

The Menges Group

Strategic Health Policy & Care Coordination Consulting

Assessment of Louisiana Medicaid's Prescription Drug Management Performance and Preferred Drug List Policy Options

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I. Executive Summary and Introduction

A. Overview

Louisiana's Medicaid Managed Care Organizations (MCOs) currently pay for approximately 95% of the state's Medicaid prescriptions. Louisiana currently allows each Medicaid MCO to utilize its own preferred drug list (PDL). Legislation has been proposed to shift the responsibility of developing the PDL from the MCOs to a single state-administered and state-determined Medicaid PDL. In 2016, The Menges Group conducted an assessment of this potential policy change's impacts. We are now revisiting that analysis to take into consideration more recent Medicaid prescription drug data available for Louisiana and from other states who have adopted various PDL policies.

B. Key Findings

The most significant findings from our analyses are summarized below.

1. Louisiana is a very high-performing state in the management of its Medicaid prescription drug benefit.

- During FFY2017, the most recent year in which full Medicaid prescription drug data are available, Louisiana had the nation's most favorable Medicaid generic dispensing rate (GDR) at 90.9%. The GDR is derived as the generic prescriptions divided by total prescriptions.
- A significant statistic indicating how effectively the drug benefit is being managed in Medicaid is net cost per prescription. This statistic captures the mix of drugs the Medicaid population is receiving, the upfront pricing of these medications, and the back-end rebates received. During FFY2017, Louisiana had the nation's 8th lowest net cost per prescription at \$32.72. Louisiana's FFY2017 net cost per prescription was 18% below the US average of \$39.94.
- Louisiana's net cost per prescription ranking is particularly favorable given the mix of its Medicaid population. Our statistics suggest that more than 30% of Louisiana's Medicaid prescriptions are attributable to Medicaid expansion enrollees. To estimate the impacts Medicaid expansion appears to be having on net cost per prescription, we assessed FFY2011 and FFY2016 net cost per prescription in 12 states that have always had 100% of prescriptions paid in the FFS setting (in order to control for impacts of MCO management on pharmacy benefit management). Among these 12 states, 8 states did not adopt Medicaid expansion and these states collectively experienced an 18% increase in net cost per Medicaid prescription from FFY2011-FFY2016. Among the 4 states (within the 12 continuous FFS states) that did adopt Medicaid expansion, net cost per prescription increased by 37% from FFY2011-FFY2016. This suggests that Medicaid expansion has a 19 percentage point upward impact on Medicaid net cost per prescription. Expansion enrollees, the majority of whom are adult males, typically experience relatively high usage of many high-cost medications, such as drugs treating HIV and Hepatitis C infections, driving up net

cost per prescription in expansion states. This differential in net cost per prescription between expansion and non-expansion states suggests that Louisiana's already favorable net cost per prescription is understated since there was no explicit adjustment for Medicaid expansion's upward impacts on Louisiana's drug costs.

- In summary, Louisiana's Medicaid program and its MCOs, with the support of their pharmacy benefit manager (PBM) partners, are delivering excellent pharmacy benefits management by steering volume to the lowest, cost-effective drugs available.

2. A change to a uniform, State-administered PDL would result in a 13.5% increase in pharmacy expenditures, increasing State fund costs by \$23 million in 2019 and \$121 million over 5 years.

- Based on our analysis, transitioning the PDL responsibility back to the state would represent a significant and costly step backwards for the Healthy Louisiana program. We estimate that by transitioning to a state-determined, uniform PDL, Louisiana would experience an overall net Medicaid cost increase of approximately \$88 million during FFY2019, representing an added cost of \$23 million in State funds. The uniform PDL would increase Louisiana's pharmacy expenditures by 13.5% in FFY2019.
- Across the five-year timeframe FFY2019 – FFY2023, the added cost of a uniform PDL approach is estimated at \$447 million for Louisiana's Medicaid program, with \$121 million of these additional costs being financed through State funds.

3. National tabulations of each state's Medicaid prescriptions demonstrate the importance of focusing on drug mix rather than rebates.

