Louisiana Medicaid
Preferred Drug List
Program Overview and Results

December 20~~18~~, 2019

Magellan Rx MANAGEMENT℠

Table of Contents

1.0 Overview

The Louisiana Department of Health (LDH) preferred drug list (PDL) program has been in operation since 2002 by Provider Synergies, L.L.C. Provider Synergies is an affiliate of Magellan Medicaid Administration, Inc., a Magellan Rx Management company ("Magellan").

Louisiana is entering the fifteenth year as one of six states participating in the multi-state purchasing program, The Optimal PDL Solution (TOP$). Louisiana was one of three states that initially participated in the multi-state purchasing pool, TOP$, in 2005. The six states now participating in TOP$ are Louisiana, Maryland, Idaho, Wisconsin, Nebraska, and Connecticut.

This review summarizes the results of the PDL program for fiscal year 2018-2019 (FY2019) and the first quarter of fiscal year 2019-2020 (FY2020). It should be noted that this report includes MCO data only for May and June 2019.

2.0 Major Developments

In March 2010, President Obama signed the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act of 2010, together known as the Affordable Care Act (ACA), into law. The ACA included stipulations that had a significant impact on both federal and supplemental Medicaid drug rebates. These regulations went into effect October 1, 2013.

In 2012, ACA's impact for Louisiana was seen in the partial movement of coverage for Medicaid pharmacy services from a fee-for-service (FFS) model to managed care organizations (MCOs). With MCO utilization eligible for the collection of federal rebates, several states have elected to employ MCOs for coordination of benefits and continue to collect federal rebates for this utilization. MCO utilization is not eligible for supplemental rebates if the MCOs are permitted to use their own formularies. Louisiana elected this option for a portion of Medicaid lives, decreasing the number of FFS lives to about 630,000.

For FY2013, the state altered their reimbursement methodology, which created a more aggressive pricing model for payments to pharmacies. In October 2014, LDH changed pharmacy reimbursement to AAC plus $10.41 dispensing fee plus $0.10 provider fee in order to be in compliance with the CMS approved state plan. This has enabled the state to take advantage of inexpensive generics and opportunity for significant switch savings. Switch savings are savings associated with moving pharmacy utilization from expensive products to less expensive products, provided that clinical effectiveness is similar. With this methodology in place, all PDL classes were re-evaluated for appropriate preferred products and the November TOP$ review incorporated the new methodology in order to make projections under the new reimbursement model.

For SFY2015, the state underwent a significant decrease in the FFS population; this movement of lives to MCOs severely impacted the FFS pharmacy program savings/spend numbers.

For SFY2017 through SFY2018, the FFS population continued to remain stable post MCO shifting.

On May 1, 2019, the state implemented a Single PDL to address the significant Medicaid population that moved to MCOs. This implementation standardized the PDL across all the MCOs and the FFS program. As such, a Single PDL would simplify the process for providers to prescribe medications to all Medicaid beneficiaries. Through a Single PDL program, the state can collect supplemental rebates for contracted medications dispensed to all Medicaid members, rather than to FFS beneficiaries only. Another way a Singe PDL can play an important role in increased savings to the state is by market shifts from nonpreferred medications to preferred, less costly alternatives.

Also in May 2019, the reimbursement methodology for FFS changed to NADAC, instead of AAC, plus $10.99 professional dispensing fee. The MCOs were legislatively mandated to pay local pharmacies the FFS rate during the 2017 Louisiana Legislative Regular Session.

2.1 Analysis

There was an increase in savings in SFY2019 over the previous year; it is mainly attributed to the surge in supplemental rebates due to the Single PDL enactment.

3.0 Savings Methodology

There are two ways that Louisiana derives savings from the PDL: (1) supplemental rebates and (2) market shift savings. Both types of savings are listed in the PDL Supplemental Rebate and Market Shift Report that is sent quarterly to LDH.

1. **Supplemental Rebates = Supplemental Rebate Per Unit x Number of Units Dispensed**

   Supplemental rebate per unit is calculated in accordance with the supplemental rebates offered for products (identified by 11-digit NDC) that are included on the PDL.

