Department of Legislative Services

Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE
Revised

House Bill 156 (Delegate C. Davis)
Appropriations Budget and Taxation

State Employees and Retirees - State Prescription Drug Benefit Plan - Co-Payments

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This bill requires the State Employee and Retiree Health and Welfare Benefits Program (State plan) to offer a voluntary mail-order option for prescription drugs, under which the maximum copayment for each 90-day prescription may not exceed $20.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: State plan expenditures could decrease by a potentially significant amount in FY 2007 only. No effect on revenues.

Local Effect: None.

Small Business Effect: Minimal. To the extent State plan enrollees choose the mail-order option, small business pharmacies could fill fewer prescriptions.

Analysis

Current Law: In fiscal 2006 and 2007, the drug plan must charge the following copayments: (1) $5 for generic drugs; (2) $15 for preferred drugs on the State formulary; and (3) $25 for drugs that are not preferred drugs on the State formulary. The State plan also must offer a voluntary mail-order option with the same copayments. The drug plan may charge the same copayment for each 45-day prescription. For each fiscal year, the total amount of copayments charged to the enrollee may not exceed $700.

Chapter 444 of 2005 is the Budget Reconciliation and Financing Act of 2005. Section 7 of Chapter 444 implemented specified copayment changes in the State plan's prescription drug benefit for fiscal 2006 and 2007 only. Section 43 specifies these provisions terminate June 30, 2007, at which time the Department of Budget and Management (DBM) may impose a different copayment structure.

Background: State plan expenditures for prescription drugs are expected to be about $277 million in fiscal 2007.

Since the mid-1990s, national expenditures on prescription drugs have grown at a faster rate than most other health care services. While there has been some recent slowdown in prescription drug spending, government actuaries project annual rates of growth above 10% through 2006, with prescription drugs accounting for close to 15% of overall health care spending by 2014. Spending growth over the past decade has prompted health plan sponsors to engage in a variety of strategies to reduce the costs of providing prescription drugs to their beneficiaries, frequently carving out prescription drug benefits from other health benefits, and using pharmacy benefit managers (PBMs) to administer drug benefits. PBMs use a variety of tools including tiered copayments, generic substitution, step therapy, and mail-order pharmacies to control or reduce costs. By relying on mail-order pharmacies, PBMs claim that they can reduce costs by using efficiencies of large-scale operations, including greater efficiency in dispensing, lower bulk-ingredient costs, and better formulary management.

According to one report, the use of mail order results in savings of 5 to 10%, compared to retail, even after considering lower copayments provided to consumers. A comparison of costs between community and mail-service pharmacy for a health plan in the northeastern United States showed that the use of mail order resulted in savings of 7.3%, but that costs to the health plan were actually higher when lower copayments were taken into account. Some pharmacy benefits experts have argued that part of the potential savings from mail order over retail is offset by consumer copayments as well as by larger prescriptions that result in wasted drug supplies. The extent of any savings would depend on a number of factors, including the extent to which other utilization management techniques were already in place. For example, if there are already high rates of generic substitution at the retail level, then additional savings from mail order would be smaller.

Recent studies of shifting retail to mail order estimate that third-party payors (employers) would save between 5 and 10% per prescription, with each prescription representing a 90-day supply.

State Fiscal Effect: DBM advises that State plan expenditures could increase by $85,386 in fiscal 2007, which reflects the bill's July 1, 2006 effective date. DBM assumes that the lower copayment for mail-order drugs would increase utilization of this voluntary option by 4.4%. At such a small increase in utilization, DBM states that any savings realized from mail order, such as lower drug costs and no dispensing fees, would be offset by an increase in State costs due to the smaller copayments from employees in addition to a decrease in the generic utilization rate with a move to more expensive brand-name drugs. DBM also indicates that, if utilization were as high as 20%, the State could save $3.79 million, although its consultant advised DBM that a 20% mail-order utilization rate would be aggressive.

Legislative Services disagrees with this assessment. DBM did not provide data upon which its estimates were based, and Legislative Services cannot determine upon what factors DBM is basing increased costs in order to verify the extent of the impact. DBM advises that altering copayments in the mail-order program may make brand-name drug copayments close or equal to those for generic drugs, thereby eroding the mechanisms in place that encourage enrollees to choose the cheaper generic drugs. While this could have a detrimental effect on utilization patterns, the State plan currently requires mandatory substitution of generic drugs, another mechanism that helps reduce costs and steer enrollee utilization patterns toward cheaper drugs. Other than what is set in statute, DBM has broad leeway in designing the prescription drug plan. It is assumed that any increase in mail-order utilization would reduce State plan prescription drug expenditures due to lower overhead costs and tighter formulary management. There are insufficient data at this time to reliably estimate any savings. Since the bill modifies a section of law that terminates June 30, 2007, any impact would occur in fiscal 2007 only. Revenues would not be affected.

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.

Additional Information

Prior Introductions: None.

Cross File: Although not designated as a cross file, SB 430 is identical.

Information Source(s): Department of Budget and Management, Department of Legislative Services

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