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TAHP
The Texas Association of Health Plans

Medicaid Drug Coverage 101

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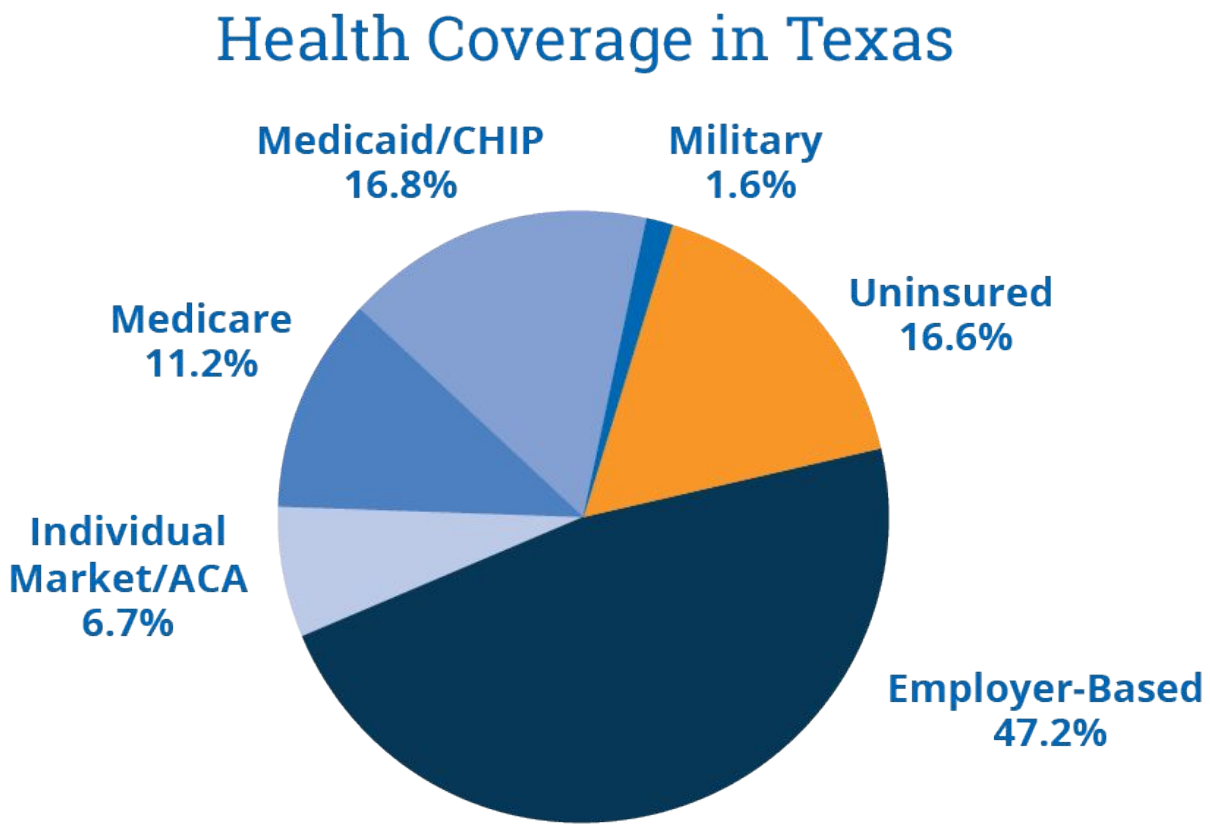
Texas Health Plans Cover More Than 20 Million Texans



Health insurance helps keep families and communities healthy through:

- Medicaid
- Medicare
- Tricare
- Individual
- Employer

One Pager - Meet the Texas Association of Health Plans

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Texas Medicaid Prescription Drug Coverage

Prescription Drug Coverage: A pharmacy benefit is the part of health insurance that covers prescription drugs.

Prescription drug coverage is a key component of Medicaid, providing treatment for both acute problems and for managing ongoing chronic or disabling conditions. MCOs pay for more than 40 million prescriptions a year.

