

# Legislative Fiscal Bureau

## Fiscal Note

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HF 619 - Veteran Eligibility (LSB 3175 HV.1)

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Fiscal Note Version — As Amended by H-1216

Requestor by Representative Carroll

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### **Description**

House File 619, as amended by H-1216, makes various programmatic changes within the Medical Assistance Program (Medicaid), including:

- Implementation of a Preferred Drug List and other changes in prescription drug reimbursements.
- Expanding co-payments for prescription drugs and physician visits to the maximum level allowed under federal regulations.
- Reducing the statutory inflation adjustment used in re-basing the acuity-based reimbursement rates for nursing facilities.
- Conducting targeted audits of claims and provider reimbursements, and evaluating the utilization of services.
- Implementing a Disease Management Pilot Program.

The Medical Assistance Program (Medicaid) provides payment for health care services to specified groups of low-income individuals, such as children, pregnant women, the elderly, the disabled, and parents with dependent children.

### **Assumptions**

1. The fiscal impact of the Interagency Bulk Purchasing Council cannot be determined. The impact depends on the number of agencies that elect to participate and the level of prescription drug discounts that can be negotiated.
2. The fiscal impact of requiring nursing facilities to assist in determining veterans' eligibility cannot be determined. Enrolling veterans for their veterans' benefits when they first enter a nursing facility will delay their eligibility for Medicaid and will likely result in state savings. The number of veterans identified and enrolled, and the impact of the benefits on their assets, however, is unknown. In addition, the federal Veterans' Administration application processing period is currently six to nine months. As a result, there will likely be minimal savings in FY 2004. Savings in FY 2005 cannot be determined due to the lack of data discussed above.
3. Prohibition of gifts from pharmaceutical manufacturers to health care practitioners and facilities is estimated to have no fiscal impact in FY 2004 or FY 2005.
4. The Bill requires the Department of Human Services (DHS) to submit a state plan amendment to the Centers for Medicare and Medicaid (CMS) by May 1, 2003, and to implement a Preferred Drug List (PDL). The intent is for DHS to adopt the state of Michigan's PDL and enter into an agreement with Michigan to join their multi-state purchasing coalition. Currently, four other states have signed agreements with Michigan to provide prescription drugs to a total of 2.8 million Medicaid recipients. Based on a larger purchasing pool and based on Michigan's experience in implementing a PDL, the estimated savings is 10% of brand name drug expenditures in the Medicaid Program. This results in a General Fund savings of \$7.0 million in FY 2004 and FY 2005. Inflation and growth in the number of eligibles could increase the savings in FY 2005.

