



TEXAS
Health and Human
Services

Consulting Services – Business Plan for Texas Pharmaceutical Initiative

Information contained in this file is preliminary and pre-decisional

As of July 11th, 2024

Purpose

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The purpose of this document is to provide draft slides that the Texas Health and Human Services Commission (HHSC) and the Texas Pharmaceutical Initiative (TPI) Board could consider using to inform its business plan.

This document has been created at the request of HHSC / TPI and all information is based on inputs from HHSC / TPI. The approaches and considerations included in this document are preliminary, contain early results of fact-based development and data-backed analysis and may be further developed based on additional inputs from HHSC / TPI.

Summary and key messages from today's presentation

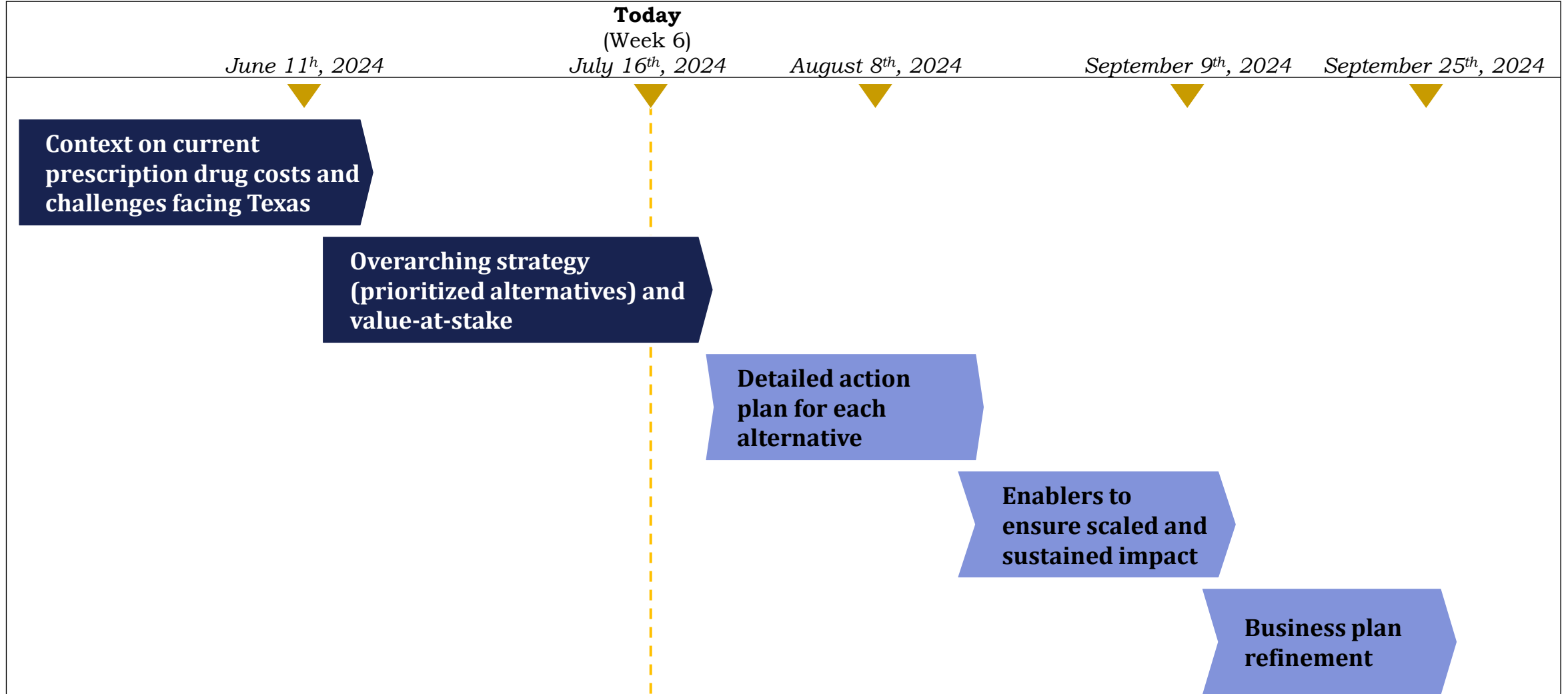
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- Prescription drug costs are increasing nationally, with **3 in 5 Texans reporting significant concerns about drug affordability**
- The **Texas Pharmaceutical Initiative (TPI) could address up to 5-10% of the ~\$7B-\$9B in annual prescription drug costs**, while ensuring high-quality access, among Texas state government employees & retirees and Medicaid & CHIP beneficiaries
- Texas **state agencies / systems report challenges related to prescription drug costs** including fragmented contracting, limited transparency along the value chain, shortages of high-volume pharmaceuticals, and obstacles to accessing innovative therapies
- The **total prescription drug cost that is in-scope for TPI can be broken down into administrative expenses (estimated ~5% of spend) and pharmaceutical expenses (estimated ~95% of spend)**; a select number of analogs were used to size the estimated 5-10% savings range, and additional savings could result from improvements in health outcomes over the long term and additional design choices
- Alternative **solutions to state agency challenges were distilled from 20+ alternatives to nine alternatives** through market scans of peer states and industry trends, interviews with state agency / systems stakeholders, and collaboration with the TPI Board
- The **business plan will include chapters** outlining current prescription drug costs and challenges; prioritized alternatives and value at stake; detailed action plan for each prioritized alternative; and enablers to ensure scaled and sustainable impact

