House
Legislative
Analysis
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SR. CITIZEN PRESCRIPTION DRUG PROGRAM

House Bill 5659 with committee amendments
First Analysis (6-1-88)

Sponsor: Rep. Thomas Mathieu
Committee: Senior Citizens & Retirement

THE APPARENT PROBLEM:

Medicare does not cover prescription drugs, so those senior citizens who can neither qualify for assistance under Medicaid nor obtain private health insurance coverage for prescriptions have a difficult time obtaining the medications they need. Seniors who, when forced to choose between medications and other necessities, forgo prescribed medications sometimes develop far more serious conditions than those the prescriptions were intended to combat. The result can be hospitalization that could have been avoided with proper drug treatment. This is not only a calamity for those directly affected but adds costs to the health care system as a whole. Some people advocate the creation of a state-sponsored trial program aimed at helping some older persons to obtain necessary medications.

A proposal to establish such a program, House Bill 4141, was recently vetoed by the governor, "because sufficient revenues were not provided to pay the projected cost of the bill," estimated at $20 to $40 million in the first year and $60 to $100 million per subsequent year. The governor further objected to the bill's lack of cost control mechanisms, and because, under the bill, people covered under this program could receive more coverage than those who are covered by Medicaid. The governor has presented an alternative proposal.

THE CONTENT OF THE BILL:

The bill would amend the Older Michiganians Act to establish the Older Person's Prescription Drug Coverage Program. Under the program, people 65 years of age and older who met certain income requirements would be eligible for assistance in purchasing prescription drugs, including insulin, syringes, and needles. The program would be administered by the Office of Services to the Aging (OSA), and a special task force would be created to oversee and evaluate the program.

Annual expenditures for the program could not exceed the special purpose/general fund money appropriated for the program. (The bill is tie-barred to House Bill 4611, which would eliminate a property tax credit for railroad property, and to Senate Bill 546, which would impose an excise tax on smokeless tobacco, cigars and loose tobacco products. The governor has proposed using the revenue produced by these bills to fund the program.) In order to ensure that expenditures did not exceed the amount appropriated, the OSA would establish appropriate copayments and institute necessary cost containment and benefit design controls, including enrollment fees and deductibles.

To be eligible for the program, a person could not qualify for Medicaid, and could not have a household income (as defined in the Income Tax Act) in excess of $9,000 or, for a couple, $12,000. A single person could not have assets totaling more than $15,000, and a couple's assets could not exceed $20,000. In both cases the maximum allowable assets would not include a primary residence, an automobile, burial plots, prepaid funeral plan, life insurance policies, and personal possessions and household furnishings. Further, an inpatient or resident in a health care facility, or mental health facility licensed or operated by the state, would not qualify for the program. (This limitation would not apply to residents of licensed homes for the aged.) People would apply for participation in the program to the Office of Services to the Aging; the form used by OSA would include a statement regarding the applicant's sources of income.

People accepted into the program would have to use all other third-party reimbursements for prescription drugs available to them before applying for program benefits, and would have to pay a copayment for each prescription, and an enrollment fee, if established. Coverage and reimbursement for "product acquisition" under the program could not exceed coverage provided to persons receiving pharmaceutical services under the Medicaid program.

It would be a misdemeanor for a person to knowingly submit or aid in the submission of a false or fraudulent claim or to make a claim duplicating other benefits. A person who committed a violation would also have to repay the program in an amount three times the amount of the financial benefit received.

In administering the program, the OSA could determine the eligibility of applicants; enter into contracts with public and private entities for the processing and payment of claims and for management reporting, including, at a minimum, cost analysis and utilization monitoring; establish a dispensing fee to be paid to pharmacies that participated in the program; and establish panels to provide advice to the office concerning the program.

