STATE OF TEXAS VENDOR DRUG PROGRAM
PDL FORMULARY CONTROL – STATE VS. MCO (2023)

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 State control scenario and the MCO control scenario.

Methodology

- Actual Texas Medicaid managed care prescription drug utilization, gross cost, federal and supplemental rebates by drug for the period 1/1/2021 thru 12/31/2021 (CY2021) were used to estimate the overall cost impact.

- Total drug utilization by drug class for the State control and MCO control scenarios are assumed to be the same. The difference is the distribution of drugs within a drug class. Utilization under the MCO control scenario was estimated by using managed care utilization data from the CMS State Drug Utilization Data for six states that operated pharmacy carve-in programs using a MCO control approach for the CY2021 period. The six states used in the analysis include California, Indiana, Maryland, New Jersey, New York and Oregon.

- For each drug, the gross cost per script and federal rebate per script are the same under the State control and MCO control scenarios. Supplemental rebates were assumed to be 4.0% of gross pharmacy cost under the MCO control 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 State control and MCO control utilization distributions.

- Protected Drug Classes are required to have open access, i.e, no PA required, under the current State control scenario. We assumed the same requirement will apply to the MCO control 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 projected MCO control scenario is approximately $35-$40 million (GR) _**more**_ per year than the current State control scenario for the FY2024 through FY2028 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 MCO control scenario for the Medicaid managed care program was determined to be 6.5% higher than the current State control scenario.

- The two main reasons why the net pharmacy cost under the MCO control scenario is more than the current State control scenario is due to i) the Insulin category and ii) Brand-Over-Generic (BOG) program. Under MCO control scenario, the MCOs are utilizing higher net cost insulins such as Admelog and Basaglar. In addition, the MCOs are utilizing higher net cost generic drugs than under the State control scenario. The net cost for brand drugs on the BOG program are lower than its generic equivalent after considering federal and supplemental rebates.

- 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 carved-out prescription drugs out of managed care effective January 1, 2022. New York will carve-out prescription drugs out of managed care effective April 1, 2023. 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 based on utilization distribution during the experience period. The results of the study may change over time due to i) changes in federal and supplement rebates, (ii) changes to utilization distribution under the State control model such periodic changes to the PDL implemented by VDP and (iii) new drugs entering the market.