

Texas Health and Human Services Commission (HHSC)

Addendum 1 to Deliverable 2 – Rider 60 Report
Final Report on the Study of Potential
Cost Savings in the Administration of
Prescription Drug Benefits

Rider 60: Prescription Drug Benefit Administration in Medicaid,
CHIP, and Other Health-Related Services

March 6, 2019

Rider 60/61 Evaluations

Deliverable 2 - Rider 60 Report

Addendum 1 to Final Report on the Study of Potential Cost Savings in the Administration of Prescription Drugs

This document is an addendum to the report titled “Texas Health and Human Services Commission (HHSC) Deliverable 2 – Rider 60 Report, Final Report on the Study of Potential Cost Savings in the Administration of Prescription Drug Benefits”.

As noted in the Rider 60 report, the Texas Legislature commissioned Rider 60 to study the potential savings from implementing certain changes to HHSC’s current method of administering prescription drug benefits for Medicaid and the Children’s Health Insurance Program (CHIP). HHSC engaged Deloitte Consulting LLP¹ to develop the Rider 60 study in response to this request.

Pursuant to section C. (5), Scope of Services, Work Order Contract No. 529-16-0083-000XX (HHSC Master Contract No. 529-16-0083-00008), HHSC requested that Deloitte provide a written addendum to the Rider 60 report converting the estimated costs and savings from the eight scenarios to general revenue figures to demonstrate the potential financial impact to the State and HHSC. This addendum serves to clarify the estimated cost and savings impact to the State, HHSC and Federal government for each scenario and state fiscal year (SFY) in the Rider 60 report. The fiscal impacts from the Rider 60 report have not been modified.

The following Federal Matching Percentages (FMAP) were used in the calculations of the State, HHSC and Federal government cost and savings impacts. Note that the formulas within the tables following this page may not match the final impact numbers due to rounding.

| | SFY2015 | SFY2016 | SFY2017 |
|------------------------|----------------|----------------|----------------|
| Actual Historical FMAP | 58.10% | 57.21% | 56.26% |

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Federal vs. State Cost Impact Summary, State Fiscal Year (SFY) 2015

| | | Scenario | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|-----------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Impact Before Premium Tax <i>(from Figure 38)</i> | New Pricing Impact | | \$33.0M | \$33.0M | \$33.0M | \$33.0M | \$33.0M | \$33.0M | \$33.0M | \$33.0M |
| | Utilization Shift Impact | | \$26.3M | - | \$60.5M | \$26.3M | \$26.3M | - | \$60.5M | \$60.5M |
| | Risk Margin Impact | | (\$54.7M) | (\$54.7M) | (\$54.7M) | (\$54.7M) | (\$54.7M) | (\$54.7M) | (\$54.7M) | (\$54.7M) |
| | ACA HIPF Impact | | (\$58.7M) | (\$58.7M) | (\$58.7M) | (\$58.7M) | - | - | - | - |
| | Administrative Cost Impact | | (\$3.4M) | (\$3.4M) | (\$3.4M) | \$18.4M | (\$3.4M) | (\$3.4M) | (\$3.4M) | \$18.4M |
| | (A) Total Cost Impact Before Premium Tax | | (\$57.5M) | (\$83.8M) | (\$23.3M) | (\$35.7M) | \$1.2M | (\$25.1M) | \$35.4M | \$57.2M |
| | (B) Federal Portion (B) = FMAP x (A) | | (\$33.4M) | (\$48.7M) | (\$13.6M) | (\$20.7M) | \$0.7M | (\$14.6M) | \$20.6M | \$33.2M |
| (C) State/HHSC Portion (C) = (1 - FMAP) x (A) | | (\$24.1M) | (\$35.1M) | (\$9.8M) | (\$15.0M) | \$0.5M | (\$10.5M) | \$14.8M | \$24.0M | |
| Premium Tax | (D) Total Premium Tax (Figure 27) | | \$47.9M | \$47.9M | \$47.9M | \$47.9M | \$47.9M | \$47.9M | \$47.9M | \$47.9M |
| | (E) Federal Portion (E) = -1 x (D) x FMAP | | (\$27.8M) | (\$27.8M) | (\$27.8M) | (\$27.8M) | (\$27.8M) | (\$27.8M) | (\$27.8M) | (\$27.8M) |
| | (F) HHSC Portion (F) = -1 x (D) x (1-FMAP) | | (\$20.1M) | (\$20.1M) | (\$20.1M) | (\$20.1M) | (\$20.1M) | (\$20.1M) | (\$20.1M) | (\$20.1M) |
| | (G) State Impact* (G) = (D) + (F) | | \$27.8M | \$27.8M | \$27.8M | \$27.8M | \$27.8M | \$27.8M | \$27.8M | \$27.8M |
| Net Impact | (H) Federal Net Impact) (H) = (B) + (E) | | (\$61.2M) | (\$76.5M) | (\$41.4M) | (\$48.5M) | (\$27.1M) | (\$42.4M) | (\$7.2M) | \$5.4M |
| | (I) HHSC Net Impact (I) = (C) + (F) | | (\$44.1M) | (\$55.2M) | (\$29.8M) | (\$35.0M) | (\$19.5M) | (\$30.6M) | (\$5.2M) | \$3.9M |
| | (J) State Net Impact (J) = (C) + (G) | | \$3.7M | (\$7.3M) | \$18.0M | \$12.9M | \$28.3M | \$17.3M | \$42.6M | \$51.8M |

