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ROLL NUMBER

DESCRIPTION

1382

2001 HOUSE FINANCE AND TAXATION

HB 1382

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1382

House Finance and Taxation Committee

☐ Conference Committee

Hearing Date January 29, 2001

Tape Number	Side A	Side B	Meter #
1	X		89
Committee Clerk Signature <i>Janice Stein</i>			

Minutes:

REP. AL CARLSON, CHAIRMAN, Opened the hearing and read the fiscal note.

REP. MERLE BOUCHER, DIST. 9, Introduced the bill. See attached written testimony.

He gave a synopsis relating to the national average of out of pocket expenses on prescription drugs overall, for the total population is a per capita of \$258.84 per person. For folks over age 65, this is \$564.40, and for citizens over age 75, the amount is \$605.49. This is above and beyond what insurances cover and what medicare and medicaid cover in many respects.

We have a very large medicaid budget in the state of North Dakota. When you look at the cost of medicaid, the medicaid budget consumes, roughly, twenty five percent of the state budget, if I am not mistaken. It is over half of the Human Services budget. This is an issue that needs debate or discussion. He related to a meeting he attended in New Orleans with a group called the Milbank Foundation. He stated he had a very interesting discussion regarding prescription drugs and what is happening throughout the United States. Many people said, what are you doing regarding the

medicaid costs. What are your citizens doing as it impacts their disposable income? When it came to me I said what was happening in North Dakota and how North Dakotans were dealing with it. I know a lot of North Dakotans can't deal with it in this fashion, but I said, it is very simple, we just go to Canada. It brought a lot of discussion to the table. I told them the prescription drugs were several dollars cheaper in Canada. When we take a look at the whole prescription drug issue, it is more than a tax credit. I support the concept of this bill.

We have spent much too long accepting the rise in prescription drugs.

REP. CARLSON What is the number that is used to deduct?

REP. BOUCHER Deferred to Sen. Nelson.

REP. RENNERFELDT Do you treat everyone the same with this bill, millionaire, or a hamburger flipper at McDonald's, the question is, should we give a break to the high income brackets?

REP. BOUCHER As the bill is written, it allows the break to everyone. You get into some shark infested waters when you try to single out, who is eligible and who can get these types of breaks. Quite frankly, I agree with you one hundred percent. In order to benefit from a tax credit, the filer must have had both a federal and state income tax obligation. So when we deal with tax credit, we are dealing with people whose income was sufficient enough so they had a tax obligation. This piece of legislation is a fair and equitable allowance that benefits moderate and middle income individuals.

REP. CARLSON There is a lot more here than meets the eye. It talks about, not covered by insurance, in excess of five hundred dollars per individual. That is why, when we look at fiscal notes, it is hard to imagine, how they can figure one. We really don't know how many people

have insurance coverage and how many do not. If you look at the national average, over sixty five, is \$564.00 cost. This is hard to pin down.

REP. BOUCHER Stated, it is very hard to pin down, we don't know the individual situation and we are dealing on averages.

REP. CARLSON This also moves it to the short form as well.

REP. BOUCHER Yes, I have been in this legislative body since 1991, and I have had pieces of tax credit legislation, not of this nature, but of other kinds, bite the bullet, pass one house and get beaten in another house. In 2001, in the 57th Legislative Assembly, we have seen the situation across the state of North Dakota change quite dramatically. I think we have arrived at a time where we will have to take a serious look at our tax reform. It served a good purpose for a long period of time, but in some cases, it is maybe out of date.

REP. RENNERFELDT You talked about all of the different costs in the United States. We have different laws, and in Canada, they don't deal with our EPA, research costs are charged to the U S consumer.

REP. BOUCHER I know, there are a whole host of issues, their environmental agency, I think they call it Environment Canada, and we call it the EPA, etc., there is a whole list of regulations. And, the American consumer seems to bite the bullet for research and developmental costs. I guess if you look at a particular pharmaceutical, and you have a population in North America, we have a trade agreement, why should a greater portion be on the American population than the rest of the population. This particular pharmaceutical is going to be available to everybody. That is why I am saying, if we are going to follow the intent of NAPHTA and the spirit of NAPHTA, we

start to get to the point of universal labels. I resent that I have to pay the cost and the benefit for someone living in some other part of the continent utilizing the same thing I am utilizing.

REP. DROVDAL This is the fourth or fifth bill that we have had in for a direct tax credit off the short form. All of them are passionate and deserving, and all of them cost ten to fifteen million. If we passed out all of them, we wouldn't have any tax coming in. Where do you and I and the legislature draw the line?