- States that control the Medicaid PDL entirely are not performing nearly as well as Louisiana in terms of net cost per prescription and generic dispensing rates. These states tend to pay more for prescriptions upfront (e.g., with greater use of brand drugs), and then seek to recoup that unfavorable cost differential through accessing relatively large rebates. Our analyses demonstrate that the states that are faring the best on net (post-rebate) cost per prescription are predominantly those that have the highest generic dispensing rates and lowest initial (pre-rebate) costs.
- During FFY2017, the average net cost per prescription among the 10 states with the largest rebates per Medicaid prescription, \$47.66, was **40% above** the corresponding net cost per prescription across the 10 states that had the most favorable generic dispensing rate (\$33.97).

- During FFY2017, Louisiana captured the second fewest rebates per prescription in the country, yet ranked 8th best in the nation in net cost per prescription. The only state receiving a smaller rebate per prescription than Louisiana during FFY2017 was Kentucky – and Kentucky’s net cost per prescription was third-best in the nation. Clearly, a policy change centered around state-controlled PDL with greater pursuit of rebates would not be fiscally prudent for Louisiana.

4. The arguments that programmatic advantages exist in using a state-administered PDL tend to be over-stated and invalid.

- Programmatically, the key argument typically made in favor of a uniform, state-administered PDL is ease of administration for prescribing physicians and pharmacists. However, Medicaid pays for only approximately 22% of population-wide prescriptions in Louisiana, based on Kaiser Family Foundation website data. Creating “uniformity” for the Medicaid PDL does not materially change the number of PDLs that are in use for other managed care plans (such as commercial or Medicare Part D) which pay for 78% of all Louisiana’s prescriptions. Medicare Part D and private insurance do not have PDL uniformity. Thus, the prescriber and pharmacy community will need to work with many dozen PDLs regardless of Louisiana’s Medicaid PDL policies.
- With PDL latitude, Louisiana’s Medicaid MCOs are able to create and nimbly modify PDLs. Their acumen in this arena and the resultant drug cost savings, which are documented in this report, would be forfeited under the proposed policy change. The proposal to transition the PDL development back to the state from the MCOs’ management of the PDL runs directly counter to the benefits of integrated pharmacy and medical management. The prescription drug benefit has been singled out in the policymaking arena in an odd way with the uniform PDL proposal. Further, this proposal would undermine Healthy Louisiana’s efforts to provide affordable coverage through enlisting Medicaid health plans to coordinate care effectively using their expertise and capabilities and creating competition in the Medicaid marketplace.
- When MCOs are provided the latitude to administer the PDL, they can leverage their clinical data and analytic tools to promote the use of the least expensive, clinically effective medication. However, a uniform PDL will hinder MCOs’ ability to negotiate best-in-class rebates. This approach also limits their ability to implement value-based purchasing strategies with pharmacies such as “pay for performance” and reduced pricing.
- Another misconception regarding the advantages of a uniform PDL is that the state gains purchasing power by bundling all Medicaid prescriptions together. The PBMs and MCOs currently supporting the Healthy Louisiana program are national

organizations with far more covered lives, purchasing power, and experience than Louisiana’s Medicaid population represents (even if Medicaid lives were combined with state employees or other Louisiana populations). Hence, we anticipate that Louisiana would experience a net loss of purchasing power through the uniform PDL. We have also not seen any proven correlation between a relatively large number of Medicaid lives and lower net cost per prescription. Purchasing power fosters negotiations around the upfront prices paid to pharmacies and rebates paid by manufacturers. However, our analyses indicate that rebate-focused behaviors constitute “playing the wrong game.” The path to successful Medicaid pharmacy benefits management lies first and foremost in effective management of the front-end mix of drugs.

- Further, a uniform PDL also creates new administrative costs for the state regarding developing and updating formularly content and keeping current with ongoing pharmaceutical industry developments such as new drug entry and price changes.

