

**Report in Response to Legislative Request to Study the Impact of the Maryland
Pharmacy Discount Program on Participating Pharmacies**
Maryland House Bill 6, Section 17, 2001 Legislative Session

July 1, 2004

Maryland Department of Health and Mental Hygiene

Prepared by:

Center for Health Program Development and Management
University of Maryland, Baltimore County

Maryland Pharmacy Discount Program

Introduction

On April 20, 2001, Gov. Parris N. Glendening signed into law House Bill (HB) 6, authorizing the Maryland Pharmacy Discount Program (Program). The Program allows certain low-income Medicare beneficiaries to purchase prescription drugs at a discount from the State Medicaid price for the drugs. In accordance with federal regulations, the Maryland Department of Health and Mental Hygiene (Department) applied for and received a waiver from the Centers for Medicare and Medicaid Services (CMS) to implement the Program. The Program was implemented on July 1, 2003.

HB 6 also required the Department to report on the impact of the Program on both independent and chain pharmacies one year from the implementation date. The report was to contain:

- The average price and retail price for the ten most commonly purchased prescription drugs under the Program
- The average discount per prescription provided by participating pharmacies in the Program
- The aggregate value of the discounts provided by participating pharmacies to enrollees under the Program
- The aggregate value of pharmaceutical manufacturers' rebates provided under the Program
- The impact of the discounts provided under the Program by participating pharmacies, on the gross annual revenues and net profits, derived from the sale of prescription drugs, of participating pharmacies

The report begins with a summary of the Program to date, including eligibility requirements, enrollment trends, and program benefits. This is followed by a discussion of the impact of the Program on pharmacy reimbursement. The report concludes with a discussion of the expected impact of recent federal legislation on the future of the Program.

Background

Access to prescription drugs, especially for the Medicare population, has been a subject of recent national debate. Like Maryland, a number of states have expanded eligibility for their State pharmaceutical subsidy programs to meet the needs of low-income residents. Some states are expanding Medicaid coverage for prescription drugs to cover more low-income elderly and disabled residents. Others are expanding access to Medicaid prescription drug pricing, which reduces the final cost of the drug for a consumer. The Maryland Pharmacy Discount Program is an example of the latter type of program. Intended to “improve the health status of Medicare beneficiaries who lack prescription drug coverage by providing access to lower-cost, medically necessary prescription drugs”

(HB 6), the Program provides access to Medicaid prescription drug pricing for Medicare beneficiaries who have no other form of prescription drug coverage.

Program Description

To be eligible for the Program, an individual must:

- Be a Medicare enrollee;
- Have no other form of public or private prescription drug coverage; and
- Have an income below 175 percent of the federal poverty level.

At the time the bill was passed in 2001, the eligible population was estimated to be 102,000. Enrollment in the Program was anticipated to be between 39,000 and 51,000 within six months of implementation (HB 6 Fiscal Note). Actual enrollment, however, has been much lower. A total of 6,585 individuals have enrolled in the Program as of April 30, 2004. The monthly enrollment figures appear in Table 1¹.

Table 1			
Monthly Enrollment in the Discount Program			
July 2003	951	December 2003	4,939
August 2003	1,848	January 2004	5,402
September 2003	2,623	February 2004	5,879
October 2003	3,400	March 2004	6,325
November 2003	4,379	April 2004	6,373

Almost 75 percent of Program enrollees are over the age of 64 and therefore qualify for Medicare based on age. Enrollees under age 65 qualify for Medicare benefits because of a disability. 30 percent of current enrollees live in Baltimore City, 30 percent live in the Baltimore suburbs, and the remaining 40 percent are distributed throughout the rest of the state.

Program enrollees receive a discount on the price of prescription drugs. Instead of paying the retail price, Program enrollees may purchase drugs at the Medicaid price. The Medicaid price is defined as the amount that a community pharmacy is reimbursed for drugs dispensed through the Medicaid program². Enrollees are only required to pay 65 percent of the Medicaid price, plus a \$1 additional dispensing fee for each prescription filled. The Department pays the remaining 35 percent.

¹ Monthly enrollment figures do not match total enrollment figures because some individuals who enrolled in the Program were no longer eligible in April 2004.

