

Department of Legislative Services
Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 1039

(Senator Reilly)

Finance

**Maryland Medical Assistance Program and Managed Care Organizations That
Use Pharmacy Benefits Managers - Reimbursement Requirements**

This bill requires Medicaid to establish specified rather than maximum reimbursement levels for drugs with a generic equivalent. Minimum reimbursement levels must be at least equal to the National Average Drug Acquisition Cost (NADAC) of the generic drug plus the fee-for-service (FFS) professional dispensing fee. If a prescriber directs a specific brand name drug, reimbursement must be based on NADAC plus the FFS professional dispensing fee. A pharmacy benefits manager (PBM) that contracts with a pharmacy on behalf of a Medicaid managed care organization (MCO) must reimburse the pharmacy in an amount that is at least equal to NADAC plus the FFS professional dispensing fee.

Fiscal Summary

State Effect: Medicaid expenditures increase by \$70.85 million (63% federal funds, 37% general funds) beginning in FY 2020 to increase pharmacy reimbursement, as discussed below. Federal fund revenues increase correspondingly. Future years reflect annualization, inflation, and a lower federal match. **This bill increases the cost of an entitlement program beginning in FY 2020.**

(\$ in millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
FF Revenue	\$44.64	\$58.78	\$59.95	\$61.15	\$62.38
GF Expenditure	\$26.21	\$37.58	\$38.33	\$39.10	\$39.88
FF Expenditure	\$44.64	\$58.78	\$59.95	\$61.15	\$62.38
Net Effect	(\$26.21)	(\$37.58)	(\$38.33)	(\$39.10)	(\$39.88)

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

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Current Law: Medicaid must establish maximum reimbursement levels for the drug products for which there is a generic equivalent based on the cost of the generic product. If the prescriber directs a brand name drug, the reimbursement level must be based on the cost of the brand name product.

Background: Outpatient pharmacy coverage is an optional benefit under Medicaid. Reimbursement for prescription drugs varies between FFS Medicaid (which covers about 15% of Medicaid enrollees) and HealthChoice (under which Medicaid MCOs cover about 85% of Medicaid enrollees).

In FFS, Medicaid reimburses pharmacies based on a two-part formula consisting of the ingredient cost of the drug and the professional dispensing fee. Effective April 2017, Maryland adopted the NADAC methodology to calculate the ingredient cost of the drug. This methodology estimates the national average drug invoice price paid by independent and retail chain pharmacies. For any drug not included in NADAC, the State uses its own State actual acquisition cost (SAAC) as a secondary benchmark. Thus, for FFS pharmacy expenditures, Medicaid reimburses pharmacies as follows:

- the ingredient cost of the drug based on NADAC or a provider's usual and customary charges, whichever is lower; if there is no NADAC, the lowest of the wholesale acquisition cost, the federal upper limit, SAAC, or a provider's usual and customary charges; and
- a professional dispensing fee of \$10.49 for brand name and generic drugs or \$11.49 for drugs dispensed to nursing home patients.

In HealthChoice, all nine Medicaid MCOs use a PBM. PBM reimbursement amounts are proprietary and confidential. However, narrative in the 2018 *Joint Chairmen's Report* requested that the Maryland Department of Health (MDH) report on various aspects of pharmacy reimbursement. MDH's [response](#) summarized MCO PBM costs for a sample of drugs according to a low, high, and average rate across all MCOs.

The report noted that the FFS average ingredient cost per unit was lower than the MCO average ingredient cost per unit for 37 of the drugs analyzed. However, the professional dispensing fees paid by MCOs were much lower than those paid under FFS. Of the drugs sampled, only three had higher MCO dispensing fees than the FFS rate, and the average dispensing fee paid by MCOs across the sample was only \$2.63.

State Expenditures: Based on MDH's analysis, Medicaid expenditures increase by an estimated \$70.85 million (63% federal funds, 37% general funds) in fiscal 2020, which

reflects the bill's October 1, 2019 effective date. This estimate reflects the additional cost for PBMs used by all nine Medicaid MCOs to reimburse for prescription drugs according to the bill's requirements.

On an annual basis, MCOs' estimated total ingredient costs are estimated to *decline* by \$12.86 million due to use of NADAC for all generic drugs. However, MCO expenditures for dispensing fees are estimated to *increase* by \$107.33 million to pay the current FFS professional dispensing fee of \$10.49. This results in a net annual increase in Medicaid expenditures of \$94.47 million.

Future years reflect annualization, 2% annual inflation, and the federal matching rate decreasing to 61% beginning in fiscal 2021.

Small Business Effect: Small business pharmacies benefit from increased professional dispensing fees for Medicaid MCO enrollees.

Additional Information

Prior Introductions: None.

Cross File: HB 1324 (Delegates Barron and Kipke) - Rules and Executive Nominations.

Information Source(s): Department of Budget and Management; Maryland Department of Health; Maryland Health Benefit Exchange; Maryland Insurance Administration; Department of Legislative Services

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