

# Fiscal Note

**BILL #** SB 1270

**TITLE:** insurance; prescription drugs; step therapy

**SPONSOR:** Barto

**STATUS:** As Amended by Senate HHS

**PREPARED BY:** Jeremy Gunderson

## Description

The bill would set new clinical review criteria for insurers when developing step therapy protocols for prescription drugs and requires insurers' clinical review criteria meet the requirements in the bill. The bill also would require insurers to create a process that allows individuals to request an exception to the step therapy protocol, including a requirement that insurers grant or deny to an exception request within 72 hours of receiving the request or 24 hours in exigent circumstances.

## Estimated Impact

We cannot estimate the precise impact of SB 1270 as we do not know how many exceptions will be granted to step therapy. By creating exceptions, the bill will generate some costs to the state employee health insurance program. According to data provided by the Arizona Department of Administration (ADOA) last year, the step therapy program saves the state \$8.5 million on prescription drugs affected by this bill. The General Fund share of these savings is approximately \$2.2 million.

The bill's actual fiscal impact will depend on how much the exceptions reduce the \$8.5 million in savings. ADOA did not provide such an estimate.

The Department of Insurance and Financial Institutions did not provide an administrative cost estimate.

The bill exempts the Arizona Health Care Cost Containment System (AHCCCS) from the step therapy requirements and will therefore have no direct impact on AHCCCS.

## Analysis

Step therapy is a program that establishes a sequence of prescription drugs given to patients for certain health conditions. Generally, lower cost generic medications are the first "steps" in the protocol. Patients must try and subsequently fail with a "Step A" drug before they are allowed to try a "Step B" drug. Some insurers institute step therapy protocols to reduce costs of health care claims for medications by requiring patients to try lower cost drugs before they try more expensive brand-name drugs in an attempt to find the lowest-cost medication option that still satisfactorily treats the patients' medical condition.

The bill would require step therapy protocols be created based on clinical review criteria that are created by a multidisciplinary panel of health care experts; are based on medical studies, research and practice; and require members to disclose potential conflicts of interest. If a medication step is deemed inadvisable by the prescribing practitioner as outlined in the bill or if the patient has already tried the medication on a previous health insurance plan, the bill would allow the patient to request an exception to the step therapy protocol. If the insurer does not respond to the exception request within 72 hours (or 24 hours under exigent circumstances) the exception request is deemed granted.

These guidelines and exceptions will increase the cost to insurers via additional administrative costs to review or set new step therapy protocols, as well as higher medication claims costs as patients will be able to move more quickly to higher steps via the exception process. To the extent that insurers have step therapy protocols that already match the requirements in the bill, the impact would be lessened.

(Continued)

**JLBC**

The state employee health insurance plan is run by ADOA through the Health Insurance Trust Fund (HITF). The state uses a self-insured model, meaning that the state is responsible for the direct costs of health insurance claims. As such, any increase in health care claims for medications will be a cost to the state. According to ADOA, the state health plan includes a step therapy program which created \$10.3 million in prescription drug savings last year. Of that amount, \$8.5 million, or 3.7% of the \$214.5 million total projected prescription drug claims in FY 2020, could be impacted by SB 1270. (The remaining amount is for Medicare-eligible employees who would not be affected by this bill.) ADOA acknowledged the \$8.5 million represented a maximum possible cost. They did not provide an estimate of the likely actual cost. ADOA did not provide an estimate on the amount of increased administrative costs due to potentially changing the clinical review criteria or managing the exception review timelines in the bill.

**Local Government Impact**

Similar to the state's use of HITF, some cities and counties also use a self-insured model for employee health insurance. To the extent that these local jurisdictions also use step therapy protocols, they will experience similar cost increases as a result of the bill.

2/18/21