

Fiscal Note

BILL # SB 1164

TITLE: pharmacy benefits; coverage; exemptions

SPONSOR: Champ

STATUS: As amended by Senate FICO

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Description

The bill, as amended by the Senate Finance and Commerce Committee, would prohibit pharmacy benefit managers (PBMs) from limiting prescription drug coverage for health plan members already medically stable on a specific prescription drug during the member's plan year. PBMs would be prohibited from limiting maximum coverage of prescription drug benefits, increasing cost sharing, and generally restricting the plan's formulary in response. The bill would also require health insurers or PBMs to implement a process whereby a member can request immediate coverage of a provider's selected prescription drug, also referred to as a "coverage exemption".

Estimated Impact

We estimate the bill would increase costs to the state employee health plan by \$1.6 million annually beginning in Plan Year (PY) 2025. This is based on the Arizona Department of Administration's (ADOA's) estimated savings from substituting generic drugs for brand name drugs during PY 2023. The estimate does not account for increases in brand name drug prices, which we believe could further increase costs in future years.

ADOA estimates the bill would increase state employee health plan costs by \$1.6 million in PY 2025 and would reach \$17.6 million by PY 2035. We believe, however, that ADOA's estimated cost increases in future years are overstated, as their numbers do not take into account an amendment to the bill which limits the prescription drug substitution prohibition to only apply to the current PY.

Higher Health Insurance Trust Fund (HITF) costs are borne by either employer contributions in the form of increased state appropriations or higher employee contributions. The bill does not specify how any increased costs would be paid. If paid solely by the state agencies, the General Fund would be billed for 60% of the cost with non-General Fund monies covering the rest.

Analysis

The state employee health insurance plan is run by ADOA and is funded via HITF. The state uses a self-insured model, meaning that the state is responsible for the direct costs of health insurance claims. The state contracts with a PBM to manage prescription drug benefits for all of its members.

Currently, PBMs have the ability to limit or exclude coverage of specific prescription drug from the members of a health plan. As part of this, a PBM may substitute a generic drug for a brand name drug within the health plan's formulary. This is likely to generate savings to the health plan and HITF as generic versions of drugs are often much less expensive than their brand name counterparts.

ADOA estimates that in PY 2023, the health plan saved \$1.6 million as a result of generic drug substitutions. If PBMs were to lose the ability to substitute generic drugs as a result of this bill, members may continue on a brand name drug for the

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remainder of the current plan year. We estimate the \$1.6 million of savings would no longer accrue to the health plan every year given that new generic drugs are continually introduced to the market.

ADOA assumes the loss of these savings would increase by \$1.6 million annually, and therefore the total cost would reach \$17.6 million by PY 2035. We believe, however, that ADOA's estimated cost increases in future years do not take into account an amendment to the bill which limits the prescription drug substitution prohibition to only apply to the current plan year as opposed to a prohibition for as long as a member remains eligible for the health plan. The bill, as amended, would continue to allow a PBM to substitute generic drugs for brand name drugs once the new plan year begins, thereby limiting the accumulation of the fiscal impact over time assumed by ADOA.

We believe price increases for brand name drugs could further increase costs in future years. However, due to the volatility of the brand name drug market and several recent changes to federal law regulating prescription drug pricing, any estimate of the fiscal impact of future price increases would be highly speculative.

Without a corresponding increase in member premiums, the additional HITF costs would potentially need to be paid for via additional employer contributions. These contributions would come from both General Fund and Other Fund sources.

Local Government Impact

The impact of the bill on local governments' health insurance costs cannot be determined in advance. The impact would depend on current levels of coverage, prescription drug utilization, and efforts to substitute members' use of generic drugs for brand name drugs.

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