



**House
Legislative
Analysis
Section**

Olds Plaza Building, 10th Floor
Lansing, Michigan 48909
Phone: 517/373-6466

SENIOR CITIZEN DRUG FUNDING

**House Bill 4012 as introduced
Committee: Taxation**

**House Bill 4013 as introduced
Committee: Senior Citizens**

**Sponsor: Rep. Clark Harder
Revised First Analysis (5-20-93)**

THE APPARENT PROBLEM:

Public Act 516 of 1988 created a prescription drug credit against the income tax for low-income senior citizens. People over 65 whose income does not exceed 150 percent of the federal poverty income standards can claim a credit equal to the amount by which their expenditures for prescription drugs exceed five percent of household income; there is a limit of \$600 per credit. The credit must be claimed on a separate form that must be filed by June 1 in the year after that for which the credit is being claimed. The act stipulates that the amount of credits refunded cannot exceed \$20 million minus the amount spent for the Older Michiganians Pharmaceutical Assistance Fund. This fund is cited in the Income Tax Act but was never established anywhere in statute. In the years since the prescription drug credit program was introduced, appropriations to the fund have fallen short of the recommended amount of \$20 million annually. Appropriations have risen, in response to increased use of the program as more people become aware of it and apply for it: \$9.5 million in tax credits was paid out in the 1989 tax year; and in the 1992 tax year \$13.6 million in tax credits was paid out. In addition, in each of those years, the legislature appropriated \$2 million and \$2.5 million, respectively, for the Michigan Emergency Pharmaceutical Program for Seniors (MEPPS) in the Office of Services to the Aging. (MEPPS was created by rule but does not exist in statute.) However, advocates of the senior drug programs maintain that the full \$20 million should be available each year and that amounts unspent -- including interest earned by the fund -- should not go into the general fund to be used for other purposes but should be saved for future use. This,

they say, was the intent when the original legislation was enacted. The use of the credit will grow as more people become aware of it and apply for it, say senior advocates, and the demand for additional emergency assistance is growing.

THE CONTENT OF THE BILLS:

House Bill 4013 would establish the Older Michiganian Pharmaceutical Assistance Fund, which would be in the Department of Treasury but administered by the Office of Services to the Aging. The state treasurer would credit to the fund all amounts appropriated by the Income Tax Act and money contributed from any other source. Any money remaining in the fund, including interest earned by the fund, at the end of a fiscal year would be carried over to the next and succeeding fiscal years and would not be credited to or revert to the general fund. The Office of Services to the Aging would have to use the fund to establish a program to assist older persons with payment for prescription drugs, and the office would have to promulgate rules to implement the program.

House Bill 4013, which would amend the Older Michiganians Act (MCL 400.5861), also contains a definition of "prescription drug" that includes under that term drugs dispensed according to a prescription, including those designated by the Board of Pharmacy, and those that bore the federal legend "CAUTION: federal law prohibits dispensing without prescription"; insulin, syringes, and needles.

House Bills 4012 and 4013 (5-20-93)

House Bill 4012 would amend the Income Tax Act (MCL 206.273) to provide for an annual appropriation to the Older Michiganians Pharmaceutical Assistance Fund beginning with the 1993-94 fiscal year. The annual appropriation would be \$20 million minus the amount of senior prescription drug tax credits granted in the immediately preceding state fiscal year.

House Bill 4013 is tie-barred to House Bill 4012.

BACKGROUND INFORMATION:

The bills are the latest in a series of attempts to help seniors defray the cost of prescription drugs. At earlier attempt, House Bill 4141 of the 1987-88 session, was vetoed by Governor Blanchard on the grounds that there was no identified funding source for it. The bill would have provided direct assistance upon application rather than a credit. The Blanchard Administration subsequently recommended increasing railroad and tobacco taxes to pay for such a program, but this approach was opposed by the affected industries and did not gain sufficient support. Late in 1988, the legislature approved a bill that was estimated to increase the use tax liability of construction contractors by at least \$20 million annually, basically ratifying a compromise resolution of a long-standing dispute between contractors and the treasury department over how to calculate use taxes. This revenue increase from Public Act 506 of 1988 was identified as a likely source of funding for a senior citizen prescription drug tax credit proposal. (Although the construction use tax bill and the prescription drug credit were conceptually linked, there is no formal statutory linkage between the two. Moreover, fiscal analysts maintain that the additional revenue raised from construction use taxes did not total the anticipated \$20 million). Finally, House Bills 4399 and 4400 of the 1991-1992 session proposed to establish an Older Michiganians Pharmaceutical Assistance Fund, and to appropriate to the fund \$20 million annually (minus the amount of prescription drug credits refunded in the previous fiscal year). House Bills 4012 and 4013 are identical to House Bills 4400 and 4399, respectively, which passed the House but not the Senate.

FISCAL IMPLICATIONS:

House Bill 4013 requires that interest earned by the Older Michiganians Pharmaceutical Assistance Fund remain in the fund and not revert to the general

fund. According to the House Fiscal Agency, at current interest rates of 4 percent to 6 percent, this provision would result in approximately \$800,000 to \$1.2 million remaining in the fund rather than being available for other programs. (5-5-93)

ARGUMENTS:

For:

The demand from seniors for assistance with prescription purchases is likely to continue. Statistics reported by the U.S. Senate Special Committee on Aging and published in September 27, 1991 issue of "Older Americans Report" indicate that prescription drug prices increased by 152 percent during the 1980s. This increase is almost three times the general inflation rate of 58 percent. The committee also reported that, during the first six months of 1991, prescription drug prices increased by 11.2 percent, despite a general inflation rate of only 3.3 percent, and in August, 1991, drug prices increased 1.3 percent, while the inflation rate was only 0.2 percent. These increases are particularly hard on older Americans living on fixed incomes, since, according to the report, 60 percent of older Americans lack insurance coverage to pay for prescription drugs. Since Medicare does not cover prescription drugs, and many of these citizens don't qualify for assistance under Medicaid, they have a difficult time obtaining the medications they need. Seniors who forego prescribed medications, when forced to choose between purchasing medications and other necessities, 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.

Against:

At a time of scarce revenues and tough budget decisions, it is bad policy to stockpile current unused revenues for use in future years. The senior prescription drug programs carry a \$20 million cap, not a guarantee that they will get \$20 million every year regardless of need. Thus far, the difference between the amount spent on the prescription drug programs and the cap has stayed in the general fund, where it can be used for other purposes. There are a great many demands on the state budget, many needs to be met. It makes no sense to take money from the general fund for use in

future years by one program when there are so many other good uses to which it could be put.

POSITIONS:

A representative of the Michigan Pharmacists Association testified in support of House Bill 4013. (5-5-93)

The Area Agencies on Aging Association supports House Bill 4013. (5-5-93)

The Michigan Senior Advocates Council supports House Bill 4013. (5-5-93)

The Department of Management and Budget has no position on House Bill 4013. (5-5-93)

The Office of Services to the Aging opposes House Bill 4013. (5-5-93)