

February 23, 2015

The Honorable Scott Schwab, Chairperson
House Committee on Insurance
Statehouse, Room 151-S
Topeka, Kansas 66612

Dear Representative Schwab:

SUBJECT: Fiscal Note for HB 2026 by House Committee on Federal and State Affairs

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2026 is respectfully submitted to your committee.

HB 2016 would establish requirements and fiduciary duties for pharmacy benefits managers (PBM) for the state health care benefits program. The bill would require PBMs to be a fiduciary at all times. The bill would prohibit PBMs from owning any pharmacies, including mail order pharmacies, specialty pharmacies and retail pharmacies. HB 2016 would allow PBMs to substitute a drug for a higher cost agent for clinical reasons only.

Estimated State Fiscal Effect				
	FY 2015 SGF	FY 2015 All Funds	FY 2016 SGF	FY 2016 All Funds
Revenue	--	--	--	--
Expenditure	--	--	--	\$9,800,000
FTE Pos.	--	--	--	--

The Kansas Department of Health and Environment (KDHE) states that most PBMs limit fiduciary duties to claims and appeals and requiring more extensive duties may limit the number of firms that are willing to bid on state business. KDHE also states that all of the large PBMs currently doing business in the United States would not qualify under the restrictions in HB 2026. The state would therefore be required to work only with small third and fourth tier PBMs, which would result in cost increases and a loss of drug rebate dollars.

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The following fiscal estimate for this bill was provided by the State Employee Health Plan's consultant Aon Hewitt. Contracting with smaller PBM entities that would meet the restrictions in HB 2026 would likely result in less competitive pricing which is estimated to increase drug costs by up to 10.0 percent or \$8.0 million per year. Additional administrative costs could add up to 2.0 percent to drug costs or \$1.8 million per year. Finally, it is likely that smaller PBMs would not be able to handle the state's complex plans, which could result in significant member disruption and possibly increased medical costs if members cannot get their medications. KDHE also notes that 173 non-state public employers participate in the State Employee Health Plan. The same factors that could cause increased costs for the state could cause increased costs for these local units of government. Any fiscal effect associated with HB 2026 is not reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

cc: Aaron Dunkel, Health & Environment