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[HF 2401](#) – Regulation of Pharmacy Benefit Managers (LSB5093HV.1)  
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Fiscal Note Version – As amended and passed by the House

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[House File 2401](#) relates to pharmacy benefits managers (PBMs), pharmacies, prescription drug pricing, appeals and disputes process between PBMs and pharmacies; pharmacy services administrative organizations (PSAOs), wholesale distribution of prescription drugs, and the reporting of each; and PBM reverse auctions.

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## **Division I — Pharmacy Benefits Managers**

### **Description**

**Division I** relates to PBMs, pharmacies, and prescription drug pricing; provides applicability provisions; and provides protections for pharmacies and pharmacists, contract requirements for prescription drug pricing, and requirements for the appeal and dispute process between PBMs and pharmacies.

The Bill applies to PBMs who manage a prescription drug benefit in the State on or after July 1, 2024.

### **Background**

Iowa Code chapter [510B](#) defines “pharmacy benefits manager” as a person who, pursuant to a contract or other relationship with a third-party payor, either directly or through an intermediary, manages a prescription drug benefit provided by the third-party payor.

As defined in Iowa Code chapter 510B, “third-party payor” means any entity other than a covered person or a health care provider that is responsible for any amount of reimbursement for a prescription drug benefit. “Third-party payor” includes health carriers and other entities that provide a plan of health insurance or health care benefits. Exceptions to the definition can be found in Iowa Code section [510B.1\(22\)](#).

A maximum allowable cost (MAC) list is a list of prescription drugs that includes the MAC for each prescription drug and that is used by a PBM. The MAC is the maximum amount for which a pharmacy will be reimbursed by a PBM or health carrier for a drug and may be measured via multiple methods, including but not limited to average acquisition cost, national average acquisition cost, average manufacturer price, average wholesale price, and wholesale acquisition cost.

### **Assumptions**

- Neither the spread pricing nor the pass-through pricing, as required by the Bill, will represent a meaningful change from current practices for the State’s health plans.
- The MAC requirements in the Bill may, in some cases, increase the amount reimbursed per unit for filling prescriptions.
- State of Iowa Plan and the Board of Regents Insurance Plans prescription drug spending may increase between 0.2% and 2.0% as a result of the MAC requirements.

- Potential offsetting pricing changes by PBMs may decrease the overall effect of increased prescription drug spending, making the lower end of the above range more likely.

**Fiscal Impact**

**Division I** is estimated to increase annual costs to the State of Iowa Insurance Plan ranging between \$223,000 and \$2.2 million and the Board of Regents Insurance Plans between \$283,000 and \$2.8 million, as shown in **Figure 1**, beginning in FY 2025.

It is estimated that the lower end of this range is more likely to occur, since offsetting price changes by PBMs, as a result of pharmacy reimbursement rates changing, will decrease the overall effect of MAC requirements in the Bill.

**Figure 1 — Annual Fiscal Impact Summary**

	<b>Pharmacy Spend</b>	<b>Low Estimate of Increased Pharmacy Costs</b>	<b>High Estimate of Increased Pharmacy Costs</b>
State University of Iowa	\$ 106,100,000	\$ 212,000	\$ 2,123,000
Iowa State University	29,200,000	58,000	585,000
University of Northern Iowa	6,400,000	13,000	128,000
<b>University Total</b>	<b>\$ 141,700,000</b>	<b>\$ 283,000</b>	<b>\$ 2,836,000</b>
State of Iowa	111,700,000	223,000	2,233,000
<b>Total</b>	<b>\$ 253,400,000</b>	<b>\$ 506,000</b>	<b>\$ 5,069,000</b>

Amounts may not total due to rounding.

