

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 1025 (Delegate Rudolph)
Health and Government Operations

Maryland Rx Program - Modifications

This bill allows individuals to enroll in the Maryland Rx Program, the State's prescription drug purchasing pool. Individuals who join Maryland Rx are responsible for the full cost of drugs they purchase or that are purchased on their behalf.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: None, assuming that individual members of the Maryland Rx program join a parallel purchasing pool that is similar, but not identical, to the State and local government pool. Administrative costs associated with adding individuals to the program would likely be paid by participant fees. If a separate pool for individual members is not feasible, there could be potential diminished or increased savings (all funds) on expenditures for prescription drugs beginning in FY 2008. In the absence of prior experience with the Maryland Rx program, the net effect cannot be reliably estimated.

Local Effect: None, assuming that individual members of the Maryland Rx program join a parallel purchasing pool that is similar, but not identical, to the State and local government pool. If a separate pool for individual members is not feasible, there could be potential diminished or increased savings for local governments that participate in the Maryland Rx Program. In the absence of prior experience with the Maryland Rx program, the net effect cannot be reliably estimated.

Small Business Effect: None.

Analysis

Current Law: The Department of Budget and Management (DBM) administers the State Employee and Retiree Health and Welfare Benefits Program, which includes a State Prescription Drug Benefit Plan for State employees and 46 “satellite” accounts, which include local governments and other public entities.

Chapter 428 of 2005 established the Maryland Rx Program to achieve savings on prescription drugs for the State Employee and Retiree Health and Welfare Benefit Plan, participating local governments, and other qualifying entities. The program was charged with achieving cost savings by:

- developing a list (formulary) of preferred prescription drugs covered by the plan;
- obtaining rebates from drug manufacturers;
- negotiating discounts with pharmaceutical companies; and
- implementing other cost-saving measures.

Entities that participate in the program are responsible for paying the cost of drugs purchased by them or on their behalf.

To offset the cost of operating the Maryland Rx program, DBM may charge administrative fees to participating entities. It may also contract with a pharmacy benefit manager (PBM) or other entity to administer the program.

Several State programs provide low-income individuals with access to low-cost prescription drugs. For example:

The Maryland Primary Adult Care Program provides access to primary care, mental health services, and prescription drugs to low-income residents who earn less than 116% of the federal poverty level guidelines (FPG). Participants pay copayments of \$7.50 for brand name drugs that are not on the preferred drug list and \$2.50 for generic and preferred drugs.

The Medbank Program assists low-income individuals who lack prescription drug coverage by accessing medically necessary prescription drugs through patient assistance programs sponsored by pharmaceutical drug manufacturers. Since its inception in 2001, Medbank has provided \$90 million in free medicine to about 32,000 patients.

The Senior Prescription Drug Assistance Program provides a subsidy of up to \$25 per month toward premium expenses for eligible low-income participants. To qualify, an

individual must (1) be a Maryland Medicare recipient enrolled in a Medicare Rx or Medicare Advantage Prescription Drug plan who is not eligible for full federal assistance as determined by the Social Security Administration; and (2) have an income of less than 300% of FPG. The program terminates December 31, 2007.

Background: State employees and retirees pay 20% of the total premium for the prescription drug benefit, and the State pays the remaining 80%. In fiscal 2006, the total prescription drug premium for State employees and retirees was \$301 million, so the State's share was \$241 million in combined general, special, and federal funds. Total premiums for the seven local governments that participate as satellite accounts totaled \$369,500, including any employee cost sharing, which varies by employer.

The Maryland Rx Program was created to take advantage of the State's size and buying power to leverage lower prices on prescription drugs through negotiated discounts and rebates with pharmaceutical companies. Although the State currently benefits from discounts negotiated by its PBM under the Prescription Drug Benefit Plan, it expects the larger market share created by Maryland Rx to generate even greater savings for the State, potentially several million dollars. DBM initiated a procurement for a PBM to administer the Maryland Rx Program beginning July 1, 2006, but the contract award has been delayed by a bid protest currently pending before the Board of Contract Appeals. DBM expects implementation of Maryland Rx to begin on July 1, 2007.