- **No Copays:** Texas Medicaid has no copays or out-of-pocket costs for drugs. CHIP has limited copays.
- **Outpatient Pharmacy:** Medicaid provides enrollees access to prescription medications and over-the-counter medications when ordered by an authorized prescriber and delivered in an outpatient setting
- **Clinical Administered Drugs:** Medicaid also covers clinician administered drugs, often called specialty drugs, which are biologicals or injectable medications administered in a physician's office or outpatient clinic setting

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Texas Medicaid Prescription Drug Coverage

Prescription drug expenditures represent 13% of the Medicaid budget.

The Texas Legislature appropriated:

SFY 2024		SFY 2025
$4.24 Billion AFs	&	$4.01 Billion AFs

to HHSC for Medicaid prescription drug benefits.

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Texas Medicaid Prescription Drug Coverage is Unique

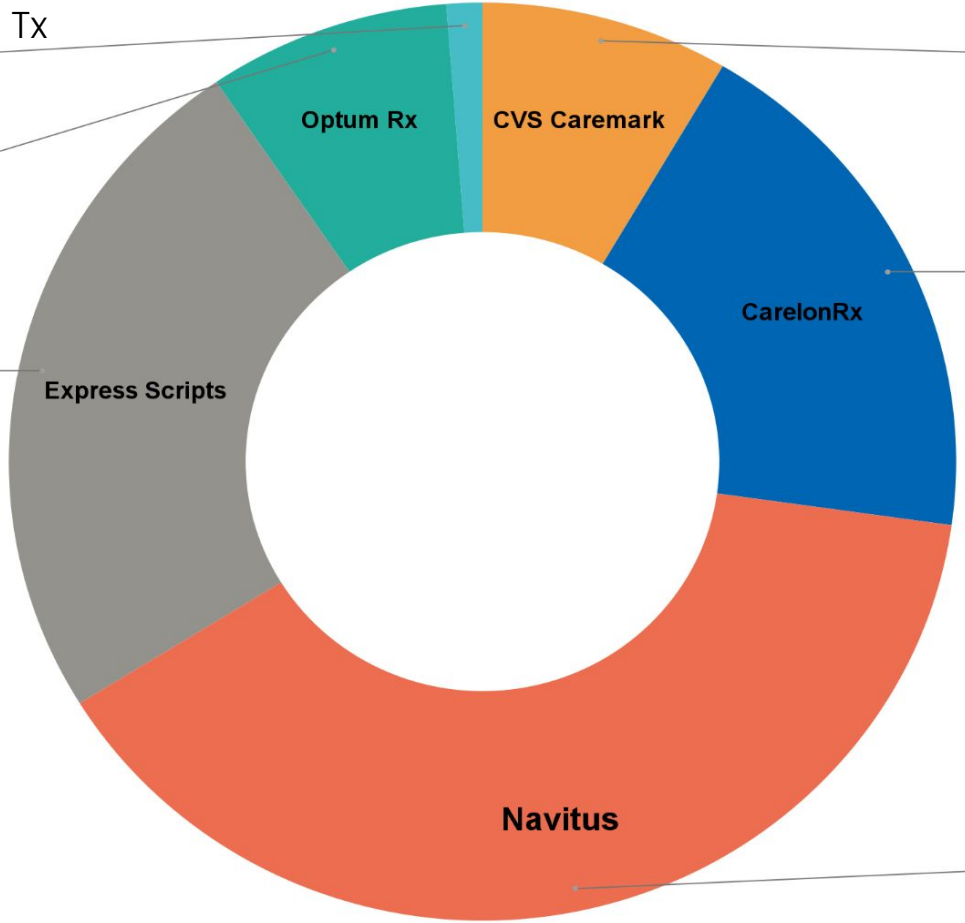
- **Texas Vendor Drug Program (VDP) at HHSC:** Oversees drug benefits for Medicaid and CHIP, establishes the Texas formulary and preferred drug list (PDL), and negotiates rebates.
  - VDP also manages the FFS portion of Medicaid drug benefits, including contracting with a PBM to administer these benefits - 3% of enrollees
- **Medicaid MCOs:** Administer pharmacy benefits for approximately 97% of Texas Medicaid members, as well as for the entire CHIP program.
  - HHSC pays MCOs a monthly premium for each of its members and the MCO in turn pays for and manages the health care costs, including both pharmacy and medical benefits and costs. The MCOs are at risk for any costs that may exceed the premium from HHSC.
- **Pharmacy Benefit Managers (PBMs):** In Texas Medicaid, drug benefits are required to be subcontracted and administered by an entity known as a PBM.
  - PBMs are companies with unique expertise navigating the specialized field of prescription drug benefits and delivery.

