TITLE 407 OFFICE OF THE CHILDREN'S HEALTH INSURANCE PROGRAM

Economic Impact Statement
LSA Document #10-420

IC 4-22-2.1-5 Statement Concerning Rules Affecting Small Businesses

IC 4-22-2.1-5(a) provides that an agency that intends to adopt a rule under IC 4-22-2 that will impose requirements or costs on small businesses must prepare a statement that describes the annual economic impact of the rule on small businesses after the rule is fully implemented as described in IC 4-22-2.1-5(b).

LSA Document #10-420 amends Title 407 to update the definition of managed care organization, require provider claims to be filed with the state's fiscal agent within 12 months of the date of service, apply Medicaid reimbursement dispute resolution procedures to CHIP providers who do not have a contract with a CHIP risk-based managed care organization, establish that the Office shall set any case management fees if CHIP is administered as a primary care case management program, provide that the Office will set premiums in accordance with federal law instead of specifying the specific premium amounts in rule, apply Medicaid fee-for-service prior authorization procedures if CHIP is administered as a primary care case management program, apply Medicaid risk-based managed care prior authorization procedures if CHIP is administered as a risk-based managed care program, require CHIP managed care organizations to publish their prior authorization procedures, require CHIP managed care organizations to make prior authorization decisions no later than seven calendar days, cover over-the-counter drugs in certain situations, apply the Medicaid brand name drug coverage policy to CHIP, and make other technical changes.

Economic Impact on Small Businesses

1. Estimated Number of Small Businesses Subject to this Rule:

IC 4-22-2.1-4 defines a small business as any person, firm, corporation, limited liability company, partnership, or association that:

(1) is actively engaged in business in Indiana and maintains its principal place of business in Indiana;
(2) is independently owned and operated;
(3) employs one hundred (100) or fewer full-time employees; and
(4) has gross annual receipts of five million dollars ($5,000,000) or less.

The Family and Social Services Administration (FSSA) estimates that the majority of the 3,295 physicians participating in the CHIP program are small businesses. The majority of the proposed rule changes have little to no impact on small businesses. However, application of the Medicaid brand name drug coverage policy shall have a minor impact on small businesses. The proposed rule will require CHIP physicians to obtain prior authorization before a pharmacy will dispense a brand name drug.

2. Estimated Average Annual Reporting, Record Keeping, and Other Administrative Costs that Small Businesses Will Incur:

FSSA estimates that the small businesses will incur minor additional administrative expenses in seeking prior authorization of brand name drugs. These additional expenses will be much less than $500,000 annually and will be associated with submitting a written prior authorization request to the state's prior authorization vendor and, if approved, indicating the prior authorization number assigned to the approved request on the prescription.

3. Estimated Total Annual Economic Impact on Small Businesses to Comply:

The costs to small businesses will not be offset by any additional revenue streams. However, as stated above, FSSA estimates that the additional expenses incurred by small businesses will be minor and are associated with the administrative expense of submitting a written prior authorization request. CHIP physicians, who also participate in Medicaid, are already accustomed to seeking prior authorization for brand name drugs. Prior authorization for brand name drugs is an existing Medicaid requirement.

4. Justification Statement of Requirement or Cost:

Generic drugs are, on average, 63 percent less expensive than brand name drugs.[1] Requiring CHIP physicians to obtain prior authorization before prescribing a brand name drug means that physicians must substantiate the medical necessity of the brand name drug as opposed to the less costly generic equivalent. Prior authorization of brand name drugs is already required in Medicaid and is a safe and effective way to reduce costs.

5. Regulatory Flexibility Analysis:

The FSSA does not propose an alternative regulatory method. Steps have already been taken to encourage generic substitution in the CHIP program, such as asking CHIP managed care vendors to encourage their provider networks to prescribe generic medications first, and have not been fully effective. Formally requiring prior authorization is necessary to increase the CHIP program's generic substitution rate and decrease costs,

especially because pharmacy has recently been carved out of the CHIP risk-based managed care program and CHIP managed care vendors have less of an incentive to encourage their provider networks to prescribe generic medications first.

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[1] Office of Inspector General, Department of Health and Human Services. "Generic Drug Utilization in State Medicaid Programs." July 2006. OEI-05-05-00360.

Posted: 02/09/2011 by Legislative Services Agency
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