REP. BOUCHER I know there are many, I ask myself the same question. We may have to make some significant decisions in terms of priorities.

REP. HERBEL Do you know if any of the other states implemented this type of thing giving a tax credit for prescription drugs?

REP. BOUCHER I can't tell you exactly, it is the discussion I have read in many national publications.

REP. DROVDAL If we allow this fifteen million tax deduction, do you have a proposal where we can raise fifteen million dollars?

REP. BOUCHER There are a lot of ways we can look at alternatives, the first way, prioritize. I have never been on appropriations, but I know the art of appropriations, it is a very skillful art, it is up to us to point out and say, maybe we set money aside that we could be using at a given time. Before we rush out and take drastic measures, the first thing to do, is look very carefully at what we have got, and where those sleights of hand exist. As far as the fiscal note, we don't know for sure that it is fifteen million. We don't know what the average tax payer is going to be obligated to in the coming year.

REP. WINRICH I am curious about the explicit mention of insulin in the bill, I believe it is only available by prescription, isn't it included in the term "prescription drug"?

REP. BOUCHER Deferred to Sen. Nelson.

SEN. CAROLYN NELSON, DIST. 21, FARGO Testified in support of the bill. Submitted a handout from the Midwest Leadership Conference, see attached copy. The handout relates to seniors feeling the pinch from rising drug costs, also relating to decoupling of sales tax. She related to costs of prescriptions on her Blue Cross, Blue Shield insurance statements. This bill is an attempt to relieve that burden. She related to the fiscal note, stating when she called the tax department, they told her they would be taking a guess on the fiscal note. She answered the question relating to why is insulin in addition to prescription drugs, she stated the legislative council drafted it that way. She related to the handout which she had submitted to the committee, stating that some of the states were using their tobacco money to help with prescription costs.

REP. BRANDENBURG Looking at the bill, brings up a big issue about the difference between the United States and Canada, I have been looking into this dealing with harmonization. Over ninety percent of Canada's business, deals with drug and health issues, and the overlying problem deals with the issue of the chemical residues. The thirty thousand farmers we have in the state, we would save a couple hundred million dollars if we had harmonization. I would believe if we had harmonization of drugs for the people that need those, we would have millions.

NORM STUHMILLER, ADVOCATE FOR SENIOR CITIZENS, Testified in support of the bill. I don't know the technicalities of this bill, but I do know that I am a health insurance volunteer counselor for the insurance department. I get all kinds of questions about which

supplement should I buy for my medicare, should I buy long term care insurance or not. Just recently, a husband and wife came in, in tears, because he just couldn't afford the prescription bills which they required. What do you tell them? There is no way he can get out of this, there is no solution for them, they need the medicines. You will note that Blue Cross, Blue Shield does not sell a supplement that includes prescription drugs. You can see why, the premiums become prohibitive. I hope this bill can settle some of these problems.

With no further testimony, the hearing was closed.

COMMITTEE ACTION 1-30-01, Tape #2, Side A, Meter #3950

Committee members felt this is an attempt to do something we need to do, however, the fifteen million dollar fiscal note made it impossible for some of the committee members to accept.

REP. NICHOLAS Made a motion for a **DO NOT PASS**.

REP. CLARK Second the motion. **MOTION CARRIED.**

11 YES 4 NO 0 ABSENT

REP. HERBEL Was given the floor assignment.

2-12-01 TAPE #1, SIDE B, METER # 3850 **COMMITTEE ACTION - BILL SENT BACK
TO COMMITTEE FOR RECONSIDERATION**

Committee members discussed the bill, and decided to send it out of committee again just as they did on January 30, 2001, with no changes. **REP. WINRICH** voted No in sending the bill back as is.

FISCAL NOTE

Requested by Legislative Council

01/23/2001

Bill/Resolution No.: HB 1382

Amendment to:

1A. State fiscal effect: *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	1999-2001 Biennium		2001-2003 Biennium		2003-2005 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			(\$15,400,000)			
Expenditures						
Appropriations						

1B. County, city, and school district fiscal effect: *Identify the fiscal effect on the appropriate political subdivision.*

1999-2001 Biennium			2001-2003 Biennium			2003-2005 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. Narrative: *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

HB 1382 allows a tax credit on both the long and short individual income tax forms for perscription drugs and insulin purchases that exceed \$500 per individual per year.