PBM Enrollment Percentage

Prime **MCO:** BCBS of Tx
1.2%

Optum Rx
8.3%
MCO: United

Express Scripts
24.3%
MCO: Superior



CVS Caremark
8.5%
MCOs: Aetna
Molina

CarelonRx
18.7%
MCO: Wellpoint

MCOs: Community First, Community Health Choice, Cook, Dell, Driscoll, El Paso Health, FirstCare, Parkland, BSW, Texas Children's

Navitus
39.0%

Texas Medicaid Prescription Drug Coverage

Supplemental Rebate Program
77th Legislature directed HHSC to establish a PDL and supplemental rebate program to allow direct rebate negotiations in Texas.

States Allowed to Add Drugs to Managed Care
States can preserve rebates if adding drugs to managed care.

Recommendation:
Texas identifies savings from shifting prescription drug to managed care.

2011 Texas Adds Prescription Drugs to Managed Care

- $100 million savings in 1st year.

Medicaid MCOs & PBMs Administer Drug Benefit

- Build a network of pharmacies, negotiate market based rates, and pay claims for 97% of Medicaid
- Maintain robust fraud, waste, and abuse efforts
- Coordinate drug coverage with medical care

HHSC Manages Statewide Formulary and Negotiates Rebates through the Vendor Drug Program (VDP)

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Austin American-Statesman

Pharmacies and Medicaid

Comments from Readers

October 12, 2011

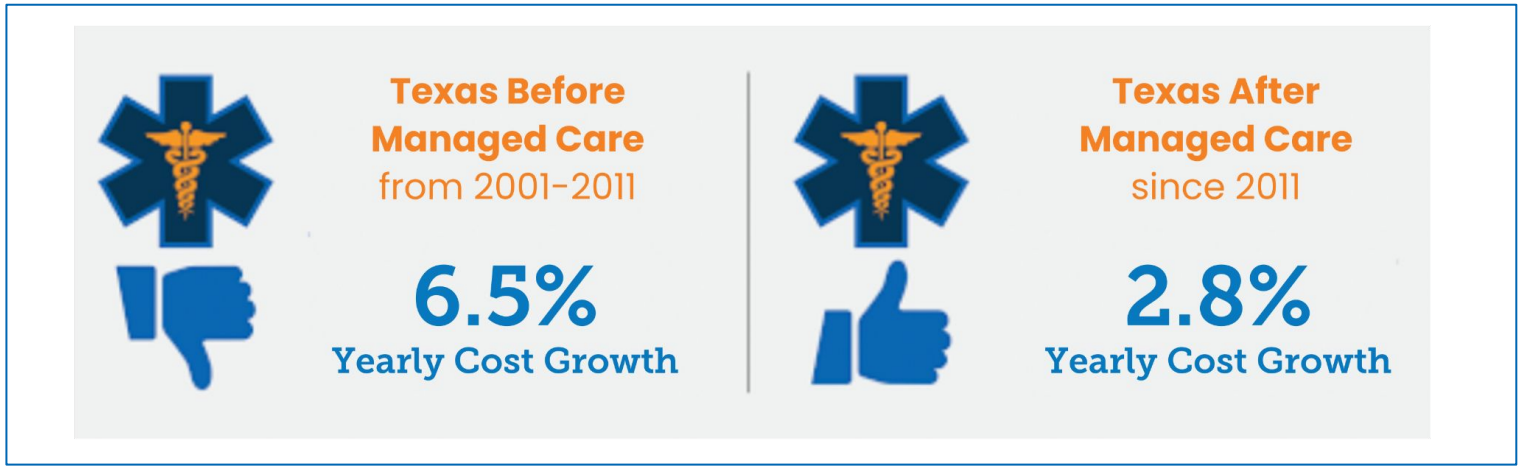
Tom Suehs, Executive Commissioner, Texas Health and Human Services Commission

The state is making changes to Medicaid pharmacy services that will save almost $100 million over the next two years. Today, Medicaid pays pharmacies a dispensing fee that averages $8.16 per prescription, in addition to a fee for the cost of the drug. Commercial dispensing fees typically range from $1.35 to $2 per prescription.

