

## STATE PHARMACEUTICAL ASSISTANCE PROGRAMS

### BACKGROUND

From 1990 to 1998, spending on prescription drugs in the United States rose an average of 11.7 percent per year, which is significantly higher than increases in hospital care and physician services, the two largest components of health care. During that time period, prescription drugs increased from 6.1 to 8.9 percent of total health care expenditures. Reasons for this increase are manifold and include demographic changes in the United States population, the availability of new drug therapies, increased drug utilization, and increases in drug prices. As a result of the increases in spending for prescription drugs by state Medicaid programs and consumers, many states have established programs to lower or contain the costs of prescription drugs. Pharmaceutical assistance programs include price reduction programs, purchasing cooperatives, purchasing assistance programs, insurance programs, Section 1115 waiver programs, and tax credits. This memorandum explains the various types of state pharmaceutical assistance programs and provides information on programs implemented in selected states.

### PHARMACEUTICAL ASSISTANCE PROGRAMS

#### Price Reduction Programs

Price reduction programs involve the state setting a limit on the prices charged for prescription drugs purchased by the state or by a segment of the population. The program may limit the amount charged by a pharmacy or may require a discounted price to be offered by a manufacturer. Some programs provide that pharmacies may not charge Medicare beneficiaries a rate higher than the state Medicaid rate for prescription drugs.

Examples of price reduction programs include the Florida senior prescription affordability program, the California Medicare pharmacy discount program, and the Maine Rx program. The Florida senior prescription affordability program, which became effective July 1, 2000, requires that, as a condition of participation in the Florida Medicaid program, a pharmacy must agree to charge Medicare beneficiaries a rate no higher than 104 percent of the Medicaid rate for prescription drugs, plus the Medicaid dispensing fee. The California Medicare pharmacy discount program requires that Medi-Cal (California Medicaid program) participating pharmacies charge Medicare recipients a price for prescription drugs that does not exceed the amount the pharmacy would be reimbursed by the Medi-Cal

program for the same prescription, plus a 15-cent processing fee for each prescription filled. The Maine Rx program allows the state to negotiate price discounts and rebates with drug manufacturers, similar to price discounts and rebates provided through the state Medicaid program, and the discounted prices would be available to qualifying residents who lack insurance coverage for prescription drugs. If negotiations fail to significantly lower the cost of prescription drugs, the state can begin imposing price controls on July 1, 2003. Implementation of the program is pending resolution of a lawsuit filed by the Pharmaceutical Research and Manufacturers of America (PhRMA) against the state of Maine.

#### Purchasing Cooperatives

Purchasing cooperatives may involve an interstate consortium of several states or an intrastate cooperative of state agencies or programs that consolidate pharmaceutical purchasing functions in order to obtain discounted prices and achieve administrative efficiencies. These programs involve voluntary, rather than mandatory, discounts negotiated with manufacturers.

Examples of purchasing cooperatives include the New England tri-state coalition and the Texas Interagency Council on Pharmaceuticals Bulk Purchasing. The New England tri-state coalition unites the states of Maine, Vermont, and New Hampshire into a single entity for the purpose of gaining efficiencies in the administration of state prescription drug programs, including Medicaid. The states jointly selected a pharmacy benefits manager to negotiate price discounts and rebates, increase efficiency in pharmacy claims processing, reduce administrative costs, and prevent inappropriate drug dispensing through prospective drug utilization review. The Texas Interagency Council on Pharmaceuticals Bulk Purchasing combines pharmaceutical purchasing for the state Department of Health, Department of Mental Health, state employees and retirees, teachers, the correctional system, and other agencies that purchase pharmaceuticals.

#### Purchasing Assistance Programs

Purchasing assistance programs provide direct assistance to consumers for the purchase of prescription drugs. Purchasing assistance programs are not insurance programs, and consequently no premiums are charged. However, most programs require cost-sharing or deductibles to be paid by program participants. Benefits are often based on the income of the purchaser. Some states limit the maximum benefits for which a participant is eligible, and some state

programs target only those residents who spend a high percentage of their income on prescription drugs.

