

Department of Legislative Services
 Maryland General Assembly
 2002 Session

FISCAL NOTE

House Bill 1273 (Delegate Valderrama, *et al.*)
 Economic Matters and Environmental Matters

Health - Assistance Programs - Prescription Drugs

This bill creates the Prescription Drug Affordability Program within the Department of Health and Mental Hygiene (DHMH).

Fiscal Summary

State Effect: DHMH general fund revenues could increase by \$3.5 million and general fund expenditures could increase by a significant amount in FY 2003. DHMH special fund expenditures for the Short-Term Prescription Drug Subsidy Plan could increase beginning FY 2004. Future year estimates reflect annualization and inflation.

(\$ in millions)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
GF Revenue	\$3.5	\$5.4	\$6.2	\$7.2	\$8.2
GF Expenditure	-	-	-	-	-
SF Expenditure	0	-	-	-	-
Net Effect	\$3.5	\$5.4	\$6.2	\$7.2	\$8.2

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The program must: (1) negotiate prescription drug discounts and rebates from drug manufacturers on behalf of program recipients; (2) aggregate the purchasing power of the Medicaid program, Medicare, and other State health assistance programs

under one entity in order to combine drug pricing negotiations; and (3) administer a prescription drug card program that passes on any discounts received under the program.

An individual may participate in the program if he or she is: (1) an uninsured resident on Medicare; and (2) a resident under 65 with an income.

In addition, the bill changes the termination date of the Short-Term Prescription Drug Subsidy Plan from June 30, 2003 to June 30, 2005 and increases the enrollment cap from 30,000 to 50,000 enrollees.

Current Law: Chapter 565 of 2000 created the Short-Term Prescription Drug Subsidy Plan for Medicare seniors who lived in medically underserved counties. Chapters 134 and 135 of 2001 expanded the plan to include all Medicare seniors in the State as well as individuals who have annual household incomes at or below 300% of federal poverty level (FPL) guidelines. The program is funded by the Short-Term Prescription Drug Subsidy Program fund which consists of 37.5%, or \$17.5 million, of the value of the Substantial, Available, and Affordable Coverage (SAAC) differential as of January 1, 2001, and includes collected premiums, interest, and investment income.

Background: Approximately 31 states have established or authorized some type of program to provide prescription drug coverage or assistance, primarily to low-income seniors or persons with disabilities who do not qualify for Medicaid. Most programs use state funds to subsidize a portion of the costs, usually for a defined population that meets enrollment criteria, but others use discounts or bulk purchasing approaches.

As of February 25, 2002, there were 26,155 enrollees in the Short-Term Prescription Drug Subsidy Plan. CareFirst, Inc., the administrator of the Short-Term Prescription Drug Subsidy Plan, advises that current program costs are \$21 million.

State Revenues: DHMH general fund revenues from new rebates could increase by an estimated \$3,529,350 in fiscal 2003, which reflects the bill's October 1, 2002 effective date. This estimate assumes:

- Medicaid and Maryland Pharmacy Assistance Program (MPAP) prescription drug expenditures are \$294,112,500 in fiscal 2003;
- new rebates average 2% of Medicaid and MPAP drug expenditures (or \$5,882,250); and
- DHMH must refund half of rebates received under the Medicaid program only, or \$2,352,900, to the federal government.

Under federal law, DHMH must pay 50% of rebate revenues received in the Medicaid program back to the federal government.

Future year estimates reflect annualization and 15% prescription drug price inflation.

State Expenditures:

Prescription Drug Card Program: DHMH general fund expenditures could increase by an indeterminate but significant amount in fiscal 2003 to administer the prescription drug card discount program. The bill requires DHMH to provide a drug card program that passes on any negotiated discounts or supplemental rebates to drug cardholders, who may include Medicare beneficiaries and individuals under 65 with an income. There are insufficient data at this time to reliably estimate the number of individuals who may enroll in the drug card program. In Maryland, there are approximately 251,000 Medicare beneficiaries who do not have prescription drug coverage. It is unknown how many individuals under 65 with an income may choose to enroll in the drug card program, but the number could be significant. DHMH advises that enrollment costs per person would be \$10 per enrollee to process the application and issue a card. Accordingly, for every 100,000 persons who choose to enroll, DHMH general fund expenditures could increase by approximately \$1 million.

Short-Term Prescription Drug Subsidy Plan: DHMH special fund expenditures could increase by an indeterminate amount, beginning fiscal 2004. The bill expands enrollment from 30,000 to 50,000 and changes the program's termination date from June 30, 2003 to June 30, 2005. However, the bill does not change the plan's funding mechanism, and the plan is still subject to the availability of funds. Funding is provided through 37.5% of the total SAAC differential provided to participating carriers in the previous year. Participating carriers pay 37.5% of their respective differential to the special fund, which is remitted to CareFirst, Inc., the plan's administrator. There are insufficient data at this time to reliably estimate any increase in enrollment beginning in fiscal 2004 or the associated special fund expenditures necessary to pay for prescription drugs.

Small Business Effect: There are approximately 1,300 pharmacies in Maryland, 230 of which are small businesses. Under the prescription drug card program, small business pharmacies may be required to sell prescription drugs to enrollees at a loss.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Health and Mental Hygiene (Medicaid, Family Health Administration, Maryland Health Care Commission, Health Services Cost Review Commission), Department of Legislative Services

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