Medicaid drug costs have more than doubled since 2000, now exceeding $2.4 billion a year. It's time to bring Medicaid dispensing fees and practices in line with other insurers. The changes will benefit both the clients who use the program and the taxpayers who fund it.

Medicaid Managed Care Controls Drug Spending Growth

- Prior to adding prescription drugs to Texas managed care in 2012, costs in the fee-for-service system had risen by 90% over the previous decade.



- **MCOs cut cost growth in half:** Since shifting prescription drug coverage in Texas Medicaid to managed care, national Medicaid drug costs have increased by 9.7% annually, while Texas's growth is only 2.8%

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13.5¢ of every MCO $1 is Spent on Prescription Drugs

7.2%**
Admin. Costs

3.1%
Premium Taxes & Assessments

2.4%*
Profit (Pre-Tax)

.2%
Profit Sharing To State (Experience Rebate)

20.8¢
ER & Hospital Costs

13.5¢
Prescription Drug Costs

11.8¢
Physician Service Costs

24.8¢
Nursing Home & Long-Term Care Services
(Service Coordination)

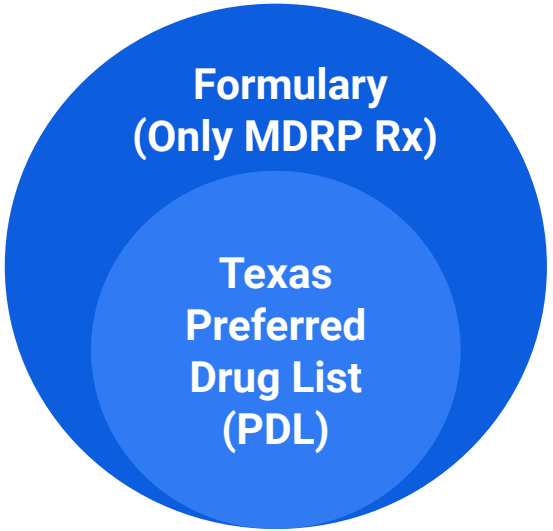
16.2¢
Other Medical Services
(Dental, Physical Therapy, Dialysis, Behavioral Health)

Source: SFY 2016 -334 Day F
*Note: Income (Pre-Tax) - Not
all MCO incurred expenses i
investments and value addec

** Administrative costs are ex
benefits and payments and c
managing the provider netw
patient care plans, IT and pat
fraud & abuse detections and

Federal Medicaid Formulary & Texas Medicaid PDL

- **What is a Drug Formulary?** A list of medications approved for prescription coverage.
- **Federal Medicaid Formulary:** Drug manufacturers pay rebates, including a portion shared with states, to be in Medicaid Drug Rebate Program (MDRP). Every state must use this formulary. Federal rebates account for over 90% of the total rebates collected by HHSC.
- **Texas Preferred Drug List (PDL):** HHSC, selects drugs from the federal formulary to include on the Medicaid PDL as preferred medications. Manufacturers must pay HHSC supplemental rebates to be included. MCOs, providers, and Medicaid patients are required to strictly adhere to the PDL.



- **Prior Authorization (PAs):** Texas Medicaid patients can receive non-PDL drugs that are on the formulary if they meet criteria (PAs) for state-approved exceptions.

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Prior Authorizations, Exceptions, and Clinical Edits

- **Clinical Prior Authorizations:** A safeguard where MCOs review prescriptions against specific evidence based criteria to ensure the appropriateness of the medication, such as correct dosage, drug interactions, correct age, and therapy duration, enhancing patient safety and care quality.
- **Prior Authorization (Step Therapy):** A provider can submit a prior authorization for a non-preferred drug if it meets one of Texas' approved exception criteria.