**Sources**

Iowa Insurance Division, Department of Insurance and Financial Services  
 Board of Regents  
 Wellmark  
 Legislative Services Agency

**Division II — Pharmacy Services Administrative Organizations and Wholesale Distribution — Report**

**Description**

**Division II** requires the Insurance Commissioner or the Commissioner’s designee to review PSAOs and the wholesale distribution of prescription drugs and submit a report to the General Assembly before January 1, 2025, containing findings and recommendations based on the review. The report must include each of the following:

- A description and analysis of the prescription drug wholesale distribution supply chain, including focuses on the concentration of, margins in, and availability of competition in the market.
- A description of the role that PSAOs serve in the prescription drug supply chain.
- A description and analysis of the relationships between PSAOs, prescription drug wholesalers, and retail pharmacies, including standard contracting terms, fees charged to pharmacies, and contractual restrictions to retail pharmacies.

**Background**

PSAOs are collective bargaining groups that leverage their membership to negotiate contracts with other parties in the pharmaceutical supply and payment chain. PSAOs provide a range of business services to pharmacies.

### **Assumptions**

The Iowa Insurance Division (IID) of the Department of Insurance and Financial Services (DIFS) will need to hire a contractor to conduct the report required by this Division.

### **Fiscal Impact**

The IID estimates the cost of hiring a contractor in FY 2025 to complete the report required by **Division II** of the Bill to be approximately \$225,000.

### **Source**

Iowa Insurance Division, Department of Insurance and Financial Services

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## **Division III — Pharmacy Benefits Manager Reverse Auctions**

### **Description**

**Division III** relates to PBM reverse auctions and group insurance and annual reporting by PBMs and does the following:

- Requires the Department of Administrative Services (DAS) to enter into a contract for the services of a PBM for the administration of benefits of self-funded public sector health plans in compliance with the Division and Iowa Code section [8A.311](#).
- Requires the DAS, prior to November 1, 2024, to procure a technology platform to conduct PBM reverse auctions and related services from the operator of the platform with the minimum capabilities and restrictions described in the Bill. The Division also includes requirements for the DAS to reconcile electronically adjudicated pharmacy claims with PBM invoices.
- Requires the first PBM reverse auction to be completed and the services contract to be awarded to the winning PBM with an effective date beginning July 1, 2025. Additionally, the DAS is required to implement a no-pay option that obligates the winning PBM, rather than the State, to pay the cost of the technology platform by assessing a per-prescription fee. The Division includes additional requirements for participant bidding agreements and PBM services contracts.
- Permits self-funded private sector health plans to conduct a PBM reverse auction utilizing the platform and services selected by the DAS three years after the first service contract is awarded, provided additional requirements are met, including payments from the participating private sector health plans.
- Permits the DAS to vacate the outcome of a PBM reverse auction if the lowest-cost PBM bid is not less than the projected cost trend for the incumbent PBM services contract.

The Division applies to group benefit plans under Iowa Code chapter [509A](#) and does not apply to nonprofit, nongovernmental health maintenance organizations (HMOs) with respect to managed care plans that provide a majority of covered health care services through a single contracted medical group.

### **Background**

Iowa Code section 8A.311 establishes requirements for the DAS in following competitive bidding guidelines when selecting the services of a PBM for the administration of benefits of self-funded public sector health plans. Currently, the State of Iowa Insurance Plan is administered by Wellmark.

A “self-funded public sector health plan” refers to any group benefit plan under Iowa Code chapter 509A, which deals with group insurance for public employees.

“Pharmacy benefits manager reverse auction” is defined in the Bill as an automated, transparent, and competitive bidding process conducted online that starts with an open round of

bids and allows qualified PBM bidders to counter-offer a lower price for as many rounds of bidding as determined by the DAS for a multiple health plan prescription drug purchasing group.

**Assumptions and Fiscal Impact**

The Legislative Services Agency (LSA) has not received a response to requests for information from the DAS. Without additional information regarding the changes to the Department's processes, the LSA cannot estimate any potential fiscal impact.

**Source**

Legislative Services Agency

/s/ Jennifer Acton

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The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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