3. State fiscal effect detail: *For information shown under state fiscal effect in 1A, please:*

A. Revenues: *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

If enacted, HB 1382 is expected to reduce state general fund revenues by -\$7.7 million per year.

B. Expenditures: *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

Name:	Kathryn L. Strombeck	Agency:	Tax Department
Phone Number:	328-3402	Date Prepared:	01/26/2001

Date: 1-30-01
Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1382

House FINANCE & TAXATION Committee

☐ Subcommittee on _____
or
☐ Conference Committee

*Reconsidered
2-12-01-
passed out as is*

Legislative Council Amendment Number _____

Action Taken Do Not Pass

Motion Made By Rep. Nicholas Seconded By Rep Clark

Representatives	Yes	No	Representatives	Yes	No
CARLSON, AL, CHAIRMAN	✓		NICHOLAS, EUGENE	✓	
DROVDAL, DAVID, V-CHAIR	✓		RENNER, DENNIS	✓	
BRANDENBURG, MICHAEL	✓		RENNERFELDT, EARL	✓	
CLARK, BYRON	✓		SCHMIDT, ARLO		✓
GROSZ, MICHAEL	✓		WIKENHEISER, RAY	✓	
HERBEL, GIL	✓		WINRICH, LONNY		✓
KELSH, SCOT		✓			
KROEBER, JOE		✓			
LLOYD, EDWARD	✓				

Total (Yes) 11 No 4

Absent 0

Floor Assignment Rep. Herbel

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
February 12, 2001 4:59 p.m.

Module No: HR-25-3139
Carrier: Herbel
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1382: Finance and Taxation Committee (Rep. Carlson, Chairman) recommends **DO NOT PASS** (11 YEAS, 4 NAYS, 0 ABSENT AND NOT VOTING). HB 1382 was placed on the Eleventh order on the calendar.

2001 TESTIMONY

HB 1382

Testimony for House Bill 1382
House Finance and Tax Committee

Al Carlson, Chairman

Monday, January 29, 2001

Chairman Carlson and members of the House Finance and Tax Committee. For the record I am Representative Merle Boucher from District Nine.

House Bill No. 1382 would allow an individual to claim a tax credit of up to \$1,000.00 per individual for costs of prescribed drugs and insulin not covered by insurance in excess of \$500.00 by the individual. The credit is allowed as a deduction for prescribed drugs and insulin - allowed as a deduction under section 213 of the IRS code but not allowed on the federal return by reason of the federal medical deduction limitation for expenses incurred by the taxpayer(s).

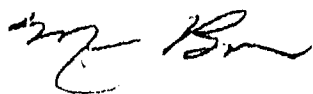
One of the most burdensome costs that many individuals and families incur in today's world is the expense of prescription drugs and insulin. It is a well known fact that the costs of prescription drugs and insulin has risen much faster than typical prices on the overall consumer price index. Health care experts and consumer advocates warn us that it appears that this trend of increasing costs will be with us for a long period of time. The high costs of prescription drugs and insulin is a major drain on a number of individuals and their families' disposable income.

House Bill No. 1382 attempts to alleviate some of this extraordinary financial burden by giving the taxpayer a tax credit. A tax credit is not a form of public assistance or a so called social entitlement. You must remember that in order to benefit from a tax credit, the filer must

have had both a federal and a state tax obligation. This piece of legislation is a fair and an equitable allowance that benefits moderate and middle income individuals and families.

I ask that you give serious consideration to the contents of House Bill No. 1382. Please give HB No. 1382 and a number of fellow North Dakotans your favorable support and give it a due pass recommendation.

Respectfully submitted by:

A handwritten signature in cursive script, appearing to read "Merle Boucher".

Representative Merle Boucher

Firstline Midwest

The Midwestern Office of The Council of State Governments Volume 8, Number 1 • January 2001

Because Medicare provides no prescription drug benefit, many uninsured seniors are facing a serious health crisis, the significance of which has not escaped the attention of state and federal lawmakers.

Next month:

Paying off?

Legalized gambling continues to be a hot-button issue, as several recent developments in the Midwest prove.

Seniors feel pinch from rising drug costs

by Jacqueline M. Kocinski

Most Americans would agree that this nation offers the very best in health care services. The problem is that such care comes at a price, one that prohibits millions of citizens from accessing it.

With health care costs on the rise — in the Midwest they are increasing anywhere from 10 percent to 30 percent annually — recent studies have pinpointed expenditures for prescription drugs as the fastest-growing piece of the health care spending pie. The journal *Health Affairs* reports that spending on pharmaceuticals was responsible for 44 percent of the increase in health care costs in 1999.