TPI Business Plan | approach and current status

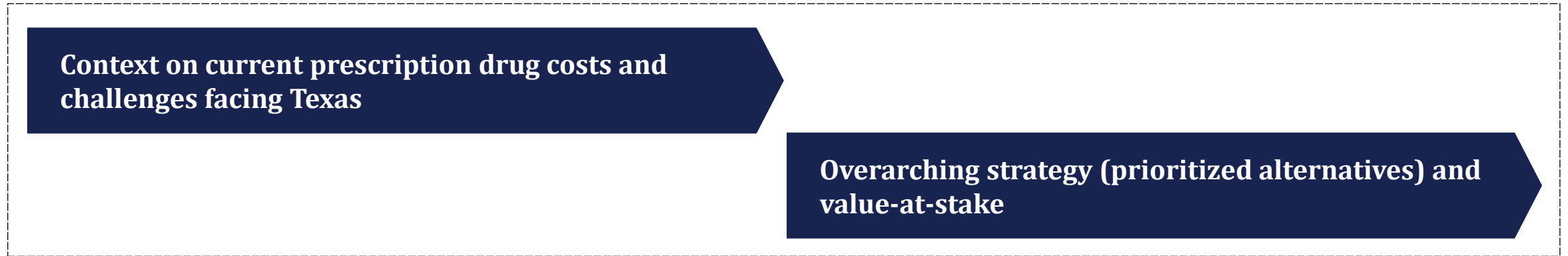
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■ Details follow ▼ Board meeting



TPI Business Plan | deep dive on current status

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Overview of approach



A: TPI Business Plan | fact-base for Texas

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Overview



... across

- Teacher Retirement System (~750k lives)
- Employees Retirement System (~530k lives)
- University of Texas system (~300k lives)
- Texas A&M University system (~60k lives)



... across

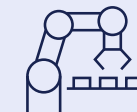
- Texas Medicaid (~4 million lives)
- Children's Health Insurance Program (~146k lives)

... and with the potential to benefit all ~30M Texans

Three key pillars



1 | Pharmacy Benefit Management



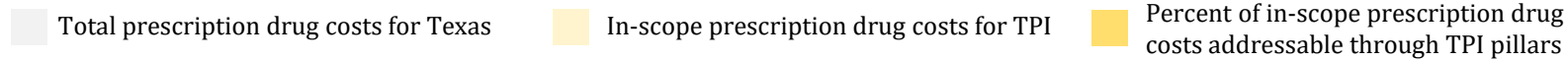
2 | Manufacturing and advanced therapy access



