STATE OF TEXAS VENDOR DRUG PROGRAM FORMULARY CONTROL – STATE VS. MCO **(2017)**

OVERVIEW

At issue is whether HHSC or the MCOs will be responsible for the development and management of the formulary, preferred drug list (PDL) and prior authorization (PA) requirements under the Texas Medicaid pharmacy carve-in program. This report summarizes our analysis of the overall cost difference between the current mandate scenario (State control) and the no mandate scenario (MCO control).

Methodology

- Actual Texas utilization, gross cost and federal and supplemental rebates by drug were used to estimate the overall cost impact.
- Total drug utilization by therapeutic class for the mandate and no mandate scenarios was assumed to be the same. The difference is the distribution of drugs within a therapeutic drug class.
- Utilization for the no mandate scenario was estimated by using managed care utilization from the CMS State Drug Utilization Data for 13 states identified by at least one of the MCOs as states that operate pharmacy carve-in programs using a no mandate approach with little or no restriction and had over $500 million of pharmacy paid claims in managed care for the period 7/1/2015 thru 6/30/2016.
- For each drug, the gross cost per script and federal rebate per script are the same under the mandate and no mandate scenarios. Based on input from the MCOs, supplemental rebates were assumed to be 4.0% of gross pharmacy cost under the no mandate scenario.
- The net pharmacy cost for each of the two scenarios was estimated by applying the net cost per script for each drug to the mandate and no mandate utilization distributions.
- Protected Drug Classes are required to have open access, i.e, no PA required, under the current mandate scenario. We assumed the same requirement will apply to the no mandate scenario resulting in no cost difference between the two scenarios for the Protected Drug Classes.
- We assumed that the utilization shift would occur immediately and that the state would not impose additional restrictions, other than the Protected Drug Class, that would limit the MCOs ability to control the PDL. Any changes to these assumptions may alter the results of this study.

Conclusion

- The overall cost to HHSC under the no mandate scenario would be approximately $40 million (GR) less per year than the current mandate scenario for the FY2019 through FY2021 period. The overall cost considers all expense related items such as pharmacy claims cost, administrative expense, risk margin, premium tax and ACA Health Insurance Providers Fee. This estimate does not include the cost impact of premium tax revenue to the state.
- HHSC could, theoretically, operate the exact same PDL and PA requirements as the MCOs. The MCOs have argued that while HHSC can implement more aggressive PDL management tools, they have been hesitant to do so in the past.
- Brand name drugs may be less expensive than their generic equivalent after considering federal and supplemental rebates.
- Capitation rates currently paid to the MCOs include gross pharmacy cost, i.e, rebates are not considered. Under the no mandate scenario, the MCOs will direct utilization towards lower gross cost generic drugs resulting in capitation rates that would be reduced by an estimated 22.7%.