

Firstline

The Midwestern Office of The Council of State Governments

Volume 9, Number 11 • December 2002

State officials facing a fiscal crisis are working vigorously on strategies intended to control state spending on pharmaceuticals.

Next month:

Charter and private schools
Debate over school choice continues in Midwestern state legislatures

Pressure on lawmakers increases with rise in the need for, cost of prescription drugs

by *Jacqueline M. Kocinski*

Prescription drug coverage is an issue that has captured headlines for the past few years, and 2002 proved the issue remains on the front burner. During this year's election season, drug accessibility and affordability were the centerpiece of many candidates' campaigns. Lawmakers were not only responding to the outcry of constituents frustrated by high out-of-pocket pharmacy bills, but were acknowledging the strain that rising pharmaceutical costs have put on state budgets.

Expenditures for prescription drugs have been among the fastest-growing components of health care, with spending rising 17 percent in 2001. Since the mid-1990s, the annual percentage change in spending on pharmaceuticals has been two to five times greater than increases in expenditures for hospital care and physician services.

While consumer advocates level charges of price gouging by drug manufacturers, the pharmaceutical industry counters that more people are simply getting the treatment they need. Frank Lichtenberg, a Columbia University economist, also points out that the flip side of rising drug costs is the reduced rate of growth for other medical costs.

Wanting to ensure that individuals receive the prescription medications they require, federal and state policymakers have worked on a variety of initiatives intended to expand access to affordable drugs. At the same time, state officials facing a fiscal crisis are working vigorously on strategies intended to control state spending on pharmaceuticals.

Whether designing pharmacy assistance programs for seniors not eligible for Medicaid and other uninsureds or establishing drug-purchasing pools and buyer discount cards, states have taken the lead in addressing issues related to prescription drug coverage. The nation's governors also have called on the U.S. Congress to review federal laws that may be contributing to the high cost of pharmaceuticals.

On the federal level, the U.S. Senate has passed legislation designed to offer some level of price relief. The measures would provide for greater access to generic drugs and allow drug reimportation from Canada, but the U.S. House has not approved the bills. Debate over adding a prescription drug benefit to Medicare has stalled numerous times, with compromise legislation voted down by the Congress at the end of July. 



The Midwestern Office of The Council of State Governments supports several groups of state officials, including the Midwestern Governors' Conference and the Midwestern Legislative Conference, an association of all legislators in the region's 11 states. The Canadian provinces of Ontario and Saskatchewan are affiliate members of the MLC.



New initiatives focus on saving seniors' money, containing costs

State efforts to address the need for prescription drug coverage have largely centered on developing programs that offer assistance to Medicare-eligible, low-income senior citizens who do not qualify for Medicaid. National data show it is these elderly who most often lack drug coverage.

Medicare does not offer a prescription drug benefit, and options for supplemental drug coverage, such as retiree health plans, Medicare+Choice and Medigap, continue to erode. This leaves many in a population that most requires the benefit of prescription medications facing tough decisions about just what they can afford. Those who go without much-needed medicine can increase their risk for hospitalization and nursing home admission.

In the Midwest, a variety of approaches to pharmacy assistance are represented. Some of these initiatives use state dollars to subsidize a portion of the cost of drugs for seniors who meet certain eligibility and income requirements. INDIANA has had such a program, Hoosier Rx, in place since 2000, but recent changes make it easier for enrollees to take advantage of its benefits.

Instead of submitting pharmacy bills quarterly for partial cost reimbursement, as of this fall, eligible seniors are able to use the Hoosier Rx card at the point of purchase to receive a 50 percent discount on the price of medications. The state pays the

remaining half of the cost. Benefits are capped at between \$500 and \$1,000 annually depending on income, but even after reaching the limit, participants are still eligible for nominal discounts on all of their pharmaceutical purchases.

OHIO has developed a program that will assist both seniors over age 60, as well as disabled individuals over 18 who are unable to work, when it is implemented in January 2003. The Legislature approved the program this year.

