



Medicaid Drug Coverage Presentation to the Texas Pharmaceutical Initiative

*Jamie Dudensing, CEO
Texas Association of Health Plans
July 16, 2024*

Who is Eligible for Medicaid?

Medicaid Provides Affordable, Quality Health Insurance for 4 Million Texans

Pregnant Women



Children



Older Texans



Texans with Disabilities



Texas Medicaid – 4 Million Texans

- Medicaid managed care is safety net health insurance that protects Texans who need it most, including children, mothers, grandparents, and Texans with disabilities.
- Texas partners with private health insurers to cover **4 million Texans**, roughly 14% of the state's population. **97% of Medicaid in Texas is managed care.**

14%

of all Texans

25%

of all Texans on Medicare

51%

of all Texas births

50K

Veterans

47%

of all Texas children

45K

Texas children in foster care

58%

of nursing home residents

Medicaid Managed Care

Texas Uses Health Insurance Model for Medicaid

- **Managed care works just like insurance—every month, HHSC pays a health care premium to the MCO for each person** they cover (called the PMPM, per member per month) and in return the MCOs accept all financial risk
- **HHSC actuaries set the premium** every year based on historical claims and the **rates are certified by an independent actuary** and certified a third time by CMS
- **MCOs are obligated to pay for all medically necessary services** for their members, even if it means the rates they receive from HHSC will not fully cover their costs
- **MCOs take on full financial risk**—if in any given year a plan incurs losses, that plan absorbs those losses—**Gives State budget certainty**
- **Texas caps profits and requires health plans to share savings** back to the state (called the experience rebate)
- **Texas also caps administrative spending** resulting in Texas having some of the lowest administrative costs in the country

What Does Medicaid Managed Care Cover?

Acute Care Services	Preventative care, diagnostics and medical treatments Ex: Physician, inpatient and outpatient hospital services, laboratory, x-ray services
Long-Term Services and Supports	Support with ongoing, daily activities for individuals with disabilities and older adults Ex: Community-based care, personal assistance with activities of daily living (cleaning, cooking), nursing facility services
Behavioral Health Services	Screening and treatment for mental health conditions and substance use disorders (SUD) Ex: Mental health rehabilitation, medication assisted therapy for SUD, psychological and neuropsychological testing
Medical Transport Services	Non-emergency medical transportation (NEMT) Ex: Rides to a doctor's office or pharmacy and money for gas to drive to an appointment
Pharmacy Services	Coverage for prescription drugs

STAR Health (statewide) - Superior
Dental (statewide) - DentaQuest, MCNA, UnitedHealth Care Dental

TEXAS Managed Care Service Areas

(Effective January 2022)



LUBBOCK

STAR - Amerigroup, FirstCare, Superior
STAR+PLUS - Amerigroup, Superior
STAR Kids - Amerigroup, Superior
CHIP - FirstCare, Superior

MRSA WEST

STAR - Amerigroup, FirstCare, Superior
STAR+PLUS - Amerigroup, Superior
STAR Kids - Amerigroup, Superior
CHIP - Molina, Superior

EL PASO

STAR - El Paso First, Molina, Superior
STAR+PLUS - Amerigroup, Molina
STAR Kids - Amerigroup, Superior
CHIP - El Paso First, Superior

TRAVIS

STAR - Blue Cross and Blue Shield of Texas, Dell Children's, Superior
STAR+PLUS - Amerigroup, United
STAR Kids - Blue Cross and Blue Shield of Texas, Superior
CHIP - Blue Cross and Blue Shield of Texas, Dell Children's, Superior

BEXAR

STAR - Aetna, Amerigroup, Community First, Superior
STAR+PLUS - Amerigroup, Molina, Superior
STAR Kids - Community First, Superior
CHIP - Aetna, Amerigroup, Community First, Superior

HIDALGO

STAR - Driscoll, Molina, Superior, United
STAR+PLUS - Molina, Superior
STAR Kids - Driscoll, Superior, United
CHIP - Molina, Superior