   The predominant calculation type that manufacturers may use is called a “guaranteed net unit price” (GNUP). GNUP calculations are different from total percent offers because they protect the state from price increases through manufacturer price guarantees. If the manufacturer increases its price, it makes up the price increase penny for penny in additional rebates. For example, if the manufacturer offered a GNUP of $0.60 per unit, its federal rebate was $0.25 and the wholesale acquisition cost (WAC) of the product was $1.00, the manufacturer would pay a $0.15 supplemental rebate. Should the manufacturer then increase its price to $1.10, the rebate liability would also increase, from $0.40 to $0.50 (i.e., $1.10–$0.60). The supplemental rebate would increase from $0.15 to $0.25.

2. **Market Shift Savings = Total Savings – Supplemental Rebates**

   Market shift savings occur when a patient on a nonpreferred product changes therapy to a preferred medication that is less expensive with similar clinical effectiveness. Essentially, this is a measure of cost avoidance for the Medicaid program.

For example, suppose that a non-preferred medication costs the Louisiana Medicaid program $40 per prescription (after all rebates are applied), and the physician changes a recipient's drug regimen to replace that medication with one on the PDL that costs $30 per prescription (again, after application of all rebates). As a result of the change, the Medicaid program saves $10 each time the recipient receives the new prescription versus incurring the additional cost had the patient not changed drugs.

In some cases, products are placed on the PDL and generate savings even without offering a supplemental rebate. This situation occurs either because the product is less expensive or because it has a large federal rebate that renders the net price paid by LDH lower than the cost of competing therapies.

Market shift savings for each class are calculated for each drug name in the class, and then summed for the class total. Total savings is the sum of market shift savings and supplemental rebate savings.

4.0 Review of Major Therapeutic Classes

Supplemental rebates along with shifting of market share to less expensive alternatives contributed to the savings from the PDL program for FY2019.

The following is a summary of the major therapeutic classes that generated the most savings for the PDL program.

4.1 The Top Five Classes

4.4.1 Group One: Cytokine and CAM Antagonists

Cytokine and CAM Antagonists are drugs used for the treatment of a wide array of inflammatory and auto-immune disorders such as rheumatoid arthritis, plaque psoriasis, psoriatic arthritis, Crohn's disease, and ankylosing spondylitis.

SAVINGS: For FY2019, the supplemental plus market shift savings totaled over $3.15 million due to supplemental rebates in this class.

4.4.2 Group Two: Hepatitis C Agents

Hepatitis C agents treat a liver infection caused by the hepatitis C virus.

SAVINGS: The supplemental plus market shift savings for the Hepatitis C Agents class totaled over $1.12 million; they are primarily driven by supplemental rebates.

4.4.3 Group Three: Stimulants and Related Agents

Stimulants and Related agents are used for the treatment of Attention Deficit/Hyperactivity Disorder (ADHD) and narcolepsy.

SAVINGS: For FY2019, the supplemental plus market shift savings totaled over $856K due to supplemental rebates and the Brand-Over-Generic program in this class.

4.4.4 Group Four: Bronchodilators, Beta Agonist

Beta agonist bronchodilators play an important role in the management of asthma and COPD symptoms. Savings were due to favorable MCO market share movement.

SAVINGS: For FY2019, the market shift savings for the Bronchodilators, Beta Agonist class totaled over $641K.

4.4.5 Group Five: Growth Hormone

Growth hormone is used to treat a variety of disorders in which endogenous growth hormone is insufficient to meet the needs of the patient. The positive savings come mostly from supplemental rebates.

SAVINGS: For FY2019, the supplemental plus market shift savings totaled over $620K in this class.

4.2 Number of Therapeutic Classes Reviewed

The number of PDL classes reviewed has significantly increased since the inception of the TOP$ program, culminating with the review of 112 classes during the FY2019 Pharmaceutical and Therapeutics Committee (P&T) meetings.