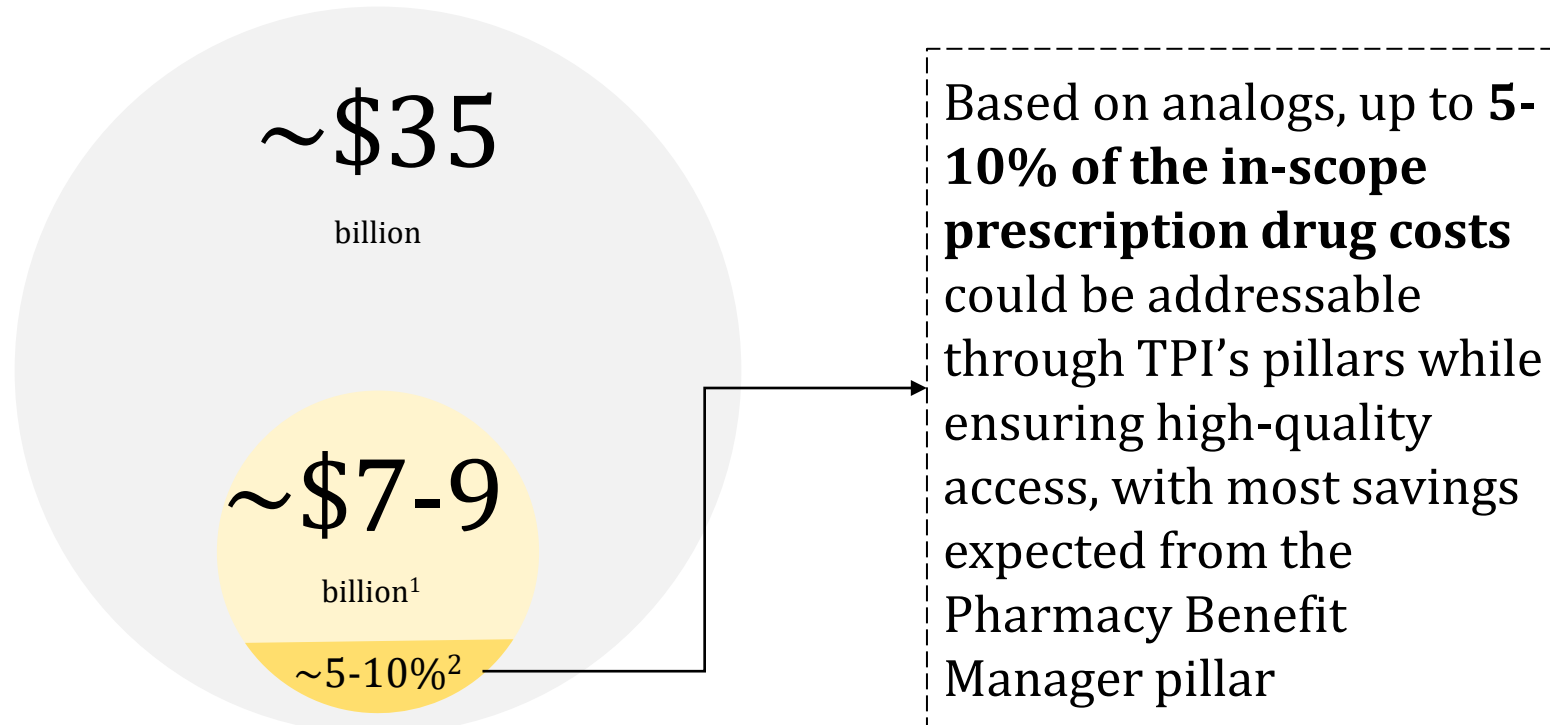
3 | Distribution

A: TPI Business Plan | breakdown of prescription drug costs

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Initial estimate of annual prescription drug costs in Texas, 2022