STAR - Aetna, Amerigroup, Cook Children's
STAR+PLUS - Amerigroup, Molina
STAR Kids - Aetna, Cook Children's
CHIP - Aetna, Amerigroup, Cook Children's

TARRANT

DALLAS

STAR - Amerigroup, Molina, Parkland
STAR+PLUS - Molina, Superior
STAR Kids - Aetna, Amerigroup
CHIP - Amerigroup, Molina, Parkland

MRSA NORTHEAST

STAR - Amerigroup, Superior
STAR+PLUS - Molina, United
STAR Kids - Texas Children's, United
CHIP - Molina, Superior

MRSA CENTRAL

STAR - Amerigroup, RightCare-Scott and White, Superior
STAR+PLUS - Superior, United
STAR Kids - Blue Cross and Blue Shield of Texas, United
CHIP - Molina, Superior

JEFFERSON

STAR - Amerigroup, Community Health Choice, Molina, Texas Children's, United
STAR+PLUS - Amerigroup, Molina, United
STAR Kids - Texas Children's, United
CHIP - Amerigroup, Community Health Choice, Molina, Texas Children's, United

HARRIS

STAR - Amerigroup, Community Health Choice, Molina, Texas Children's, United
STAR+PLUS - Amerigroup, Molina, United
STAR Kids - Amerigroup, Texas Children's, United
CHIP - Amerigroup, Community Health Choice, Molina, Texas Children's, United

NUECES

STAR - Driscoll, Superior, United
STAR+PLUS - Superior, United
STAR Kids - Driscoll, Superior
CHIP - Driscoll, Superior, United



MMP (6 counties below):

Bexar - Amerigroup, Molina, Superior
Dallas - Molina, Superior
El Paso - Amerigroup, Molina
Harris - Amerigroup, Molina, United
Hidalgo - Molina, Superior, Molina Medicare Mediadv STAR+PLUS Plan
Tarrant - Amerigroup



TEXAS
Health and Human
Services

Map Prepared by: Texas Health and Human Services Commission.
Center for Analytics and Decision Support. MRL.
December 2, 2021

MRSA: Medicaid Rural Service Area
MMP: Medicare - Medicaid Plan

The Basics: Medicaid Prescription Drug Coverage

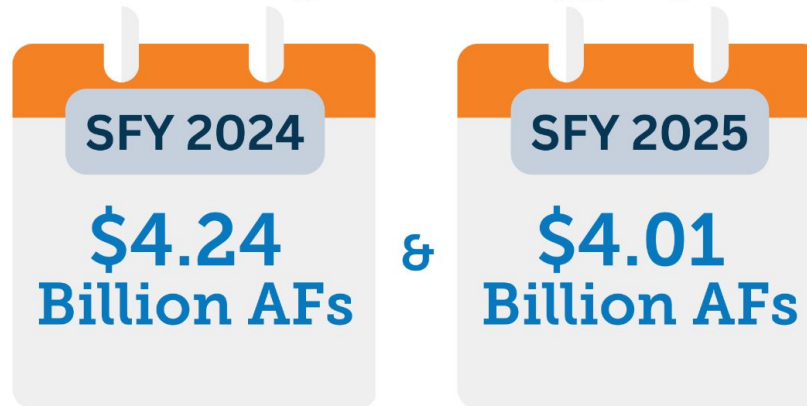
Medicaid Managed Care Organizations (MCOs) administer drug coverage alongside medical benefits for nearly all (97%) of Medicaid and CHIP beneficiaries. While MCOs administer drug benefits, HHSC's vendor drug program sets the formulary and prior authorization rules.

- **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 covers clinician administered drugs (AKA specialty drugs)—biologicals or injectable medications administered in a physician's office or outpatient clinic setting.

Texas Medicaid Prescription Drug Coverage

Prescription drug expenditures represent
13% of the Medicaid budget.

The Texas Legislature appropriated:



to HHSC for Medicaid prescription drug benefits.

Austin American-Statesman

Pharmacies and Medicaid

Comments from Readers

October 12, 2011

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.

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

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.

