

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **SB 163** SLS 15RS 527
 Bill Text Version: **ENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.: **w/ PROP SEN COMM AMD**
 Sub. Bill For.:

Date: May 28, 2015 4:32 PM	Author: MILLS
Dept./Agy.: DHH/Medicaid	Analyst: Shawn Hotstream
Subject: Pharmacy reimbursement	

MEDICAID EG INCREASE GF EX See Note Page 1 of 2
 Provides relative to Medicaid managed care. (gov sig)

Proposed law provides that a managed care organization may negotiate the ingredient cost reimbursement in its contracts with certain pharmacy providers (the class of pharmacies with fewer than 10 retail outlets under its corporate umbrella domiciled in at least one Louisiana parish) that contracts with a managed care organization. Proposed law provides for a reimbursement dispute process for such pharmacies to ensure that the reimbursement was reasonable. The process must include at a minimum the following: a) final review authority is maintained by DHH or a party agreed upon by DHH, the La Association of Health Plans, and the La Independent Pharmacies Association; b) if reimbursement is considered unreasonable, the MCO must be required to provide the pharmacy an increased reimbursement and update its maximum allowable cost list to reflect the increase, and c) DHH must define reasonableness in relation to the contractual rate paid by DHH. Proposed law requires that DHH shall not amend any contract with an MCO to comply with this measure (with exceptions). Proposed law provides that after June 15, 2016, no MCO shall pay a Local Pharmacy a per prescription reimbursement at a rate less than legacy Medicaid rate unless its contract with DHH provides for a reimbursement dispute process.

EXPENDITURES	2015-16	2016-17	2017-18	2018-19	2019-20	5 -YEAR TOTAL
State Gen. Fd.	\$0	INCREASE	INCREASE	INCREASE	INCREASE	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	INCREASE	INCREASE	INCREASE	INCREASE	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$0					\$0

REVENUES	2015-16	2016-17	2017-18	2018-19	2019-20	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

EXPENDITURE EXPLANATION

Proposed law is projected to increase Medicaid payments to managed care organizations in FY 17 and future fiscal years as the health plans may be required to pay certain pharmacies (pharmacies with fewer than 10 retail outlets under its corporate umbrella in Louisiana) at a rate no less than the Legacy Fee for Service Medicaid rate.

Proposed law requires DHH to set up a reimbursement dispute process related to pharmacy reimbursements paid from managed care organizations to pharmacy providers. In the event the dispute process results in a finding that a reimbursement is unreasonable (as determined by DHH or a party agreed upon by DHH, La. Association of Health Plans, and the La. Independent Pharmacies Association), the MCO must pay the pharmacy an increased reimbursement, presumably to the reasonable amount. Although the bill does not define reasonable, the fiscal note assumes this rate floor (reasonable rate) to be the Fee for Service pricing for these disputed claims. To the extent a reasonable reimbursement would be less than the amount reimbursed under FFS, the cost impact reflected in this note would be reduced.

Estimates provided by Mercer (DHH rate actuary) indicate a projected fiscal impact totaling \$7,960,000 in additional Medicaid costs in FY 17 as a result of this measure. Table 1 below reflects the total estimated impact for FY 17.

Table 1
Pharmacy claims impact

Claim Type	Claim Count	MCO Original Spend	Original Avg Claims Cost	Estimated new Avg Claim Cost	Estimated New Spend	Estimated Annual Savings/(Cost)
Brand	68,000	\$18,260,000	\$266.55	\$271.40	\$18,590,000	(\$330,000)
Generic	425,000	\$11,440,000	\$26.94	\$30.39	\$12,910,000	(\$1,470,000)
Specialty	9,000	\$18,400,000	\$2,034.62	\$2,049.47	\$18,540,000	(\$140,000)
Unknown	10,000	\$490,000	\$47.10	\$52.46	\$540,000	(\$50,000)
Quarter	512,000	\$48,590,000	\$94.90	\$98.79	\$50,580,000	(\$1,990,000)
Ann. Total	2,048,000	\$194,360,000	\$94.90	\$98.79	\$202,320,000	(\$7,960,000)

REVENUE EXPLANATION

There is no anticipated direct material effect on governmental revenues as a result of this measure.

Senate	<u>Dual Referral Rules</u>	House	<input checked="" type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}	 John D. Carpenter Legislative Fiscal Officer
<input checked="" type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}		<input type="checkbox"/> 6.8(F)(2) >= \$500,000 Rev. Red. to State {H & S}		
<input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}		<input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}		

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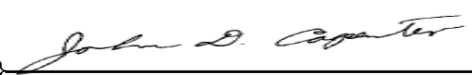
CONTINUED EXPLANATION from page one:

Expenditure explanation: continued

Assumptions/calculations:

1. Results based on analysis of third quarter of 2014 (sample period) claims data, annualized
2. The impact is based on the assumption that in practice, the Fee For Service pricing schedule will serve as the reasonable reimbursement for disputed claims
3. Approximately 541 unique pharmacies identified as having fewer than 10 corporate locations in Louisiana (account for 45% of total claim volume in the sample period)
4. Mercer calculated average claim cost for the sample period for brand, generic, specialty, and other/unknown category.
5. Original paid amount in table above reflects Managed Care claims cost (rounded).
6. Revised claim cost assumes what amount would have been paid by MCO under Fee for Service methodology.
7. Fee for Service Reimbursement methodology maximum allowable payment is based on the lessor of:
The pharmacy's Usual and Customary (U&C) charge minus a Copay, or:
Average Acquisition Cost (AAC) + \$10.51 Dispensing Fee (DF) minus a Copay, or:
If no AAC, Wholesale Acquisition Cost (WAC) + \$10.51 Dispensing Fee minus a Copay

Depending on the level of disputes, DHH anticipates 1 additional employee will be required to staff a new process for provider appeals of MCO pharmacy reimbursement rates. Projected salary (\$60,000) and related benefits (\$40,000) for a new coordinator in DHH, Medicaid Pharmacy is anticipated to be approximately \$100,000.

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