Texas Approved Exception Criteria

Contraindicated or Allergic Reaction	**Shortage Reported by Manufacturer**	**Likely to Cause Adverse Reaction or Harm**	**Expected to be Ineffective**
Stage-Four Cancer	**Stable on a Drug for 30 Days (limited classes)**	**Antidepressant or Antipsychotic Drugs if Stable, Risk of Complications, or Prescribed at Inpatient Facility**	

The Texas Drug Utilization Review (DUR) Board

- **Federal law requires Texas to have a Drug Utilization Review (DUR) board** that is tasked with:
  - Developing and submitting recommendations for the Texas Medicaid preferred drug list (PDL)
  - Suggesting clinical prior authorizations on outpatient prescription drugs
  - Recommending educational interventions for Medicaid providers
  - Reviewing drug utilization across the Medicaid program
- **The DUR board is made up of 21 voting members** including 17 physicians and pharmacists that serve Medicaid patients, one consumer advocate, and three pharmacists or physicians representing MCOs (changed by HB 3286)

Strong Medicaid MCO Prescription Drug Accountability

MCOs & PBMS are prohibited from using spread pricing - PBMs can not charge MCOs more for a drug than the amount a PBM pays a pharmacy.

Texas MCOs & their PBMs are prohibited from negotiating or collecting any drug rebates.

MCOS & PBMs must strictly follow the single statewide formulary and prior authorizations set by HHSC - 95% compliance rate required.

MCOs & PBMs are heavily audited for the requirement to submit every pharmacy claim and all related pharmacy spending to state.

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Coordination of Medical Care & Prescription Drugs Improves Outcomes and Saves Money

- Studies show that states that allow Medicaid managed care plans to coordinate prescription drug coverage are more efficient and cost 21% less than states that do not.
- A majority of states use Medicaid managed care to cover some or all of their Medicaid pharmacy benefit because they save money and provide better care for patients. More than 70% of prescriptions nationally are paid by MCOs.
- Nationally, coordinating medical and pharmacy care has been proven to improve health outcomes and reduce overall healthcare spending.

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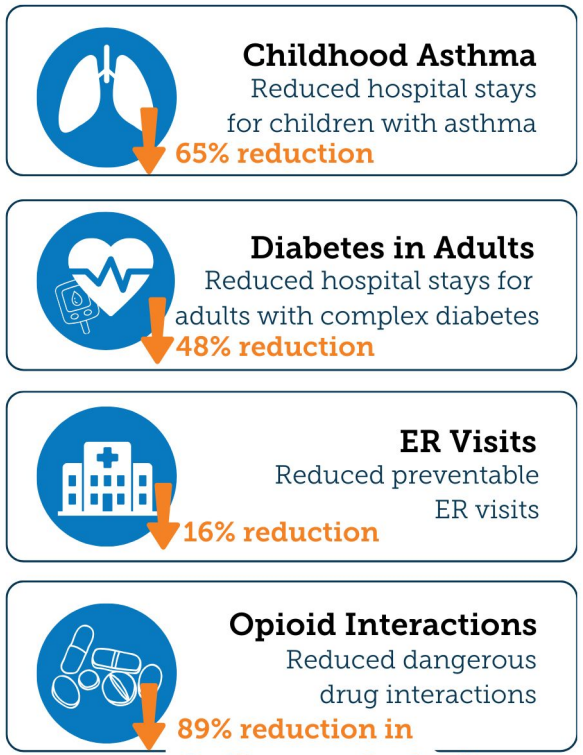
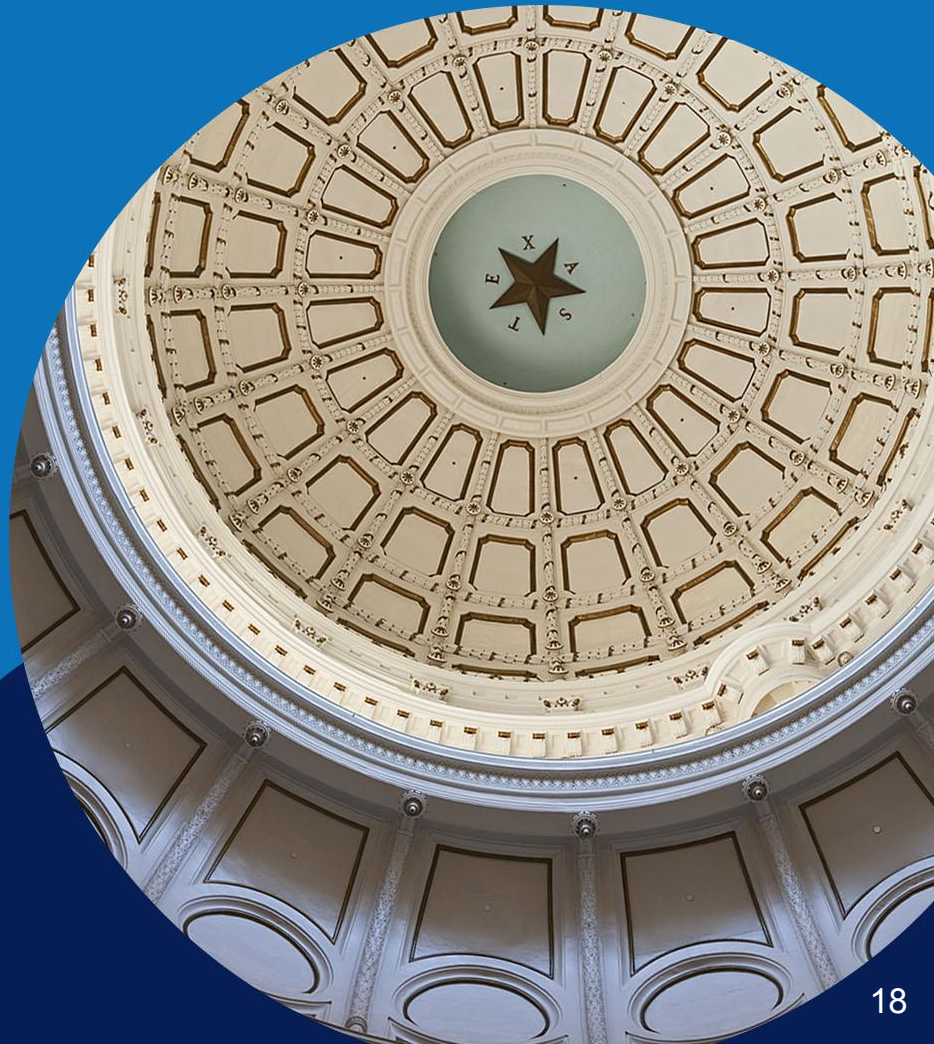
Coordinating Medical Care & Prescription Drugs Improves Outcomes & Saves Money