4.3 PDL Compliance

PDL Compliance is the percentage of the number of dispensed prescriptions that are preferred divided by the total number of dispensed prescriptions that are subject to the PDL. In FY2019, the PDL Compliance average rate was 95% for FFS; that rate was 92.65% for MCOs in May and June 2019.

4.4 Reported Savings FY2018 through FY2019

4.4.1 Factors Affecting the PDL Program

Below are major factors that have affected the PDL Program in the past several years: (1) United States Health Care Reform and (2) a shift in population from FFS to MCOs.

1. **United States Health Care Reform**

   As referred to in *2.0 Major Developments in FY2016*, the ACA results in an 8% increase in the federal rebate on the majority of single source brand (SSB) drugs and 2% on generics, an increase that is exempted from State FMAP (Federal Medical Assistance Percentage) regulations. This act reduced State Medicaid supplemental rebate dollars initially for those drugs under contract starting in January 1, 2010.

2. **Shift of Population from FFS to MCOs**

   The loss of lives from the FFS Pharmacy Program to the MCOs resulted in a loss of savings due to less utilization on medications with high federal and/or supplemental rebates. Between the last two quarters of FY2015, there was an 83% decline in supplemental rebates due the loss of population to the MCOs.

4.4.2 Savings Results

In FY2019 the cost avoidance savings with the PDL program totaled $3.34 million. This number was $1.72 million in FY2018.

Table 1: Reported Savings by Quarter for FY2018

Savings Results FY 2018			
Calendar Quarter	**LA Fiscal Quarter**	**Quarterly Reported Savings**	**Comments**
3Q17	Q118	$ 473,209	Actual 3Q2017 (reflecting CMS federal rebates amounts under rebate rules established by ACA.)
4Q17	Q218	$ 405,685	Actual 4Q2017 (reflecting CMS federal rebates amounts under rebate rules established by ACA.)
1Q18	Q318	$ 448,737	Actual 1Q2018 (reflecting CMS federal rebates amounts under rebate rules established by ACA.)
2Q18	Q418	$ 398,661	Actual 2Q2018 (reflecting CMS federal rebates amounts under rebate rules established by ACA.)
Total		$1,726,292	

Table 1: Reported Savings by Quarter for FY2019

Savings Results FY 2018			
Calendar Quarter	**LA Fiscal Quarter**	**Quarterly Reported Savings**	**Comments**
3Q18	Q119	$ 317,103	Actual 3Q2017 (reflecting CMS federal rebates amounts under rebate rules established by ACA.)
4Q18	Q219	$ 361,682	Actual 4Q2017 (reflecting CMS federal rebates amounts under rebate rules established by ACA.)
1Q19	Q319	$ 270,214	Actual 1Q2018 (reflecting CMS federal rebates amounts under rebate rules established by ACA.)
2Q19	Q419	$ 2,394,223	Actual 2Q2018 (reflecting CMS federal rebates amounts under rebate rules established by ACA.) Increase is due to Single PDL implementation May 1, 2019.
Total		$3,343,222	

5.0 Estimated Savings for FY2020

5.1 Factors That Affected the PDL Program in FY2019

5.1.1 Growth of Specialty Drugs

The number of specialty drug approvals has been astounding. Along with the growth of specialty drugs comes the hefty price of these products. State Medicaid programs struggle with utilization controls on these products for a variety of reasons which may include lack of competition, legislative protections, grandfathering, or pharmacy department policy. The State of Louisiana has seen the top five specialty classes contribute 22.7% of the total net spend but account for only 0.75% of the total claims.

5.1.2 Inception of a Single PDL

The Single PDL was implemented in May 2019 and has already resulted in increased savings for the state in May and June 2019. This enactment marks a vital milestone for the state as it improves provider convenience. Instead of looking up each health plan's PDL, prescribers can simply use one PDL to prescribe medications to all Medicaid beneficiaries. For members, a Single PDL can simplify the process of choosing a health plan and can make switching between health plans less difficult. From a financial standpoint, the Single PDL execution offers a significant positive financial impact to rebates for the state.

5.2 Projected Savings for FY2020

Savings estimates for FY2020 are a total of over $7.18 million.