² All references to the Medicaid price in this report apply only to the Medicaid Fee-For-Service Program and not the HealthChoice Program. Under HealthChoice, reimbursement for prescription drugs is determined by the pharmacy benefit managers contracted by the MCOs and is not regulated by the Department. Effective February 1, 2004, the Medicaid price is equal to the lowest of the average wholesale price (AWP) minus 12 percent, the wholesale acquisition cost (WAC) plus 8 percent, the direct price plus 8 percent, or the distributor’s price plus 8 percent.

A total of 58,315 prescriptions were filled for Program enrollees from July 1, 2003 to April 30, 2004. Monthly prescription counts are presented in Table 2.

Table 2			
Monthly Prescription Volume for the Discount Program			
July 2003	82	December 2003	7,566
August 2003	476	January 2004	9,411
September 2003	1,838	February 2004	9,218
October 2003	4,197	March 2004	11,810
November 2003	5,674	April 2004	8,043

Discounts on the Most Frequently Purchased Drugs

An analysis of the data for the first ten months of the Program reveals that no single drug represents more than four percent of all drugs purchased. Prior to the implementation of the Program, the Department created a list of drugs most commonly used by seniors in the Medicaid program. This list was available on the Department’s website to give potentially eligible State residents an opportunity to understand the discounts that would be offered under the Program. Appendix A is an updated version of that list, providing a snapshot of the discounts available to enrollees in the Program.

The total cost for the 58,000 prescriptions filled under the Program from July 1, 2003 to April 30, 2004 was approximately \$2,420,000. Of this, the Department paid 35 percent, or \$847,000, and recipients paid \$1,573,000. The Program has saved enrollees an average of \$129 per individual. Actual savings are higher as retail prices are higher than Medicaid prices.

Effect of the Program on Pharmacy Reimbursement

HB 6 requested that this report contain information about the discounts provided by participating pharmacies under the Program, both on an average per prescription and an aggregate level. Pharmacies receive full reimbursement at the current Medicaid price for each drug dispensed, plus a \$1 administrative fee paid by the enrollee. The 35 percent discount that is provided to Program enrollees is paid by the Department. Pharmacies are not required to dispense the drug to enrollees who are unable to pay their portion of the drug charge (i.e., 65 percent of the Medicaid price).

The discount that pharmacies are effectively providing under the Program is the difference in reimbursement for each drug between the Medicaid price and the amount the pharmacy might have received if it had sold the drug at retail price. Retail prices for the same drug vary considerably from one pharmacy to the next, and there is no consistency in the percentage difference between the Medicaid price and the retail price across drugs. Table 3 illustrates this variation in prices for five commonly prescribed brand name drugs. The Maryland Attorney General’s Office maintains a website for consumers to compare the retail prices of commonly prescribed drugs at the pharmacies

in their communities. Table 3 compares the percentage difference between the Medicaid price for each drug and the highest and lowest retail prices reported by pharmacies in three communities in Baltimore County. Some pharmacies sold the drugs at prices that were just above the Medicaid price, while others charged 21 to 43 percent more than Medicaid.

Table 3		
Drug Name and Strength (one month supply)	% Difference Between:	
	Highest Retail Price and Medicaid Price	Lowest Retail Price and Medicaid Price
Celebrex (200 mg)	21%	3%
Celexa (20 mg)	43%	8%
Plavix (75 mg)	29%	1%
Pravachol (40 mg)	33%	6%
Zithromax (250 mg)	27%	4%

Note: The data reflects drug prices at pharmacies located in three Baltimore County neighborhoods (Brooklyn Park, Catonsville, and Dundalk) from April 1 – May 31, 2004.

Why does the difference in prices vary from one drug to another? The retail price of a drug is determined by the acquisition cost and a markup. Several factors influence each of these price determinants. The acquisition cost (or the cost to the pharmacy of purchasing the drug) may be affected by volume discounts offered by the manufacturer or wholesaler, prompt payment discounts offered by the manufacturer or wholesaler, the presence or absence of competition for the same or similar products, or current demand for the drug (DHHS, 2000).