1. Calculated as number of beneficiaries (sourced from TPI Advisory Board data) by category multiplied by Per Member Per Month (PMPM) cost for Medicaid versus non-Medicaid (employees and retirees) categories, respectively. Texas Health and Human Service Commission assumes Medicaid pharmacy PMPM to be \$80 whereas Texas A&M assumes PMPM to be \$140. For this calculation, PMPM for Medicaid and CHIP is assumed to be \$80 to \$105 and \$140 to \$160 for other agencies to account for agency variances
2. Estimate based on analogs
3. [Rise in prescription drug costs](#)
4. [Barriers to accessing prescription drugs](#)

Source: [Total prescription drug cost in Texas](#), [Rise in prescription drug costs](#), [Barriers to accessing prescription drugs](#)

Trends in prescription drug costs^{3,4}



3 in 5 Texans report being “worried” or “somewhat worried” about affording prescription drugs







Prescription drug costs are expected to rise nationwide by **8.4% annually**

B: TPI Business Plan | challenges identified by state agencies and systems

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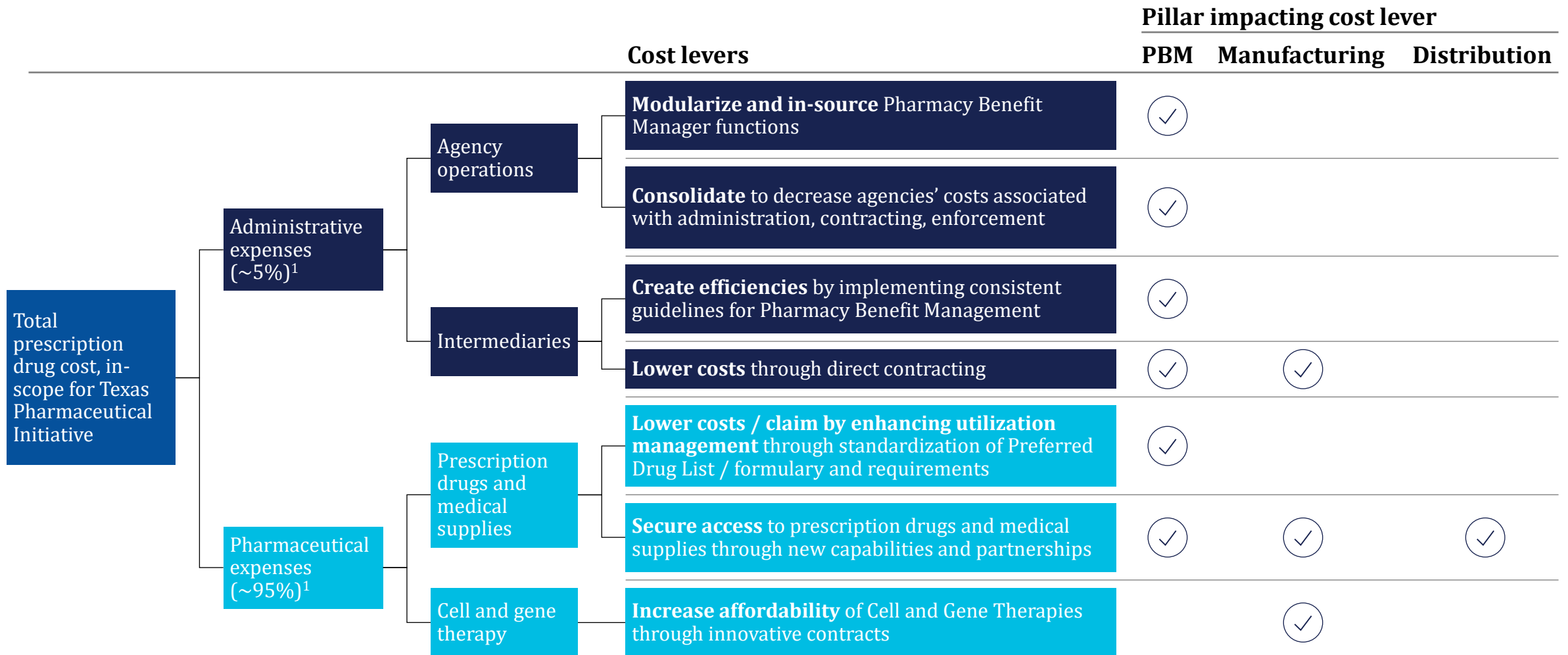
NON-EXHAUSTIVE

