Department of Legislative Services

Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1287 (Delegate Rudolph, *et al.*)
Health and Government Operations and Appropriations Finance

Maryland Rx Program

This bill establishes the Maryland Rx Program to achieve savings on prescription drugs for the State Employee and Retiree Health and Welfare Benefit Plan (State plan) and any local government or other qualifying entity. It must seek savings through: (1) a preferred list of covered prescription drugs; (2) drug manufacturer rebates; (3) negotiated discounts; and (4) other cost-saving measures.

Each entity participating in the program must bear the cost of drugs purchased through the program. State plan drug costs must be paid in accordance with the State budget and the law governing the State plan. The State may provide and recoup start-up funds for the program. The Department of Budget and Management (DBM) may charge an administrative fee sufficient to offset its costs to participants and contract with a pharmacy benefit manager to administer the program. The bill does not apply to any contract entered into before January 1, 2006 by DBM to purchase prescription drugs for the State plan.

The bill takes effect July 1, 2005

Fiscal Summary

State Effect: Significant prescription drug expenditure reduction for the State Employee and Retiree Health and Welfare Benefit Plan (potentially several million dollars). Administrative costs for the Maryland Rx Program would be paid by program participants.

Local Effect: Potentially significant prescription drug expenditure reduction if local jurisdictions participate in the program.

Small Business Effect: Potential meaningful. To the extent small businesses participate in the program, prescription drug expenditures could decrease.

Analysis

Current Law: The State has several prescription drug assistance programs for lower-income individuals.

The Maryland Pharmacy Assistance Program provides prescription drugs to low-income residents who earn less than 116% of the federal poverty level guidelines (FPG). Enrollees pay a $2.50 or $7.50 copayment for each prescription filled.

The Maryland Pharmacy Discount Program permits a Medicare-eligible individual with income between 116% and 175% FPG to purchase prescription drugs at 65% of the Medicaid payment level. Program enrollees also pay the pharmacists a $1 processing fee.

The Senior Prescription Drug Program provides prescription drug insurance to Medicare beneficiaries. Enrollment is limited to Medicare-eligible individuals who have incomes below 300% FPG. There is no deductible, but enrollees pay a $10 monthly premium in addition to a tiered copayment depending on the type of drug. Benefits are limited to $1,000 annually.

Background: Wisconsin has a program similar to the one created by the bill. Badger Rx currently saves Wisconsin more than $25 million annually on the prescription drugs it purchases for government employees. The program was expanded last July to allow businesses to participate. It is expected that Badger Rx will be expanded again in the upcoming year to permit individuals to enroll.

The Department of Health and Mental Hygiene (DHMH) has implemented, or is planning to implement, similar savings mechanisms in the Medicaid program. DHMH recently announced it is joining a prescription drug purchasing pool with West Virginia and Louisiana to use bulk purchasing power as leverage to secure lower drug costs. Implementation of the pool is pending federal Centers for Medicare and Medicaid Services approval. In addition, DHMH has fully implemented a preferred drug list, administered by Provider Synergies, for its Medicaid and pharmacy assistance programs. Prior to implementation, DHMH estimated the preferred drug list would save approximately $16 million total funds in the first year of use. DHMH now projects it will save $31 million total funds in the first year as a result of market share movement created by the preferred drug list and the negotiation of supplemental rebates. DHMH pays Provider Synergies $820,000 annually to administer the preferred drug list.

Projected fiscal 2005 prescription drug expenditures are $424 million for Medicaid and related pharmacy assistance programs and $316 million for the State plan.

State Fiscal Effect: To the extent the Maryland Rx Program leverages lower prices on prescription drugs through negotiated discounts and rebates, State plan prescription drug expenditures could decrease, beginning in fiscal 2007. The State plan is administered by Caremark, a pharmacy benefit manager (PBM). While Caremark performs essentially the same functions as required by the bill, it is assumed that the larger market share created by the Maryland Rx Program would help negotiate and pass on even steeper discounts for prescription drugs. It is assumed, to the extent it is practicable, the State plan would continue to derive savings from its current PBM as well as benefit from the Maryland Rx Program. The amount of any savings cannot be reliably estimated at this time.

State plan expenditures assume a fund mix of 60% general funds, 20% federal funds, and 20% special funds; and 20% of expenditures are reimbursable through employee contributions.

It is assumed DBM would charge administrative fees to participating businesses or individuals that are sufficient to cover costs. There are insufficient data at this time to reliably estimate Maryland Rx Program administrative expenses or the number of entities that could choose to participate and pay DBM a participation fee.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Insurance Administration, Department of Budget and Management (Employee Benefits Division), Department of Legislative Services

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