History of Texas Medicaid Prescription Drug Coverage

2003

Supplemental Rebate Program

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

2009–2011

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

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

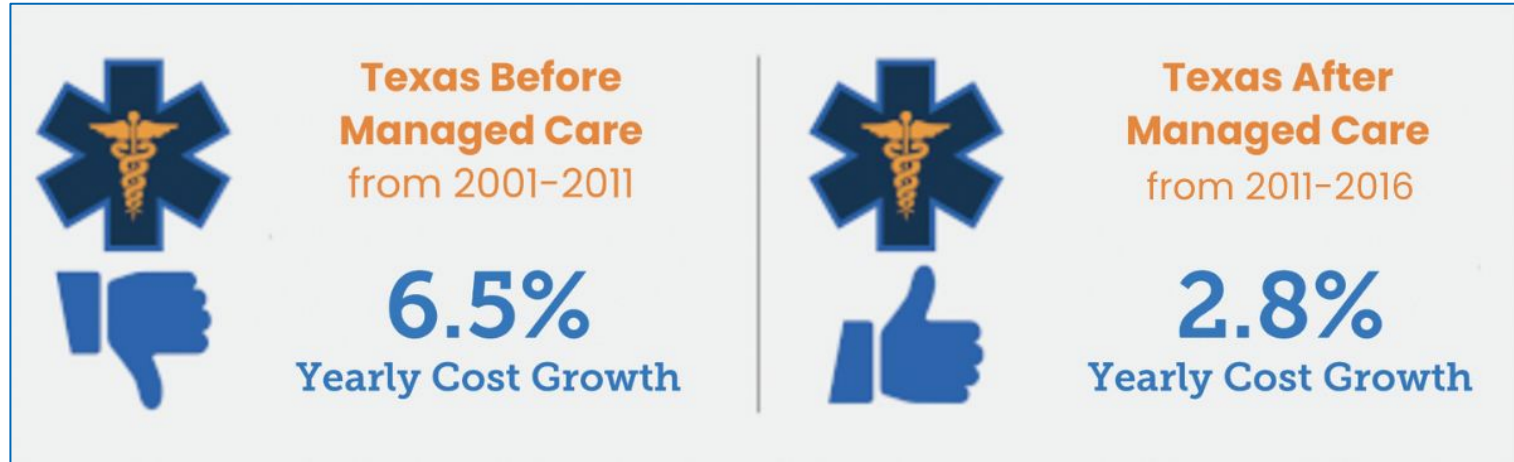
HHSC Manages Statewide Formulary and Negotiates Rebates through the Vendor Drug Program (VDP)

2013–2023

2023

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 was only 2.8% (2011-2016)
- **Source:** [Rider 60 Report](#)

