

Fiscal Estimate — 2001 Session

- Original Updated
 Corrected Supplemental

LRB Number - 1282/2	Amendment Number if Applicable
Bill Number SB 1	Administrative Rule Number

Subject
 Prescription Drug Benefit

Fiscal Effect

State: No State Fiscal Effect

Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation.

- Increase Existing Appropriation Increase Existing Revenues
 Decrease Existing Appropriation Decrease Existing Revenues
 Create New Appropriation

Increase Costs — May be possible to absorb within agency's budget.

- Yes No

Decrease Costs

Local: No Local Government Costs

1. Increase Costs
 Permissive Mandatory
 2. Decrease Costs
 Permissive Mandatory

3. Increase Revenues
 Permissive Mandatory
 4. Decrease Revenues
 Permissive Mandatory

5. Types of Local Governmental Units Affected:

- Towns Villages Cities
 Counties Others
 School Districts WTCS Districts

Fund Sources Affected

- CPR FED PRO PRS SEG SEG-S

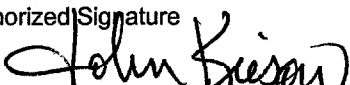
Affected Chapter 20 Appropriations

20.435 (4) (a), 20.865 (4) (a)

Assumptions Used in Arriving at Fiscal Estimate

See Narrative

Long-Range Fiscal Implications

Prepared By: Richard T. Chao	Telephone No. 267-0356	Agency DHFS
Authorized Signature 	Telephone No. 6-9622	Date (mm/dd/ccyy) 1-22-01

Bill Summary

Senate Bill 1 provides state assistance to pay a significant portion of the cost of prescription drugs for many elderly in Wisconsin. This proposal would provide drug coverage to Wisconsin residents age 65 or over, who are ineligible for Medicaid and whose income does not exceed 300% of the federal poverty level (FPL). In addition, persons with incomes above 300% FPL would be eligible for coverage if, after deducting their out-of-pocket costs for prescriptions from their incomes, they have income at or below 300% FPL.

The bill creates a sum sufficient appropriation to fund the program benefits. The bill mandates the program to provide a reimbursement rate that would be equivalent to 105% of Medicaid rate for prescription drugs. However, eligible recipients above 300% FPL will not be eligible to purchase prescriptions at this rate until after the individual has "spent down" his/her income to 300% FPL. In addition, the bill appropriates \$1 million per year for the administration of the program.

Participation in the program requires recipients to pay an annual enrollment fee of \$20. In addition, recipients are required to pay an annual deductible of \$500 and, after paying the deductible, will be responsible for a \$5 and \$10 co-payment for generic drugs and brand name drugs respectively. Eligible recipients with incomes at or below 175% FPL are exempt from the deductible.

In addition, the bill mandates that the Department of Health and Family Services (DHFS) seek a waiver from the Secretary of the U.S. Department of Health and Human Services (DHHS) to expand eligibility for the Medicaid program to individuals who are enrolled in Medicare and individuals regardless of age, with household incomes not exceeding 300% FPL.

Fiscal estimate

Administrative expenses

The bill appropriates \$1,000,000 in FY 02 in general purpose revenues (GPR) for administration of program. In addition, the bill appropriates \$1,000,000 in GPR to the Joint Committee on Finance and authorizes DHFS to submit a proposal for review and approval for expenditure of these funds. Administering this program would involve evaluating eligibility for an estimated 216,548 people each year, developing a system that can process claims with deductibles and co-payments, processing approximately 6 million claims per year, establishing information and assistance for recipients and providers, and negotiating and collecting rebates from manufacturers. The Department has estimated that these tasks could be completed at a cost of \$20 per potential eligible per year. As a result, the estimated administrative costs would be approximately \$4,331,000 million annually. The Department also anticipates a one-time administrative cost of \$2 million for information system start-up costs.

In addition, the Department projects that a new Drug Program Section with an additional 5.5 FTE will be needed to administer the program. The newly created positions will include: 1.) 1.0 FTE Section Chief to oversee administrative responsibilities; 2.) 1.0 FTE Pharmacy Consultant responsible for clinical areas of program administration; 3.) 1.0 FTE Contract Monitor to establish and monitor technical specifications with the claims processing agent; 4.) 2.0 FTE Program and Planning Analyst 5 for general program administration and to write and negotiate the required federal waiver request; and 5.) 0.5 Program Assistant 2 as support staff. The estimated total annual cost for these positions is \$346,600 with one-time costs of \$26,400. A table summarizing the fiscal effects of the necessary positions is attached.

Program Benefits Cost

The bill mandates that the program begin operations on March 01, 2002. In SFY 03, the first full year of program implementation, the estimated annualized net cost of benefits for program is expected to be \$134.8 million. This figure includes \$203.0 million in state assistance for benefits, the collection of \$23.6 million in copayment revenues, and the collection of \$44.5 million in manufacturers rebates. A more detailed explanation can be found in the attached worksheets.

Major Assumptions

Current trends indicate that Medicaid drug expenditures have been increasing by approximately 18% per year. The proposed program pays for all drugs covered by the Wisconsin Medicaid program, which operates under an "open formulary" system. It is assumed that the rate of increase for drug expenditures for this program will rise at 18% per year.

This estimate assumes an 18% rebate from drug manufacturers. The bill mandates that in order for its products to be made available through this program, a manufacturer must enter into a rebate agreement with the state to provide rebates equal to those provided under the Medicaid program. However, unlike the Medicaid program, there is no federal law mandating that manufacturers provide rebates for this type of program.

It is assumed that if the U.S. DHHS approves the waiver request described in this bill, it is assumed that the expansion of Medicaid under the waiver would be cost neutral and would have a net fiscal effect of zero.