Examples of purchasing assistance programs include the Florida pharmaceutical expense assistance for low-income elderly individuals program, the Minnesota senior prescription drug program, the Maine low cost drugs for the elderly and disabled program, and the Maryland pharmacy assistance program. The Florida pharmaceutical expense assistance for low-income elderly individuals program, which took effect January 1, 2001, provides that qualifying Medicare recipients are eligible for pharmaceutical benefits of up to \$80 per month after payment of a 10 percent copayment. The Minnesota senior prescription drug program pays most prescription drug costs for qualifying Medicare recipients, after payment of a \$35 per month copayment. The Maine low cost drugs for the elderly and disabled program pays certain prescription drug costs for low-income elderly Maine residents, after payment of a copayment of \$2 or 20 percent, whichever is greater. The Maryland pharmacy assistance program provides pharmaceutical coverage to certain low-income residents whose income is too high to qualify for Medicaid. Through the program, the state pays for certain prescription drug costs, after program participants pay a \$5 copayment.

### **Insurance Programs**

Insurance programs involve either a state-established program to provide insurance benefits for the purchase of prescription drugs or premium assistance to subsidize the cost of private prescription drug coverage. In either case, coverage requires the payment of a premium. Eligibility is generally based upon the income of the insured.

Examples of insurance programs include the Massachusetts prescription advantage plan and the Nevada senior Rx plan. The Massachusetts prescription advantage plan requires participants to pay monthly premiums, copayments, and deductibles. Annual deductibles and copayments are capped at the lesser of \$2,000 or 10 percent of gross annual income. The program is available to elderly and low-income disabled residents. Copayments range from \$5 to \$25, annual deductibles range from \$0 to \$500, and monthly premiums range from \$0 to \$82, based on income. The Nevada senior Rx plan is a state-subsidized private insurance program to provide prescription drug coverage to low-income seniors. For seniors who qualify for the enhanced plan, the state pays the monthly premium and the \$100 annual deductible.

Covered seniors are responsible for paying \$10 copayments. Maximum annual benefits are \$5,000.

### **Section 1115 Waiver Programs**

A Section 1115 demonstration waiver approved by the Centers for Medicare and Medicaid Services (CMS) may allow a state to expand Medicaid services or eligibility levels and receive federal matching funds. A Section 1115 waiver program may include prescription drug benefit coverage for residents who would otherwise be ineligible for Medicaid benefits.

Examples of Section 1115 waiver programs include the Illinois senioRx care program and the healthy Maine prescription program. The Illinois senioRx care program provides prescription drug benefits to eligible low-income Illinois seniors. Participants pay an average copayment of \$3 per prescription and the state pays the balance for annual pharmaceutical costs up to \$1,750 per year. Costs in excess of \$1,750 per year are subject to a 20 percent copayment. The healthy Maine prescription program provides that Maine residents with incomes too high to qualify for Medicaid (up to 300 percent of poverty) and who lack prescription drug coverage may purchase prescription drugs at Medicaid prices, estimated to result in savings of approximately 25 percent.

### **Tax Credits**

A tax credit program has the net effect of reducing prescription drug costs through a state income tax credit for residents with high prescription drug costs. No states currently offer a prescription drug tax credit. However, Michigan and Missouri recently offered such credits until they were replaced with more comprehensive pharmaceutical assistance programs. The Michigan prescription drug credit program, which ended December 31, 2001, provided that qualifying low-income seniors who spent more than 5 percent of household income on prescription drugs could receive a refundable tax credit of up to \$600 per year. The Missouri tax credit program, which ended December 1, 2001, provided that qualifying low-income seniors could receive a refundable tax credit of up to \$200 to offset the cost of prescription drugs.

### **Appendix**

The table attached as an appendix shows the various types of pharmaceutical assistance programs implemented by states.