The elderly typically have more medical needs; as a result, they consume one-third of all prescription drugs (despite representing just 12 percent of the population). Because Medicare provides no prescription drug benefit, many uninsured seniors are facing a serious health crisis, the significance of which has not escaped the attention of state and federal lawmakers.

Policymakers in Washington, D.C., have mulled over a number of options to tackle the problems related to prescription drug pricing and coverage. A program to allow the import of low-cost prescription drugs was approved by

Congress last fall. By the end of the year, however, the program was killed because U.S. Health and Human Services Department officials could not, as stipulated in the legislation, demonstrate that it would "pose no additional risk to the public's health and safety" and "result in a significant reduction in the cost of covered products."

Some Americans who lack drug coverage have crossed the borders into Canada and Mexico, where identical prescriptions can run 30 percent to 70 percent less than in the United States.

Most attention at the federal level has been paid to options for adding a prescription drug benefit to Medicare. In his campaign for the presidency, George W. Bush proposed a plan that would initially provide block grants to the states and four years later follow a private insurance model in which seniors would choose among health plans with varying benefits. Critics, though, charge that such an income-based program would still leave at least 25 million Medicare beneficiaries without meaningful assistance.

While debate has intensified at the federal level, action has picked up in the states. Several in this region now have plans in place to help seniors pay for prescription drugs. 

 Midwest

State pharmacy assistance programs help elderly in the Midwest

Over the past eight years, elderly Americans have seen their prescription drug costs double. Over the next decade, their drug expenditures are expected to continue to rise at double-digit rates. As the medicines that are vital to seniors' health become increasingly unaffordable, state lawmakers are stepping in to provide many with the coverage the federal government does not.

Over half the states now have some sort of pharmacy assistance program in place, with a few having been developed as long as 25 years ago. Most target the elderly, though a number also offer coverage to people with disabilities. Restrictions on

eligibility and benefits intended to contain costs differ across the states, but cost-sharing is a typical feature of most plans.

Over the last two years, a number of states — many following the first tobacco settlement disbursements — looked to develop a pharmacy assistance program or revamp one already in existence. The plans generally fall under three categories: subsidies, bulk-purchasing arrangements and price controls.

In the Midwest, the region with the largest proportion of older seniors, legislators are acutely aware of the impact that rising drug costs have on their older constituents. The annual

pharmacy bill of a typical senior can run \$2,000 or more, and one-third of Medicare recipients do not have access to discounted drugs.

Seniors in rural areas fare even worse. Rural beneficiaries, who represent one-quarter of the Medicare population nationwide, have lower incomes, more limited access to pharmacies and pay more for prescription drugs than their urban counterparts.

Following a series of town meetings held across the state, the Indiana General Assembly voted last year to spend \$20 million of its share of the tobacco settlement on a prescription drug program for seniors, and an advisory committee was then formed to help structure a plan. Gov. Frank O'Bannon announced details of "HoosierRx" in October 2000.

To provide quick help to the state's seniors, refunds are being given for drugs purchased since Oct. 1, 2000. Indiana residents over age 65 with no other prescription drug coverage and incomes below 135 percent of the federal poverty level will be able to submit quarterly refund certificates to receive back half of their drug costs, up to \$1,000 a year.

A second phase of the program is still under development, but it will aim to lower prices at the time elderly residents have their prescriptions filled. Participants may pay a lower price, either through a discount or a co-payment.

QUICK FACTS

One in five elderly people takes at least five prescription medications a day.

One in four Americans lack or have inadequate insurance covering prescription drugs.

In rural America, Medicare beneficiaries are 50 percent less likely to have prescription drug coverage. Most rural Medicare recipients who lack prescription drug coverage are middle income.

Sixty-nine percent of Americans say they are willing to pay higher taxes to expand Medicare to cover prescriptions for low-income seniors.

The cost of the top 50 drugs used by U.S. seniors — who consume one-third of all prescriptions — has been increasing at a rate that has outpaced inflation nearly two to one for the past six years.

More than 50 percent of the growth in spending for prescription drugs is for pharmaceuticals, which have come on the market since 1994.

Sources: Center for Policy Alternatives, National Economic Council/Domestic Policy Council, Public Agenda, Families, U.S.A., National Center for Policy Analysts

In Iowa, a Prescription Drug Work Group is hammering out the details of a drug purchasing cooperative plan. U.S. Sen. Tom Harkin secured \$1 million in federal start-up funds for a demonstration project in the state. Individuals, as well as local pharmacies, will be eligible to join the co-op. Participants may also include the self-insured, employers and insurers.