Medicaid Prescription Drug Coverage is Unique in Texas

- **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

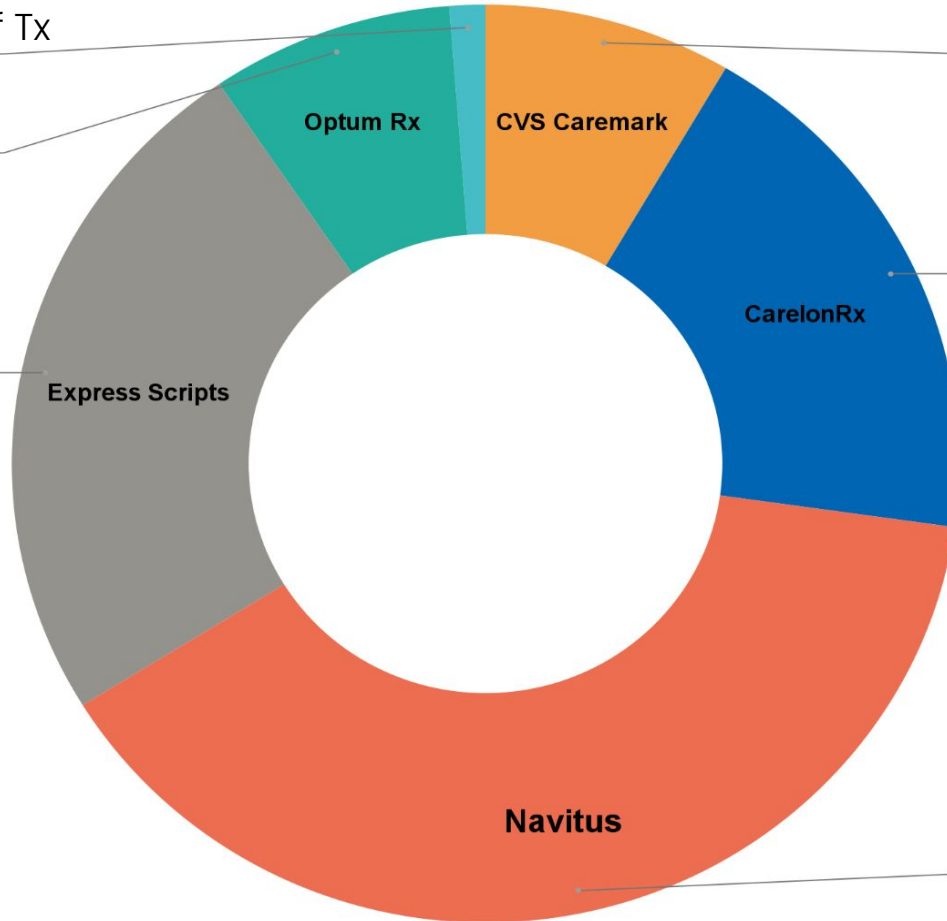
8.3%

MCO: United

Express Scripts

24.3%

MCO: Superior



CVS Caremark

MCOs: Aetna 8.5%
Molina

CarelonRx

18.7%
MCO: Wellpoint

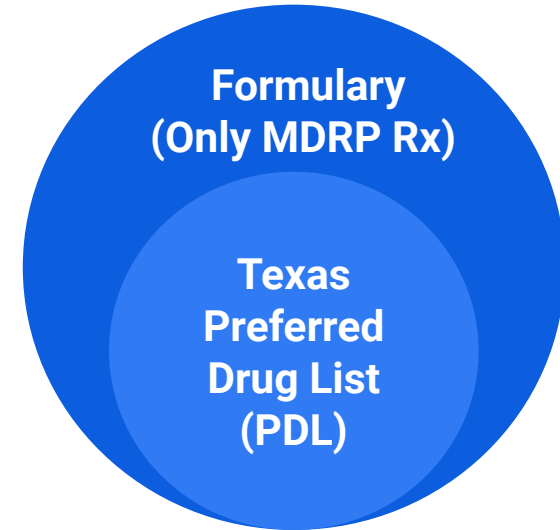
MCOs: Community First,
Community Health
Choice, Cook, Dell,
Driscoll, El Paso Health,
FirstCare, Parkland, BSW,
Texas Children's

Navitus

39.0%

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 directly. 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.



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**

**Stage-Four
Cancer**

**Shortage
Reported by
Manufacturer**

**Stable on a Drug
for 30 Days
(limited classes)**

**Likely to Cause Adverse
Reaction or Harm**

**Antidepressant or Antipsychotic Drugs if
Stable, Risk of Complications, or
Prescribed at Inpatient Facility**

**Expected to be
Ineffective**

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)

Texas Uses 5 Key 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.
- ✓ **Guaranteed Best Price:** Federal law requires drug makers to give Medicaid a rebate that is “best price” or 23.1%, whichever is greater.
- ✓ **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.

Medicaid MCO Prescription Drug Accountability & Access



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 – HHSC negotiates and collects rebates directly



MCOs & PBMs must strictly follow the single statewide formulary and prior authorizations set by HHSC to maximize rebate revenue – 95% compliance rate required.



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



Medicaid MCOs must contract with any willing pharmacy: Giving Medicaid and CHIP families in-network access to over 95% of the state's pharmacies.

