



# **Presentation to the Senate Finance Subcommittee on Medicaid**

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## Summary of Savings (in millions) for Medicaid Cost Reduction Proposals

Medicaid Cost Reduction Proposal	Total GR	Total All Funds	Savings Assumed in SB 1
<b>Prescription Drugs</b>			
Option 1 - Managed Care Pharmacy Carve-in (State-specified Formulary)	\$ 51.0		Yes
Option 2 - Managed Care Pharmacy Carve-in (MCO-specified Formulary)	\$ 72.7		No
Over the Counter Ibuprofen	\$ 4.5	\$ 10.8	No
3 Prescription Limit in Managed Care	\$ 46.4	\$ 110.2	*10% reduction in optional services assumed
<b>Durable Medical Equipment (DME) and Medical Supplies</b>			
Selective Contracting for DME	\$ 8.0	\$ 18.8	No
<b>Vision and Hearing Services</b>			
Selective Contracting for Vision Services	\$ 4.6	\$ 10.7	No*
Selective Contracting for Hearing Services	\$ 6.8	\$ 16.4	No*
<b>Clinical Laboratory Services</b>			
Reduced Rates for Laboratory Services	\$ 39.8	\$ 94.6	No

## Prescription Drugs

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- Medicaid and CHIP provide outpatient prescription drugs through the Vendor Drug Program (VDP).
- Prescription drugs are an optional Medicaid benefit for adults (under age 21).
  - Texas covers drugs because it reduces costs in other program areas.
- Adults in Medicaid fee-for-service (FFS) and Primary Care Case Management (PCCM) are limited to three prescriptions per month.
- Adults in Medicaid managed care and children receive unlimited prescriptions.

## Reimbursement: Drug Pricing

- Federal law limits Medicaid pharmacy reimbursement to the state's estimate of the pharmacy acquisition cost for the drug product plus a reasonable dispensing fee.
  - The dispensing fee is \$7.35 plus a \$1.98 percent variable component.
    - The Texas dispensing fee is higher than other states' and private plans because the Texas VDP reimbursement rate for drug product costs is lower.

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## Reimbursement: Rebates

### Federal Rebates

- The Omnibus Budget Reconciliation Act of 1990 requires:
  - States to cover all of the drugs for which manufacturers provide Medicaid rebates.
  - Drug manufacturers to pay rebates for drugs dispensed under state outpatient drug programs.

### *Supplemental Rebates*

- The Medicaid Preferred Drug List (PDL) was implemented in February 2004.
- Drugs on the Medicaid PDL are not subject to prior authorization requirements.
- Pharmaceutical companies are required to offer a supplemental rebate or program benefit to be considered for inclusion on the Medicaid PDL.

# Prescription Drugs

## Prescription Drug Costs

MOF (in millions)	FY 2011	
	Total	Adults Only
General Revenue	\$812.0	\$190.2
All Funds	\$2,501.5	\$582.1

# Prescription Drugs

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**Proposal 1:** Carve prescription drugs into managed care, effective March 1, 2012. This proposal is assumed in the Introduced Bill.

Outpatient prescription drugs are currently carved-out of the Managed Care Organization (MCO) contracts. A recent change to federal law allows states to collect federal drug manufacturer rebates for pharmacy services provided through MCOs. The draft Medicaid and CHIP Managed Care Organization Procurement Request for Proposal includes carving in drugs into managed care

**Options:**

1. HHSC determines the drug formulary, preferred drug list (PDL) and prior authorization (PA) processes to be used by all MCOs.
2. Each MCO determines its own drug formulary, PDL and PA processes.

**Impact:**

- Prescribers and pharmacies may have concerns about additional administrative requirements related to multiple formularies, PDLs, and PA processes, and/or types of utilization management.
- Pharmacies may be reimbursed a lower dispensing fee from MCOs.
- Clients may encounter formulary and other coverage differences when they choose a plan and if they switch plans.