C. Summary of Approach

Our assessment of Louisiana’s Medicaid prescription drug costs included the following key components:

- a) States’ Net Cost Per Prescription: Data were available that allowed for an accurate comparison between Louisiana’s average cost per Medicaid prescription on a net (post-rebate) basis and every other state. These analyses are presented in Section II.
- b) Generic Dispensing Rates: We are also able to quantify the degree to which a drug mix focus (e.g., extensive use of generics) versus a rebate-focused strategy yields the most favorable net cost per prescription within state Medicaid programs.
- c) Prescriptions per Beneficiary: We obtained data on each state’s Medicaid enrollment to assess access to medications in Louisiana’s Medicaid program. Focused analyses were also conducted on selected high-cost drugs, like those treating HIV and Hepatitis C infections.

The net cost per prescription statistic is a useful measure of how cost-effectively the pharmacy benefit is being managed, reflecting the mix of medications filled.¹ This is important since a given health condition may be treatable by clinically effective drugs with widely varying net (post-rebate) prices. This statistic also captures all statutory rebates for each drug, as well as the states’ and Medicaid MCOs’ efforts to negotiate supplemental rebates from drug manufacturers. We ranked all states (and the District of Columbia) on the above key statistics and present Louisiana’s rankings in Section II. We also created a grouping of 25 states where MCOs operate with wide PDL latitude, comparing this group of states with a group of 6 states currently using a

¹ Given that multiple medications are often clinically effective, but that these alternative drugs often have significantly different costs, managing the “mix of medications” involves steering volume towards the lowest-cost, clinically effective drug through the PDL and related utilization management processes. This includes using generics in lieu of brands where appropriate, but also includes using relatively low-cost brands (when a brand drug is most cost-effective) and relatively low-cost generics (when a generic drug is most cost-effective).

uniform PDL. Our analyses spanned the most recent available three-year timeframe: FFY2015 – FFY2017.

Key Data Sources: CMS publishes the State Drug Utilization Files, which contain quarterly data by national drug code (NDC) for each state and for every Medicaid prescription. The information used in this report draws upon data reported through the third quarter of calendar year 2017 (the end of FFY2017). This source conveys the volume of prescriptions and the corresponding Medicaid amount paid, separately indicating drugs paid in the fee-for-service setting and those paid by MCOs. A separate CMS data source, the CMS 64 Reports, captures the Medicaid prescription drug rebates each state receives in each federal fiscal year. The reported rebates include both the ACA’s statutory rebates as well supplemental rebates the state negotiates with manufacturers. Together, these data sources permit tabulation of each state’s Medicaid initial (pre-rebate) cost per prescription, rebates per prescription, and the net (post-rebate) cost per prescription.

The FFY2017 CMS 64 reports were not yet available for this report. FFY2016 average brand rebate percentages in each state were reapplied to FFY2017 to estimate net brand costs. Generic drugs all receive a 13% rebate and thus FFY2017 generic rebates were tabulated rather than estimated. MCOs’ supplemental rebates are not available in the CMS 64 reports except for a few states. The MCOs’ average percentage of supplemental rebates in the states where this information was reported was used to estimate MCOs’ supplemental rebates in the other states in which Medicaid MCOs operate.

II. Detailed Data Analyses Findings

A. Louisiana’s Rankings on Key Metrics

We tabulated data on various prescription drug performance metrics for FFY2015 – FFY2017 for each state and the District of Columbia. Louisiana’s ranking among these 51 jurisdictions are shown in Exhibit A. Louisiana has performed favorably – and increasingly favorably – on each statistic shown. Louisiana’s MCOs pay for nearly all of the state’s Medicaid prescriptions (95.2%) as of FFY2017, and this high percentage of managed drug benefits has been a key factor in Louisiana’s favorable prescription drug performance across all key metrics shown in Exhibit A.

Exhibit A. Louisiana’s Ranking on Key Medicaid Prescription Drug Performance Measures

Performance Measure	State Ranking Order	Louisiana Ranking Among 50 U.S. States and D.C.			Louisiana FFY2017	U.S. FFY17
		FFY2015	FFY2016	FFY2017		
Generic Dispensing Rate (GDR)	Highest GDR Ranked #1	16th	5th	1st	90.9%	86.9%
Net Cost Per Prescription	Lowest Cost Ranked #1	9th	12th	8th	\$32.72	\$39.94
Rebates Per Prescription	Largest Rebate Ranked #1	37th	50th	50th	\$27.62	\$43.20
Rebates as Percentage of Initial Amount Paid to Pharmacies	Largest Rebate Percentage Ranked #1	17th	48th	48th	45.8%	52.0%
Percentage of Prescriptions Paid by MCOs	Highest Percentage Ranked #1	20th	11th	10th	95.2%	71.9%