	<p>Fragmented contracting</p>	<p>ERS, TRS, UTS, and TAMU contract for prescription drug benefits independently</p> <p>For Medicaid and CHIP beneficiaries, HHSC contracts for prescription drug benefits with seven different PBMs</p>
	<p>Limited transparency along the value chain</p>	<p>There is a lack of visibility into the full flow of funds with PBM partners</p> <p>There are concerns with potentially inappropriate utilization due to limited influence on formulary / limited collaboration between agencies and PBMs on utilization management</p>
	<p>Shortages of high-volume pharmaceuticals</p>	<p>Nationally, drugs in shortage experience average year-over-year cost increases of up to ~14.6%</p> <p>Accumulation of larger inventories of prescription drugs in response to the risk of shortage can increase costs to the system</p>
	<p>Obstacles to accessing innovative therapies</p>	<p>Texas has centers of excellence that administer cutting-edge cell and gene therapies, but these are limited to the largest cities (e.g., Houston, Austin, San Antonio)</p> <p>Total spending on cell and gene therapies is projected to hit an inflection point and increase by 40-50% annually in the coming years</p>

The challenges identified by state agencies / systems are contributing to rising costs statewide

C: TPI Business Plan | prescription drug cost levers

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1. HHSC's administrative fees are 4.1% of total prescription drug cost. Texas A&M University system's PBM administrative fees are ~7.9% of the total prescription drug cost

D: TPI Business Plan | sourcing and filtering potential alternatives

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Details follow




Current state scan across state agencies and industry	Evaluation of alternatives	Alignment with mission
<p>Explored innovations across state/national levels and private sector</p> <p>Generated 20+ alternatives spanning across disruptive PBM models, drug manufacturing options, and innovative distribution methods</p>	<p>Conducted an objective assessment for each alternative to understand high level resource requirements, time to impact, challenges addressed, and potential value captured</p>	<p>Collaborated with TPI Board members to understand alternatives most in line with TPI's foundational mission¹, while maintaining the potential to expand scope into the future</p>
<p>20+ alternatives</p>	<p>15 alternatives</p>	<p>9 alternatives</p>

