



# Presentation to the House Appropriations Subcommittee on Health & Human Services: Prescription Drugs, DME & Ancillary Services

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

Medicaid Cost Reduction Proposals		Total GR	Total All Funds
1	<b>Allow HMOs to Provide Prescription Drugs</b>	\$ 84.1	\$ 113.9
2	<b>Capitate Vendor Drugs Using Individual MCO Formularies</b>		
3	<b>DME Selective Contracting</b>	\$ 8.0	\$ 18.8
4	<b>Reduce Rates for Laboratory Services</b>	\$ 39.8	\$ 94.6
5	<b>Increase Use of Over-the-Counter Ibuprofen Suspension</b>	\$ 4.5	\$ 10.7
6	<b>Three prescription Limit for Managed Care</b>	\$ 46.3	\$ 110.2
7	<b>Selective Contracting for Hearing</b>	\$ 6.8	\$ 16.4
8	<b>Selective Contracting for Vision</b>	\$ 4.6	\$ 10.7

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

Medicaid Cost Reduction Proposals		Total GR	Total All Funds
9	<b>DME Prior Authorization</b>	\$ 0.0	\$ 0.0
10	<b>DME Selective Contracting – Incontinence Supplies</b>	\$ 12.8	\$ 30.4
11	<b>1% Rate Reduction for DME</b>	\$ 5.4	\$ 12.9
12	<b>1% Rate Reduction on the Prescription Drug Dispensing Fee Paid to Pharmacies</b>	\$ 2.6	\$ 6.1
13	<b>1% Rate Reduction for Lab Services</b>	\$ 1.6	\$ 3.7
14	<b>Reimbursement for Medical Imaging 1%</b>	\$ 0.6	\$ 1.4
15	<b>Drug and AWP Pricings</b>		
16	<b>Contact Lens Benefit Elimination</b>	\$ 0.2	\$ 0.6

# 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 (over 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 nursing facilities, and children receive unlimited prescriptions.

# Prescription Drugs

## Reimbursement: Drug Pricing

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- 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.
  - Estimated acquisition costs per drug are set at the lesser of:
    - Average wholesale price less 15 percent;
    - Net cost to wholesaler plus 12 percent; or
    - Net cost to chain warehouse.
  - The dispensing fee is \$7.35 plus a 1.98 percent variable component.
    - The inventory management factor provides increased reimbursement to pharmacies for managing an inventory of expensive drugs; it can't exceed \$200.
    - The Texas dispensing fee is higher than other states and private plans because the Texas VDP reimbursement rate for drug product costs is lower.

# Prescription Drugs Reimbursement: Rebates

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## 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

- H.B. 2292, 78th Texas Legislature, Regular Session, 2003, required Texas to implement the supplemental rebate program, or the Preferred Drug List (PDL).
- The Medicaid 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.
  - Exception: A drug may be designated as preferred without a supplemental rebate agreement if the drug will not have a negative cost impact (H.B. 2030, 81st Legislature, Regular Session, 2009).

# Prescription Drugs

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## Estimated 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

**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**

# 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

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- **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

# 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	\$ 27.5	\$ 26.7
All Funds	\$ 84.3	\$ 81.8
<b>Vision Services</b>		
General Revenue	\$ 15.2	\$ 6.6
All Funds	\$ 46.6	\$ 20.1

# 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