

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

April 6, 2005

TO: Honorable John T. Smithee, Chair, House Committee on Insurance

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: HB2674 by Hupp (Relating to prescription drug insurance benefits provided through or by the Employees Retirement System of Texas or the Teacher Retirement System of Texas.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2674, As Introduced: a negative impact of (\$42,137,221) through the biennium ending August 31, 2007.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2006	(\$20,041,444)
2007	(\$22,095,777)
2008	(\$22,095,777)
2009	(\$22,095,777)
2010	(\$22,095,777)

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from <i>GENERAL REVENUE FUND 1</i>	Probable (Cost) from <i>OTHER SPECIAL STATE FUNDS 998</i>	Probable (Cost) from <i>GR DEDICATED ACCOUNTS 994</i>	Probable (Cost) from <i>FEDERAL FUNDS 555</i>
2006	(\$20,041,444)	(\$60,000)	(\$720,000)	(\$2,400,000)
2007	(\$22,095,777)	(\$60,000)	(\$720,000)	(\$2,400,000)
2008	(\$22,095,777)	(\$60,000)	(\$720,000)	(\$2,400,000)
2009	(\$22,095,777)	(\$60,000)	(\$720,000)	(\$2,400,000)
2010	(\$22,095,777)	(\$60,000)	(\$720,000)	(\$2,400,000)

Fiscal Year	Probable (Cost) from <i>STATE HIGHWAY FUND 6</i>
2006	(\$1,980,000)
2007	(\$1,980,000)
2008	(\$1,980,000)
2009	(\$1,980,000)
2010	(\$1,980,000)

Fiscal Analysis

The bill amends Subtitle H, Title 8 Insurance Code by adding Chapter 1565 regarding drug formularies for state and school employees.

The bill adds new Sections 1551.2195 (ERS), 1575.169 (TRS-Active), and 1579.106 (TRS-Care) to the Texas Insurance Code. The bill would prohibit the current pharmacy benefit manager for ERS and TRS plans from referring a participant to the mail order prescription plans currently in operation with these systems.

The bill would establish The Pharmaceutical and Therapeutics Committee consisting of 12 members appointed by the Lt. Governor (five physicians, five pharmacists, one representative from ERS and one from TRS). The committee would develop recommendations for drug formularies adopted by the HHSC. Chapter 2110, Government Code, (Advisory Committees) does not apply to the committee.

Methodology

The bill would require the Health and Human Services Commission (HHSC) to adopt drug formularies for prescription drugs purchased in connection with health benefit plan coverage provided under ERS and TRS.

Methodology used by the Health and Human Services Commission assumes that HHSC would contract with a consulting firm to assist in negotiating the Preferred Drug List (PDL) and Formulary requirements of the bill on behalf of ERS and TRS. For the the purposes of this estimate, it is assumed that \$3.7 million of the increased cost in 2006-07 associated with the provisions of the bill would be funded by the state through General Revenue. It is also assumed that costs incurred by HHSC to implement the provisions of the bill would not be eligible for federal match by federal entities with programs at HHSC.

The bill would prohibit the current pharmacy benefit manager for ERS from referring a participant to the mail order prescription plan currently in operation with the Employees Retirement System.

Methodology used by the Employees Retirement System is based on actual bids from a vendor during the Fall 2004 prescription drug plan renewal process. For the purposes of this estimate, it is assumed that \$15.1 million of the increased cost in 2006-07 associated with the provisions of the bill would be funded by the state through General Revenue-Related funds. The costs for the fiscal note are based on costs to offer prescription drugs to members without a mail order prescription plan. This cost estimate does not factor in increases in enrollment, utilization, or the price increase of drugs that are no longer offered in a centralized location (mail-order).

The bill would prohibit the current pharmacy benefit manager for TRS from referring a participant to the mail order prescription plan currently in operation with the Teacher Retirement System.

The methodology used by the Teacher Retirement System is projected by the TRS actuary, based on information provided by current pharmacy benefit managers serving the TRS-Care plan (retirees) and the TRS-ActiveCare plan (active employees).

Program costs for TRS-Care are shared between the state and participants. For the purposes of this estimate, it is assumed that \$24.7 million of the increased cost in 2006-07 associated with the provisions of the bill would be funded by the state through General Revenue. An additional \$42.7 million in TRS-Care costs would be borne by participants through cost-sharing (copays and coinsurance). The entire increase in cost to TRS-ActiveCare associated with the provisions of the bill, \$13.4 million in 2006-07, would be borne by participants.

The bill takes effect upon receiving a two-thirds vote of all members elected to each house, or if a vote is not received, the bill takes effect September 1, 2005.

Technology

No impact to technology resources is anticipated from implementation of this bill.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 323 Teacher Retirement System, 327 Employees Retirement System, 529 Health and Human Services Commission

LBB Staff: JOB, JRO, KF, JW, MB