SB 438

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 438 (Senator Hollinger, *et al.*)
Budget and Taxation

State Employees and Retirees - Prescription Drugs - Co-Payments

This bill changes State Employee and Retiree Health and Welfare Benefits Program (State plan) prescription drug copayments from $5, $15, and $25 (depending on the type of drug) to $15, $20, and $30. The drug plan may charge the same copayment for each 90-day prescription.

The bill takes effect July 1, 2006.

Fiscal Summary

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

Local Effect: None.

Small Business Effect: Minimal.

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.

State Fiscal Effect: DBM advises the bill could increase State expenditures by an estimated $408,904 in fiscal 2007. The current copayment structure features a $10 differential between the generic and preferred brand-name drug copayment amounts, which has resulted in higher generic drug utilization. This bill reduces that differential to only $5, thus decreasing the incentive to use generic drugs and move back to higher-cost brand drugs. The proposed increase in the generic copayment would decrease generic drug usage by an estimated 2.4%.

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 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 copayment amounts would reduce State plan prescription drug expenditures, since the enrollee is responsible for more of the cost. On the other hand, changing the copayment from each 45-day prescription to each 90-day prescription could increase State plan costs. There are insufficient data at this time to reliably estimate any reduction or increase in State plan expenditures. 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: None.

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

Fiscal Note History: First Reader - February 21, 2006
mll/ljm

Analysis by: Susan D. John

Direct Inquiries to:
(410) 946-5510
(301) 970-5510