



# STATE FISCAL IMPACT

**Drafting Number:** LLS 14-0329**Date:** February 14, 2014**Prime Sponsor(s):** Rep. Kraft-Tharp  
Sen. Crowder**Bill Status:** House Health, Insurance, & Environment  
**Fiscal Analyst:** Bill Zepernick (303-866-4777)**SHORT TITLE:** PHARMACY BENEFIT MANAGER REQUIREMENTS

Fiscal Impact Summary*	FY 2014-2015	FY 2015-2016
<b>State Revenue</b>		
<b>State Expenditures</b>	<b><u>\$129,831</u></b>	<b><u>\$318,995</u></b>
General Fund	44,519	54,357
Federal Funds	85,312	264,638
<b>FTE Position Change</b>		
<b>Appropriation Required:</b> \$129,831 - Department of Health Care Policy and Financing (FY 2014-15)		

\* This summary shows changes from current law under the bill for each fiscal year.

## Summary of Legislation

The bill places new requirements on pharmacy benefit managers (PBMs), including:

- stating the basis for the determining maximum allowable cost pricing in each contract between a PBM and pharmacy;
- updating pricing information at least every seven days; and
- maintaining procedures to eliminate products from the lists of drugs subject to maximum allowable costs pricing.

In addition, for a PBM to place a prescription drug on the maximum allowable cost list, the PBM must ensure that the drug meets certain requirements. Contracts between PBMs and pharmacies must include a process to appeal, investigate, and resolve disputes regarding maximum allowable cost pricing. The appeal process must include:

- a 21-day limit on filing an appeal by a pharmacy following the initial claim and a 21-day limit for the PBM to investigate and resolve the appeal;
- a telephone number at which the pharmacy may contact the PBM to speak with a person responsible for processing appeals;
- issuance of the reasons for any appeal denial and identification of the National Drug Code of a drug that may be purchased by the pharmacy at a price at or below the benchmark price as determined by the PBM; and
- adjustments to a claim no later than one day after the date of determination.

## **Background**

PBMs manage prescription drug benefits on behalf of health insurers offering prescription drug coverage. Maximum allowable cost pricing is a pricing methodology where a PBM reimburses a pharmacy for a drug up to a maximum amount, depending on the type of drug, availability of generic options, and other factors.

## **State Expenditures**

The bill increases costs in the Department of Health Care Policy and Financing (HCPF) by **\$129,831 in FY 2014-15 and \$318,995 in FY 2015-16**. These costs, paid with General Fund and federal funds, are from increased administrative costs for PBMs contracted under the Children's Basic Health Plan (CBHP) that are passed on to HCPF. Federal reimbursement is available for 65.71% of the costs in the first year and 82.96 percent in the second year. These costs are calculated based on the assumptions below.

**Assumptions.** Currently, HCPF pays an average of \$22.16 per member per month in administrative fees to contractors under CBHP to manage medical benefits, including prescription drugs. While the exact portion of this fee attributable to prescription drug management costs is not known, based on the proportion of program expenditures spent on prescription medication, it is assumed that 15 percent (\$3.32 per member per month) is for prescription drug management costs. In addition, the fiscal note assumes:

- 65,571 clients are enrolled in CBHP in FY 2014-15 and 78,185 clients are enrolled in FY 2015-16;
- administrative costs for contracted PBMs will increase by 10 percent under the bill (\$0.33 per member per month); and
- 6 months of costs are incurred in the first year based on the effective date of the bill.

**Increased prescription drug prices.** By limiting the ability of PBMs to reimburse pharmacies using maximum allowable cost pricing, the bill may increase the cost of prescription drugs paid for by CBHP contractors. These costs, which would be passed on to HCPF, cannot be estimated at this time. It is assumed that any cost increase for prescription drugs under CBHP would be addressed through the annual budget process.

## **Effective Date**

The bill takes effect January 1, 2014, and applies to contracts issued, renewed, or amended on or after this date.

## **State Appropriations**

The bill requires an appropriation of \$129,831 to the HCPF in FY 2014-15, including \$44,519 General Fund and \$85,312 federal funds.

## **State and Local Government Contacts**

Health Care Policy and Financing  
Public Health and Environment

Human Services  
Regulatory Agencies

Corrections  
Counties