- **Care Coordination:** Through coordinated medical and prescription drug care, Texas MCOs have significantly improved outcomes and lowered healthcare costs.
- **Improved Outcomes:** MCO drug coordination cut opioid deaths, reduce risky drug interactions, and decrease ER visits and hospitalizations for conditions like asthma and diabetes in Texas.
- **Risks of Separating Medical and Pharmacy Benefits:** For Medicaid's complex population, separating medical and pharmacy benefits would lead to fragmented care, resulting in poorer outcomes and higher costs due to the critical need for comprehensive coordination.

Medicaid MCOs Improve Outcomes in Texas



Prescription Drug Spending and Pharmacy Reimbursement



Medicaid Prescription Drug Spending $

Federal Rebate Impact: The Medicaid Drug Rebate Program (MDRP) significantly offsets federal and state outpatient drug costs. In 2018, Medicaid's $60 billion drug expenditure was offset by $36 billion in rebates, slashing drug prices by over 50%.

Specialty Drug Costs: High-cost specialty drugs pose major affordability challenges. In FY 2021, drugs costing over $1,000 made up less than 2% of use but over 50% of Medicaid drug spending.

Generic vs. Brand Spending: While 80% of prescriptions filled are generics, brand-name drugs constitute 80% of spending.

Recent FDA Approvals: In December 2023, the FDA approved Casgevy and Lyfgenia, cell-based gene therapies for sickle cell disease, priced at $2.2 million and $3.1 million per treatment, respectively.

Soaring Drug Prices: The median list price for new drugs was $300,000 in 2023, up from $222,000 in 2022 and $180,000 in 2021.

4 Key TX Strategies to Control Medicaid Rx Spending

- ✓ **Substantial Savings Through Rebates:** Federal and state-negotiated rebates substantially reduce drug prices. Texas reduces Medicaid drug prices by more than 50% with drug rebates.
- ✓ **Robust FWA Controls:** MCOs implement strong fraud, waste, and abuse measures to curb inappropriate spending.
- ✓ **Efficient Rate Negotiation:** MCOs negotiate market-based rates to promote access and efficiency.
- ✓ **Enhanced Care Coordination:** MCOs enhance care coordination between drugs and medical services to reduce expensive ER visits and hospital stays.

