OHIO LEGISLATIVE SERVICE COMMISSION

Ivy Chen

Fiscal Note & Local Impact Statement

Bill: H.B. 465 of the 132nd G.A. **Status:** As Introduced

Sponsor: Reps. Lipps and Koehler **Local Impact Statement Procedure Required:** Yes

Subject: To provide for the prescribed drugs benefit to be delivered under the Medicaid Program through the fee-for-service system

State & Local Fiscal Highlights

- The bill prohibits the Medicaid Managed Care System from covering prescribed drugs. It instead requires that Medicaid prescription drug benefits be paid through the fee-for-service system. The Ohio Department of Medicaid (ODM) estimates that carving-out prescription drug benefits would create a cost of $32.7 million for the state in each year and a loss of state tax and franchise fee revenue of $100.0 million.
- The loss of health insuring corporation (HIC) tax revenue would result in a decrease of approximately $365,000 to the Local Government Fund (LGF) and approximately $370,000 to the Public Library Fund (PLF).

Detailed Fiscal Analysis

The bill eliminates the requirement that the Medicaid Managed Care System provide prescription drug coverage and explicitly prohibits the system from covering prescribed drugs. The bill instead requires that Medicaid prescription drug benefits, including dispensing fees, be paid through the fee-for-service system. Lastly, the bill permits ODM to allow Medicaid managed care organizations to develop medication therapy management programs for Medicaid recipients enrolled in managed care plans.

According to ODM,[1] Medicaid state costs are estimated to increase by $32.7 million in each year. While the Medicaid Program would receive pharmaceutical rebates, there would be fiscal costs due to an increase in utilization and in paid claims, as well as a loss of managed care efficiency adjustments. These costs would be greater than the rebates received.

In addition, ODM also estimates that there would be a loss of state tax and franchise fee revenue of $100.0 million in each year. Medicaid managed care organizations currently pay a health insuring corporation (HIC) tax, HIC franchise fee,

[1] ODM presented a fiscal analysis of a pharmacy benefits carve-out at a Joint Medicaid Oversight Committee meeting on March 15, 2018.

and a health insurer providers fee. As a result of the bill, Medicaid managed care organizations would no longer pay these fees or taxes for the costs associated with providing prescription drug benefits. ODM estimates that the loss of HIC tax revenue would be $22 million and the loss of HIC franchise fee revenue would be $90 million. However, there would be a savings in the health insurer provider fee of $12 million.[2] Taxes paid by insurance companies, which would include HIC tax, are deposited into the GRF. A share of GRF tax revenue is subsequently distributed to the LGF and the PLF. The LGF receives 1.66% of the total state GRF tax revenue and the PLF receives 1.68%. As a result, the LGF would lose approximately $365,000 and the PLF would lose approximately $370,000.

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[2] This fee is generally based on the costs of Medicaid managed care organizations' plans. If these organizations no longer provide prescription drug benefits, their costs would decrease. The amount paid to Medicaid managed care organizations is based on their total costs. If costs are reduced, payments would be reduced and the state would realize a savings in Medicaid costs.