

STATE OF TEXAS VENDOR DRUG PROGRAM FORMULARY CONTROL – STATE VS. MCO (2021)

OVERVIEW

The issue addressed in this report is whether it is most cost-effective to have HHSC or the MCOs be responsible for the development and management of the formulary, preferred drug list (PDL) and prior authorization (PA) requirements under the Texas Medicaid managed care pharmacy 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 Medicaid managed care prescription drug utilization, gross cost, federal and supplemental rebates by drug for the period 7/1/2019 thru 6/31/2020 were used to estimate the overall cost impact.
- Total drug utilization by drug class for the Mandate and No Mandate scenarios are assumed to be the same. The difference is the distribution of drugs within a drug class. Utilization under the No Mandate scenario was estimated by using managed care utilization data from the CMS State Drug Utilization Data for six states that operate pharmacy carve-in programs using a No Mandate approach for the period 7/1/2019 thru 6/31/2020. The six states used in the analysis include California, Kentucky, Maryland, Michigan, New Jersey and New York.
- For each drug, the gross cost per script and federal rebate per script are the same under the Mandate and No Mandate scenarios. 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.

Conclusion

- The overall cost to the State under the No Mandate scenario is approximately \$15-\$18 million (GR) more per year than the current Mandate scenario for the FY2022 through FY2025 period. The overall cost considers all expense related items such as pharmacy claims cost, administrative expense, risk margin and premium tax.
- Net pharmacy cost under the No Mandate scenario for the Medicaid managed care program was determined to be 2.0% more than the current Mandate scenario.
- Brand name drugs may be less expensive than their generic equivalent after considering federal and supplemental rebates. For example, brand name drugs in the insulin and asthma drug classes have a lower net cost than generic drugs in the class. The no mandate model will shift utilization to higher net cost generics for these drug classes and increase cost to the state.
- The current mandate scenario's PDL management is sometimes more relaxed than that of the no mandate scenario. For example, higher cost antipsychotic drugs are utilized less often under the no mandate model. In addition, MCOs may be more proactive in shifting utilization to lower cost formulation of a drug such as tablet or capsule as opposed to higher cost oral suspension formulation.
- A number of states have recently or plan to implement a Mandate model similar to Texas for their Medicaid programs. Pennsylvania, Ohio and Illinois implemented a single PDL for all managed care plans effective January 1, 2020. Louisiana, Michigan and Kentucky implemented a single PDL on May 1, 2019, October 1, 2020 and January 1, 2021 respectively. California and New York will carve prescription drugs out of managed care effective April 1, 2021. In addition, Arizona, Massachusetts, Nebraska and Washington plan to expand the single PDL to include more drug classes.
- 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.
- Fiscal estimate is a point-in-time estimate. Any change to federal and supplemental rebates or PDL and/or PA changes that VDP or the MCOs makes will change the results of the study.