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Real-Time Pharmacy Reimbursement in TX Medicaid

- ✓ **Pharmacy Reimbursement Process:** State Medicaid programs and MCOs reimburse pharmacies for prescriptions they fill for Medicaid clients, rather than purchasing drugs directly from manufacturers.
- ✓ **Real-Time Reimbursement:** Pharmacies are reimbursed in real-time through an automated point-of-sale system, unlike other Medicaid providers.
- ✓ **Claims Adjudication at Point-of-Sale:** Pharmacies submit electronic claims to the Pharmacy Benefit Manager (PBM) at the point of sale. The PBM quickly adjudicates the claim, confirming payment approval, reimbursement amount, clinical prior authorizations, and any cost-share amount due from CHIP members in real time.

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Pharmacy Reimbursement = **Dispensing Fee** + **Ingredient Costs for the Drug**

Professional Dispensing Fee: Covers the costs of preparing and providing a prescription.

Ingredient Cost: The price pharmacies pay to acquire drugs from manufacturers or wholesalers.

Fee For Service Methodology: States are mandated to use Actual Acquisition Cost (AAC) for ingredient costs for FFS. Texas uses the National Average Drug Acquisition Cost (NADAC) and a $7.93 dispensing fee for FFS.

MCO Flexibility: MCOs have the flexibility to negotiate ingredient costs and dispensing fees using market-based rates to promote access and efficiency - For ingredient costs, MCOs typically use Average Wholesale Price (AWP) for brand-name drugs and either Maximum Allowable Cost (MAC) or NADAC for generics.

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Medicaid MCOs Increase Access to Prescription Drugs

Any willing provider: In Texas, any enrolled and credentialed pharmacy may participate in the Medicaid program.

Strong network adequacy standards: MCO must ensure a client has access to a pharmacy within 2 miles in metro areas and 15 miles in rural areas

Medicaid MCOs have a large network of pharmacies: Currently, Medicaid and CHIP families have access to almost all pharmacies, with over 95% of the state's pharmacies in network.

Texas has more pharmacies than ever: Over 5k pharmacies in Texas. Between 2013 and 2023, independent pharmacies grew from **1,735 to 2,015, a 16% increase.**

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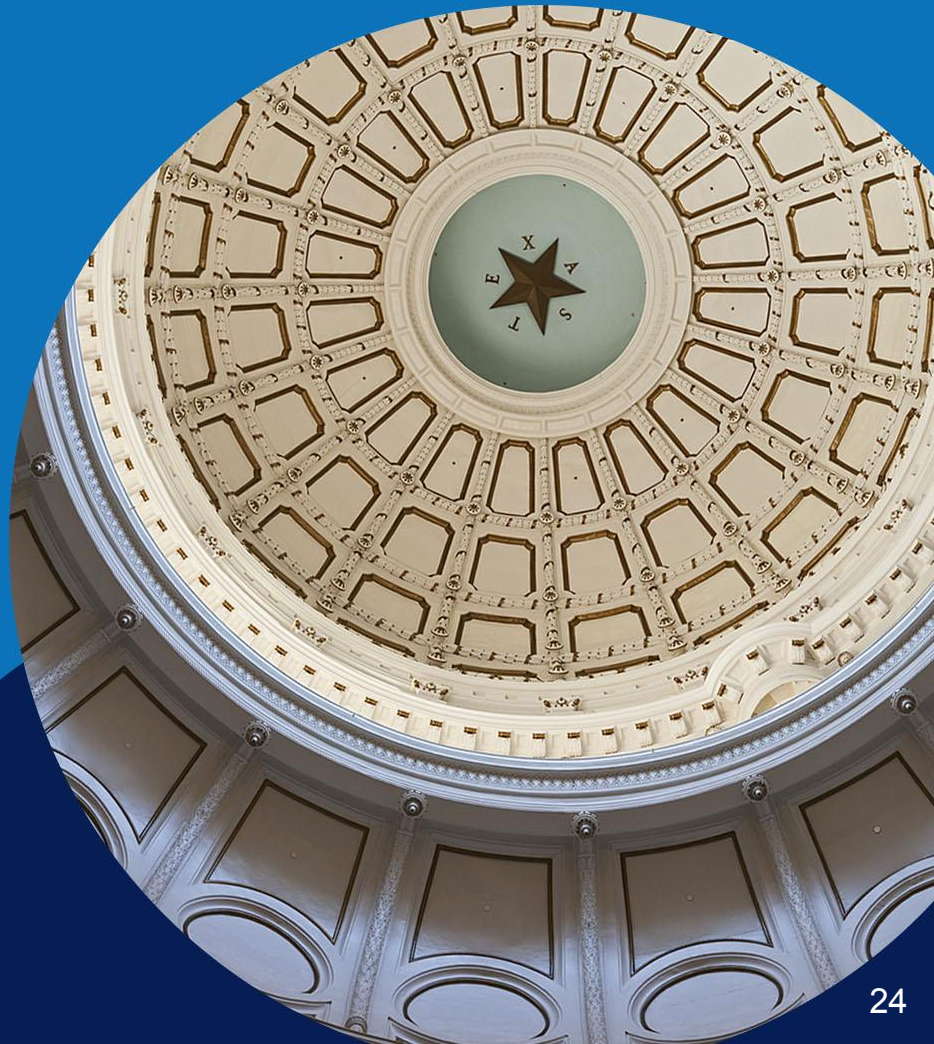
TAHP Recommendations