# Prescription Drugs

## Estimated Savings – Using a State Specified Formulary and PDL

\$51.0 million General Revenue

### Savings Detail

Item	SFY 2012	SFY 2013	Biennium
Utilization	(14,253,212)	9,942,709	(4,310,503)
Administrative Savings	(379,380)	(454,380)	(833,760)
Premium Tax	\$0	56,114,133	56,114,133
<b>Total</b>	<b>(14,632,592)</b>	<b>65,602,462</b>	<b>50,969,870</b>

Client Services: 51,803,630

## Estimated Savings – Allowing MCOs to establish formularies and PDL

\$72.7 million General Revenue

### Savings Detail

Item	SFY 2012	SFY 2013	Biennium
Utilization	(2,984,881)	30,035,520	27,050,639
Administrative Savings	(379,380)	(454,380)	(833,760)
Premium Tax	0	46,475,047	46,475,047
<b>Total</b>	<b>(3,364,261)</b>	<b>76,056,187</b>	<b>72,691,926</b>

Client Services: 73,525,686



# Prescription Drugs

**Proposal 2:** Shift utilization of oral Ibuprofen suspension (liquid) from the prescription to the over-the-counter (OTC) version.

Makes the OTC version of oral Ibuprofen suspension preferred (no Prior Authorization (PA) required) and the prescription version non-preferred (requires PA). This proposal would not impact other forms of Ibuprofen (e.g., tablets, gel caps, etc). It would produce savings because OTC products have a lower dispensing fee.

In fiscal year 2010, the average reimbursement (including dispensing fee) was \$11.92 per prescription for prescription products, and \$6.53 per prescription for OTC products.

**Impact:**

- Clients will still have access to the oral suspension version of Ibuprofen.
- Providers will be notified about the change.

MOF (\$ in millions)	FY 2012	FY 2013	Totals
GR Related	\$ 2.2	\$ 2.3	\$ 4.5
All Funds	\$ 5.4	\$ 5.4	\$ 10.8

# Prescription Drugs

**Proposal 3:** Limit adult Medicaid clients in Medicaid Managed Care Organizations (MCOs) to 3 prescriptions per month effective September 1, 2011.

Limit adult clients in Medicaid MCOs to 3 prescriptions per month. This is similar to the Primary Care Case Management (PCCM) and Fee-For-Service (FFS) benefit.

Clients with chronic conditions would be able to receive up to a 185-day supply of medication so that prescribers can continue to manage patients' chronic conditions.

**Impact:**

- Impacts approximately 144,200 adult MCO clients.
- Today, adult clients enrolled in an MCO have unlimited prescriptions.

<b>MOF (\$ in millions)</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>Totals</b>
GR Related	\$ 23.0	\$ 23.4	\$ 46.4
All Funds	\$ 55.2	\$ 55.0	\$ 110.2

## DME & Medical Supplies

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- Texas Medicaid covers durable medical equipment (DME) and medical supplies for children and adults:
  - DME and medical supplies must be:
    - Prescribed by a licensed physician
    - Medically necessary
    - Provided in the home
    - Provided by an enrolled home health agency or supplier
  - Prior authorization is required for most DME and medical supplies and for DME repairs
- Examples of DME and Medical Supplies:
  - Speech devices
  - Bath and bathroom equipment
  - Breast pumps
  - Diabetic equipment and supplies
  - Hospital beds and equipment
  - Wheelchairs, canes, crutches, and walkers (mobility aids)
  - Nutritional products, supplies, and equipment
  - Wound care supplies

## DME & Medical Supplies

### Reimbursement

- Lesser of the Texas Medicaid rate and the billed amount
- The Texas Medicaid rate may be:
  - A fixed fee - Based on Medicare rate or HHSC market research and analysis
  - Manually priced - Manufacturer's Suggested Retail Price less 18 percent or Average Wholesale Price less 10.5 percent

### Estimated DME Costs

MOF (in millions)	FY 2011
General Revenue	\$174.4
All Funds	\$533.6

## DME & Medical Supplies

**Proposal:** Implement selective contracting for certain DME and medical supplies to be effective September 1, 2012. This proposal is included in Rider 61.

Currently, health home agencies and medical suppliers enrolled in the Texas Medicaid program may provide DME and medical supplies. This proposal would either limit the providers of certain DME and medical supplies to those selected through a competitive procurement process or compete for exclusive manufacturer agreements. Either approach will result in lower reimbursement rates.

MOF (in millions)	FY 2012	FY 2013	Totals
GR Related	\$	\$ 8.0	\$ 8.0
All Funds	\$	\$ 18.8	\$ 18.8

This proposal assumes selective contracting would be used for speech devices; bath and bathroom equipment; breast pumps and supplies; diabetic equipment and supplies; hospital beds and equipment; intravenous therapy equipment and supplies; mobility aids; respiratory equipment and supplies; and wound care supplies.