Table 3: Projected Savings by Quarter for FY2020

Calendar Quarter	LA Fiscal Quarter	Estimated Savings	Comments
3Q19	Q120	$1,871,572	Estimated 4Q2019. Projections may be impacted by list of factors below.
4Q19	Q220	$ 1,796,709	Estimated 4Q2019. Projections may be impacted by list of factors below.
1Q20	Q320	$1,527,202	Estimated 1Q2020. Projections may be impacted by list of factors below.
2Q20	Q420	$ 1,985,364	Estimated 2Q2020. Projections may be impacted by list of factors below.
Totals		$7,180,847	

Actual savings may be different from projections due to various factors. The percent of Federal share of the newly eligible expansion population changes over several years. Drug utilization may change depending on the health of the newly eligible population. Population changes as a result of economic changes or natural disasters could have a significant impact on the pharmacy spend. New drugs will enter the market – unforeseen impact on drug utilization and unknown participation in supplemental rebate program. Drugs may enter the market for diseases that are currently not treated. Recalculation of Average Manufacturer Price (AMP) and the changes in Federal Upper Limit (FUL) calculation may have significant impact on the pricing of drugs. The level of aggressiveness of a state MAC list can impact the number of branded drugs listed on the PDL. Fewer branded drugs or lower utilization of branded products will result in lower supplemental rebates. Limiting the number of branded products in a class would likely lower supplemental rebates for some drug classes or potentially for the whole PDL program. Federal Medical Assistance Percentage (FMAP) changes will impact the state's share of all rebates. New changes in Federal Medicaid rules and regulations regarding drug coverage, drug pricing or rebate programs may impact the savings estimates.

6.0 Features of the Louisiana Medicaid PDL that Impact Savings

6.1 Strengths

Louisiana participates in the multi-state purchasing pool and benefits from volume purchasing but maintains autonomy in PDL decisions. States receive, in some cases, better offers for supplemental rebates as a part of the TOP$ program compared to other single states soliciting for supplemental rebates.

Effective June 2, 2016, pursuant to Act 33 of the 2016 Regular Session of the Louisiana Legislature, any new drug introduced into the market in one of the therapeutic classes reviewed by the P&T Committee may be prior authorized until the next P&T meeting. Previously new drugs (both brand and generic) were covered without a prior authorization before being reviewed by the P&T Committee. New drugs are usually very expensive and can gain market share quickly before the P&T Committee has an opportunity to review them, so this change has been a huge stride in achieving additional savings.

The number of reviewed PDL classes for Louisiana Medicaid has increased to an impressive 112. This is an important achievement because usually a positive correlation exists between the number of reviewed classes and the savings accrual.

The switch to a Single PDL in May 2019 is another major advancement taken by the state. Supplemental rebates can be collected on contracted medications dispensed to all Medicaid beneficiaries, rather than to FFS members only. This results in a massive surge in cost avoidance for the state.

6.2 Weakness

The Anticonvulsants and HIV/AIDS drug classes continue to be one of the top for Louisiana in terms of spend. If these two classes are added to the reviewed list, the state can realize additional savings. However, legislative regulations and Medicaid policy currently mandate that drugs in these classes be open access and be available to members without a prior authorization.

Preferred branded drugs were intentionally limited on the Single PDL due to pharmacy provider abrasion and increased MCO expenditures.

7.0 Summary

The Preferred Drug List generates cost savings in two ways. First, supplemental rebates are collected from pharmaceutical manufacturers for their inclusion as a preferred product. Secondly, by requiring a prior authorization (PA) on non-preferred products, claims are shifted from expensive medications to more cost-effective alternatives.

The LDH PDL program continues to be successful. Savings for FY2019 were over $3.34 million; savings have increased from FY2018 due to the Single PDL implementation on May 1, 2019. With the Single PDL, Louisiana's savings will increase to an estimated $7.18 million in FY 2020.

Similar to other states with competitive selection based PDL models, prices have remained fairly stable in each subsequent review of each class. Louisiana's leadership in establishing the TOP$ multi-state program accelerated this trend.