The bill would create the Older Person's Prescription Drug Coverage Program Task Force. The task force would have ten members, including the director of OSA, who would serve as the chair; the insurance commissioner or a designee; the directors of the Departments of Public Health, Social Services, and Management and Budget or their designees; two representatives of the Board of Pharmacy, appointed by the director of the Department of Licensing and Regulation; and three representatives of older people, appointed by the OSA director. In addition to overseeing and evaluating the program, the task force would have to annually review the income limits for the program and recommend necessary changes, considering available funding, to the legislative appropriations committees; report annually to the director of OSA on its activities; and make recommendations for improvements in the program. The task force would also have to report within two years after the bill's effective date to the House and Senate committees having jurisdiction over legislation relating to senior citizens with statistical and fiscal information on the use of the program throughout the state, and on the feasibility of continuing the program.

OVER

If a substantially similar federal prescription drug program for senior citizens were established after the bill's effective date, the state program would be discontinued. The bill would take effect May 1, 1989 and would expire three years later.

MCL 400.582 et al.

FISCAL IMPLICATIONS:

According to the Department of Treasury, passage of House Bill 4611 and Senate Bill 546 would produce enough revenue to pay the estimated cost of the prescription drug program proposed in House Bill 5659, as follows:

	(Annually)
Repeal of railroad property tax credit (House Bill 4611):	$9 million
Tax on smokeless tobacco (Senate Bill 546):	3 million
Tax on pipe tobacco, bulk tobacco and cigars (Senate Bill 546):	8 million
Total Cost of Program	$20 milion

ARGUMENTS:

For:

The bill would establish enabling legislation for a three-year trial program to help older people who do not qualify for Medicaid pay for their prescription drugs. The costs of medication are said to be increasing faster than almost any other health-related service. There are few forms of help for seniors; private insurance is not always available or affordable, and Medicare doesn't cover prescriptions. Older people who do not take their prescribed medications often suffer a deterioration in their health and sometimes, as a result, need to be hospitalized, which adds unnecessary costs to the health care system. The current proposal improves upon an earlier version which was vetoed by the governor, by proposing a specific source of revenue to pay for the program and by requiring that spending for the program stay within the levels appropriated to pay for it. To contain costs, the OSA would have the authority to establish necessary enrollment fees and copayment levels and to set benefit levels at a reasonable rate. Even within these constraints, the program would provide meaningful relief to senior citizens, and it would do so in a manner that would not overburden the state budget. Furthermore, a special task force, including representatives from management and budget, the insurance bureau, and the pharmacy board, would oversee and evaluate the program, eventually recommending whether it should be continued.

Against:

The bill has a laudable goal, but questions remain to be answered. While there are provisions in the bill to scale back benefit levels and raise the level of co-payment, will that be politically feasible once the program is under way? While it is true that older people should not be denied needed medications because of inability to pay, who should be? Are there other deserving segments of the population with similar or competing needs who could benefit from the revenue sources available? Once the program is under way, and has a constituency, it will be hard to discontinue, even if that is the recommendation of the special task force. Finally, there are questions about the wisdom of locating the program in the Office of Services to the Aging, which is not traditionally associated with programs of this kind.

Against:

Railroad and tobacco interests oppose the increased taxes proposed in House Bill 4611 and Senate Bill 546, which have been presented in the governor's proposal as "tax loopholes" that could be tapped to pay for the prescription drug program. Representatives of railroads contend that the existing property tax credit they receive is fair because their competitors (the trucking industry) do not pay property tax on their rights-of-way, nor do they pay their fair share of maintaining the nation's highway system, a cost imposed on all taxpayers. Further, they assert, the credit acts as an incentive to railroads to make improvements to tracks, which improves the safety of the public. Representatives of tobacco interests cite the declining market for their products as evidence that further taxation would be burdensome, and moreover, that it would probably not produce the revenue that has been optimistically promised to pay the tremendous cost of the prescription drug program.

POSITIONS:

The Office of Services to the Aging supports the bill. (5-31-88)

The Department of Treasury supports closing the tax loopholes, as proposed in House Bill 4611 and Senate Bill 546. (5-27-88)

The Michigan Railroads Association opposes House Bill 4611. (5-27-88)