*** The premium tax component of the capitation payments to MCOs is subsequently reimbursed to the State. This lost revenue is classified as a cost of carving out in the analysis in the scenarios**

**Rider 60/61 Evaluations
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Federal vs. State Cost Impact Summary, State Fiscal Year (SFY) 2016

| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|--|-----------|------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Impact Before Premium Tax <i>(from Figure 38)</i> | Scenario | | | | | | | | |
| | New Pricing Impact | \$16.6M | \$16.6M | \$16.6M | \$16.6M | \$16.6M | \$16.6M | \$16.6M | \$16.6M |
| | Utilization Shift Impact | \$25.2M | - | \$58.0M | \$25.2M | \$25.2M | - | \$58.0M | \$58.0M |
| | Risk Margin Impact | (\$57.3M) | (\$57.3M) | (\$57.3M) | (\$57.3M) | (\$57.3M) | (\$57.3M) | (\$57.3M) | (\$57.3M) |
| | ACA HIPF Impact | (\$62.0M) | (\$62.0M) | (\$62.0M) | (\$62.0M) | - | - | - | - |
| | Administrative Cost Impact | (\$5.0M) | (\$5.0M) | (\$5.0M) | \$16.8M | (\$5.0M) | (\$5.0M) | (\$5.0M) | \$16.8M |
| | (A) Total Cost Impact Before Premium Tax | (\$82.5M) | (\$107.7M) | (\$49.7M) | (\$60.6M) | (\$20.5M) | (\$45.7M) | \$12.3M | \$34.2M |
| | (B) Federal Portion (B) = FMAP x (A) | (\$47.2M) | (\$61.6M) | (\$28.5M) | (\$34.7M) | (\$11.7M) | (\$26.2M) | \$7.0M | \$19.6M |
| | (C) State/HHSC Portion (C) = (1 - FMAP) x (A) | (\$35.3M) | (\$46.1M) | (\$21.3M) | (\$25.9M) | (\$8.8M) | (\$19.6M) | \$5.3M | \$14.6M |
| Premium Tax | (D) Total Premium Tax (Figure 27) | \$50.1M | \$50.1M | \$50.1M | \$50.1M | \$50.1M | \$50.1M | \$50.1M | \$50.1M |
| | (E) Federal Portion (E) = -1 x (D) x FMAP | (\$28.7M) | (\$28.7M) | (\$28.7M) | (\$28.7M) | (\$28.7M) | (\$28.7M) | (\$28.7M) | (\$28.7M) |
| | (F) HHSC Portion (F) = -1 x (D) x (1-FMAP) | (\$21.5M) | (\$21.5M) | (\$21.5M) | (\$21.5M) | (\$21.5M) | (\$21.5M) | (\$21.5M) | (\$21.5M) |
| | (G) State Impact* (G) = (D) + (F) | \$28.7M | \$28.7M | \$28.7M | \$28.7M | \$28.7M | \$28.7M | \$28.7M | \$28.7M |
| Net Impact | (H) Federal Net Impact) (H) = (B) + (E) | (\$75.9M) | (\$90.3M) | (\$57.1M) | (\$63.4M) | (\$40.4M) | (\$54.8M) | (\$21.6M) | (\$9.1M) |
| | (I) HHSC Net Impact (I) = (C) + (F) | (\$56.8M) | (\$67.6M) | (\$42.7M) | (\$47.4M) | (\$30.2M) | (\$41.0M) | (\$16.2M) | (\$6.8M) |
| | (J) State Net Impact (J) = (C) + (G) | (\$6.6M) | (\$17.4M) | \$7.4M | \$2.7M | \$19.9M | \$9.1M | \$33.9M | \$43.3M |