Coordinating Medical Care & Prescription Drugs Improves Outcomes and Saves Money

- States that allow Medicaid managed care plans to coordinate prescription drug coverage are more efficient and cost 21% less than states that do not.
- Most states use Medicaid managed care to cover some or all of their Medicaid pharmacy benefits. Over 70% of prescriptions nationally are paid by MCOs.
- A drug carve-in has been shown in several studies to improve outcomes and reduce overall spending. Source: *Journal of Managed Care 2020*.

**Research Shows
Coordinating Medical
and Pharmacy Care
Saves Money and
Improves Outcomes:**



Medical Costs
↓4%



Hospitalization
↓15%

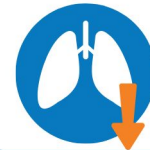


ER Usage
↓7%

Coordinating Medical Care & Prescription Drugs Improves Outcomes & Saves Money

- **Care Coordination:** Through coordinated medical and Rx drug care, Texas MCOs have significantly improved outcomes and lowered health care 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:** Separating medical and Rx benefits in Medicaid would lead to fragmented care, resulting in poorer outcomes and higher costs due to the critical need for comprehensive coordination.
- **Sources:** [HHSC Report on Initiatives to Reduce Avoidable ER Visits & Improve Health Outcomes](#) & [Texas Medicaid and CHIP Reference Guide](#)