Louisiana’s net cost per prescription was pushed upward by its adoption of Medicaid expansion and its large Medicaid expansion enrollment – nearly 30% of Medicaid beneficiaries in Louisiana are expansion enrollees. This population, primarily comprising low-income adult males, has a high prevalence of conditions treated by expensive drug therapies, such as Hepatitis C and HIV infections. This dynamic likely explains why Louisiana had the nation’s most favorable GDR during FFY2017 but was ranked 8th in net cost per prescription.

B. Comparisons of Key Statistics Across State Groupings

States control the structure of their Medicaid programs and have taken a wide variety of approaches regarding both the degree to which the capitated MCO model is used and policies within their Medicaid MCO programs regarding pharmacy benefits management practices such as PDL latitude. We created several groups of states based on their PDL latitude and tabulated key prescription drug performance statistics for these state groups. These tabulations are shown in Exhibit B, along with the Louisiana and nationwide figures.

Exhibit B. Comparisons of FFY2017 Performance Between Louisiana and Selected State Groups

State Grouping	Net Cost Per Prescription, Generic	Net Cost Per Prescription, Brand	Net Cost Per Prescription, Total	Generic Dispensing Rate	Rebates Per Prescription	Percentage Rebates	MCO Share of Prescriptions
Louisiana	\$17.44	\$190.44	\$32.72	90.93%	\$27.62	45.8%	95.2%
States with Strong PDL Latitude (n=25)	\$18.22	\$188.65	\$38.06	88.21%	\$40.14	51.3%	79.8%
All Other States (n=26)	\$19.60	\$174.79	\$41.95	85.46%	\$46.44	52.5%	63.5%
States with Uniform PDL (n=6)	\$18.40	\$154.28	\$39.79	84.11%	\$52.90	57.1%	92.3%
U.S. Total	\$18.88	\$181.19	\$39.94	86.88%	\$43.20	52.0%	71.9%

The figures in Exhibit B confirm the following patterns discussed previously:

- States with strong PDL latitude have the most favorable generic dispensing rates.
- Higher rebates are correlated with a higher overall net cost per prescription, both when assessed on a rebate per prescription basis and when rebates are assessed as a percentage of initial pharmacy payments.
- States with low net cost per prescription tend to have relatively high net costs for brands, indicative of the disproportionately high-cost drugs that have no generic substitution (after shifting use from brands to generics, when available) on the PDL.

The advantages of PDL latitude are apparent in Exhibit B, but the net cost differences are likely larger than the savings figures suggest due to impact of Medicaid expansion on net cost per prescription in Louisiana and other expansion states where MCOs have latitude over the PDL,

and the proportion of Medicaid beneficiaries enrolled in MCOs. The 25 states with strong PDL latitude in Exhibit B are predominantly Medicaid expansion states – 21 of these states adopted Medicaid expansion and 89% of these 25 states’ collective Medicaid enrollment in 2017 occurred in expansion states. Conversely, among the six states with a uniform PDL, only two adopted Medicaid expansion and these two states represent less than 10% of the six states’ collective Medicaid enrollment. As discussed previously, Medicaid expansion pushes net cost per prescription upward due to the disproportionate use of high-cost medications attributable to pent-up demand for care among newly covered individuals with high-cost conditions. Despite these upward drug cost impacts of expansion, the group of states where MCOs have full PDL latitude achieved a lower net cost per prescription than the group of states with a uniform PDL.

C. Cost Impacts of Moving to a Uniform PDL Approach

We estimated impacts of Louisiana’s proposed shift to a uniform, state-determined PDL through the following process.

Establishing Baseline Estimates: Louisiana’s current program structure, cost and utilization dynamics, as depicted in its actual drug benefit performance during FFY2017, were used to estimate baseline costs through FFY2023.