The retail markup applied by the pharmacy covers the cost of dispensing the drug and any profits. It is rarely a set percentage of the acquisition cost and is also subject to pricing strategies. Dispensing costs are generally fixed costs. Therefore, the markup applied to a lower cost drug (e.g., a generic drug) is a greater percentage of the final retail price than the markup applied to a higher cost drug. A pharmacy may apply a higher markup to acute medications than to maintenance medications in an effort to attract customers to their pharmacy. Additional factors that may influence the markup, and thus the final retail price, include discounts offered to certain groups (e.g., senior citizens), or holders of drug discount cards sponsored by retail chains or other organizations (DHHS, 2000). Because of this variation in prices, an estimate of the average discount “provided” by pharmacies by accepting the Medicaid price instead of the retail price is not particularly meaningful.

Furthermore, research suggests that not all of the prescription drugs that have been filled under the Program would have been filled if the consumers had been required to pay retail prices. The prescription drug purchasing patterns of Medicare beneficiaries has been the subject of significant research over the past few years, given the national debate on the need to add prescription drug coverage to the Medicare benefit. A report from the Department of Health and Human Services discovered that Medicare beneficiaries with drug coverage filled one-third more prescriptions than those without coverage. These

differences remained even across different income levels, ages, health status, and other categories (DHHS, 2000). Additional research supports this theory (CMS, 2002; Kaiser Family Foundation, 2003).

It is also unlikely that this Program has significantly impacted the revenues for any single pharmacy. All pharmacies that are registered to participate in the Medicaid program are automatically registered to participate in the Maryland Pharmacy Discount Program. There has been no noticeable decrease in the number of pharmacies electing to participate in these programs. The data shows that 907 pharmacies across the state have filled prescriptions for Program enrollees. Assuming an average distribution of enrollees, each pharmacy has filled approximately 64 prescriptions in 10 months, or less than 7 prescriptions per month. Any impact on gross annual revenues and net profits is likely to be negligible.

Rebates Collected by the Department

The Department is eligible to collect rebates on the drugs dispensed under this Program that are equivalent to the rebates collected on drug dispensed under the Medicaid program. The Department estimates that it will collect a total of approximately \$287,000 under the Discount Program for FY2004.

Summary and Conclusion

While the Maryland Pharmacy Discount Program may play a significant role in increasing access to prescription drugs for individual enrollees, the enrollment statistics do not suggest that the Program has had a substantial impact on the participating pharmacies. Enrollment levels are much lower than anticipated and, as such, the volume of prescriptions filled is minimal.

A January 2004 report from the Department of Legislative Services (DLS) suggests that the benefits offered by the Maryland Pharmacy Discount Program will be subsumed by Medicare Part D under the Medicare Prescription Drug, Improvement, and Modernization Act that was signed by President George W. Bush in December 2003. Among other things, the legislation includes a voluntary outpatient prescription drug program for Medicare enrollees that will be implemented in two phases. While federal law prohibits Program enrollees from participating in the temporary discount card program and subsidy offered under phase one, enrollees would be eligible for prescription drug benefits under a new Medicare Part D that is scheduled for implementation on January 1, 2006. The DLS report suggests that as of January 2006, the Maryland Pharmacy Discount Program would no longer be responsible for providing prescription drug coverage to Medicare-eligible individuals.

References

The Henry J. Kaiser Family Foundation. Medicare and Prescription Drugs Fact Sheet. Menlo Park, CA: April 2003.

State of Maryland. Department of Legislative Services, Maryland General Assembly. House Bill 6, 2001 Session.

State of Maryland. Department of Legislative Services, Maryland General Assembly. House Bill 6 Fiscal Note, 2001 Session.

State of Maryland. Department of Legislative Services, Maryland General Assembly. Impact of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 on Current Maryland Prescription Drug Programs. Annapolis: January 21, 2004.

State of Maryland. Office of the Attorney General. Prescription Drug Price Finder. <<http://www.oag.state.md.us/Drugprices/index.htm>>.

United States. Centers for Medicare and Medicaid Services. "Program Information on Medicare, Medicaid, SCHIP, and Other Programs of CMS." June 2002. Accessed June 9, 2004. <<http://www.cms.hhs.gov/charts/series/allcharts.pdf>>.

United States. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation. Report to the President: Prescription Drug Coverage, Spending, Utilization, and Prices. Washington: ASPE, May 2000.