Colorado Legislative Council Staff

SB16-027

FINAL FISCAL NOTE

FISCAL IMPACT: ☒ State ☐ Local ☐ Statutory Public Entity ☐ Conditional ☐ No Fiscal Impact

Drafting Number:	LLS 16-0726	**Date:**	September 6, 2016
Prime Sponsor(s):	Sen. Martinez Humenik; Todd Rep. Primavera; Landgraf	**Bill Status:**	Signed into Law
		Fiscal Analyst:	Bill Zepernick (303-866-4777)

BILL TOPIC: MEDICAID OPTION FOR PRESCRIBED DRUGS BY MAIL

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018	FY 2018-19
State Revenue			
State Expenditures	**($29,917)**	**($1,767,097)**	**($2,066,223)**
General Fund	(9,084)	(537,663)	(628,677)
Cash Funds	(409)	(43,648)	(58,540)
Federal Funds	(20,424)	(1,185,786)	(1,379,006)
Appropriation Required: ($29,917) - Department of Health Care Policy and Financing (FY 2016-17).			
Future Year Impacts: Ongoing decrease in state expenditures.			

Summary of Legislation

Under current law, only a limited number of Medicaid recipients may receive maintenance medication by mail order. This bill expands the option to receive a three-month supply of maintenance medication through the mail to all Medicaid recipients. The Department of Health Care Policy and Financing (HCPF) is required to encourage Medicaid recipients to use local retail pharmacies for mail delivery of medications.

Co-pays paid by Medicaid recipients for medication through the mail must be the same as for medications from a local pharmacy. Pharmacies providing mail order service must be approved by Medicaid and registered with the State Board of Pharmacy. The State Board of Medical Services must promulgate rules concerning the receipt of medication through the mail. HCPF must provide information on its website and in the client handbook concerning client choice of pharmacy options, copayment amounts, and use of local pharmacies.

Background

Maintenance medication is medication taken on an ongoing basis to treat chronic or long-term illnesses or conditions. Current law allows only the following Medicaid recipients to receive maintenance medications via mail order:

- persons with physical hardships that prohibit them from obtaining maintenance medications from a local pharmacy; and
- persons with third-party insurance that allows the recipient to obtain maintenance medications through mail order.

Given these restrictions, many Medicaid recipients choose to get 30-day supply of medication at a local pharmacy, rather than purchase a larger supply via mail.

Assumptions and Data

The fiscal note is based on the following assumptions and data:

- 4.4 million prescriptions for maintenance medication with less than a 31-day supply will be filled under Medicaid in FY 2016-17 under current law (increasing to 4.6 million in FY 2017-18 and 4.9 million in FY 2018-19);
- 3 percent of these less-than-31-day prescriptions in FY 2016-17 will be converted to a 90-day mail order prescription under the bill and 6 percent of prescriptions will be converted to mail orders in FY 2017-18 and FY 2018-19;
- the assumed participation rate will result in 44,262 new 90-day mail prescriptions in FY 2016-17, 92,808 prescriptions in FY 2017-18, and 97,300 prescriptions in FY 2018-19;
- correspondingly, the participation rate will result in 88,524 avoided prescriptions of less than 31 days in FY 2016-17, 185,616 avoided prescriptions in FY 2017-18, and 194,600 avoided prescriptions in FY 2018-19;
- the average dispensing fee is $11.15 per prescription filled;
- the average 30-day supply of maintenance medication, after rebates, will cost $37.84 in FY 2016-17, $40.11 in FY 2017-18, and $42.52 in FY 2018-19; and
- the expanded mail-order prescription benefit will be available starting in November 2016.

State Expenditures

The bill reduces state expenditures in HCPF by **($29,917) in FY 2016-17, ($1,767,097) in FY 2017-18, and ($2,066,223) in FY 2018-19.** The savings from expanded access to mail order medication under Medicaid will reduce spending from General Fund, the Hospital Provider Fee Cash fund, and federal funds. These net savings under the bill, which are summarized in Table 1 on the following page, result from two primary impacts on Medicaid prescription drug purchasing:

- reduced dispensing fees for prescriptions; and
- cost shifting between years from clients purchasing larger supplies of medication under the expanded mail order benefit.

Dispensing fee reduction. Given that the expanded mail order option will encourage more Medicaid recipients to purchase a 90-day supply of medication via the mail, dispensing fees will be reduced. Given the estimated dispensing fee of $11.15 and the assumed number of avoided 30-day prescriptions being filled, the bill is expected to reduce costs by $658,026 in FY 2016-17, $2.1 million in FY 2017-18, and $2.2 million in FY 2018-19.

Cost shifting. By encouraging more patients to buy a 90-day, rather than a 30-day, supply of maintenance medication, costs for a portion of medication will shift forward into the year when the larger supply is purchased and be avoided in the next year while it is being consumed. For example, a 30-day supply of medication bought on June 1 would be paid in one fiscal year and the next 30-day supply would be filled on July 1 in the subsequent fiscal year. Instead, if a 90-day supply is bought on June 1, then the costs will increase in that fiscal year, but then costs will be avoided on July 1 and August 1 in the following fiscal year while the larger supply is being used.

To estimate the costs shifted into the current year, the fiscal note assumes that the prescriptions are evenly distributed throughout the year and converts the 30-day prescriptions for new mail order participants that would have been purchased under current law into a 90-day supply. This increases costs by $628,108 in FY 2016-17, $0.9 million in FY 2017-18, and $1.0 million in FY 2018-19. These costs increases are offset by savings in the following year. The $628,108 increase in FY 2016-17 will resulting in savings of the same amount in FY 2017-18. These costs and savings are shown in Table 1 below.

Table 1. Expenditures Under SB 16-027

Cost Components	FY 2016-17	FY 2017-18	FY 2018-19
Dispensing Fee Savings	(658,026)	(2,069,622)	(2,169,792)
Cost Shift - Current Year Increase	628,108	930,634	1,034,203
Cost Shift - Next Year Savings	0	(628,108)	(930,634)
TOTAL	**($29,918)**	**($1,767,096)**	**($2,066,223)**

Effective Date

The bill was signed into law by the Governor on June 1, 2016, and it became effective on August 10, 2016.

State Appropriations

For FY 2016-17, the bill requires reductions in appropriations totaling ($29,918) to the Department of Health Care Policy and Financing. These include a reduction of ($9,084) General Fund, ($409) from the Hospital Provider Fee Cash Fund, and ($20,424) from federal funds.

State and Local Government Contacts

Health Care Policy and Financing
Law
Information Technology
Regulatory Agencies

Research Note Available

An LCS Research Note for SB16-027 is available online and through the iLegislate app. Research notes provide additional policy and background information about the bill and summarize action taken by the General Assembly concerning the bill.