LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

March 28, 2017

TO: Honorable Charles Schwertner, Chair, Senate Committee on Health & Human Services

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **SB1922** by Schwertner (Relating to prescription drug benefits in the Medicaid managed care program.), **As Introduced**

The fiscal implications of the bill cannot be determined at this time. Legislation is anticipated to have a negative fiscal impact to state funds, to the extent the bill's changes are taken into account when premiums are established, but the amount is unknown at this time.

The bill would require managed care organizations (MCOs), providing prescription drug benefits in the Medicaid program, to grant exceptions for certain step therapy protocol requests. The bill would require MCOs to provide 90-day coverage for prescription drugs prescribed to recipients before enrollment or transfer into the managed care plan. The bill would authorize the Health and Human Services Commission (HHSC) to require the submission of and to review certain information related to drug rebates. The bill would prohibit MCOs from requiring prior authorizations for prescription drugs used to treat certain illnesses. HHSC would be required to conduct an initial study by September 1, 2018 to determine the prescription drug classes for which prior authorizations are prohibited and conduct a new study every ten years thereafter. MCOs would be required to ensure that prescription drugs prescribed before prior authorizations were established are not subject to those requirements until the earlier of the date the recipient exhausts the prescription or a period established by the MCO.

Provisions of the bill related to step therapy, continuity of coverage, and prior authorization would likely shift utilization of prescription drugs on the preferred drug list (PDL) to non-preferred prescription drugs. Prescription drugs on the PDL generally represent the best financial option for the MCO and likely have a lower net cost, due to a combination of price and higher supplemental rebates offered by the manufacturer. Therefore, the shift to non-preferred drugs would likely reduce supplemental rebate revenue and increase prescription drug expenditures. To the extent that these changes are accounted for when HHSC establishes premiums for MCOs beginning in fiscal year 2019, the provisions of the bill would be expected to have a negative fiscal impact to the state. Due to uncertainties related to the number of recipients that would shift to non-preferred drugs and the pricing methodology for PDL prescription drugs, as well as the possibility that there could be offsetting savings if the provisions of the bill result in improved care, no cost estimate can be made.

It is assumed the cost of the initial study to determine drug classes for which prior authorizations are prohibited can be absorbed within HHSC's existing resources.

Additionally, the bill states that current practices related to the prescription drug formulary would continue for fiscal year 2018 and all provisions of the bill, excluding the study requirement, would only take effect beginning in fiscal year 2019. Therefore, HHSC will not incur significant costs in fiscal year 2018.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 529 Health and Human Services Commission

LBB Staff: UP, KCA, LR, RGU