The Golden Buckeye Prescription Drug Plan also utilizes a discount card, but it is open to all eligible Ohioans regardless of income. Discounts will be available at most pharmacies in the state or can be accessed through mail orders. The state will incur no costs for operation of the program, which will use a private pharmacy benefits manager to negotiate rebates with drug manufacturers. The rebates will offset the cost of the program and allow savings to be passed on to cardholders.

A discount program in IOWA also operates as a drug purchasing cooperative. Started by Gov. Tom Vilsack as a demonstration project and funded through a federal startup grant secured by U.S. Sen. Tom Harkin, the Iowa Priority Prescription Savings Program is now operated by the nonprofit Iowa Prescription Drug Corp.

Statewide enrollment began last fall, and discounts for seniors and other Medicare-eligible individuals became available in January of this year. For

an annual fee of \$20, enrollees receive discounts on drug purchases and are also eligible to take advantage of a comprehensive analysis of all medications they are taking. Physicians and pharmacists receive incentives under the program to provide these free "brown bag assessments."

This year, two Midwestern states became among the very first to benefit from the new federal Pharmacy Plus initiative. Under this plan, states can apply for waivers to expand Medicaid prescription drug coverage to Medicare beneficiaries and other individuals with family incomes up to 200 percent of the federal poverty level (FPL).

The U.S. Department of Health and Human Services approved Illinois' waiver request in January. The state's previous pharmacy assistance initiative covered low-income elderly only for specific chronic and catastrophic medications. Under the new demonstration plan, individuals pay an enrollment fee of \$5 or \$25, depending on income (Illinois' program covers seniors with incomes up to 200 percent of the FPL) and a nominal copayment of \$3 or less for any drug covered by Medicaid. Medicaid then covers the remaining cost of prescriptions up to a total of \$1,750 each year. After that, Medicaid covers 80 percent of the cost of additional prescriptions; participants pay the difference plus the copayment.

In July, WISCONSIN was granted its request for a Pharmacy Plus waiver.



Federal Medicaid funds will cover half of the cost of the state's new SeniorCare program, which was signed into law last year. Individuals over age 65 with family incomes up to 240 percent of the FPL are eligible for participation in SeniorCare for an enrollment fee of \$20. Participants are charged a copayment of \$5 for each generic drug and \$15 for each brand name drug. Depending on income, they may also be subject to a \$500 deductible. State officials are expecting 177,000 of the estimated 325,000 eligible seniors to sign up for the program.

The Illinois and Wisconsin plans are new ways of providing drug coverage to seniors using Medicaid, but the state-federal program already provides health coverage to many low-income seniors and others on Medicare. In fact, over one-third of Medicaid spending is for individuals also on Medicare. Because Medicaid plays a critical role in providing drug coverage to the poorest elderly, as pharmaceutical costs have skyrocketed, Medicaid budgets have been growing rapidly as well.

In a 50-state survey of state Medicaid officials conducted in June by the Kaiser Commission on Medicaid and the Uninsured, prescription drugs were cited most often as the reason behind expenditure growth in the program. States are being forced to consider a variety of cost-containment measures. Most often, policymakers have tried controlling drug utilization

by excluding certain drugs, encouraging/requiring the use of generics, instituting prior authorization for use, establishing preferred drug lists, limiting prescriptions or imposing/increasing cost-sharing arrangements.

Early this year, an appeals court judge lifted an injunction on MICHIGAN's new Medicaid drug formulary. The pharmaceutical manufacturing industry is suing the state to prevent implementation of the preferred drug list that state officials hope will shave \$42 million off an annual \$1 billion pharmacy bill. A group of pharmacists and doctors developed a list of drugs considered best in class, and physicians may only prescribe medications on the list for beneficiaries. Doctors may seek state authorization for another drug they consider medically necessary.