The key assumptions used to trend the FFY2017 figures forward each year were derived based on observed national Medicaid prescription drug trends and are listed below:

- Overall prescription volume was increased by 1.5% per year.
- The GDR was increased by 0.5 percentage points each year, subject to a ceiling of 92.5% (which Louisiana reaches in FFY2021). The ceiling assumption reflects the expectation that the opportunity to continue increasing the GDR may “top out” given that the effect of patent expirations may be offset by the introduction of new brand products.
- Average cost per prescription was increased by 3.6% per year for generics and by 9.1% for brands. The higher trend rate for brands reflects the ongoing stream of high-priced specialty drugs being introduced. A very small proportion of drugs could not be categorized as brand or generic (roughly 0.2% of all Medicaid prescriptions). The average annual price increase for this group of drugs was assumed to be 5%.

Cost Impact Factors: Using the state groupings in Exhibit B, we derived the following cost impact factors by comparing the average differential between the 25 states where MCOs have full PDL latitude and the six states in which a uniform PDL is used. The factors derived reflect the average differential across the three-year period FFY2015 through FFY2017 as shown below:

- The generic dispensing rate was 4.46% higher in the group of 25 states with PDL latitude than in the group of six states with a uniform PDL.
- Net (post-rebate) cost per generic prescription was 3.6% lower in the group of 25 states with PDL latitude (relative to the six states using a uniform PDL).

- Net (post-rebate) cost per brand prescription was 18.6% *higher* in the group of 25 states with PDL latitude (relative to the six states using a uniform PDL).

Recognizing that the uniform PDL proposal could be effective in October 2018 (i.e. the start of FFY2019), we applied the above factors to Louisiana’s baseline FFY2019 costs and utilization to estimate costs under a uniform PDL in Louisiana. This new FFY2019 set of costs and utilization patterns in Louisiana was then trended forward through FFY2023 using the same trending assumptions described earlier.

Taking all the above factors into account, we estimate that a shift to a uniform PDL will result in a 13.5% increase in costs for Louisiana Medicaid in FFY2019. The results of these analyses are shown in Exhibit C.

Exhibit C. Estimated Cost Impacts if a Uniform Medicaid PDL is Implemented in Louisiana

Time Period	Baseline Estimated Net Cost of Louisiana’s Medicaid Prescriptions	Estimated Net Spending Under Uniform PDL Model	Added Cost Vs. Baseline from Implementing Uniform PDL	Percent Additional Cost of Uniform PDL	State Share of Medicaid Prescription Drug Expenditures (blending regular FMAP and Expansion Population FMAP)	Additional State Fund Costs Caused by Switch to Carve-Out (prior to tax implications)
FFY2019	\$651,198,466	\$738,990,530	\$87,792,064	13.48%	26.34%	\$23,124,430
FFY2020	\$681,567,705	\$783,442,115	\$101,874,410	14.95%	27.27%	\$27,781,152
FFY2021	\$732,201,461	\$829,698,571	\$97,497,109	13.32%	27.27%	\$26,587,462
FFY2022	\$790,757,266	\$877,681,169	\$86,923,903	10.99%	27.27%	\$23,704,148
FFY2023	\$854,563,842	\$927,276,158	\$72,712,316	8.51%	27.27%	\$19,828,649
5 Year Total	\$3,710,288,740	\$4,157,088,543	\$446,799,802	12.04%		\$121,025,840

III. Conclusions

Our analyses confirm our earlier findings (in the report dated September 2016) that the State of Louisiana and its taxpayers would incur significant costs if it adopts a uniform, state-determined Medicaid PDL. The State Fund cost of this policy change is estimated at \$23.1 million in the first year (FFY2019) and \$121 million across the five-year timeframe FFY2019 – FFY2023.

Louisiana had the nation’s highest generic dispensing rate in FFY2017 and the nation’s 8th lowest average net cost per prescription. Any change in policy away from the existing program design that enables this excellent drug benefit management performance creates an enormous risk of being a step backwards. Moving to a uniform PDL would immediately and substantially increase Louisiana’s net Medicaid prescription drug costs, as witnessed by the collective performance of states using a uniform PDL as compared to the collective performance of states allowing MCOs to optimally manage their drug mix through full PDL latitude.