DOAA
Georgia Department
of Audits & Accounts

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State Auditor

March 21, 2022

Honorable Dean Burke
Chairman, Insurance and Labor
421-B State Capitol
Atlanta, GA 30334

SUBJECT: Fiscal Note
House Bill 1351 (LC 33 8985)

Dear Chairman Burke:

This bill would require that the Department of Community Health (DCH) provide pharmacy benefits for Medicaid members currently enrolled in care management organizations (CMOs) on or after July 1, 2024. Currently, these benefits are provided by the CMOs. This bill also requires DCH to calculate an amount equal to 7.5 percent of a CMO's net underwriting gain for the fiscal year 2023 and reduce the CMOs' subsequent contract term payment by such amount, to offset costs incurred in program implementation.

DCH would provide these benefits in the same manner currently used for Medicaid members enrolled in fee-for-service (FFS), through a pharmacy benefits manager (PBM). This would require additional DCH personnel and an increase in the contractual costs with the existing FFS PBM. There will also be a change in pharmacy benefit costs and premium tax revenue. Details are below.

- **Administrative Costs** – Additional DCH personnel would provide management and oversight of the program and perform necessary administrative functions. This includes a full-time pharmacist to report, collect, evaluate, and validate data related to quality performance metrics and ensuring contract compliance. DCH will also need a temporary program manager to assist with design, development, and implementation of this carve out, expected to last two years. This may be fulfilled through a consulting contract or temporary hire, with this expenditure ending after fiscal year 2024. The contract cost and temp staff will not occur after the first two years. The $3 million contractual services cost is to amend the current FFS PBM for the design, development, and implementation to support the pharmacy carve-out. This will not be an ongoing cost after FY 2024.

**Table 1: Projected Administration and Contractual Costs for DCH**

| Category | FY2023 | FY2024 |
|---|---|---|
| Temp Program Manager | $178,560 | $178,560 |
| Pharmacist I | $102,472 | $136,629 |
| Regular Operating | $2,293 | $2,443 |
| Contractual Services | $3,000,000 | $3,000,000 |
| **Total Costs** | $3,283,325 | $3,317,632 |
| | | |
| Total Federal Funds | $1,712,493 | $1,738,224 |
| **Total State Funds** | **$1,570,832** | **$1,579,408** |

- **Change in Benefit Costs** – Based on latest study, the carve out of pharmacy benefits from CMOs may reduce DCH expenditures by approximately $1.2 million annually. However, this amount varies depending on the change in rebate amounts between FFS and CMO, as well as contractual obligations with the PBMs. Given total point-of-sale pharmacy expenditures of approximately $1.4 billion, a change in benefit costs will be marginal.

- **Change in Premium Tax Revenue** – Based on the same study, state revenue would decrease by approximately $12.1 million annually due to reduced premium taxes paid by CMOs. A state premium tax is assessed for insurers in the managed care programs and is included in the capitation rates.

There are additional factors that may impact the cost of implementing this bill. These are described below.

- DCH does not anticipate any underwriting gain from the CMOs; therefore, no associated reduction of the CMO contract is expected. DCH stated that the practice of spread pricing has been discontinued by the three CMOs. During the rate setting process, all business arrangements between the CMOs and their PBMs are considered, and average script costs are checked for pricing reasonableness.

- The bill would provide the CMOs with access to the department's pharmacy data. While there is a process for the Medicaid Management Information System (MMIS) to receive pharmacy data from the CMOs, the CMOs do not have the ability to receive FFS pharmacy claims data from the MMIS. It is expected that the CMOs would add this capability within their systems at an expected cost of $6 to $8 million dollars. The costs would be expenses included in capitation rates.

Respectfully,

Greg S. Griffin
State Auditor

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GSG/KF/nac