

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE

Senate Bill 649 (Senator Middleton. *et al.*)

Finance

Pharmacies - Discounts for Medicare Beneficiaries

This bill requires a pharmacy that participates in the Medicaid program to charge Medicare beneficiaries a certain price for prescription drugs. The prescription drug price charged to Medicare beneficiaries cannot exceed the price charged to Medicaid recipients plus the pharmacy's cost, to be set by the Department of Health and Mental Hygiene, for electronic transmissions of claims data. Medicare beneficiaries cannot use the Medicaid reimbursement rate for over-the-counter medications or compounded prescriptions.

The Department of Health and Mental Hygiene (DHMH) must: (1) provide a mechanism to calculate and transmit the price of a prescription drug to the pharmacy; (2) monitor pharmacy participation and compliance; (3) report by December 1 of each year to the General Assembly information concerning pharmacies that discontinue participation in the Medicaid program and the reasons given for discontinuation.

The Department of Legislative Services must report to the General Assembly if the federal Medicare program adds prescription drugs to its scope of benefits. The Senate Finance Committee and the House Environmental Matters Committee will then evaluate the need to continue the drug discount program for Medicare beneficiaries.

This bill sunsets September 30, 2003.

Fiscal Summary

State Effect: General fund expenditures would increase by \$418,700 in FY 2001. Future year expenditures reflect annualization and inflation. Revenues would not be affected.

(in dollars)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	\$0	\$0	\$0	\$0	\$0

GF Expenditures	418,700	494,300	520,900	549,100	578,800
Net Effect	(\$418,700)	(\$494,300)	(\$520,900)	(\$549,100)	(\$578,800)

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law: There are no statutory provisions providing discounted drugs to Medicare beneficiaries based on Medicaid prescription drug rates.

Background: Medicare, administered by the federal government, is the nation's largest health insurance program, covering over 39 million individuals who are over age 65 or disabled. Medicare does not provide a prescription drug benefit. Approximately 60% of all Medicare beneficiaries receive some type of prescription drug benefit through a Medigap policy or other types of private health insurance.

In Maryland, there are approximately 628,000 Medicare beneficiaries, of whom, approximately 251,000 do not have prescription drug coverage.

State Fiscal Effect: General fund expenditures will increase by \$418,687 in fiscal 2001, which accounts for the bill's October 1, 2000, effective date. This estimate reflects the cost of hiring three administrative positions to conduct surveys of participating pharmacies to ensure compliance. It also reflects DHMH's payments for electronic transmissions to its point-of-sale contractor that processes prescription drug claims for Medicaid. Electronic transmission costs are based on the following facts and assumptions:

- 251,000 Maryland Medicare beneficiaries do not have prescription drug coverage;
- 75% of those eligible to purchase prescriptions will do so;
- the average Medicare beneficiary will purchase 24 prescriptions annually; and
- DHMH's cost for electronic transmissions is \$0.07 per transmission.

Salaries and Fringe Benefits	\$90.936
Electronic Transmission Costs	237.378
One-Time Computer Programming Expenses	50.000
Operating Expenses	40.373
Total FY 2001 Expenditures	\$418.687

Future year expenditures reflect: (1) full salaries with 4.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Small Business Effect: Small business pharmacies that participate in Medicaid may be required to sell prescription drugs to Medicare beneficiaries at a loss. The bill's requirements would require these pharmacies to sell prescription drugs at the Medicaid payment rate. In general, Medicaid's payments to pharmacies are only about 75% of the pharmacies' usual and customary charges. If pharmacies incur substantial losses, they may discontinue participation in the Medicaid program. Because one in three Medicare beneficiaries who do not have prescription drug coverage lives in rural areas, pharmacy pull-outs may disproportionately affect the rural areas of Maryland, including Western Maryland, the Eastern Shore, and Southern Maryland.

Additional Information

Prior Introductions: None.

Cross File: HB 1336 (Delegate Rudolph, *et al.*) - Environmental Matters.

Information Source(s): U.S. Health Care Financing Administration; AARP; *The Clinton-Gore Administration Plan to Strengthen Medicare for Women* (July 27, 1999), The White House; Department of Health and Mental Hygiene (Medicaid); Department of Legislative Services

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