

LFC Requester:	RubyAnn Esquibel
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AGENCY BILL ANALYSIS - 2025 REGULAR SESSION
WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO
AgencyAnalysis.nmlegis.gov and email to)
(Analysis must be uploaded as a PDF)

SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Date Prepared: 1/31/2025 *Check all that apply:*
Bill Number: HB174 Original Correction
Amendment Substitute

Sponsor: Gail Armstrong **Agency Name and Code:** New Mexico Public Schools Insurance Authority 34200
Short Title: Pharmacy Reimbursement For Certain Plans **Number:** _____
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SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY25	FY26		

(Parenthesis () indicate expenditure decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY25	FY26	FY27		

(Parenthesis () indicate revenue decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	\$0	\$400.	\$765.	\$1,165.	Reoccurring	NMPSIA Benefits

(Parenthesis () Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:
Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

BILL SUMMARY

House Bill 174 proposes amendments to the Health Care Purchasing Act to establish reimbursement requirements for community-based pharmacy providers. The bill introduces specific requirements for ingredient cost reimbursement and professional dispensing fees for pharmacies that meet the definition of community-based.

Original Provisions:

The Health Care Purchasing Act currently sets guidelines for group health coverage but does not mandate specific reimbursement rates or dispensing fees for community-based pharmacies.

New Provisions Introduced in HB174:

HB174 amends the Health Care Purchasing Act by adding provisions that require reimbursement for prescription drugs as follows:

1. **Ingredient Cost Reimbursement:**
 - Health plans must reimburse the ingredient cost for prescription drugs dispensed by community-based pharmacies.
 - Reimbursement must be at least equal to the national average drug acquisition cost at the time the drug is dispensed.
 - If the national average drug acquisition cost is not available, reimbursement should be based on the wholesale acquisition cost.
2. **Professional Dispensing Fee:**
 - A professional dispensing fee must be paid to community-based pharmacy providers.
 - The fee must be no less than the amount reimbursed to pharmacies under the Medicaid fee-for-service program for covered outpatient drugs.

Definitions as Stated in the Bill:

- **Community-Based Pharmacy Provider:** A pharmacy that:
 - Is open to the public for prescription services, regardless of where the prescription was written.
 - Is located within New Mexico or in a border town that serves as a primary source of prescriptions for Medicaid recipients.
 - Is not government-owned, hospital-owned, or part of a corporation that owns hospitals or a mail-order pharmacy.
- **Ingredient Cost:** The amount actually paid to a pharmacy for a prescription drug, excluding any professional dispensing fees or cost-sharing.
- **National Average Drug Acquisition Cost:** The national average price at which pharmacies purchase a prescription drug from wholesalers or manufacturers.
- **Wholesale Acquisition Cost:** The price at which the manufacturer sells the drug to wholesalers, excluding any discounts or rebates.

The provisions of HB174 are set to become effective on January 1, 2026.

FISCAL IMPLICATIONS

An analysis of projected costs for FY26 and FY27 indicates a significant financial impact on NMPSIA's pharmacy benefit plan. Key findings include:

Increased Administrative Costs: Implementing the NADAC pricing platform for independent retail pharmacies in New Mexico will require an increased administration fee of \$1.00 per member per month (PMPM). This results in an additional cost of approximately \$300,000 annually for a full fiscal year. NMPSIA is facing a 3-year projected impact of \$1,165,000.

Scope of Impact: The NADAC pricing adjustments will apply to approximately 80 independent retail pharmacies in the state. Mail order, specialty pharmacies, and retail chain pharmacies are excluded from this analysis, as they do not fall under the definition of community-based pharmacy providers. Compound claims are also excluded.

Projected Pharmacy Cost Growth: Pharmacy claims are expected to grow at an annual trend rate of 14%, while dispensing fees are projected to increase by 6% per year.

Dispensing Fee Assumptions: The analysis assumes a dispensing fee of \$10.30 per prescription, based on the current New Mexico Medicaid reimbursement model.

Impact on Plan Costs: The total cost impact is calculated on an allowed basis, factoring in the expected increase in claims and dispensing fees. Additionally, point-of-sale rebates and cost-sharing reduction programs implemented in 2024 may slightly offset total costs, but their full effect is not included in this estimate. Based on the projected figures, the estimated annual difference between allowed costs and net plan-paid costs is approximately \$30,000.

