

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

Revised

Senate Bill 104 (Chairman, Finance Committee)

(Departmental - Health and Mental Hygiene)

Finance

Referred to Environmental Matters

Maryland Medical Assistance Program and Maryland Pharmacy Assistance Program - Prescription Drugs - Generic Substitutions

This amended departmental bill allows the Medical Assistance Program to pay the generic price for drugs determined to be therapeutically equivalent as soon as the drug is added to the state formulary by repealing a publication requirement. Current law specifies that additions to the program's list of equivalent generic drugs be published 60 days before drug substitution is required. The bill also provides that the Department of Health and Mental Hygiene (DHMH) is authorized to waive the generic substitution requirement if the generic drug is not generally available.

The bill takes effect July 1, 1996.

Fiscal Summary

State Effect: Medical Assistance Program expenditures could decrease by \$279,500 in FY 1997. Future year expenditures decrease to a greater extent as a result of inflation and the sunset of an agreement allowing drug manufacturers to extend patents on brand name drugs. Revenues would not be affected.

(in dollars)	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
GF Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditures	(156,500)	(344,300)	(378,700)	(416,600)	(458,300)
FF Expenditures*	<u>(123,000)</u>	<u>(270,600)</u>	<u>(297,700)</u>	<u>(327,400)</u>	<u>(360,200)</u>
Net Effect	(\$279,500)	(\$614,900)	(\$676,400)	(\$744,000)	(\$818,500)

Note: () - decrease; GF - general funds; FF - federal funds; SF - special funds

*Federal fund expenditures are reimbursable by the federal government

Local Effect: None.

Small Business Effect: The Department of Health and Mental Hygiene has determined that

this bill has a minimal impact on small business (attached). Fiscal Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Fiscal Analysis

Background: The Legislative Auditor, in a January 1995 performance audit report on the Medical Assistance Prescription Drug Program, found that \$840,000 (based on fiscal 1994 data) was overpaid on an annual basis because the brand name drug reimbursement rate was paid rather than the lower generic drug rate. Under current law, several months can elapse between the time a drug is added to the state formulary and the Medical Assistance Program is able to pay the generic price, due to delays caused by the publishing requirements. The Medical Assistance Program's point-of-sale system, established in 1993, can notify pharmaceutical providers electronically of the generic drugs in the state formulary, thereby allowing the state to save money by more rapid substitution of brand name drugs with generic drugs.

State Effect: Medical Assistance Program expenditures could decrease by an estimated \$279,500 in fiscal 1997. Of that amount, \$123,000 is federal funds (reimbursable from the federal government) and \$156,500 is general funds. This estimate assumes:

- The potential for annual savings is \$840,000.
- The time to get a generic price on the point-of-sale system will be three months rather than the current six months, thereby reducing savings to \$420,000. There would still be a three-month lag, however, due to the time it takes for the state to receive notification from the federal Food and Drug Administration about new generic drugs.
- Drug prices will increase by 10% annually (from fiscal 1994 utilization data to fiscal 1997), thereby increasing savings to \$559,000.
- The Uruguay Round Agreement Act (GATT), effective as of June 1995, allows drug manufacturers to extend their patents an average of 18 months, or until December 1996. As a result, drugs that would normally have been generic will remain brand name drugs during this period of time, thereby reducing potential fiscal 1997 savings in half (\$279,500).

Information Source(s): Department of Health and Mental Hygiene

Fiscal Note History: First Reader - January 18, 1996
ncs Revised - Senate Third Reader - March 19, 1996

Analysis by: Sue Friedlander

Direct Inquiries to:

Reviewed by: John Rixey

John Rixey, Coordinating Analyst
(410) 841-3710
(301) 858-3710