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

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Bill Number: HB 2610 ER **Patron:** Callsen

Bill Title: State pharmacy benefits manager; DMAS to select & contract with a third-party administrator to serve

Bill Summary: The enrolled bill requires the Department of Medical Assistance Services (DMAS), by July 1, 2026, 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 (MCO). The bill enumerates requirements for the department's contract with the state pharmacy benefits manager. In addition, the bill directs DMAS to engage an independent consultant, with direct experience (i) advising Medicaid fraud control units and (ii) working with states that have established a single pharmacy benefits manager for their Medicaid program for the implementation of a contract with a third-party pharmacy benefits manager for the administration of pharmacy benefits for the Virginia Medicaid managed care and fee-for-services programs. The consultant must not be engaged by any Virginia Medicaid managed care organization or by any pharmacy benefits manager contracted with a Virginia Medicaid managed care organization. The evaluation would not affect the implementation date of July 1, 2026.

Budget Amendment Necessary: Yes **Items Impacted:** 292

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 July 1, 2026. However, DMAS maintains that the required procurement would be difficult to complete within this timeframe. As such, the cost of hiring an outside vendor to assist with the initial PBM contract is reflected in FY 2026. Subsequent years reflect a preliminary estimate of DMAS administrative costs. The bill's impact on medical assistance costs is indeterminate.

General Fund Expenditure Impact:

Agency	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
DMAS (Administration)	-	$250,000	$2,209,795	$3,497,075	$3,497,075	$3,497,075
DMAS (Medical)	-	-	Indeterminate	Indeterminate	Indeterminate	Indeterminate

Nongeneral Fund Expenditure Impact:

Agency	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
DMAS (Administration)	-	$250,000	$20,515,608	$14,780,237	$14,780,237	$14,780,237
DMAS (Medical)	-	-	Indeterminate	Indeterminate	Indeterminate	Indeterminate

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Position Impact:

Agency	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
DMAS	-	-	5.0	5.0	5.0	5.0

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 negotiated 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 the introduced version of this bill. These estimates were based on pharmacy spending observed during calendar year 2023, pharmacy trend assumptions, and membership projections provided by DMAS. The initial Mercer analysis indicated that the program design could increase pharmacy costs to the Medicaid program by $36.9 to $51.1 million (all funds) each year. These cost projections were based on the adoption of a uniform preferred drug list and utilization of the current FFS dispensing fee ($10.49). The amended bill requires DMAS to negotiate dispensing fees. While it is assumed that a negotiated fee would be less than the current FFS rate and likely higher than those paid by managed care organizations, DMAS does not have sufficient data to develop a revised cost estimate. In addition to pharmacy costs, an administrative savings from converting to a single PBM may 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 2019 Mercer study of single PBM options. For this model, Mercer estimated a potential $10 million (all funds) savings beginning in the year of implementation. Note: This savings amount has been revised from the initial statement to reflect a better understanding of information provided in the study.

DMAS maintains that the bill would require administrative effort for which the agency is not currently budgeted. While the bill is not effective until July 1, 2026, DMAS indicates that the assistance of an outside vendor in FY 2026 would be necessary to expedite the process of contracting with a PBM. Based on historical experience, the agency maintains that a minimum of $500,000 ($250,000 general fund) is needed. In addition to PBM selection costs, DMAS assumes that funding would be needed for five positions along with PBM contract and systems costs. The preliminary agency estimate is $22.7 million ($2.2 million general fund) in in the first year of implementation and $18.3 million ($3.5 million general fund) each year thereafter. DMAS maintains that these positions would be needed to support the development and functions of the PBM. More specifically, the department expects that these positions would be dedicated to oversight, reporting, troubleshooting, rebate management, compliance, and escalations. DMAS reports that this effort is consistent with the level of staffing seen in other states for the pass-through model.

The bill stipulates that the evaluation would not affect the implementation date of July 1, 2026. However, there is no evaluation required by this legislation. Therefore, no associated costs are assumed.

Other: This bill is a companion to SB 875.