Eligibility and Claims Data: This analysis is based on 47,454 covered lives as of June 2024. The claims data reflects prescriptions dispensed between August 1, 2023, and July 31, 2024. The pricing model is subject to variations depending on the month in which NADAC pricing is applied.

These cost projections highlight the potential financial impact of these pricing and reimbursement changes on NMPSIA's pharmacy benefit expenditures. Results are shown below:

	Allowed Cost Plus Dispensing Fee	Administrative Fee	Total Impact
FY2026	\$115,000	\$285,000	\$400,00
FY2027	\$195,000	\$570,000	\$765,000

SIGNIFICANT ISSUES

The implementation of NADAC pricing will directly impact the amount Community-Based Pharmacy Providers are paid, which in turn will increase costs for NMPSIA and its members. The analysis highlights both the potential benefits and significant financial risks associated with this change.

Potential Benefits of NADAC Pricing

- **Transparent, Accessible Pricing:** NADAC pricing is publicly available and aims to reflect actual pharmacy acquisition costs. Unlike Average Wholesale Price (AWP), which is a subscription-based and less transparent model, NADAC is designed to provide a clearer picture of drug pricing based on invoices submitted by pharmacies.
- **Recent Reporting Changes:** As of April 2024, expanded pharmacy participation in NADAC reporting led to an average 19% decrease in reported drug prices compared to previous surveys. While this appears beneficial, the long-term impact on independent pharmacies and pricing stability remains uncertain.
- **Increased Independent Pharmacy Participation:** Independent pharmacies have shown more acceptance of the NADAC model due to its transparency and selective pricing structure.

Financial Risks and Cost Implications

- **Unaccounted Rebates Leading to Higher Costs:** NADAC pricing does not include off-invoice rebates that pharmacies receive from wholesalers. Wholesalers can offset these rebates by increasing pharmacy invoice costs, which could drive up NMPSIA's expenses. These off-invoice rebates are not typically passed on to plan sponsors, meaning NMPSIA would bear the full burden of these cost shifts.
- **Unstable and Unpredictable Pricing:** NADAC prices fluctuate monthly based on randomized surveys of 4,000 pharmacies, with participation varying between 450-600 responses nationwide. Since the number of responses needed for statistically reliable data is unclear, NMPSIA faces challenges in projecting and budgeting pharmacy costs. The ongoing pricing instability could cause unanticipated cost spikes.
- **Delayed and Incomplete Pricing Data:** NADAC pricing lags approximately two months behind actual drug purchases, leading to a need for backup pricing models, such as AWP, to cover gaps. Additionally, not all drugs are listed under NADAC, requiring alternative pricing strategies, which could add further complexity and cost.
- **Reduced Cost Management Control:** Under NMPSIA's current PBM contract, cost management strategies such as guaranteed discounts, rebate minimums, and market checks help control year-over-year increases. Under NADAC pricing, cost-control measures are limited because:
 - NADAC pricing resets to a new baseline each year, making long-term trend management difficult.
 - There is no structured mechanism to mitigate cost increases or stabilize year-over-year budgeting.
- **Potential for Price Bias:** Pharmacies can selectively report drug prices in NADAC surveys. There is no incentive for pharmacies to report on drugs where financial returns

are lower, which could distort overall pricing data. This bias in reporting could drive NMPSIA's costs higher if pricing skews toward more expensive drugs.

- **Lack of Regulatory Oversight:** NADAC pricing is self-regulated and historically based on a limited number of independent pharmacies. The recent inclusion of larger pharmacy chains introduces uncertainty about how pricing will evolve. Without strong oversight, there is concern that drug costs could become increasingly difficult to regulate, potentially leading to higher expenses for NMPSIA.

Overall Financial Impact on NMPSIA

While NADAC pricing offers transparency, it introduces significant financial risks due to unstable pricing, lack of rebate inclusion, and reduced cost-control mechanisms. These factors make it increasingly difficult for NMPSIA to predict, budget, and manage pharmacy benefit expenses effectively. Given the limitations of NADAC's current structure, NMPSIA faces potential higher costs and greater financial uncertainty in future fiscal years.

PERFORMANCE IMPLICATIONS

ADMINISTRATIVE IMPLICATIONS

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

TECHNICAL ISSUES

OTHER SUBSTANTIVE ISSUES

ALTERNATIVES

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

AMENDMENTS