This estimate assumes no "crowd out" of current insurance coverage for prescription drugs for the elderly. However, it is possible that elderly individuals who currently have insurance coverage for drugs, e.g. Medigap prescription drug riders, may choose to drop or modify their current insurance coverage. Any occurrence of "crowd out" would increase the total benefits cost of the program.

Other assumptions for this estimate include:

- A program participation rate of 75% for all eligible people without drug coverage with no "ramp up" for enrollment.
- A program participation rate of 65% for all eligible people with drug coverage with no "ramp up" for enrollment.
- An 18% discount below retail prices for reimbursement at 105% of Medicaid rates.
- The out-of-pocket expense of recipients with drug coverage is 35% of recipients without drug coverage.
- An average of 27.4 prescriptions per year for eligible individual.
- A 2:1 ratio of generic to brand name prescriptions.

SB 1 Drug Assistance Program for the Elderly

Population and State Benefits Estimates

Estimates of Potential Enrollees

700,000	Total Elderly Population in State
352,057	Total Potential Eligibles
136,598	Potential Eligibles without drug coverage (38.8% of Total)
215,459	Potential Eligibles with drug coverage (61.2% of Total)

Annual Costs for Enrollees With Drug Coverage

215,459	Potential Eligibles
125,062	Estimated Enrolles
57,709,050	Average Drug Benefit Cost
485	Average Annual Benefit per Recipient
6,720,945	Copayment Revenues
56	Average Copay per Recipient
14,493,780	Rebate Revenue
122	Average Rebate per Recipient
36,494,325	Net Drug Cost to State
306	Net Average Benefit to Recipient
179,584,860	Annual drug expenses paid with other insurance coverage. (Potential crowd out amount)

Annual Costs for Enrollees Without Drug Coverage

136,598	Potential Eligibles
91,487	Estimated Enrolles
145,285,140	Average Drug Benefit Cost
1,667	Average Annual Benefit per Recipient
16,920,435	Copayment Revenues
194	Average Copay per Recipient
30,030,105	Rebate Revenue
345	Average Rebate per Recipient
98,334,600	Net Drug Cost to State
1,129	Net Average Benefit to Recipient

SB 1 Drug Assistance Program for the Elderly

Administrative Expenses

Personnel Classification	Approp	FTE	\$/hr	Salary	Fringe	S & S	Rent	Int		Total	One-time
								Services	Total		
Section Chief		1.00	\$ 20.73	\$ 43,110	\$ 15,347	\$ 1,200	\$ 2,000	\$3,100	\$ 64,757	\$ 4,800	
Pharmacy Consultant		1.00	\$ 35.64	\$ 74,131	\$ 26,391	\$ 1,200	\$ 2,000	\$3,100	\$ 106,822	\$ 4,800	
Contract Monitor		1.00	\$ 16.37	\$ 34,050	\$ 12,122	\$ 1,200	\$ 2,000	\$3,100	\$ 52,471	\$ 4,800	
Program and Planning Analyst 5		2.00	\$ 16.37	\$ 68,116	\$ 24,249	\$ 2,400	\$ 4,000	\$6,200	\$ 104,965	\$ 9,600	
Prog Assist -2		0.50	\$ 10.21	\$ 10,615	\$ 3,779	\$ 600	\$ 1,000	\$1,550	\$ 17,544	\$ 2,400	
Total		5.50		230,022.00	81,887.83	6,600.00	11,000.00	17,050.00	346,559.83	26,400.00	

Ongoing Eligibility and Administrative Expenses per Recipient \$ 20.00

Number of Recipients 216,548

Recipient Administrative Expense \$ 4,330,960

State Personnel Expense \$ 346,560

Total On-going Administrative Expenses \$ 4,677,520

One-time Systems Modification \$ 2,000,000

One-time Staff Expenses \$ 26,400

Total One-time Administrative Expenses \$ 2,026,400

Fiscal Estimate Worksheet — 2001 Session
 Detailed Estimate of Annual Fiscal Effect

Original Updated
 Corrected Supplemental

LRB Number 1282/2	Amendment Number if Applicable
Bill Number SB 1	Administrative Rule Number

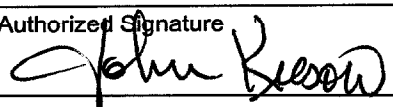
Subject
 Prescription Drug Benefit

One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):
 \$2,026,400

Annualized Costs:	Annualized Fiscal Impact on State Funds from:	
	Increased Costs	Decreased Costs
A. State Costs by Category		
State Operations — Salaries and Fringes	\$ 346,600	\$ -
(FTE Position Changes)	(5.50 FTE)	(- FTE)
State Operations — Other Costs	4,331,000	-
Local Assistance		-
Aids to Individuals or Organizations	202,994,000	-
Total State Costs by Category	\$ 207,671,600	\$ -
B. State Costs by Source of Funds		
GPR	\$ 135,175,600	\$ -
FED		-
PRO/PRS	72,496,000	-
SEG/SEG-S		-
State Revenues	Increased Revenue	Decreased Revenue
GPR Taxes	\$	\$ -
GPR Earned		-
FED		-
PRO/PRS	72,496,000	-
SEG/SEG-S		-
Total State Revenues	\$ 72,496,000	\$ -

Net Annualized Fiscal Impact

	State	Local
Net Change in Costs	\$ 135,175,600	\$
Net Change in Revenues	\$	\$

Prepared By: Richard T. Chao	Telephone No. 267-0356	Agency DHFS
Authorized Signature 	Telephone No. 6-9622	Date (mm/dd/ccyy) 1-22-01