#1 MCOs Need More Flexibility to Address Drug Shortages

- **Progress Made, Gaps Remain:** Texas expanded patient protections to allow for exceptions to the state's statewide preferred drug list, including for drug shortages.
- **Drug Shortage remain in focus**, however, as the new law doesn't allow pharmacies to report a shortage and receive an exception—even though pharmacies have the best real time information.
- **As drug shortages have reached an all-time high** patients are leaving the pharmacy counter without the medicines they need when an acceptable alternative could have been approved.
- **Shortages continue to set records:** During the first three months of 2024, there were 323 active medication shortages, according to the American Society of Health-System Pharmacists (ASHP. Previously, the record high was 320 shortages in 2014.

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2 TAHP Opposes MCO Reimbursement Mandates

- **Eliminates Competitive Negotiations:** Mandating fee-for-service rates (NADAC + FFS Dispensing Fee) removes MCOs' ability to negotiate market-based rates with pharmacies, limiting cost savings and innovation opportunities.
- **MCOs vs. FFS Efficiency:** A HHSC study in 2018, showed that MCO-negotiated rates are more efficient than FFS, saving almost $1 per prescription. Medicaid MCOs pay for more than 40 million prescriptions a year, so every dollar counts.
- **Cost of Pharmacy Rate Mandate:** In 2023, a FFS rate mandate was estimated to cost over $100 million in General Revenue and $300 million in All Funds annually - a cost increase of 7.6% per month (HB 1293, 88R).
- **Lack of Similar Mandates:** MCOs are not subject to a reimbursement mandate for any other Medicaid provider type.
- **Unnecessary One-Size-Fits-All Rate Increase:** Texas does not face statewide pharmacy access issues, and independent pharmacies are thriving. A mandated across the board rate increase is unnecessary.
- **Rate Increases Through Budget Process:** Any consideration for a rate increase should occur through the appropriations process, targeting only regions with access issues, such as rural areas.

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#3 TAHP Opposes Medicaid Prescription Drug Carve out or a Single Medicaid Statewide PBM

- **Poor Outcomes from Fragmented Care:** Separating medical and pharmacy benefits leads to fragmented care, resulting in poorer outcomes and higher costs.
- **Critical Role of Pharmacy Coordination:** Removing pharmacy from managed care strips MCOs of important real time data needed to effectively coordinate and improve patient care outcomes.
- **Texas studied a drug carve out and found $50 million in increased spending per year and $50 million in implementation costs:** That's because Managed care results in better outcomes, better market negotiations, and better care coordination creating over $5 billion in state savings.
- **Loss of Premium Tax Revenue:** A statewide PBM costs an additional $30m in premium tax revenue losses a year.
- **Fee-for-Service Rates Increase Cost:** A carve-out results in FFS rates that increase state costs by over $100 million annually compared to MCO rates (HB 1293, 88R).
- **States like California have experienced significant access issues after a carveout** leaving patients without the medications they need.

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