Maryland Rx is modeled after Badger Rx, a program established by the State of Wisconsin to leverage prescription drug discounts and rebates for state employees. Following the program's success, Wisconsin expanded the program to include individuals. However, pharmaceutical companies balked at including individuals in the same risk pool as employer groups, so the state's PBM established a parallel pool for individuals called Badger Rx Gold. According to Wisconsin officials, the formulary for Badger Rx Gold is similar, but not identical, to the formulary for Badger Rx. Also, some pharmaceutical companies were not willing to provide the same discounts to Badger Rx Gold that they had provided to Badger Rx. Badger Rx Gold initially enrolled 7,500 individual members, but that figure has dropped to approximately 4,500 members since the implementation of the prescription drug benefit under Medicare Part D.

Arrangements for local governments to participate in Maryland Rx will differ from those under the State's Prescription Drug Benefit Plan. Under the current plan, 46 satellite accounts participate as part of a single pool and a single contract with the PBM. However, under Maryland Rx, DBM advises that each local government and other satellite account must enter into a separate contract with the PBM, although they will receive the same discounts and rebates that the State receives for its employees.

State Fiscal Effect: Individuals most likely to join Maryland Rx would be those who lack prescription drug coverage through an employer-provided health plan. As of fiscal 2005, there were an estimated 780,000 uninsured Marylanders. An unknown number of additional residents have health insurance but lack prescription drug coverage. Given that participation in Maryland Rx would require members to pay an administrative fee, the subgroup of individuals most likely to join Maryland Rx would be those with high prescription drug costs stemming from chronic conditions.

Based on Wisconsin's experience, these individuals would likely participate in a parallel purchasing pool established by the PBM that would be similar, but likely not identical, to the State and local government pool. Therefore, the State would be shielded from assuming the additional risk for the individual members, and there would be no effect on the savings available to the State through the Maryland Rx program.

If, for any reason, it is not feasible to establish a separate pool for individual members, the addition of high-risk individual members to the Maryland Rx Program could have an indirect effect on the anticipated savings to the State that Maryland Rx is expected to generate. However, neither the size nor the net effect can be reliably estimated. Under one scenario, the adverse risk caused by the addition of high-cost individuals to the purchasing pool could reduce the discounts available to the State because pharmaceutical companies may be leery of giving large discounts to pools with high levels of risk (as was the case in Wisconsin). Under another scenario, however, the addition of high-cost individuals to the pool could increase discounts if the State can leverage its even greater buying power to obtain larger discounts from pharmaceutical companies. The net effect of these competing economic forces on total savings to the State cannot be determined.

The Department of Legislative Services notes that, since Maryland Rx has not yet been implemented, it has not had any effect on State expenditures to date. Therefore, adding individual members to the pool would affect only the size of future savings. In the absence of prior experience with the program, the net effect of adding individuals to the purchasing pool may never be known.

DBM advises that the pending PBM contract provides for the enrollment of employer groups, not individual members. The contract may need to be modified to include procedures for enrolling individual members. DBM will also have to calculate administrative fees for individual members and establish procedures for collecting them. It is assumed that the fees will be sufficient to offset any administrative costs stemming from the bill's provisions.

Local Fiscal Effect: Assuming that individual members are placed in a separate pool from the State and local government pool, there would no effect on prescription drug

savings available to local governments who participate in Maryland Rx. However, if a separate pool is not feasible, the same uncertainty that applies to the State fiscal effect also applies to potential savings to local governments and other entities that participate in the Maryland Rx program.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Montgomery County, Prince George's County, Garrett County, Department of Health and Mental Hygiene, Department of Budget and Management, Wisconsin Department of Employee Trust Funds, Department of Legislative Services

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