Medicaid MCOs Improve Outcomes in Texas



Childhood Asthma

Reduced hospital stays for children with asthma

65% reduction



Diabetes in Adults

Reduced hospital stays for adults with complex diabetes

48% reduction



ER Visits

Reduced preventable ER visits

16% reduction



Opioid Interactions

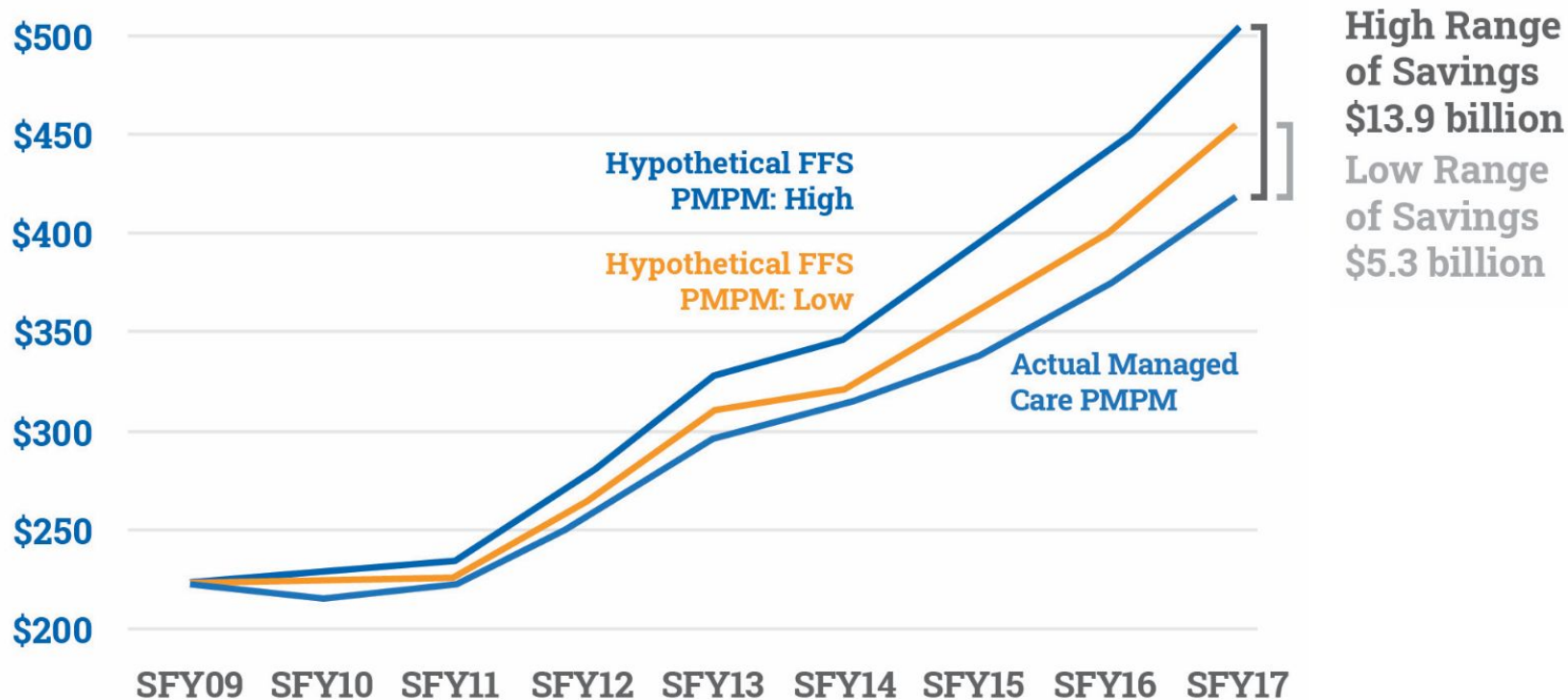
Reduced dangerous drug interactions

89% reduction in the Houston Cocktail

Managed Care Produces Savings for the State – Rider 61 Study

The Texas Medicaid and CHIP managed care programs have generated a **cost savings** of 4.7% – 11.5%, or **\$5.3 billion – \$13.9 billion** for the state

Actual Managed Care vs. Hypothetical FFS Expenditures



Addressing 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.

Addressing Challenges of High Cost Drugs

- Medicaid drug spending is increasingly driven by high-cost specialty drugs. In FY 2021, drugs over \$1,000 per claim accounted for less than 2 percent of utilization but more than half of Medicaid spending.
- While these new drugs bring hope to patients with untreatable and fatal conditions, they also represent significant cost to state taxpayers.
- For example, a new gene therapy called Lenmeldy entering the market to treat metachromatic leukodystrophy reportedly will cost \$4.25 million.
- This follows several other expensive therapies to treat previously untreatable conditions, like sickle cell disorder, priced well over \$1 million.
- Texas Medicaid is often the source of coverage for children and others with these rare and difficult to treat conditions.

High Cost Drugs Examples – FDA Approved Past 2 Years



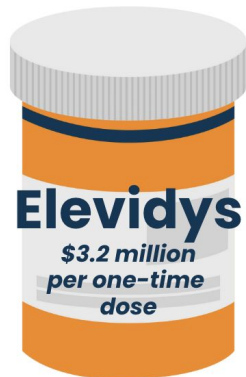
- **Use:** Metachromatic leukodystrophy (MLD)
- **FDA Approval Date:** March 18, 2024



- **Use:** Hemophilia B
- **FDA Approval Date:** November 22, 2022



- **Use:** Beta-thalassemia
- **FDA Approval Date:** September 16, 2022



- **Use:** Duchenne Muscular Dystrophy (DMD)
- **FDA Approval Date:** June 22, 2023



- **Use:** Cerebral Adrenoleukodystrophy (CALD)
- **FDA Approval Date:** September 16, 2022

Concerns for a Single Statewide PBM for Medicaid

- ? **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 drugs from managed care strips MCOs of important real time data used to coordinate and improve patient outcomes.
- ? **Texas' own study found \$28 to \$51 million/year in increased spending from a carveout:** That's because Managed care has better care coordination, outcomes, and market negotiations creating over \$5 billion in savings. Source: [Rider 60, Addendum 1](#)
- ? **Plus a one time \$30 to \$50 million implementation cost:** Source: [Rider 60, p. 84](#)
- ? **Loss of premium tax revenue** of ~\$30m per year from a statewide PBM.
- ? **Fee-for-Service Rates Increase Costs:** A carve-out results in FFS rates that increase costs by over \$100 million annually compared to MCO rates. Source: [HB 1293 Fiscal Note](#)
- ? **States like California experienced significant access issues after a carveout** leaving patients without needed medications. Source: [California Healthline, 2022](#)
- ? **Bottom Line:** *Texas studied and rejected a drug carve-out because of significant costs and threats to patient harm.*