Economic Impact Analysis
Virginia Department of Planning and Budget

12 VAC 30-80; 50 – Methods and Standards for Establishing Payment Rates - Other Types of Care; Amount, Duration, and Scope of Medical and Remedial Care Services
Department of Medical Assistance Services
July 26, 2012

Summary of the Proposed Amendments to Regulation

The proposed changes 1) discontinue the $5 per individual per month unit dose fee paid to nursing home pharmacies by Virginia Medicaid, 2) modify the supplemental rebate contracting process, and 3) repeal the regulatory language regarding the pharmacy threshold program.

Result of Analysis

There is insufficient data to accurately compare the magnitude of the benefits versus the costs. Detailed analysis of the benefits and costs can be found in the next section.

Estimated Economic Impact

Pursuant to Chapter 890 Item 297 NNNN of the 2011 Appropriation Act, one of the proposed changes permanently discontinues the $5 per individual per month unit dose fee paid by Medicaid for individuals residing in a nursing facility. This dispensing fee is to compensate nursing home pharmacies for time and material costs associated with performing in-house packaging. This change was implemented in July 2011.

According to the Department of Medical Assistance Services (DMAS), a majority of nursing home residents became eligible for the Medicare Part D prescription drug program that was implemented in 2006. As a result, the need for the Medicaid unit dose dispensing fee was significantly reduced. In addition, DMAS reports that nursing facility pharmacies no longer package unit dose prescriptions in-house, but receive pre-packaged unit dose prescriptions directly from external pharmacies thereby making the payment of this dispensing fee unnecessary.

The main economic effect of this change will be on pharmacies that used to package unit dose prescriptions in house prior to July 2011. They are expected to lose $647,416 per year in revenues as a result of this change. One half of this amount ($323,708) represents savings to the Commonwealth and the other half represents savings to the federal government, as currently 50% of Virginia Medicaid is paid by federal matching funds. In addition, a reduction in federal funds coming in to the Commonwealth will likely have additional a contractionary economic impact beyond the initial $323,708 reduction in economic activity due to repercussion effects.

Additionally, one of the proposed changes will modify the supplemental rebate contracting process. DMAS collects rebates from manufacturers for expenditures for legend drugs provided to Medicaid fee-for-service recipients. The current rules require DMAS and pharmaceutical manufacturers to execute an 18-20 pages model contract each time there is a change in the types of drugs included in the rebate program. The proposed changes will allow DMAS and pharmaceutical manufacturers to execute an initial contract and effectuate changes through an addendum to the original agreement. This change is expected to reduce the time necessary to execute new contracts and renew existing ones. It will also provide additional flexibility to DMAS and to pharmaceutical manufacturers in the contracting process.

Finally, the proposed changes will repeal the regulatory language regarding the pharmacy threshold program.[1] The pharmacy threshold program aims to reduce excessive prescription of drugs without clinical justification. According to DMAS; however, the program has never been implemented as written in regulations. This function has been assumed by the Drug Utilization Review (DUR) Board since August 2005. The DUR Board is reported to have been carrying out reviews, at least semi-annually, of high prescription use by patients and is targeting prescribers of these patients through individual notifications that include relevant peer-reviewed clinical standards specific to these patients' diagnoses. In addition, pharmacists are informed at the point of sale through prospective DUR edits if prescriptions have exceeded the thresholds. This DUR Board review function is expected to achieve the objectives of the pharmacy threshold program by reducing over-prescriptions without clinical justification and to inform prescribers and

[1] Current regulatory language requires prior authorization for prescriptions for legend drugs that exceed nine unique prescriptions within 180 days for non-institutionalized Medicaid fee-for-service patients and within 30 days for institutionalized patients.

pharmacists about patients who have received excessive, clinically questionable prescriptions. Since there does not appear to be any operational differences as a result of this change, no significant economic effect is expected other than achieving consistency between the regulatory language and the practice.

Businesses and Entities Affected

The proposed repeal of unit dose dispensing fee is expected to primarily affect 76 nursing facility pharmacies. The proposed supplemental rebate contract change is expected to primarily affect approximately 20 pharmaceutical manufacturers providing rebates and the Virginia Medicaid program. The drug threshold program applies to all of the approximately 1,857 pharmacies enrolled in Medicaid.

Localities Particularly Affected

The proposed changes apply throughout the Commonwealth.

Projected Impact on Employment

The proposed repeal of the unit dose dispensing fee is expected to reduce revenues of nursing facility pharmacies which may have a negative impact on their demand for labor. Also, simplification of the supplemental rebate contracting process may reduce demand for legal professionals by a small margin.

Effects on the Use and Value of Private Property

The proposed changes are not anticipated to have a direct impact on the use and value of private property. However, a reduction in revenues of nursing facility pharmacies may have a negative impact on their asset values.

Small Businesses: Costs and Other Effects

Only the repeal of unit dose dispensing fee is expected to have a small business impact as most of the nursing home pharmacies are believed to be small businesses. Anticipated economic effects on nursing home pharmacies are discussed above.

Small Businesses: Alternative Method that Minimizes Adverse Impact

There does not seem to be an alternative method that minimizes the adverse impact while achieving the same goals.

Real Estate Development Costs

No impact on real estate development costs is expected.

Legal Mandate

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.H of the Administrative Process Act and Executive Order Number 14 (10). Section 2.2-4007.H requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. Further, if the proposed regulation has adverse effect on small businesses, Section 2.2-4007.H requires that such economic impact analyses include (i) an identification and estimate of the number of small businesses subject to the regulation; (ii) the projected reporting, recordkeeping, and other administrative costs required for small businesses to comply with the regulation, including the type of professional skills necessary for preparing required reports and other documents; (iii) a statement of the probable effect of the regulation on affected small businesses; and (iv) a description of any less intrusive or less costly alternative methods of achieving the purpose of the regulation. The analysis presented above represents DPB's best estimate of these economic impacts.