HB 1232

Department of Legislative Services

Maryland General Assembly
2001 Session

FISCAL NOTE
Revised

House Bill 1232 (Delegate Rudolph, *et al.*)
Environmental Matters and Economic Matters

Senior Citizen Prescription Medicine Relief Act

This bill requires a pharmacy that participates in the Medicaid program to charge Medicare beneficiaries a price for prescription drugs that does not exceed the price charged to Medicaid recipients plus the pharmacy's cost for electronic transmissions of claims data. Medicare beneficiaries cannot use the Medicaid reimbursement rate for over-the-counter medications or compounded prescriptions.

The bill sunsets September 30, 2004.

Fiscal Summary

State Effect: General fund expenditures would increase by $416,100 in FY 2002. Future year expenditures reflect annualization and inflation. Revenues would not be affected.

(in dollars)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenues	$0	$0	$0	$0	$0
GF Expenditure	416,100	496,800	507,900	129,900	0
Net Effect	($416,100)	($496,800)	($507,900)	($129,900)	$0

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

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Bill Summary: 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; and (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.

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

Background: Medicare is the nation's largest health insurance program, covering over 39 million individuals who are either at least age 65 or disabled. Medicare does not provide a prescription drug benefit. Approximately 69% of all Medicare beneficiaries receive some type of prescription drug benefit through private health insurance. There are approximately 598,000 seniors over the age of 65 in Maryland, 185,000 of whom do not have prescription drug coverage.

California has enacted a program similar to this bill. California's program has no income limits or required copayments, and is estimated to serve 1.3 million Californians through 5,000 participating pharmacies. California reports that pharmacies have not dropped out of the Medicaid program to avoid the financial burden of providing discounts to seniors. Participating California pharmacies cannot charge Medicare beneficiaries more than average wholesale price (AWP) -- 5% plus a $3.80 dispensing fee. The California program estimates that its seniors will receive a price discount in the range of 10% to 40%.

Florida has also implemented a similar program, requiring pharmacies to charge no more than the AWP -- 9% plus a $4.50 dispensing fee. Vermont has recently received a request for an extension of its Medicaid 1115 waiver, which allows the state to expand eligibility for its pharmacy program. The Vermont program permits all seniors with incomes above 150% but below 300% of the federal poverty level to enroll in the state's pharmacy assistance program. Vermont reimburses pharmacies at the AWP -- 11.9% plus a $4.25 dispensing fee. Legislation was introduced but did not pass in Colorado, Connecticut, Illinois, Minnesota, Missouri, and Washington that would have allowed Medicare beneficiaries to purchase prescription drugs at the price charged for the Medicaid program.

Medicaid's current reimbursement rate to pharmacies is the AWP -- 10% plus a $4.21 dispensing fee.

State Fiscal Effect: General fund expenditures could increase by $416,100 in fiscal 2002, which accounts for the bill's October 1, 2001 effective date. This estimate reflects the cost of 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 ($219,863) are based on the following facts and assumptions:

- 205,000 Maryland Medicare beneficiaries (185,000 seniors and 20,000 disabled individuals) do not have prescription drug coverage;
- 50% of those eligible to receive the discount for prescriptions will do so;
- the average Medicare beneficiary will purchase 26 prescriptions annually; and
- DHMH's cost for electronic transmissions is $0.11 per transmission

Salaries and Fringe Benefits	$95,204
Electronic Transmission Costs	219,863
One-Time Computer Programming Expenses	50,000
Survey Expenses	37,500
Operating Expenses	13,515
Total FY 2002 State Expenditures	**$416,082**

Future year expenditures reflect: (1) full salaries with 6.5% annual increases in fiscal 2003, 4.5% annual increases thereafter, with 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

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 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: An identical bill, HB 1336, was introduced in the 2000 session, but it was not reported from the House Environmental Matters Committee.

Cross File: None, although SB 126 is identical.

Information Source(s): *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 Health and Mental Hygiene (Medicaid, Boards and Commissions, Maryland Health Care Commission); Department of Legislative Services

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