HB 1092

Department of Legislative Services

Maryland General Assembly
2001 Session

FISCAL NOTE

House Bill 1092 (Delegate Hammen, *et al.*)
Environmental Matters and Economic Matters

Maryland Pharmacy Assistance Program - Maryland Cares Prescription Drug Benefits Plan and the Maryland Catastrophic Prescription Drug Benefits Plan

This bill establishes, beginning January 1, 2002, the Maryland Cares Prescription Drug Benefits Plan under the Maryland Pharmacy Assistance Program (MPAP). The bill establishes, beginning January 1, 2004, the Maryland Catastrophic Prescription Drug Benefits Plan under the MPAP. The bill also establishes the Maryland Prescription Drug Benefits Advisory Committee within the Department of Health and Mental Hygiene (DHMH).

The bill takes effect July 1, 2001. The bill sunsets upon the earlier of the availability of comparable prescription drug benefits provided by Medicare or a federal block grant to the State to fund an expansion of the State's various pharmacy benefits programs or the creation of a new pharmacy benefits program.

Fiscal Summary

State Effect: Medicaid general fund revenues could increase by an estimated $2 million in FY 2002. Medicaid general fund expenditures could increase by an estimated $1 million in FY 2002. Future year estimates reflect annualization and inflation. Implementation of the catastrophic drug plan could increase Medicaid expenditures by an estimated $37 million (50% federal, 50% general) in FY 2004. Future year expenditures reflect annualization and inflation. One-time general fund revenue increase of $8 million from the transfer of funds remaining in the Short-Term Prescription Drug Subsidy Plan Fund to DHMH's general fund in FY 2003.

($ in millions)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
GF Revenue	$1.98	$12.67	$2.15	$2.53	$3.04
GF Expenditure	1.01	.88	18.70	46.00	56.00
FF Expenditure	0	0	18.70	46.00	56.00
Net Effect	$.97	$11.78	($35.25)	($89.47)	($108.96)

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

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Bill Summary: This bill creates a two-tier prescription drug benefit plan. In the first tier, beginning January 1, 2002, an individual is eligible to enroll in the Maryland Cares Prescription Drug Benefits Plan (drug benefit plan) if the individual: (1) is not covered in the Maryland Pharmacy Assistance Program (MPAP); (2) is eligible for Medicare; (3) is not receiving prescription drug benefits under any other public or private insurance or prescription drug benefits program; and (4) has a gross income that is 250% of the federal poverty level (FPL) or lower. DHMH must issue prescription drug cards to enrollees that comply with applicable State and federal laws governing the format for a prescription drug benefit card.

When a drug benefit plan enrollee purchases a prescription drug, the enrollee must pay 87% of the Medicaid price of a prescription drug and a $2 processing fee to the pharmacist.

In the second tier, beginning January 1, 2004, an individual is eligible to enroll in the Maryland Catastrophic Prescription Drug Benefits Plan (catastrophic plan) if the individual: (1) is enrolled in the drug benefit plan; and (2) has spent $2,000 on prescription drugs in the same calendar year.

When a catastrophic plan enrollee purchases a prescription drug, the enrollee must pay 25% of the Medicaid price of the prescription drug and a $2 processing fee to the pharmacist.

Medicaid must reimburse pharmacies for prescription drugs purchased by drug benefit plan and catastrophic plan enrollees in an amount not less than the amount paid for the same items or services reimbursed under the Medicaid program.

Beginning January 1, 2003, DHMH must apply to the federal Health Care Financing Administration (HCFA) for an amendment to the existing Section 1115 waiver or any other appropriate waiver under Section 1115 of the Social Security Act to maximize the goals or offset the costs of providing drug benefits at Medicaid rates to drug benefit plan and catastrophic plan enrollees. The funding and operation of the two plans is not conditioned on HCFA's grant of a waiver to the State. Upon receipt of a Section 1115 waiver, DHMH must implement any changes in the MPAP made possible by the waiver.

Until the earlier of December 31, 2006 or notification by HCFA of the final approval or denial of DHMH's application for a waiver, DHMH must report every six months to the appropriate committees of the General Assembly on the status of DHMH's application.

The seven-member Maryland Prescription Drug Benefits Advisory Committee must advise the Secretary of DHMH on the status of the waiver application required by the bill. In addition, the committee must report to the Secretary on the costs and levels of utilization of prescription drugs by low income and senior residents of the State and recommend alternatives for providing access to low cost prescription drugs. The committee must evaluate the fiscal impact and the impact on the health of eligible individuals of the drug benefit plan and catastrophic plan, including the impact of the costs of dispensing drugs under the MPAP.

On the earlier of June 30, 2002 or the availability of comparable prescription benefits, the Short-Term Prescription Drug Subsidy Plan established by Chapter 565 of 2000 will sunset. At that time, the Treasurer must transfer any unspent and uncommitted monies remaining in the short-term prescription drug subsidy plan fund to the MPAP for use in the drug benefit plan and the catastrophic plan.

