



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: S. 0815 Introduced on January 9, 2018
Author: Gambrell
Subject: Pharmacy Benefit Managers
Requestor: Senate Banking and Insurance
RFA Analyst(s): Wren and Shuford
Impact Date: January 22, 2018

Estimate of Fiscal Impact

	FY 2018-19	FY 2019-20
State Expenditure		
General Fund	Undetermined	\$0
Other and Federal	Undetermined	\$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

The expenditure impact of this bill on the General Fund, Other Funds, and local governments is undetermined due to the potential increase in coverage for prescription drugs through the Public Employee Benefit Authority (PEBA). This bill would have an undetermined impact on General Fund revenue and Other Funds revenue depending on whether or not the requirements of the bill increase the price of prescription drugs. If the price of drugs increase, it could cause an increase in insurance premiums and insurance premium taxes.

Explanation of Fiscal Impact

Introduced on January 9, 2018

State Expenditure

This bill adds Section 38-71-2150 to establish prohibited acts for pharmacy benefit managers. Also, the bill provides exceptions to the prohibited acts for pharmacy benefit managers. Additionally, the bill requires pharmacy benefit managers to reimburse providers within seven business days of payment by a payor unless the claim is disputed.

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

Public Employee Benefit Authority. The requirements of this bill on pharmacy benefit managers will not operationally affect PEBA. However, the bill requirements regarding adjudication fees and a maximum of seven business days for payment to a pharmacist may increase operating expenses for a pharmacy benefit manager that will bid on the PEBA contract that begins in January 2021. Additional costs to the pharmacy benefit manager 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 the pharmacy benefit manager 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 costs that may be passed on to PEBA. These additional costs, if any, will be split between state agencies, local governments, and employees.

State Revenue

This bill adds Section 38-71-2150 to establish prohibited acts for pharmacy benefit managers. Also, the bill provides exceptions to the prohibited acts for pharmacy benefit managers. Additionally, the bill requires pharmacy benefit managers to reimburse providers within seven business days of payment by a payor unless the claim is disputed. This bill takes effect on July 1, 2018.

The requirements of this bill on pharmacy benefit managers would not operationally or fiscally impact DOI. However, the bill requirements may increase operating expenses for pharmacy benefit managers. Additional costs to the pharmacy benefit managers may affect contractual pricing guarantees and rebate income, which in turn impact the cost of 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: 1 percent to the South Carolina Forestry Commission, 1 percent to the aid to fire district account within the State Treasury, 0.25 percent to the aid to emergency medical services regional councils within the Department of Health and Environmental Control, and the remaining 97.75 percent to the General Fund. Therefore, any increase to the insurance premium tax would impact General Fund revenue and Other Funds revenue. Insurance premium tax revenue is collected based on the prior calendar year's insurance premiums. Therefore, this bill's full impact to General Fund revenue and Other Funds revenue would take full effect in FY 2019-20.

Local Expenditure

The requirements of this bill on pharmacy benefit managers will not operationally affect PEBA. However, the bill requirements regarding adjudication fees and a maximum of seven business days for payment to a pharmacist may increase operating expenses for a pharmacy benefit manager that will bid on the PEBA contract that begins in January 2021. Additional costs to the pharmacy benefit manager 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 the pharmacy benefit manager 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 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

A handwritten signature in blue ink, reading "Frank A. Rainwater". The signature is written in a cursive style with a prominent flourish at the end.

Frank A. Rainwater, Executive Director