1. Texas House Bill 4990

Source: Texas state agency / system interviews, TPI Board Members







E: TPI Business Plan | shortlisted alternatives

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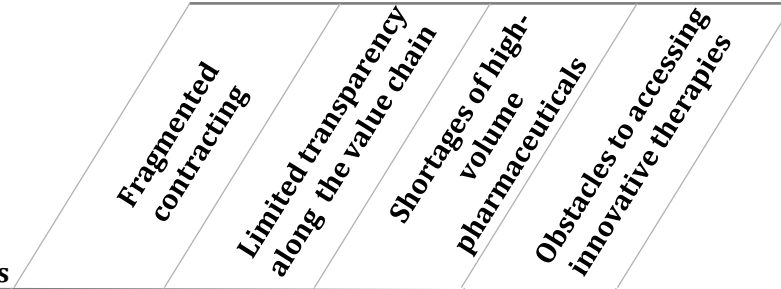
Pillar	Alternative	Analog example
 1 Pharmacy Benefits Manager (PBM) and payment	a) Modularize PBM: Build PBM functions as a state / unbundle set of PBM services to create uniform, single PBM for state beneficiaries	Blue Shield's modularized contracting initiative
	b) Institutionalize PBM practices: Develop operational guidelines / institutionalize best practices to enhance pharmacy network (e.g., establish pharmacy reimbursement requirements) and / or benefit design	State of Colorado PBM reforms
	c) Harmonize PBM services: Ensure consistency in PBM services / functions to harness benefits of scale across both Medicaid and state employees / retirees (e.g., single PBM, standardized formulary / preferred drug list)	State of Ohio PBM and PDL standardization
	d) Contract with manufacturers: Contract directly with manufacturers to purchase drugs through direct purchasing discounts and / or value-based agreements	State of Louisiana direct contracting
 2 Manufacturing and advanced therapy access	a) Manufacture drugs in house: Build in house manufacturing capabilities to produce high priority drugs	<i>Not Applicable</i>
	b) Partner with manufacturers: Develop new models for manufacturing priority drug classes through partnerships with manufacturers and / or non-profits	CalRx and CivicaRx's partnership for insulin
	c) Bolster cell and gene therapy access (CAGT): Increase access through hub and spoke models and partnerships with tertiary / Academic Medical Centers and / or value-based contracting	Bluebird bio's CAGT access model
 3 Distribution	a) Build capabilities for shortage surveillance: Create digital capabilities to coordinate stakeholders and effectively assess changes in supply and demand, enhancing resilience to pandemics and shocks	European Union Shortages Monitoring Platform
	b) Convene purchasing entities: Increase coordination to reduce costs associated with distribution (e.g., just in time delivery to reduce inventory for high-cost drugs)	United Nations Global Drug Facility

E: TPI Business Plan | overview of alternatives

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 State employees/retirees ¹ (A)  Medicaid/Children's Health Insurance Program members (B)  Other Texas residents not in (A) or (B)	 Limited talent and staff needed, existing technology infrastructure, minimal financial investment  Moderate talent and staff needed, enhancement of existing technology infrastructure and some new models, moderate financial investment  Significant talent and staff needed, new models and technology, significant financial investment
High: >1.5% savings of in-scope ~\$7-9b in prescription drug cost Medium: 0.5-1.5% savings of in-scope ~\$7-9b in prescription drug cost Low: <0.5% savings of in-scope ~\$7-9b in prescription drug cost	

