STATE OF TEXAS VENDOR DRUG PROGRAM FORMULARY CONTROL – STATE VS. MCO (2018)

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[1] summarizes our analysis of the overall cost difference between the current Mandate scenario (State control) and the No Mandate scenario (MCO control).

Methodology

- Actual CY2018 Texas utilization, gross cost, federal and supplemental rebates by drug were used to estimate the overall cost impact.
- Texas CY2018 utilization was adjusted to account for recent PDL changes. For example, Mandate scenario utilization for Nexium and Focalin XR (PDL change effective 7/1/2019) are assumed to be the same as the No Mandate scenario.
- 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 from the CMS State Drug Utilization Data for 11 other states that operate pharmacy carve-in programs using a No Mandate approach for the period 7/1/2017 thru 6/30/2018.
- 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 3.0% 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.
- The State's purchasing power is assumed to decrease under the No Mandate scenario and supplemental rebates is assumed to be reduced by 25% for the CHIP, Medicaid FFS, CSHCN, Kidney Health Care and Healthy Texas Women's Programs.
- 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 the State under the No Mandate scenario is approximately $10-$20 million (GR) less per year than the current Mandate scenario for the FY2020 through FY2025 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.
- Net pharmacy cost under the No Mandate scenario for the Medicaid managed care program was determined to be 2.7% less than the current Mandate scenario.
- 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.
- Fiscal estimate is a point-in-time estimate. Any PDL changes that VDP and or the MCOs makes will change the results of the study.

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[1] *There was not a full report produced for the 2018 Formulary Control Analysis, only this 1-page summary.*