Department of Legislative Services

Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 578 (Senator Ruben, *et al.*)
Budget and Taxation

State Employees and Retirees - State Prescription Drug Benefit Plan - Co-Payments for Brand-Name Prescription Drugs

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This bill specifies that the State Employee and Retiree Health and Welfare Benefits Program (State plan) prescription drug benefit plan may not charge an enrollee a higher copayment for a "nonpreferred" brand-name drug than for a "preferred" brand-name drug if: (1) there is no generic drug identical to the "nonpreferred" brand-name drug; or (2) the enrollee's health care provider determines the "nonpreferred" brand-name drug is medically necessary.

In order to implement these copayment changes, different sections of the bill have various effective dates, based on whether the termination provision specified in Section 43 of Chapter 444 of 2005 takes effect. Subject to these effective dates, the bill takes effect July 1, 2006.

Fiscal Summary

State Effect: State plan expenditures would increase by a significant amount, beginning in FY 2007. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

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" brand-name drugs; and (3)

$25 for "nonpreferred" brand-name drugs. 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 that State plan expenditures could increase by about $10 million in fiscal 2007, which reflects the bill's July 1, 2006 effective date. DBM advises this copayment change would reduce generic utilization by 4.1% and change all copayments for "nonpreferred" brand-name drugs from $25 to $15.

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. While State plan expenditures would increase by a significant amount due to the erosion of a three-tiered copayment structure that steers enrollee utilization patterns toward cheaper drugs, there are insufficient data at this time to reliably estimate the increase. 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: HB 1011 (Delegate Stern, *et al.*) – Appropriations.

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

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

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