Health and Human Services Commission

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Presented to the Joint Interim Committee on Health Services

May 15, 2002

Medicaid Cost Containment Initiatives

In Article II, Section33, Special Provisions of SB 1, the 77th Legislature directed the Health and Human Services Commission to achieve a total of $205 million in general revenue cost savings in the Medicaid program. Strategies to achieve these savings include the following:

Strategy	Description	Sec. 33 Item	Projected Savings
Pharmaceutical savings			**$62.6**
Move to Best Price Structure		(e)	
1. Audit related drug pricing reductions	An invoice survey of approximately 200 products resulted in reimbursement reductions effective in May and July of 2001.		$11.0
2. New Maximum Allowable Costs (MACs) related to federal price changes	New federal Upper Limit price changes were effective January 2002.		$1.6
3. Reimbursement formula change due to statewide audits	A statewide invoice audit was initiated to determine changes need in the pricing formula. The audit was completed in January 2002 and is currently being evaluated.		$20.3
4. New MACs related to patent expiration	Savings are derived from drugs that are scheduled to go off patent during the biennium.		$16.4
Increase Utilization Review Activities		(m)	
1. Additional edits to drug utilization review (DUR) claim rejections	Increases the number of drugs subject to rejection in the on-line claims management system for clinically significant high dose alerts, therapeutic and ingredient duplications, and drug interactions.		$0.6

Strategy	Description	Sec. 33 Item	Projected Savings
2. Maximum daily dosage limits	Manufacturer recommended maximum daily dosage limitations were implemented in October for 9 categories of drugs.		$2.8
3. Maximum monthly dose and gender and age limits	Monthly dose, age and gender limitations were implemented in December for certain medications.		$0.7
4. Increase early refill edit from 50% to 75%	This edit will reject a prescription claim if a patient has not used 75% of a previous prescription of the same drug.		$1.2
5. Review recipients on multiple medications	Patients who take a large number of medications will be more closely monitored.		-
6. Physician education and utilization management	Physicians will be provided with decision-making tools to promote better-informed prescribing practices.		$8.0
Medicaid Trust Fund Balance	The Medicaid trust fund will be reduced by 8/31/03. The funds are available for transfer at this time. However, interest earnings should be allowed to continue to be earned through the balance of the biennium	(l)	**$88.0**
Hospital Payments	Targeted reductions in hospital reimbursements were to begin 4/1/02 and yield an estimated $48.5M. The Hospital Payment Advisory Committee and the hospital associations have developed an alternative plan that has been submitted to HHSC, reviewed and modified. This plan will also yield $48.5 million.	(d and g)	**$48.5**
Savings due to CHIP	MHMR's community mental health services budget will be reduced as a result of enrolling children, who previously received MHMR services, in CHIP.	(o)	**$5.9**
		Total Projected Savings	**$205 million**

Additional cost containment strategies under development include:

- Implementing case management for high cost/high need individuals (Item c)
- Competitive contracting for medical equipment and supplies (Item h)
- Competitive contracting for vision care (Item i)
- Expanding the Health Insurance Premium Payment System (Item j)
- Establishing sliding scale co-payments (Item k)
- Piloting automatic drug dispensing machines in nursing facilities (Item n)
- Purchasing pharmaceuticals in bulk (Item p)
- Applying for a Medicaid waiver for psychotropic medications (Item q)
- Moving toward market-based reimbursement of hospital inpatient care
- Establishing four brand/34 day supply limits
- Obtaining rebates for drugs administered in physicians' offices
- Establishing new Maximum Allowable Costs for drugs with a narrow therapeutic index
- Amending Medicaid administrative contracts (Birch and Davis/ Texas Health Quality Alliance)
- Amending the administration support contract with NHIC for FY03
- Moving Medicaid from an "insured" arrangement to fiscal agent
- Moving from accrual basis to cash basis for paying Medicaid claims

Other Pharmaceutical Cost Containment Efforts
(Panel C)

Managing the cost of the Vendor Drug Program through best practice models, physician consultation and education, timely and relevant information, and data management tools.

- Clinical Pathways
- Peer Support/Consultation
- Pricing Information
- Pharmaceutical Data Management System

Article II, Special Provisions
Medicaid Cost Containment Rider 33

a. Statewide rollout for TANF population ($17.9 million)

Status: Planned implementation of PCCM model has been delayed in response to concerns from physicians and hospitals, especially along the border. In consultation with THA, HHSC has submitted to the Hospital Payment Advisory Committee a variety of rate reductions for hospital inpatient rates that will address the expected savings for strategies a, b, d, and g. The HPAC and THA have asked for a delay in implementing these new rates in hope of developing an alternative cost containment strategy. Rate adjustments are anticipated to begin in September 2002.

b. Require SSI population to participate in STAR ($6.1 million)

Status: Cost of including SSI in STAR may outweigh the benefits. Inclusion with an unlimited drug benefit has a significant additional cost. SSI clients would require additional attention and care coordination services to be effectively included (especially in capitated models). Inclusion of these services would raise STAR administrative costs. Strategy will not be pursued. Savings will be achieved through other strategies.

c. Establish a case management program for complex cases ($3.0 million)

Status: HHSC staff is currently reviewing three options for case management. Anticipated implementation date is September 1, 2002.

d. Selective contracting in urban areas for inpatient services ($24.5 million)

Status: HHSC has reached agreement with HPAC and THA on a cost saving strategy that will yield $48.5 million, without losing the federal matching share.

e. Move from current formula for drug pricing in Medicaid to a “best price” structure ($22.0) million)

Status: The contract for a dispensing fee analysis has been awarded to Myers & Stauffer with a final report due August 15, 2002.

