LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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ADMINISTRATIVE RULE
FISCAL IMPACT STATEMENT

PROPOSED RULE: 01-22 **DATE PREPARED:** Dec 9, 2001
STATE AGENCY: Office of the Sec. of Family and Social Services **DATE RECEIVED:** Nov 2, 2001

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Digest of Proposed Rule: This rule amends 405 IAC 5-24-4 and 405 IAC 5-24-6 to revise reimbursement policy for pharmacy services in the Medicaid program. Specifically, the rule: (1) revises prior authorization (PA) requirements and establishes a process for the Office of Medicaid Policy and Planning (OMPP) to follow before implementing a PA program; (2) expands the list of services for which PA may be required to include "other drugs" beyond the "brand medically necessary drugs" currently on the list; and (3) prohibits PA for certain drugs used in the treatment of mental illness.

Governmental Entities:

State: This rule places no unfunded mandates upon state government. According to OMPP, this rule sets forth a process for OMPP to follow before it can implement a PA program. The process uses an existing mechanism, the Drug Utilization Review (DUR) Board, that already holds monthly public meetings. Publication and notice of drugs placed on PA will occur through another existing process, provider bulletins. Provider bulletins are already periodically issued by OMPP, and this mechanism will be used to inform providers what drugs will be subject to PA.

Current rules permit prior authorization for "brand medically necessary" multi-source drugs. This rule change expands the drugs for which a PA program may be implemented to include "other drugs" covered under Medicaid. This change would allow the implementation of a PA program for single-source drugs.

According to OMPP, such a program is being planned with implementation scheduled for January 2002. The program will require PA for five categories of drugs: (1) brand name non-steroidals (NSAIDSs), including COX-2 inhibitors (such as Celebrex and Vioxx); (2) peptic acid disease drugs (including H2 antagonists, such as Zantac and Tagamet) and proton pump inhibitors (such as Prilosec and Prevacid); (3) tramadol (Ultram), an analgesic; (4) Stadol nasal spray (an analgesic); and (5) growth hormones. According to OMPP, a PA program for these drugs is estimated to result in net state savings in the Medicaid program of $2.4 M in FY 2002, and $5.1 M in FY 2003 and thereafter. Fiscal details for the program are in the following table.

	FY 2002	FY 2003
Estimated Savings:	$9,070,000	$18,140,000
Less: Rebate (18.5%):	1,677,950	3,355,900
Less: Admin Start-up:	191,938	
Less: Admin Operations:	779,838	1,407,414
Net Savings:	$6,420,274	$13,376,686
State Share @ 38%:	**$2,439,704**	**$5,083,141**
Federal Share @ 62%:	3,980,570	8,293,545

Local: This rule places no unfunded mandates upon any local government unit.

Regulated Entities: This rule change does not require a PA program to be implemented. However, it does permit an expansion of prior authorization requirements for single-source drugs, with a specific prohibition against using PA for certain drugs in the treatment of mental illness.

The procedural requirements imposed by the rule for implementing a PA program are requirements placed upon OMPP.

Assuming that a PA program for the above-mentioned drug categories is implemented, the program is expected to reduce Medicaid payment to pharmacies. However, the PA program is not expected to impact significantly on pharmacy providers. However, the prescribing provider would be required to obtain prior authorization for drugs in the above-mentioned categories. In addition, drug manufacturers would be expected to see reduced sales (less rebates) amounting to an estimated $7.4 M in FY 2002, and $14.8 M in FY 2003 and thereafter (after accounting for rebates).

Information Sources: Catherine Rudd, OMPP, 232-1244; Marc Shirley, OMPP, 232-4343.