Medicaid officials in Illinois are turning to pill splitting to save money. They are now requiring physicians to prescribe for their Medicaid patients a double dose of the prescription antidepressant Zoloft. The 100-milligram tablet costs about the same as half that dose, so doctors are being told to have their patients cut the stronger pill in half. The move is a cause for concern among consumer advocates and medical professionals worried about the risks of such a practice. The state expects that this one change will save \$3 million annually and is not ruling out similar requirements for other drugs.

However, states are being cautioned as they look for ways to curb Medicaid drug expenditures. A national study released in April by the Center for Studying Health System Change found that Medicaid beneficiaries in states working more aggressively to contain prescription drug spending are twice as likely to report they cannot afford medications as those in states with less stringent policies.

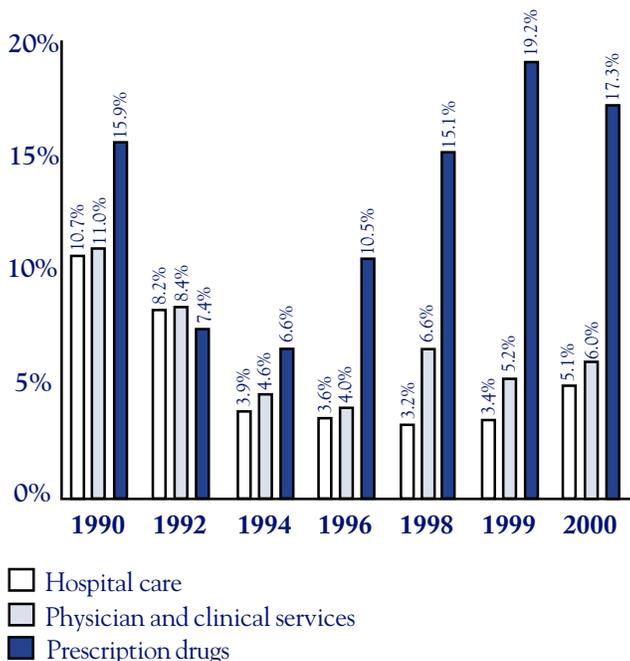
In other regions, states have banded together to increase their purchasing power and drive down drug costs. The Midwestern states have not established a regional cooperative. However, since 1985, Minnesota has been administering a program in which state agencies and local governments receive pharmaceuticals and related supplies and services at a reduced contract price. The Minnesota Multistate Contracting Alliance for Pharmacy provides primarily administrative savings to more than 2,329 participating facilities in 40 states.

Iowa lawmakers believe the idea of a regional purchasing cooperative requires some serious consideration. Earlier this year, the General Assembly passed a bill requiring the Department of Public Health to convene a task force to determine the feasibility of establishing an interstate prescription drug purchasing cooperative with other Midwestern states. A final report of recommendations is due this month. 

Jacqueline M. Kocinski is a policy analyst with CSG Midwest.



Annual changes in national spending for selected health services



Source: "Prescription Drug Trends, A Chartbook Update," The Kaiser Family Foundation and the Sonderegger Research Center

Source Guide

For further information on prescription drug costs and coverage:

- AARP
www.aarp.org
- Center for Studying Health System Change
www.hschange.org
- Kaiser Family Foundation
www.kff.org
- National Institute for Healthcare Management
www.nihcm.org
- Pharmaceutical Research and Manufacturers of America
www.pharma.org
- RxPolicy
www.rxpolicy.com
- Urban Institute
www.urban.org
- U.S. Department of Health and Human Services
www.hhs.gov
- Volunteers in Health Care — RxAssist
www.rxassist.org

The Council of State Governments
Midwestern Office
641 E. Butterfield Road, Suite 401
Lombard, IL 60148-5651
Phone: 630-810-0210
Fax: 630-810-0145
E-mail: csgm@csrg.org
www.csgmidwest.org

December 2002



Non Profit Organization
U.S. Postage
PAID
Permit No. 210
Freeport, IL