Invoice audits: HHSC staff is working with the Texas Legislative Council to evaluate sampling procedures prior to proposing changes and scheduling of the required public hearing. Anticipated pricing adjustments are scheduled for September 1, 2002.

f. Require supplemental rebates in selected therapeutic categories ($14.0 million)

Status: Drug manufacturers have committed to providing rebates in CHIP. The drug benefit in CHIP will be administered through VDP, yielding what is expected to be better pricing and manufacturers rebate. CHIP rebate contracts were mailed to all manufacturers in February. The VDP began processing CHIP claims for 11 out of 13 plans on 3/1/02. As of 5/10/02, contracts representing 73 labeler codes have been signed. All manufacturers agreement is expected by September 1, 2002, with retroactive rebates to March 2002.

g. Reduce outlier payment percentage ($6.1 million)

Status: Outlier payments were reduced from 75% to 70% in September 2001.

h. Competitive pricing for medical equipment and supplies ($7.3 million)

Status: Option 1, 10% reduction in maximum fees for DME is on hold until more information is available regarding retail reimbursement. Option 2, a procurement of DME is scheduled for May. The DME Cost Containment Project and competitive procurement were announced at the April 11 Public Forum.

i. Vision Care ($1.0 million)

Status: A draft RFP for purchasing of eyewear from a single contractor was posted April 24 for public comment. HHSC will respond to the comments, revise the RFP and release the final RFP on May 30.

j. Expand Health Insurance Premium Payments System (HIPPS) ($3.2 million)

Status: Develop mail out to Medicaid clients, increase employee awareness campaign, and increase client outreach.

k. Establish sliding scale co-payments ($3.0 million);

Status: A matrix of cost sharing options was presented to the February Public Forum. A public hearing was held March 26. A stakeholder workgroup met four times and provided input for co-pay policy development and designed two options for cost sharing. A report of the workgroup recommendations was given at the Public Forum on April 11 and posted on the HHSC Website on April 29. Additional research and final estimates of cost savings are being finalized. A recommendation for Medicaid cost sharing will be sent to the Commissioner in early May.

l. Use the Title XIX Trust Fund Balance ($60 million);

Status: In addition to the original $60 million, approximately $28 million could be removed from the Trust Fund by changing business practices that use the Fund's balance to temporarily finance provider payments. Total savings from recovering funds from the Title XIX Trust Fund are estimated to be $88 million. Actual transfer of funds from the reserve account will be delayed until FY03 to allow interest earnings to continue.

m. Increase utilization review activities through Pharmacy Benefit Managers or in-house function ($6.0 million in General Revenue);

Status: Second set of letters to physicians regarding clients taking multiple systemic medications has been mailed and responses are being reviewed by the DUR staff. On April 12, 2002, the final rule was published requiring 75% (instead of 50%) of a medication to be used before it can be refilled. The Vendor Drug Program implemented this rule on May 8, 2002. Drug coverage limitation edits were completed and implemented December 1 and May 1.

n. Pilot automatic dispensing machines in nursing facilities ($3.2 million);

Status: HHSC will track any savings to the Vendor Drug Program through use of the automatic dispensing machines. Since only one machine is currently in use, HHSC has not yet begun measuring data. Negligible savings anticipated since these machines are very expensive and unlikely to be used by many facilities.

o. Savings due to Children's Health Insurance Program ($18.8 million)

Status: MHMR savings identified and available. Reductions in TDH's CSHCN program are unlikely to be achieved due to the program's current shortfall. HHSC has completed a review of the CSHCN program and made recommendations to reduce the shortfall. HHSC staff will monitor the implementation of CSHCN recommendations and the impact on the projected program shortfall.

p. Lowest contract price/Medicaid pricing for all retail purchases ($3.0 million)

Status: At the April 9th meeting, the Council heard a revised TDH rule proposal designed to improve the accuracy of drug ingredient payment to provider pharmacies. There continue to be issues with these proposals from stakeholder groups as well as council members. This item will be considered again during the June meeting.

q. Medicaid waiver for psychotropic medications ($5.9 million).

Status: CMS has requested that the state rework the cost effectiveness assumptions to remove SSI savings. Another conference call with CMS was set for Tuesday, May 7, 2002.