DHMH must implement any necessary changes to the MPAP to ensure that drug benefit plan and catastrophic plan enrollees can be verified electronically at the point of sale by October 1, 2001. DHMH must also review information on drug utilization currently maintained by the MPAP, and report back to the appropriate committees of the General Assembly by January 1, 2002 on the drug utilization patterns and feasibility of developing a State therapeutic drug case management program for drug benefit plan and catastrophic plan enrollees requiring enrollees to undergo a drug utilization assessment as a condition of enrollment in the plans.

Current Law: The State currently provides three major pharmacy assistance programs to senior citizens and lower-income individuals: (1) Medicaid; (2) the Maryland Pharmacy Assistance Program; and (3) the Short-Term Prescription Drug Subsidy Plan (Chapter 565 of 2000). Individuals enrolled in Medicaid and the Children's Health Insurance Program (CHIP) receive comprehensive prescription drug coverage. Low-

income individuals who pass certain income- and asset-level tests may enroll in the Maryland Pharmacy Assistance Program, which provides coverage for certain maintenance drugs and anti-infectives for a low copayment. The Short-Term Prescription Drug Subsidy Program, which provides coverage for Medicare enrollees in medically underserved counties, includes a low monthly premium as well as deductibles and copayments.

State Expenditures: DHMH administrative expenditures could increase by an estimated $1 million (general funds) in fiscal 2002, which accounts for a 90-day start-up delay and the drug benefit plan's implementation on January 1, 2002. Assuming DHMH obtains an amendment to the Section 1115 waiver, DHMH expenditures (50% federal, 50% general) could increase by an estimated $37 million in fiscal 2004 with the implementation of the catastrophic plan.

The fiscal 2002 expenditure estimate reflects the cost of 15 positions to enroll an estimated 102,500 enrollees, computer programming and electronic transmission costs, and rebate administration costs.

Salaries and Fringe Benefits	$400,617
Programming, Rebate, and Transmission Costs	172,496
Ongoing Operating Expenses	434,772
Total FY 2002 Expenditures	**$1,007,584**

Future year expenditures assume enrollment rates remain constant and reflect: (1) full salaries with a 6.5% increase in fiscal 2003, 4.5% annual increases each year thereafter, with 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

The fiscal 2004 estimate is based on the following facts and assumptions:

- 21% (or 21,525) of those enrolled in the drug benefit plan will have drug claims under the catastrophic plan that begins January 1, 2004; and

- DHMH pays $36 million, or approximately 60% of catastrophic plan enrollees' total prescription drug costs ($62.5 million in fiscal 2004).

Future year estimates assume that enrollment remains constant and reflects annualization and 18% prescription drug cost inflation.

Any expenses associated with the advisory committee are assumed to be minimal and could be handled with existing budgeted DHMH resources.

State Revenues: DHMH general fund revenues could increase by an estimated $2 million in fiscal 2002, which accounts for the January 1, 2002 drug benefit program implementation date. This estimate is based on the following facts and assumptions:

- 205,000 (185,000 seniors and 20,000 disabled individuals) Medicare beneficiaries are eligible for coverage;
- 50% of those eligible will participate;
- enrollees pay 87% of the Medicaid reimbursement rate to pharmacies;
- DHMH receives rebates from drug manufacturers worth 15% of the Medicaid reimbursement rate;
- DHMH remits 13% of the Medicaid reimbursement rate to pharmacies to ensure pharmacies receive 100% reimbursement, thus allowing DHMH to keep 2% of the prescription drug costs;
- the prescription drug inflation rate is 18%; and
- future year enrollment remains constant.

It is assumed that approximately $8 million will remain in the Short-Term Prescription Drug Subsidy Plan fund (Chapter 565 of 2000) that will be transferred on July 1, 2002 into the drug benefit plan required by this bill.

Small Business Effect: There are approximately 1,300 pharmacies in Maryland, 230 of which are small businesses. 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 live in rural areas, pharmacy pull-outs may disproportionately affect the rural areas of Maryland.

Additional Comments:

Exhibit 1

2001 Federal Poverty Level Income Guidelines*	
Family Size	250% FPL
Family of 1	$21,475
Family of 2	$29,025
Family of 3	$36,575
Family of 4	$44,125

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Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Health and Mental Hygiene (Medicaid, Maryland Health Care Commission, Boards and Commissions); *Medicare and Prescription Drugs* (March 2000), Kaiser Family Foundation; *Report on the Possibility of a Buy-In Prescription Assistance Program* (December 6, 2000), Department of Health and Mental Hygiene; U.S. Health Care Financing Administration; AARP; *The Clinton-Gore Administration Plan to Strengthen Medicare for Women* (July 27, 1999), The White House; U.S. Census Bureau; Department of Legislative Services

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