



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: H. 4490 Prefiled on December 13, 2017
Author: McKnight
Subject: Diabetic Initiative of South Carolina
Requestor: House Medical, Military, Public, and Municipal Affairs
RFA Analyst(s): Gable, A. Martin, and Shuford
Impact Date: January 16, 2018

Estimate of Fiscal Impact

	FY 2018-19	FY 2019-20
State Expenditure		
General Fund	Pending	\$0
Other and Federal	\$0	\$0
Full-Time Equivalent Position(s)	0.00	0.00
State Revenue		
General Fund	Undetermined	\$0
Other and Federal	Undetermined	\$0
Local Expenditure	Undetermined	\$0
Local Revenue	\$0	\$0

Fiscal Impact Summary

This bill would have an undetermined impact on the General Fund and Other Funds revenue depending on whether or not the requirements of this bill increase the price of prescription diabetic drugs. If the price of these drugs increase, it could cause an increase in insurance premiums and insurance premium taxes. Additionally, this bill would have an undetermined local expenditure impact depending upon the potential increase in coverage for prescription diabetic drugs through the Public Employee Benefit Authority (PEBA). Finally, the expenditure impact to the state General Fund is pending as DHEC is in the process of analyzing the potential costs of the bill.

Explanation of Fiscal Impact

Prefiled on December 13, 2017

State Expenditure

This bill requires the Department of Health and Environmental Control (DHEC) to compile a list annually of prescription drugs that the department determines to be essential for treating diabetes. This list must include the wholesale acquisition cost of each drug. By April of each year, manufacturers of these drugs would submit to DHEC a report on all cost to produce the drugs, including the research and development and the profit margin. Additionally, any non-profit organization that advocates for patients or funds medical research and has received anything of value from a manufacturer during the preceding calendar year would be required to report information on such contribution and the organization's income to the public. DHEC would have the authority to impose a penalty of not more than \$5,000 for each day a manufacturer or non-profit organization fails to provide the information requested.

Using the information provided by the manufacturers, by June first of each year, the department would compile a report on the price of these prescription drugs, the effect of those prices on overall spending on prescription drugs in the state, and the strategies and opportunities for lowering the cost of these diabetes drugs. The list must be maintained on their agency website as well as in an alternative form for individuals that do not have access to the internet.

Also, this bill would require any health maintenance organization or individual or group health insurance policy to provide notice of whether a formulary is used to cover treatment or diabetes and if so of the opportunity to secure information about the formulary from the insurer. The notice must be in language that is easily understood and include an explanation of the formulary if a formulary is used, among other requirements.

Department of Health and Environmental Control (DHEC). This bill would require DHEC to compile a list of prescription drugs that it deems essential to the treatment of diabetes and the wholesale acquisition cost of each of these drugs every February. By April of each year, the department would receive a report on these essential drugs from each manufacturer who produce such drugs. No later than June, DHEC would analyze the information provided in the reports and compile a list on the price of the prescription drugs that were deemed essential. This list must be maintained on DHEC's public website. The expenditure impact is pending as DHEC is in the process of researching the impact.

Public Employee Benefit Authority (PEBA). The requirements of this bill on manufacturers and insurance companies will not operationally affect PEBA. However, the bill requirements may increase operating expenses for diabetes drug manufacturers and the pharmacy benefit manager that will bid on the PEBA contract that begins in January 2021. Additional costs to these firms may affect contractual pricing guarantees and rebate income of the state health insurance plan. Any requirements of the bill that increase the operating expenses of these firms may increase the net cost of operating the state health insurance plan as these additional costs are passed on to PEBA. The amount of the potential increase in the state health insurance plan costs, if any, are undetermined as we are unable to quantify the potential increase in manufacturing and pharmacy costs that may be passed on to PEBA. These additional costs, if any, will be split between state agencies, local governments, and employees.

Department of Insurance. The requirements of this bill on manufacturers and insurance companies would not operationally or fiscally impact the Department of Insurance. However, the bill requirements may increase operating expenses for diabetes drug manufacturers. Additional costs to these firms may affect contractual pricing guarantees and rebate income, which may in turn impact the cost of the drugs for insurance purposes. This increase in cost, if any, may cause an increase in insurance premiums in the private sector.

State Revenue

This bill would require manufactures of prescription diabetes drugs to report the costs associated with researching, developing, manufacturing, and selling these drugs. Additionally, this bill would require any health maintenance organization or individual or group health insurance policy to provide notice of whether a formulary is used to cover treatment or diabetes and if so of the opportunity to secure information about the formulary from the insurer. The notice must be

in language that is easily understood and include an explanation of the formulary if a formulary is used, among other requirements.

Department of Insurance. The requirements of this bill on manufacturers and insurance companies would not operationally or fiscally impact the Department of Insurance. However, the bill requirements may increase operating expenses for diabetes drug manufacturers. Additional costs to these firms may affect contractual pricing guarantees and rebate income, which may in turn impact the cost of the drugs for insurance purposes. This increase in cost, if any, may cause an increase in insurance premiums in the private sector. An increase in premium insurance results in a 1.25 percent increase to the insurance premium tax revenue. Beginning July 1, 2017, insurance premium tax revenue is allocated as follows: one percent to the South Carolina Forestry Commission, one percent to the aid to fire district account within the State Treasury, one quarter of one percent to the aid to emergency medical services regional councils within the Department of Health and Environmental Control (DHEC), and the remaining ninety-seven and three-fourths percent to the General Fund. Therefore, any increase to the insurance premium tax would impact General Funds and Other Funds.

Local Expenditure

This bill would require any health maintenance organization or individual or group health insurance policy to provide notice of whether a formulary is used to cover treatment or diabetes and if so of the opportunity to secure information about the formulary from the insurer. The notice must be in language that is easily understood and include an explanation of the formulary if a formulary is used, among other requirements.

Public Employee Benefit Authority (PEBA). The requirements of this bill on manufacturers and insurance companies will not operationally affect PEBA. However, the bill requirements may increase operating expenses for diabetes drug manufacturers and the pharmacy benefit manager that will bid on the PEBA contract that begins in January 2021. Additional costs to these firms may affect contractual pricing guarantees and rebate income of the state health insurance plan. Any requirements of the bill that increase the operating expenses of these firms may increase the net cost of operating the state health insurance plan as these additional costs are passed on to PEBA. The amount of the potential increase in the state health insurance plan costs, if any, are undetermined as we are unable to quantify the potential increase in manufacturing and pharmacy costs that may be passed on to PEBA. These additional costs, if any, will be split between state agencies, local governments, and employees.

Local Revenue

N/A



Frank A. Rainwater, Executive Director