SB 481

Department of Legislative Services

Maryland General Assembly
2002 Session

FISCAL NOTE
Revised

Senate Bill 481 (Senator Kelley)
Finance Environmental Matters

Department of Health and Mental Hygiene - Reimbursement Rates

This bill requires the Department of Health and Mental Hygiene (DHMH) to establish a process to annually set the fee-for-service reimbursement rates for the public mental health system in a manner that ensures participation of providers. DHMH must report annually by September 1 to the Governor and certain committees of the General Assembly on its progress in establishing a process, as well as its progress to annually set fee-for-service reimbursement rates for the Maryland Children's Health Program (MCHP) and the Medicaid program. In addition, the bill changes prescription drug coverage limitations in the Maryland Pharmacy Assistance Program (MPAP) and requires DHMH to implement alternative cost containment measures before implementing a pharmacy reimbursement rate reduction cost containment measure outlined in the fiscal 2003 budget.

The bill takes effect July 1, 2002.

Fiscal Summary

State Effect: DHMH could establish the rate process for mental health services and prepare the reports with existing budgeted resources. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: DHMH must consult with representatives of the pharmaceutical and pharmacy industries, authorized prescribers, and patient advocates to identify and implement pharmacy cost containment measures other than the $10.8 million pharmacy reimbursement reduction cost containment measure contained in the fiscal 2003 budget. By October 1, 2002, if additional cost savings obtained as a result of alternative cost containment measures are not sufficient to ensure that the pharmacy cost containment assumed in the fiscal 2003 budget is achieved, DHMH must implement cost containment measures with respect to pharmacy reimbursement in a manner that achieves the level of savings that would have been achieved if the pharmacy reimbursement reduction took effect on July 1, 2002. DHMH must report to certain committees of the General Assembly by October 1, 2002 on the measures that have been taken to identify and implement alternative cost containment measures and the projected cost savings attributed to these measures.

DHMH also must report to various committees on the pharmacy dispensing fee for the Medicaid program and MPAP. In preparing the report, DHMH must consult with representatives from the community and independent pharmacies. The report may include: (1) an analysis of the dispensing fee structure in other states; (2) an analysis of current reports and literature concerning dispensing fees in state prescription drug programs; and (3) a review of industry supplied surveys concerning the time and associated costs of dispensing.

DHMH may implement various measures to encourage the use of medically-appropriate generic drugs and brand name drugs on a preferred drug list.

Current Law: DHMH is authorized to set reimbursement rates for health care providers in the MCHP and Medicaid programs. DHMH reimburses providers on a fee-for-service basis according to a fee schedule developed by DHMH. Chapter 702 of 2001 requires DHMH to establish a process to annually set the fee-for-service reimbursement rates for MCHP and Medicaid in a manner that ensures participation of providers. In developing this process, DHMH must consider a reimbursement system that reflects either: (1) fee-for-service rates paid in the community; or (2) the Resource Based Relative Value Scale (RBRVS) system used in the Medicare program or the American Dental Association CPT-3 codes. DHMH must report to the Governor, the Senate Finance and Budget and Taxation committees, and the House Environmental Matters and Appropriations committees by September 1, 2001 on: (1) its progress in complying with these requirements; (2) an analysis of the fee-for-service reimbursement rates paid in other states and how those rates compare with those in Maryland; (3) its schedule for bringing Maryland's fee-for-service reimbursement rates to a level that assures that all health care

providers are reimbursed adequately to provide access to care; and (4) an analysis of the estimated costs of implementing the schedule and any proposed changes to the fee-for-service reimbursement rates for the MCHP and Medicaid programs.

Background: In 1992, Medicare significantly changed the way it pays for physicians' services. Instead of basing payments on charges, the federal government established a standardized physician payment schedule based on the RBRVS. In the RBRVS system, payments for services are determined by the resource costs needed to provide them. The cost of providing each service is divided into three components: (1) physician work; (2) practice expense; and (3) professional liability insurance. Payments are calculated by multiplying the combined costs of a service by a conversion factor (a monetary amount that is determined by the federal Centers for Medicare and Medicaid Services). Payments are also adjusted for geographical differences in resource costs.

In 1999, DHMH conducted a study of Medicaid's reimbursement rates which found that Medicaid's reimbursement rates were, on average, about one-third of Medicare RBRVS rates. The low reimbursement rates raised concern about the adequacy of Medicaid and MCHP provider networks and the quality of care provided to program enrollees.

As a result, Chapter 702 of 2001 requires DHMH to establish a process for annually setting the fee-for-service reimbursement rates based on comparable rates paid for the same services.

In its September 2001 report to the Governor and General Assembly, DHMH recommended an annual comparison of Maryland Medicaid rates with Medicare rates paid in Maryland. The rate comparison would be reported to the Governor and General Assembly by June of each year, providing information to be considered in the development of the Medicaid budget for the following State fiscal year.

The fiscal 2003 Medicaid budget contains several cost containment measures to save $56.9 million in the Medicaid and MPAP prescription drug programs. Cost containment measures include not funding the Maryland Pharmacy Discount Program (projected savings $16 million), reducing the Medicaid pharmacy reimbursement from average wholesale price (AWP) minus 10% to AWP minus 13% ($10.8 million savings), implementing a step therapy program ($3 million savings), increasing MPAP copayments by $2.50 per prescription ($2.5 million savings), and increasing Medicaid copayments by $1 ($1.8 million savings).

State Fiscal Effect: The bill requires DHMH to use alternative cost containment measures, such as implementing disease management programs, before implementing the Medicaid pharmacy reimbursement reduction from average wholesale price (AWP)

minus 10% to AWP minus 13% ($10.8 million savings) specified in the fiscal 2003 budget. If additional cost savings from the alternative cost containment measures do not meet the cost containment assumed in the fiscal 2003 budget by October 1, 2002, DHMH is required to implement cost containment in a manner that achieves the level assumed in the budget. Since the cost containment level assumed in the budget must be met, regardless of which methods are implemented to achieve the necessary savings, the bill's provisions requiring alternative cost containment measures to be implemented first have no fiscal impact on DHMH.

Additional Information

Prior Introductions: A similar bill, HB 1071, was introduced in 2001 and established the rate evaluation process. It was passed by the General Assembly (Chapter 702 of 2001).

Cross File: HB 650 (Delegate Hammen) – Environmental Matters.

Information Source(s): Department of Health and Mental Hygiene (Medicaid), Department of Legislative Services

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