

SB 193, PHARMACEUTICAL AMENDMENTS, (Vickers, E)

Anticipated Fiscal Impact:

\$2,787,750 per year \$3.81 PMPM

Summary

Health Plans evaluate relative costs to determine payment tiers for different locations offering the same service with the purpose of discouraging high-cost locations by requiring more out-of-pocket when lower cost alternatives are available. SB 193 requires health plans to allow participating providers to administer drugs without direction to low-cost locations. This is convenient for providers and members but results in increased costs when higher cost providers are used at no additional cost to the patient.

Currently, PEHP's Health Plans direct to low-cost pharmacies, home health agencies, infusion centers, clinics, and other providers to administer drugs. Hospital services are more expensive than other locations. Many providers adopt competitive rates offered by other low-cost centers as a result of directing utilization. In the absence of competition for competitive rates, low-cost providers migrate to higher costing services. This shift in utilization will result in combined medical and pharmacy cost of at least \$2,787,750.

Assumptions and Analysis

- 1. Pharmacy Costs:** We assume pharmacy utilization of the preferred pharmacy will transition to the same rate of use as groups who do not direct to low-cost locations. The rates paid in place of the preferred pharmacy will be higher compared with previous utilization. The associated cost increase and loss of rebate associated with the pharmacy benefit is \$621,271.
- 2. Medical Costs:** In 2009, PEHP began directing to a preferred pharmacy. The result of directing to a low-cost location was a general reduction in cost as other providers matched rates to direct volume to additional locations. Movement of services away from the preferred pharmacy to alternate locations will result in increased in cost as providers are no longer required to compete with low-cost locations. The increase in cost for current products is \$2,166,479.

PEHP would anticipate a similar PMPM increase for other governmental entities.