Department of Planning and Budget
2025 General Assembly Session
State Fiscal Impact Statement

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Bill Number: HB 2209 **Patron:** Kilgore
Bill Title: State pharmacy benefits manager; DMAS to select & contract with a third-party administrator to serve

Bill Summary: The proposed legislation requires the Department of Medical Assistance Services (DMAS) by December 31, 2025, to select and contract with a third-party administrator to serve as the state pharmacy benefits manager (PBM) to administer all pharmacy benefits for Medicaid recipients, including recipients enrolled in a managed care organization. The bill enumerates requirements for the department's contract with the state PBM and prevents the state PBM from having a business conflict of interest with any Medicaid provider or vendor.

Budget Amendment Necessary: Indeterminate **Items Impacted:** Pending
Explanation: The necessity of a budget amendment and impacted items will be updated if a specific fiscal impact is determined.

Fiscal Summary: The interactions between the new state PBM and MCOs is expected to be complex, and sufficient information to make a specific cost estimate is not currently available. Based on information provided by DMAS, the bill's provisions are expected to increase costs to the Medicaid program; however, there are also some anticipated offsets. In addition, the timing of implementation is uncertain. The bill requires that its provisions be implemented by December 31, 2025. However, DMAS maintains that the required procurement cannot be completed within this timeframe. As such the fiscal impact on medical assistance costs is indeterminate at this time.

Fiscal Analysis: Currently, DMAS only contracts with a PBM to administer the fee-for-service (FFS) pharmacy benefit. Each managed care organization (MCO) that administers pharmacy benefits for Virginia Medicaid recipients individually contracts with a PBM. The bill would require DMAS to contract with a third-party administrator to serve as the state PBM for pharmacy benefits provided through both FFS and managed care. In addition, the bill requires that the state PBM use pass-through pricing as well as the common formulary, reimbursement methodologies, and dispensing fees as established by DMAS. The provision to prohibit spread pricing is moved from Code § 32.1-325.

DMAS utilized Mercer, the agency contracted actuarial firm, to develop medical assistance cost estimates for this bill. Mercer's preliminary projections are based on pharmacy spending observed during calendar year 2023, pharmacy trend assumptions, and membership projections provided by DMAS. The initial Mercer analysis indicates that the program design required by the bill could increase cost to the Medicaid program between $36.9 million to $51.1 million (all funds) in the first full year of implementation. These costs are based on the adoption of a uniform preferred drug list and utilization of current fee for service dispensing fees. Additionally, a cost savings from converting to a single PBM may also occur. Because this single PBM would contract with each MCO, each MCO would no longer have a need for administrative costs to support their own PBM contract; thus, the capitation rates would be adjusted down. To estimate this savings, DMAS

used a Mercer study of single PBM options. For this model, Mercer estimated a potential $34.8 million (all funds) of savings beginning in the year of implementation.

DMAS maintains that the bill would require administrative effort for which the agency is not currently budgeted. The preliminary agency estimate is $4.2 million ($1.8 million general fund) in FY 2026 and $23.2 million ($2.5 million general fund) in FY 2027. This would support nine positions along with contractual and systems costs. However, the need and timing of these costs are still being evaluated. This statement will be updated once specific amounts and timelines are finalized.

Other: This bill is identical to HB 2610 and a companion to SB 875.