



**Texas Association of Health Plans**

1001 Congress Ave., Suite 300

Austin, Texas 78701

P: 512.476.2091

[www.tahp.org](http://www.tahp.org)

April 25, 2023

Re: TAHP Opposes HB 1293

Dear Chairman Frank and Members of the House Committee on Human Services,

The Texas Association of Health Plans (TAHP) is the statewide trade association representing health insurers, HMOs, Medicaid managed care, and other health plans that serve over 20 million Texans. Our members are committed to improving access to affordable, quality health care in Texas.

We are writing to express our strong opposition to HB 1293, which mandates the use of the National Average Drug Acquisition Cost (NADAC) and the state's dispensing fee for prescription drugs in the Medicaid managed care system. We believe this legislation is not only misguided but also counterproductive, as it would undermine the fundamental principles of the Medicaid managed care system and ultimately lead to increased costs for taxpayers.

Texas partners with private health insurance providers, known as Medicaid managed care organizations (MCOs), to administer the Texas Medicaid program. MCOs assume all financial risk for providing needed services to their members, and in return, they have the flexibility to negotiate provider rates and establish a provider network that is more innovative and efficient than the fee-for-service (FFS) model. This partnership has been instrumental in containing costs and ensuring beneficiaries receive high-quality, accessible healthcare services.

Texas Medicaid MCOs have successfully managed the drug benefit, saving money for taxpayers and ensuring an adequate network of pharmacies. One of the main reasons drugs were carved into managed care was to slow down the rapid growth in Medicaid drug spending that had been occurring over the previous decade. At the time, Medicaid drug costs were spiraling out of control, almost doubling in ten years, and increasing by more than 6.5% on average per year. The carve-in was successful in reducing drug cost growth in Texas Medicaid by 50%. Medicaid MCOs achieved these taxpayer savings while maintaining a robust and competitive network of pharmacies that ensure access for Medicaid families. Currently, over 95% of Texas pharmacies participate in Medicaid MCO networks, illustrating the effectiveness of the current process.



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One of the main principles of Medicaid managed care is to negotiate market-based reimbursement rates to ensure affordable and accessible healthcare for Medicaid families while controlling costs for taxpayers. By imposing a one-size-fits-all reimbursement model based on NADAC and the state's dispensing fee, HB 1293 would effectively eliminate the ability of managed care organizations (MCOs) to negotiate competitive rates and drive down costs for Texas taxpayers.

Additionally, Texas transitioned from the FFS model to managed care precisely because of the inherent inefficiencies and problems associated with the FFS system. Reverting to a reimbursement model that mirrors the FFS system would undermine the progress made in improving access and controlling costs for prescription drugs in the Medicaid program.

Pharmacies advocating for this bill are doing so to secure higher reimbursement rates, which would inevitably lead to increased costs for taxpayers. The Texas FFS NADAC dispensing fee is much more expensive than its federal counterpart. While national NADAC dispensing fees average around \$7, the Texas FFS dispensing fee is closer to \$11. Additionally, both of these fees are more expensive than the current rates in Medicaid managed care, the private health insurance market, or Medicare. If the Texas FFS NADAC dispensing fee were applied to managed care, Texas MCOs estimate that this would result in a cost increase of 9.39% to 13% per year for the Medicaid program. Medicaid MCOs estimate that the annual All Funds cost increase to Medicaid would amount to \$400 - \$554 million a year, while the annual General Revenue cost would rise by \$160 - \$221 million a year.

While we understand the concerns of some independent pharmacies regarding reimbursement rates, we believe that HB 1293 is not the right solution. Instead, Texas should focus on fostering a competitive marketplace that encourages negotiation and cost containment.

In addition to the policy concerns with HB 1293, we find it difficult to justify the increased pharmacy reimbursement rates proposed by the bill. Texas MCOs have already established an adequate network of pharmacies, and the financial health of Texas pharmacies remains strong. From 2010 to 2019, the number of independent pharmacies in Texas grew from 1,400 to 1,944,



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representing an impressive 38%. During that same time, chain stores grew by only 13%.<sup>1</sup> There are now 2,015 independent pharmacies in Texas.<sup>2</sup>

Gross margins for pharmacies have also remained consistent over time, with independent pharmacies reporting a 21.2% margin on prescription sales in 2020.<sup>3</sup> Revenue for independent pharmacies have increased 35% over the past several years; and margins have ranged from 22 - 24%.<sup>4</sup>

In conclusion, TAHP strongly opposes HB 1293 because it would undermine the Medicaid managed care system, hinder cost containment efforts, and ultimately increase costs for Texas taxpayers. We urge you to consider the negative implications of this legislation and work with stakeholders to find alternative solutions that balance the needs of pharmacies, beneficiaries, and taxpayers.

Sincerely,

A handwritten signature in black ink that reads "Jamie Dudensing". The signature is written in a cursive, flowing style.

Jamie Dudensing, RN  
CEO  
Texas Association of Health Plans

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<sup>1</sup> Source: [www.data.gov](http://www.data.gov) and National Community Pharmacists Association 2020 Digest Report

<sup>2</sup> <https://www.pcmant.org/the-independent-pharmacy-marketplace-is-stable-2023/>

<sup>3</sup> <https://www.drugchannels.net/2022/02/five-things-to-know-about-state-of.html>

<sup>4</sup> <https://www.ncpa.co/images/digest/2018-Digest-Web.pdf>