**Impact:**

- Reduction in Medicaid reimbursement.
- Clients may lose access to the specific providers, supplies, and equipment they currently use, but covered DME and medical supplies would continue to be available from the contracted provider(s).

## Vision and Hearing Aids

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- Texas Medicaid covers optional vision and hearing aid services for adults.
  - Vision services include:
    - Eye examinations
    - Eyeglasses
  - Vision limitations:
    - One eye examination per 24-month period
    - One pair of eyeglasses per 24-month period
  - Hearing aid services include:
    - Examinations and evaluations
    - Hearing aids and repairs
    - Supplies
    - Fitting and dispensing of hearing aids
  - Hearing limitations:
    - One hearing aid per five years
    - One hearing aid repair per year. Additional repairs with prior authorization.
    - Prior authorization for implantable hearing aids and replacement

## Vision and Hearing Aids

- Reimbursement
  - Lesser of billed charges and the Texas Medicaid fee
  - Manually Priced - Manufacturer's Suggested Retail Price less 18 percent or Average Wholesale Price less 10.5 percent

### Estimated Hearing and Vision Costs

MOF (in millions)	FY 2011	
	Total	Adults Only
<b>Hearing Aid Services</b>		
General Revenue	\$24.2	\$26.7
All Funds	\$74.2	\$81.8
<b>Vision Services</b>		
General Revenue	\$15.2	\$6.6
All Funds	\$46.6	\$20.1

## Vision Services

**Proposal:** Implement selective contracting for eyewear to be effective September 1, 2012.

Implement a competitive procurement process to select an eyewear provider, which could result in lower reimbursement rates. HHSC is analyzing the option to implement selective contracting for hearing aids.

**Impact:**

- This proposal could have a negative fiscal impact on some eyewear providers who would no longer have the option to participate in Medicaid.
- Clients may lose access to the specific providers they currently use, but covered eyewear would continue to be available from the contracted provider.

MOF (\$ in millions)	FY 2012	FY 2013	Totals
GR Related	\$	\$ \$4.6	\$ \$4.6
All Funds	\$	\$ \$10.7	\$ \$10.7



# Hearing Aids

**Proposal:** Implement selective contracting for hearing aids to be effective September 1, 2012.

Implement a competitive procurement process to select an hearing aid providers, which could result in lower reimbursement rates.

**Impact:**

- This proposal could have a negative fiscal impact on some hearing aid providers who would no longer have the option to participate in Medicaid.
- Clients may lose access to the specific providers they currently use, but covered hearing aids would continue to be available from the contracted provider.

MOF (\$ in millions)	FY 2012	FY 2013	Totals
GR Related	\$	\$ 6.8	\$ 6.8
All Funds	\$	\$ 16.4	\$ 16.4

# Clinical Laboratory Services

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- Texas Medicaid covers clinical laboratory services, which are a required benefit.
  - Clinical laboratory services are provided by physicians, independent labs, hospitals and clinics.
- Examples of clinical laboratory services include:
  - Blood tests
  - Urinalysis
  - Diagnostic tests

# Clinical Laboratory Services

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- Reimbursement
  - Lesser of provider charges or the Medicaid rate.
  - Medicaid rate is set at a percentage of the Medicare rate.

## Estimated Clinical Laboratory Services Costs

MOF (in millions)	FY 2011
General Revenue	\$86.4
All Funds	\$264.3

# Clinical Laboratory Services

**Proposal:** Reduce rates for laboratory services, effective September 1, 2011. This proposal is included in Rider 61.

Reduce rates for clinical laboratory services by approximately 17.55 percent, which includes the 10 percent rate reduction assumed in the introduced budget. This proposal is based on the experience of some managed care organizations, which have indicated that they currently pay less than the Medicaid fee-for-service rates.

**Impact:**

- This would be an additional rate reduction for clinical laboratory services, which have been impacted by 2 percent annual reductions to the Medicare fee schedule and 1 percent annual Medicaid reductions in 2010 and 2011.

MOF (\$ in millions)	FY 2012	FY 2013	Totals
GR Related	\$ 19.3	\$ 20.5	\$ 39.8
All Funds	\$ 46.4	\$ 48.3	\$ 94.6