5. The Bill allows DHS to assess a quality assurance fee on nursing facilities not to exceed 6.0% of total annual revenues, and deposits the fee revenue into the Senior Living Trust Fund. The specific requirements of how the program will be implemented are unknown at this time. As a result, the fiscal impact of the quality assurance fee cannot be determined.
6. Preventing providers of services under the Home and Community-Based Services Waiver from performing Medicaid eligibility assessments is estimated to have no fiscal impact in FY 2004 and FY 2005.
7. Changing the requirement for DHS to issue a notice demanding payment of accrued child support from "may" to "shall" is estimated to have no fiscal impact in FY 2004 and FY 2005.
8. Decreasing the dispensing fee paid to pharmacists for each Medicaid prescription from \$5.17 to \$4.26 is estimated to save \$622,000 from the General Fund in FY 2004 and FY 2005. The current average dispensing fee paid to pharmacists is \$5.17.
9. The current co-payment required for each prescription in the Medicaid Program is \$1. The Bill increases the co-payments to the maximum level allowed under federal regulations (ranging from 50 cents to \$3 based on the cost of the prescription). The Bill also adds a co-payment for physician services of \$3. The increase in co-payments is estimated to save \$854,000 from the General Fund.
10. Reducing the ingredient reimbursement for prescription drugs from Average Wholesale Price (AWP) minus 10.0% to AWP minus 12.0% is estimated to save \$2.0 million from the General Fund.
11. Expanding the State Maximum Allowable Cost (SMAC) Program is estimated to save \$1.9 million in FY 2004 and FY 2005 from the General Fund. The SMAC Program provides reimbursement to pharmacists for generic drugs at the pharmacist's acquisition cost plus a profit margin. Under the current SMAC list, pharmacists receive the acquisition cost plus a multiplier of 2.1 (cost plus 110.0%). The Bill reduces the multiplier to 1.4 (cost plus 40.0%). The savings estimate is also based on an expansion of the number of drug groups on the SMAC list from 53 to 84.
12. Establishing a fixed fee schedule for home health agencies is estimated to have no fiscal impact.
13. The Bill states legislative intent that consolidation of the Home and Community Based Services Waivers be designed in a manner that will not result in additional state costs. This provision is estimated to have no fiscal impact.
14. Nursing facility costs are expected to increase by \$10.7 million (6.0%) in FY 2004 due to re-basing the acuity-based reimbursement rates and a required inflation adjustment. The DHS has pursued rule changes related to nursing facilities crossover claims and bed hold reimbursement that will take effect on May 1, 2003, and result in an estimated savings of \$1.7 million from the General Fund. In addition, a hold harmless provision that was in place during the last three fiscal years will expire pursuant to Iowa Code at the end of FY 2003, for a savings of \$5.1 million from the General Fund. A change in reimbursement related to dual certification is estimated to save \$1.0 million from the General Fund. When these savings initiatives are compared to the increase for the re-base, a net cost of \$3.0 million remains. The Bill decreases the inflation factor used in the re-base to ensure that expenditures for nursing facilities remains at the same level as FY 2003. This results in a decrease of \$3.0 million. If the increase for the re-base is less than \$10.7 million, the decrease in the inflation adjustment would be less.
15. Conducting targeted audits of claims data and provider reimbursements and reviews of the appropriateness of the scope, duration, and utilization of services is estimated to result in savings of \$2.0 million in FY 2004 and FY 2005 from the General Fund.
16. The Bill increases physician reimbursements for public teaching hospitals (University of Iowa Hospital and Broadlawns Hospital). The hospitals are then required to return the supplemental payments to DHS through an intergovernmental transfer, as allowed under federal regulations. This program is estimated to result in savings of \$13.5 million in

FY 2004 from the General Fund for the University of Iowa portion of the program. Operational changes are required at Broadlawns that will not be complete until after the start of FY 2004. As a result, savings from implementing this policy at Broadlawns will not be received until FY 2005. The amount of the savings has not yet been determined due to a lack of information.

17. The Bill requires DHS to pursue a chronic disease management pilot program, in consultation with the fiscal agent and with a chronic care management resource group. Disease management involves monitoring patient care and ensuring timely preventive services to improve patient outcomes and reduce costs. Disease management programs have resulted in savings in other states; however, a savings estimate for Iowa cannot be determined. The diseases and number of persons in the pilot program have not been identified.
18. The provisions in the Bill result in a total savings of \$31.9 million. In addition to savings in the Bill, further savings of \$13.9 million are assumed by the Bill due to rule changes and changes in reimbursement policies, for a total savings of \$44.8 million.
19. The forecasted General Fund expenditure level for the Medicaid Program is \$595.9 million for FY 2004. When savings of \$44.8 million are deducted from the forecasted expenditure level, the net General Fund cost of the Medicaid Program is \$551.1 million. This is approximately \$1.8 million less than the expenditure level recommended by the Governor for FY 2004.

### **Fiscal Impact**

The provisions of HF 619, as amended by H-1216, for which a fiscal impact can be determined are estimated to result in a state General Fund savings of \$31.9 million in FY 2004 and FY 2005. The total annual savings for FY 2004 and FY 2005 is \$44.8 million, when the \$13.9 million for rule changes and other reimbursement changes that are outside HF 619, as amended by H-1216, are included.

In addition to the savings estimates above, other sections of the Bill are anticipated to result in savings, but the savings amount cannot be determined.

### **Sources**

Department of Human Services  
Legislative Fiscal Bureau analysis

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/s/ Dennis C Prouty

April 2, 2003

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Legislative Fiscal Bureau to members of the Legislature upon request.

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