741 |
| MA Adults w. no Kids | | 73 | 75 | 80 | 34 |
| MA Fam. w Ch. | | 955 | 876 | 714 | 258 |
| General Fund Total | | 3,737 | 3,583 | 2,853 | 1,033 |

| Fiscal Tracking Summary (\$000's) | | | | | | |
|-----------------------------------|-------|--------------------------------|--------------|--------------|--------------|--------------|
| Fund | BACT | Description | FY2018 | FY2019 | FY2020 | FY2021 |
| GF | 33-ED | MA Grants | 2,709 | 2,631 | 2,058 | 741 |
| GF | 33-AD | MA Grants | 73 | 75 | 80 | 34 |
| GF | 33-FC | MA Grants | 955 | 876 | 714 | 258 |
| GF | 13 | HCA Admin | 156 | 174 | 167 | 165 |
| GF | REV1 | FFP@ .35 | (55) | (61) | (58) | (58) |
| GF | 11 | Systems (MMIS) | 37 | 7 | 7 | 7 |
| | | | | | | |
| | | Total Net Fiscal Impact | 3,875 | 3,702 | 2,968 | 1,147 |
| | | Full Time Equivalent | 1.5 | 1.5 | 1.5 | 1.5 |

Long-Term Fiscal Considerations

The cost of this MA payment rate increase continues beyond the FY20-21 biennium.

Local Fiscal Impact

None

References/Sources

February 2017 Medical Assistance program forecast.

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