HB 1492

Department of Legislative Services

Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1492 (The Speaker, *et al.*) (By Request – Administration)
Health and Government Operations Finance

Senior Prescription Drug Assistance Program - Subsidy for Medicare Part D Coverage Gap and Sunset Extension

This Administration bill requires CareFirst BlueCross BlueShield, beginning January 1, 2009, to annually provide $4.0 million to the Senior Prescription Drug Assistance Program. Funds must be provided only if CareFirst's surplus exceeds 800% of the consolidated risk-based capital for the preceding calendar year. Funds must be used to subsidize the Medicare Part D coverage gap. SPDAP must provide an annual subsidy up to the full amount of the Medicare Part D coverage gap, subject to the availability of funds. The termination date for SPDAP is extended by one year until December 31, 2010.

Fiscal Summary

State Effect: Special fund revenues could increase by $4.0 million in FY 2009 and 2010. Special fund expenditures could increase by as much as $3.2 million in FY 2009 to begin providing the subsidy. Special fund expenditures could increase by $7.6 million in FY 2010 to cover the full-year cost of the subsidy and by $3.8 million in FY 2010 for a half year of the subsidy. Extending SPDAP's termination date would also continue existing special fund revenues and expenditures though the first half of FY 2011. Annually, SPDAP realizes $14.0 million in special fund revenues and expends slightly less. This impact is not reflected in the table.

($ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
SF Revenue	$4.0	$4.0	$0	$0	$0
SF Expenditure	3.2	7.6	3.8	0	0
Net Effect	$.8	($3.6)	($3.8)	$0	$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: The Administration has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment. (The attached amendment does not reflect amendments to the bill.)

Analysis

Current Law/Background: Title 4, Subtitle 3 of the Insurance Article provides risk-based capital standards for insurers intended to safeguard the solvency of insurance businesses in the State. Insurers must maintain an amount of capital in excess of minimum levels, which vary by company, and file annual reports on their risk-based capital levels.

CareFirst currently provides $23.0 million annually to health care programs in Maryland, which equals the value of CareFirst's exemption from the 2.0% premium tax paid by all other health insurers. This figure includes $14.0 million annually to SPDAP.

The federal Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established a voluntary prescription drug benefit for Medicare beneficiaries ("Part D"). Prior to the Act, Medicare did not provide prescription drug coverage. In calendar 2008, after a $275 deductible, enrollees pay 25% of the cost of their drugs until their total drug costs (including both what Medicare and the enrollee pays) reach an initial coverage limit of $2,510. Once the initial coverage limit is met, enrollees enter a coverage gap (or "donut hole") and must pay all drug costs until they reach an annual out-of-pocket threshold of $4,050, excluding the plan premium, or $5,726 in total drug costs. After this point, catastrophic coverage begins and Medicare pays 95% or more of drug costs. In calendar 2006 and 2007, some Medicare Part D plans provided significant benefits in the coverage gap. However, in calendar 2008, these plans have either dropped coverage for brand name drugs in the coverage gap or discontinued such coverage entirely.

SPDAP, which is administered by the Maryland Health Insurance Plan, provides a subsidy of up to $25 per month toward Medicare Part D premium expenses for eligible low-income participants. To qualify, an individual must • 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 • have an income of less than 300% of federal poverty guidelines (in 2008, $31,200 for an individual and $42,000 for a couple). MHIP indicates that SPDAP spends $10.0 to $11.0 million of the $14.0 million in annual funding provided by CareFirst on the current monthly subsidy. Thus, an unspent balance of $3.0 to

$4.0 million is available annually. SPDAP is scheduled to terminate on December 31, 2009.

In 2006, 7,500 of the 29,000 SPDAP enrollees (26%) had prescription drug expenses in the Medicare Part D coverage gap. Of these 7,500 enrollees, 3,631 (48%) had expenses under $500; 1,632 (22%) had expenses of $500 to $1,000; 930 (12%) had expenses of $1,001 to $1,500; and 1,307 (17%) had expenses of $1,501 to $3,000.

In February 2008, CareFirst announced that it has agreed to contribute up to $4.0 million annually to fund prescription drug coverage of individuals enrolled in SPDAP. MHIP indicates that a proposal to provide a coverage gap subsidy to SPDAP enrollees has been approved by the federal Centers for Medicare and Medicaid Services. The subsidy would be provided through a funding agreement with Medicare prescription drug plans that would wrap around the existing drug plan benefits, by subsidizing coverage gap expenses for those with significant drug needs. Four Medicare drug plans have signed agreements to administer the subsidy and three additional plans have expressed interest. As SPDAP enrollees begin to reach the coverage gap for calendar 2009, MHIP will be invoiced on a monthly basis for enrollee drug costs. While a majority of enrollees are not expected to reach the coverage gap until the second half of calendar 2009 (fiscal 2010), a portion of enrollees, presumably those with the highest expenses in the coverage gap, will begin to reach the gap sooner and thus will require a subsidy beginning in fiscal 2009.

State Revenues: Special fund revenues to the SPDAP account in the MHIP Fund could increase by $4.0 million in fiscal 2009 and 2010. To the extent that CareFirst's surplus does not exceed 800% of the consolidated risk-based capital for the preceding calendar year, no revenues would be received. CareFirst indicates that while their surplus fluctuates annually, it has been well above 800% in recent years.

State Expenditures: Special fund expenditures for SPDAP could increase by as much as an estimated $3.2 million in fiscal 2009. This estimate reflects the cost to begin providing a portion of the coverage gap subsidy ($2.8 million) and related administrative expenses ($350,000). The information and assumptions used in calculating the estimate are stated below:

- the subsidy program would be implemented on January 1, 2009;
- six months of administrative expenses would be incurred in fiscal 2009;
- 1,307 SPDAP enrollees (17%) with the highest prescription drug expenses in the coverage gap ($1,501 to $3,000) in calendar 2006 would require a subsidy beginning in fiscal 2009;
- the estimated cost of subsidies for this population would be $2.8 million; and

- remaining subsidy costs of $4.1 million would be incurred in fiscal 2010.

According to MHIP, the $4.0 million in new funding under the bill would be combined with a portion of the $3.0 to $4.0 million in annual surplus funds currently dedicated to, but not expended by, the existing SPDAP subsidy.

Extension of SPDAP's termination date by one year would continue special fund revenues and expenditures for the program through the first half of fiscal 2011.

Additional Information

Prior Introductions: None.

Cross File: SB 906 (The President, *et al.*) (By Request – Administration) – Finance.

Information Source(s): Department of Health and Mental Hygiene, Maryland Insurance Administration, Department of Budget and Management, Department of Legislative Services

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Analysis by: Jennifer B. Chasse

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