ATTACH:1

STATE PHARMACEUTICAL ASSISTANCE PROGRAMS			
State	Program Type	Program Name	Year Implemented or Authorized
Arizona	Purchasing assistance	Pilot program for Medicare beneficiaries	2001
Arkansas	Section 1115 waiver	Prescription drug access improvement program	2001
California	Price reduction	Medicare pharmacy discount program	1999
Connecticut	Purchasing assistance	Connecticut pharmaceutical assistance contract to the elderly and disabled (ConnPACE)	1986
	Price reduction	ConnPACE Part B	2000
Delaware	Price reduction	Nemours Health Clinic Pharmaceutical Association program	1981
	Purchasing assistance	Drug payment assistance program	2000
Florida	Price reduction	Senior prescription affordability program	2000
	Purchasing assistance	Pharmaceutical expense assistance for low-income elderly individuals	2000
Georgia	Purchasing cooperative	Intrastate buying pool	2000
Illinois	Purchasing assistance	Pharmaceutical assistance program	1985
	Section 1115 waiver	SenioRx care	2002
Indiana	Purchasing assistance	Hoosier Rx	2000
Iowa	Price reduction	Iowa priority prescription savings program	2000
Kansas	Purchasing assistance	Senior pharmacy assistance program	2000
Louisiana	Purchasing cooperative	Southern states coalition	2001
Maine	Section 1115 waiver	Healthy Maine prescription program	2001
	Price reduction	Maine Rx	2000 *
	Purchasing assistance	Low-cost drugs for the elderly and disabled	1975
	Purchasing cooperative	New England tri-state coalition	2001
Maryland	Section 1115 waiver	Pharmacy discount program	2002
	Price reduction	Maryland medbank program	2001
	Purchasing assistance	Pharmacy assistance program	1979
	Insurance	Short-term prescription drug subsidy plan	2000
	Purchasing cooperative	Southern states coalition	2001
Massachusetts	Insurance	Prescription advantage plan	2001
	Purchasing cooperative	Intrastate buying pool	2000
Michigan	Purchasing assistance	Elder prescription insurance coverage	2001
Minnesota	Purchasing assistance	Senior prescription drug program	1999
	Purchasing cooperative	Minnesota multi-state contracting alliance for pharmacy	1985
Mississippi	Purchasing cooperative	Southern states coalition	2001
Missouri	Purchasing assistance	Senior Rx	2001
Nevada	Insurance	Senior Rx	1999
New Hampshire	Purchasing cooperative	New England tri-state coalition	2001
	Price reduction	Prescription drug discount program for seniors	1999
New Jersey	Purchasing assistance	Senior gold prescription discount program	2001
	Purchasing assistance	Pharmaceutical assistance to the aged and disabled	1975
New Mexico	Purchasing cooperative	Southern states coalition	2001

<b>State</b>	<b>Program Type</b>	<b>Program Name</b>	<b>Year Implemented or Authorized</b>
New York	Purchasing assistance	Elderly pharmaceutical insurance coverage	1987
North Carolina	Purchasing assistance	Prescription drug assistance program	1999
Oregon	Purchasing assistance	Senior prescription drug assistance program	2001
Pennsylvania	Purchasing assistance	Pharmaceutical assistance contract for the elderly	1996
Rhode Island	Purchasing assistance	Pharmaceutical assistance for the elderly	1985
South Carolina	Purchasing assistance	SilveRxCard	2000
	Purchasing cooperative	Southern states coalition	2001
Texas	Purchasing cooperative	Interagency Council on Pharmaceuticals Bulk Purchasing	2001
	Purchasing assistance	State prescription drug program	2001
Vermont	Section 1115 waiver	Vermont health access plan - Pharmacy	1996
	Price reduction	Vermont pharmacy discount program	2000 *
	Purchasing assistance	VScript and VScript expanded	1989
	Purchasing cooperative	New England tri-state coalition	2001
Washington	Price reduction	A Washington alliance to reduce drug spending (AWARDS)	2000 *
West Virginia	Purchasing cooperative	Southern states coalition	2001
	Price reduction	Senior prescription assistance network II	2000
Wisconsin	Purchasing assistance	Prescription drug assistance program	2001
Wyoming	Purchasing assistance	Minimum medical program	1988

\* Program terminated or implementation postponed due to court action.