Challenges addressed



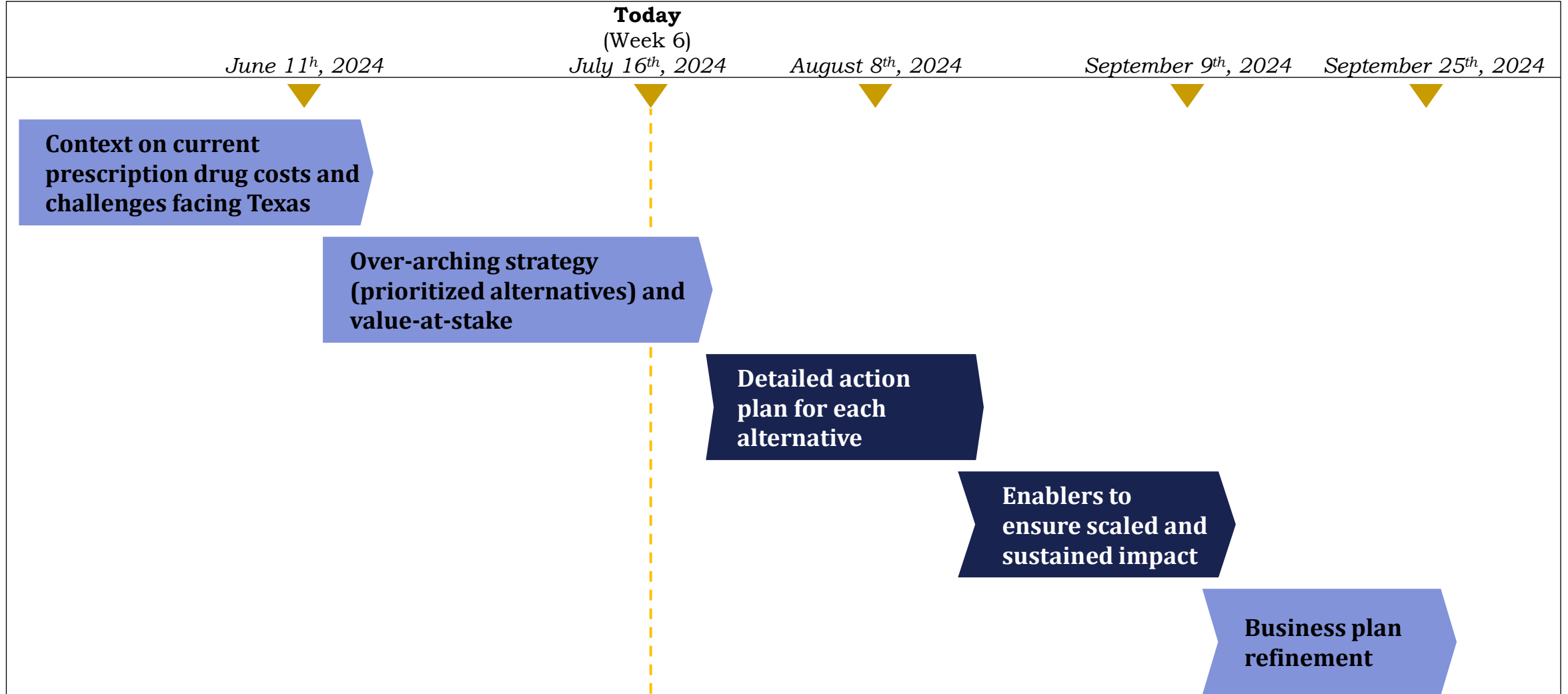
Alternatives	Access	Value captured ²	Time-to-impact	Talent, technology, and capital requirements	Fragmented contracting	Limited transparency along the value chain	Shortages of high-volume pharmaceuticals	Obstacles to accessing innovative therapies
1a Modularize PBM		Medium	>2 years					
1b Institutionalize PBM practices	 	High	1-2 years					
1c Harmonize PBM services	 	High	>2 years					
1d Contract with manufacturers	 	Low	<1 year					
2a Manufacture drugs in house	 	Medium	>2 years					
2b Partner with manufacturers	 	Medium	<1 year					
2c Cell and gene therapy access (CAGT)	 	Low	1-2 years					
3a Build capabilities for shortage surveillance	 	Medium	1-2 years					
3b Convene purchasing entities	 	Medium	1-2 years					

1. Refers to beneficiaries under Employees Retirement System, Teacher Retirement System, University of Texas system, and Texas A&M University system respectively
 2. Cost savings on in-scope prescription drug across all beneficiary categories unless noted otherwise. Potential cost savings were calculated using data from analogs or inputs

TPI Business Plan | approach and next steps

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■ Details follow ▼ Board meeting



TPI Business Plan | proposed table of contents

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Chapter 1: Context on current prescription drug costs and challenges facing Texas

- a) Number of beneficiaries and prescription drug cost in scope
- b) Challenges experienced by state agencies
- c) Full set of levers that drive value

Chapter 2: Over-arching strategy (prioritized alternatives) and value-at-stake

- a) Overview of prioritized alternatives and potential value at stake
- b) Overarching, sequenced set of milestones to achieve

Chapter 3: Detailed action plan for each alternative

- a. Workplans, milestones, dependencies, and KPIs
- b. Investment and resource needs
 - i. Data and tech needs
 - ii. Talent needs¹
 - iii. Capital needs
 - iv. Other resources (e.g., partnerships, real estate)
- c. Risks and mitigation strategies

Chapter 4: Enablers to ensure scaled and sustained impact

- a. Governance and operating model
- b. Talent and capability needs
- c. Communication and change management steps
- d. Plan for adoption and scale, including stakeholder engagement

1. Internal and external