

OFFICE OF FISCAL ANALYSIS

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sHB-7174

AN ACT CONCERNING PRESCRIPTION DRUGS.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 20 \$	FY 21 \$
Comptroller; State Comptroller - Fringe Benefits ¹	GF - Potential Cost	Up to \$50,000	None
State Comptroller - Fringe Benefits (State Employee and Retiree Health Plan)	GF&TF - Potential Savings	See Below	See Below
Insurance Dept.	IF - Cost	Up to \$2,250	Up to \$3,000

Note: GF=General Fund; GF&TF=General Fund & Transportation Fund; IF=Insurance Fund

Municipal Impact:

Municipalities	Effect	FY 20 \$	FY 21 \$
All Municipalities	Potential Savings	See Below	See Below

Explanation

The bill's requirements result in the following fiscal impact to the state and municipalities:

Sections 1 and 2 may result in a cost of up to \$50,000 to the Office of the State Comptroller (OSC) in FY 20 related to start-up costs for the Connecticut Prescription Drug Program (CPDP). The potential cost is related to (1) outside consultant services, including those of a

¹ The fringe benefit costs for most state employees are budgeted centrally in accounts administered by the Comptroller. The estimated active employee fringe benefit cost associated with most personnel changes is 41.19% of payroll in FY 20 and FY 21.

pharmacy benefit manager (PBM) to design and provide the framework for the plan, and (2) \$45,000 to support partial year salary and fringe benefit costs for an additional Retirement and Benefits Officer (\$31,500 in salary and \$13,000 in fringe benefits)². In addition the cost of providing member support and outreach for participating individuals prior to administrative fees being realized by OSC.

The bill requires OSC to charge administrative fees to participating individuals, pharmacists and pharmacies to cover the operational costs of the program and deposit those fees in a separate non-lapsing account within the General Fund. Therefore ongoing administrative costs of the program including but not limited staff costs are anticipated to be covered by revenue generate by the fee.

The bill permits OSC to contract with a PBM to fulfill the requirements of the bill with respect to the CPDP but does not expressly require it. Provided the level of expertise required and based on the current provision of pharmacy benefits operated by OSC it is likely OSC will use a PBM for the CPDP.³

Section 3 may result in a savings to the state and municipalities to the extent drug manufactures, doing business in the state, engage in agreements to delay generic drug manufacturing and therefore are required to reduce the cost of the named drug by 50% in accordance with the bill. The savings will depend on (1) the specific drug for which the agreement applies; (2) the manufacturer's wholesale list price, or equivalent⁴, of the drug; and (3) the extent to which the provisions of this section are permissible under federal law.⁵ For

² Based on entry level annual salary for a retirement benefits officer of approximately \$63,200.

³ The Oregon Health Authority and Washington State Health Authority operate prescription drug discount programs consistent with the program established in the bill. Both states utilize a PBM to administer the program including paying claims and negotiating with manufacturers.

⁴ Pursuant to CGS 21a-126, a "manufacturer's wholesale list price" is a manufacturer's published wholesale price or, if there is no such published or list price, the wholesaler's invoice price, excluding discounts, to the retailer.

⁵ Source: Testimony submitted to Insurance Committee: Pharmaceutical Research and Manufacturers of America (February 28, 2019).

reference the state employee and retiree health plan spent approximately \$359 million (net of pharmacy rebates) in FY 18 on prescription drugs for state employees, retirees and their dependents.⁶ Pursuant to the SEBAC 2011 Agreement, the state plan requires generic substitution. For illustrative purposes, based on the most recent plan data available, the average cost per generic prescription for the active employee group was 95% less (approximately \$700) than the average cost of a preferred brand prescription. It is uncertain what impact the bill will have on the availability or price of pharmaceuticals in the market and therefore the scope of the impact to the state and municipal health plans.

This section results in a cost to the Insurance Department (CID) of up to \$2,250 in FY 20 and \$3,000 in FY 21 for mailing expenses, and depends on the volume of agreements to delay generic drug manufacturing by manufacturers. The bill requires CID to send notice to all Connecticut health carriers and pharmacy benefit managers, instructing them to reduce the cost of the drug involved to individuals covered under their plans. FY 20 reflects a partial year, given the October 1, 2019, effective date.

Section 4 is not anticipated to result in a fiscal impact to the state or municipalities by providing access for self-insured private employers to OSC pharmaceutical purchasing authority. Municipalities are permitted under current law to access state plan prescription pricing through OSC; there are no additional bulk purchasing savings associated with the bill that cannot already be achieved. In addition, consistent with current law regarding participating municipalities, private employers are responsible for the full cost of their claims and prescription costs.

Section 5 does not result in a fiscal impact to the state or municipalities as it pertains to certain financial transactions between health carriers or pharmacy benefit managers (PBMs) and pharmacies or pharmacist.

⁶ Source: Office of the State Comptroller

Section 6 does not result in a fiscal impact to the state agencies specified in the bill to be part of the task force established by the bill as the agencies have the expertise to do so.

The Out Years

The annualized ongoing fiscal impact identified above will continue into the future subject to (1) the potential impact to pharmaceutical prices resulting from the bill's provisions regarding agreements to delay generic drug manufacturing and (2) mailing expenses incurred by DOI.