*** The premium tax component of the capitation payments to MCOs is subsequently reimbursed to the State. This lost revenue is classified as a cost of carving out in the analysis in the scenarios.**

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Federal vs. State Cost Impact Summary, State Fiscal Year (SFY) 2017

| Scenario | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|------------------|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Impact Before Premium Tax <i>(from Figure 38)</i> | New Pricing Impact | \$28.7M | \$28.7M | \$28.7M | \$28.7M | \$28.7M | \$28.7M | \$28.7M | \$28.7M |
| | Utilization Shift Impact | \$29.0M | - | \$66.7M | \$29.0M | \$29.0M | - | \$66.7M | \$66.7M |
| | Risk Margin Impact | (\$73.0M) | (\$73.0M) | (\$73.0M) | (\$73.0M) | (\$73.0M) | (\$73.0M) | (\$73.0M) | (\$73.0M) |
| | ACA HIPF Impact | (\$76.5M) | (\$76.5M) | (\$76.5M) | (\$76.5M) | - | - | - | - |
| | Administrative Cost Impact | (\$5.3M) | (\$5.3M) | (\$5.3M) | \$17.1M | (\$5.3M) | (\$5.3M) | (\$5.3M) | \$17.1M |
| | (A) Total Cost Impact Before Premium Tax | (\$97.2M) | (\$126.2M) | (\$59.6M) | (\$74.8M) | (\$20.7M) | (\$49.7M) | \$17.0M) | \$39.4M) |
| | (B) Federal Portion (B) = FMAP x (A) | (\$54.7M) | (\$71.0M) | (\$33.5M) | (\$42.1M) | (\$11.6M) | (\$28.0M) | \$9.5M | \$22.1M |
| (C) State/HHSC Portion (C) = (1 - FMAP) x (A) | (\$42.5M) | (\$55.2M) | (\$26.1M) | (\$32.7M) | (\$9.0M) | (\$21.7M) | \$7.4M | \$17.2M | |
| Premium Tax | (D) Total Premium Tax (Figure 27) | \$63.9M | \$63.9M | \$63.9M | \$63.9M | \$63.9M | \$63.9M | \$63.9M | \$63.9M |
| | (E) Federal Portion (E) = -1 x (D) x FMAP | (\$36.0M) | (\$36.0M) | (\$36.0M) | (\$36.0M) | (\$36.0M) | (\$36.0M) | (\$36.0M) | (\$36.0M) |
| | (F) HHSC Portion (F) = -1 x (D) x (1-FMAP) | (\$28.0M) | (\$28.0M) | (\$28.0M) | (\$28.0M) | (\$28.0M) | (\$28.0M) | (\$28.0M) | (\$28.0M) |
| | (G) State Impact* (G) = (D) + (F) | \$36.0M | \$36.0M | \$36.0M | \$36.0M | \$36.0M | \$36.0M | \$36.0M | \$36.0M |
| Net Impact | (H) Federal Net Impact) (H) = (B) + (E) | (\$90.7M) | (\$107.0M) | (\$69.5M) | (\$78.1M) | (\$47.6M) | (\$63.9M) | (\$26.4M) | (\$13.8M) |
| | (I) HHSC Net Impact (I) = (C) + (F) | (\$70.5M) | (\$83.2M) | (\$54.0M) | (\$60.7M) | (\$37.0M) | (\$49.7M) | (\$20.5M) | (\$10.7M) |
| | (J) State Net Impact (J) = (C) + (G) | (\$6.6M) | (\$19.3M) | \$9.9M | \$3.2M | \$26.9M | \$14.2M | \$43.4M | \$53.2M |

*** The premium tax component of the capitation payments to MCOs is subsequently reimbursed to the State. This lost revenue is classified as a cost of carving out in the analysis in the scenarios.**