Serving as a buyers' club, the plan would allow Iowa seniors to purchase pharmaceuticals at a discount rate for a small annual fee, perhaps between \$15 and \$30. The state plans to negotiate volume-purchasing discounts either directly or through a private sector contractor.

Among the working group's goals is for the ultimate design of the program to be a public-private partnership that will use no state funds and could act independently of the government at some point. The program is expected to begin operating this spring.

In Michigan, \$30 million of that state's portion of the tobacco settlement was appropriated to establish the Elder Prescription Insurance Coverage (EPIC) program. The total cost of the plan is expected to run close to \$56 million. The additional funds will come from the repeal of an existing senior drug tax credit and the Emergency Pharmaceutical Program for Seniors.

Implementation of EPIC is expected

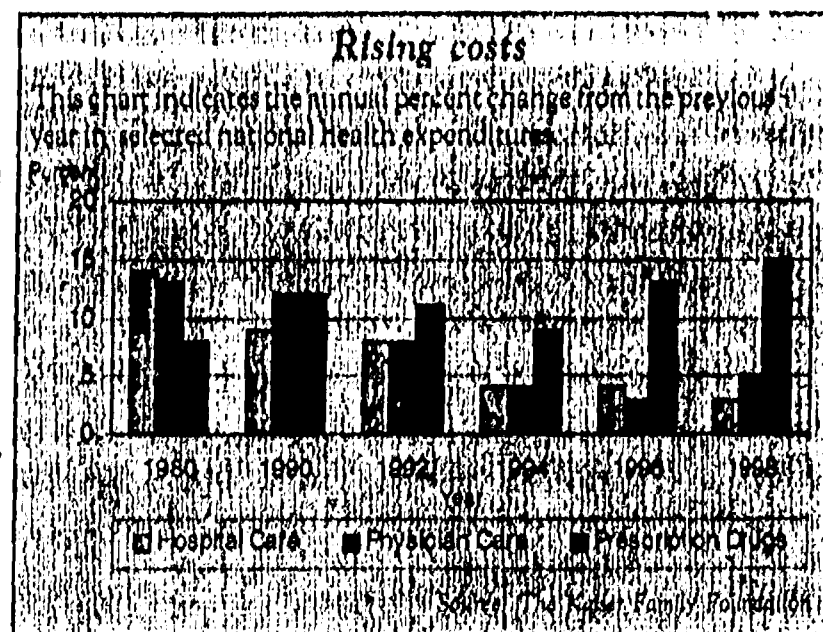
to begin early this year, with the program covering those age 65 and over with incomes at or below 200 percent of the federal poverty level. Those under 100 percent will pay no premium.

For all others, insurance premiums will be based on income, not to exceed 5 percent of household income. An emergency provision of the plan will cover seniors who require assistance for just a month or two.

A pharmaceutical assistance program covering the elderly and disabled was first implemented in Illinois in 1985. Last year, legislators in Springfield raised the income eligibility for coverage and lowered deductibles and co-payments. The expansion is being funded by a \$35 million appropriation of tobacco settlement dollars.

It remains to be seen whether and how any action taken by the new administration in Washington, D.C., will impact these Midwestern pharmacy assistance programs.

Even if a federal plan is approved, how it is structured will determine



how many seniors receive help meeting prescription drug costs. Researchers at The Commonwealth Fund -- a nonpartisan health and social policy research foundation -- contend that even if a prescription drug benefit is added to Medicare, most people would not qualify for government coverage if annual income alone was used to determine eligibility.

However, eligibility rules that include elderly without continuous and stable coverage, those with high drug expenditures and seniors with multiple chronic conditions would make nearly 90 percent of beneficiaries eligible for coverage, The Commonwealth Fund believes.

Until such a plan becomes the law nationally, the affordability of prescription drugs will continue to receive considerable attention at the state level.

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

Firstline Midwest

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January 2001

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Source Guide
For further information on the issues related to prescription drug pricing
and coverage:
AARP www.aarp.org
Center for Policy Alternatives www.stateaction.org
Center for Studying Health System Change www.hschange.org
Pharmaceutical Research and Manufacturers of America www.phrma.org
The Kaiser Family Foundation www.kff.org
U.S. General Accounting Office: "State Pharmacy Programs" www.gao.gov/new.items/he00162.pdf

Source: The Kaiser Family Foundation

