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Presentation to the Senate Finance Committee

Health and Human Services Commission

July 19, 2004

Presentation Overview

- Demographic Trends in Texas
- Medicaid / CHIP Forecasting Methodology
- Medicaid / CHIP Spring 2004 Forecast
- Cost-Containment Initiatives

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Demographic Trends in Texas

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Demographic Trends

- Population continues to grow during both the short- and long-term futures
  - Between 2000 and 2010, the state's population will grow by 4.4 million.
  - Population in 2010 is projected to be 25.4 million.
    - Population in 2005 is projected to be 23.0 million
  - The state's population is projected to reach 35.8 million in 2040.

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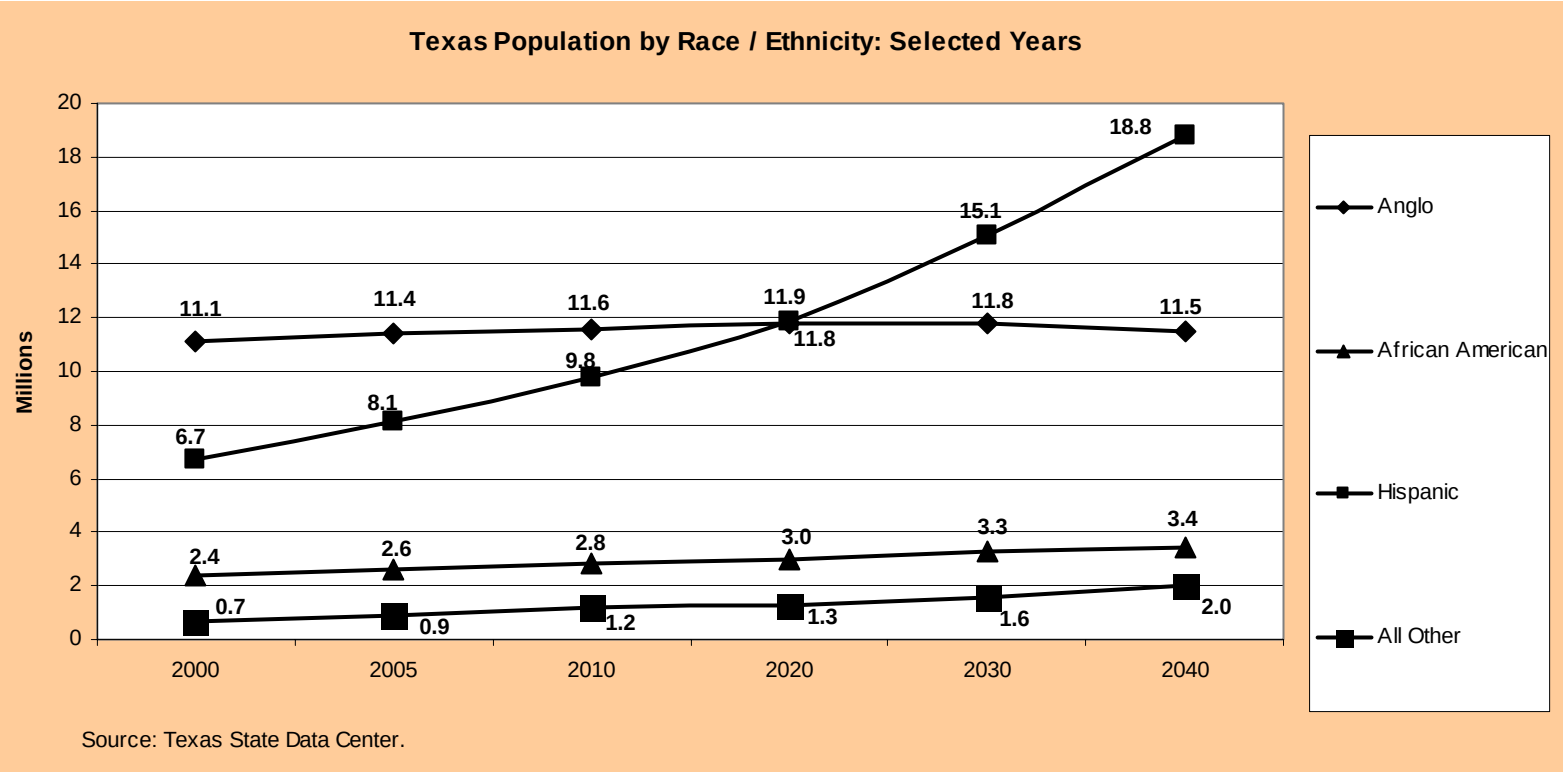
Demographic Trends

- Trends in Race / Ethnic Composition
  - In the long-term, Hispanics are expected to overtake Anglos as the most numerous ethnic group in the State.
    - In 2000, Hispanics represented 32% of the population (6.7 million), rising to 39% in 2010 (9.8 million), and 53% in 2040 (18.8 million).
  - The African-American and Anglo populations will grow, but their percentage of total population will decline.
    - By 2010, African-Americans will comprise 11.1% of the total population, Anglos 45.6%, down from 11.6% and 53.9% in 2000, respectively.

Demographic Trends

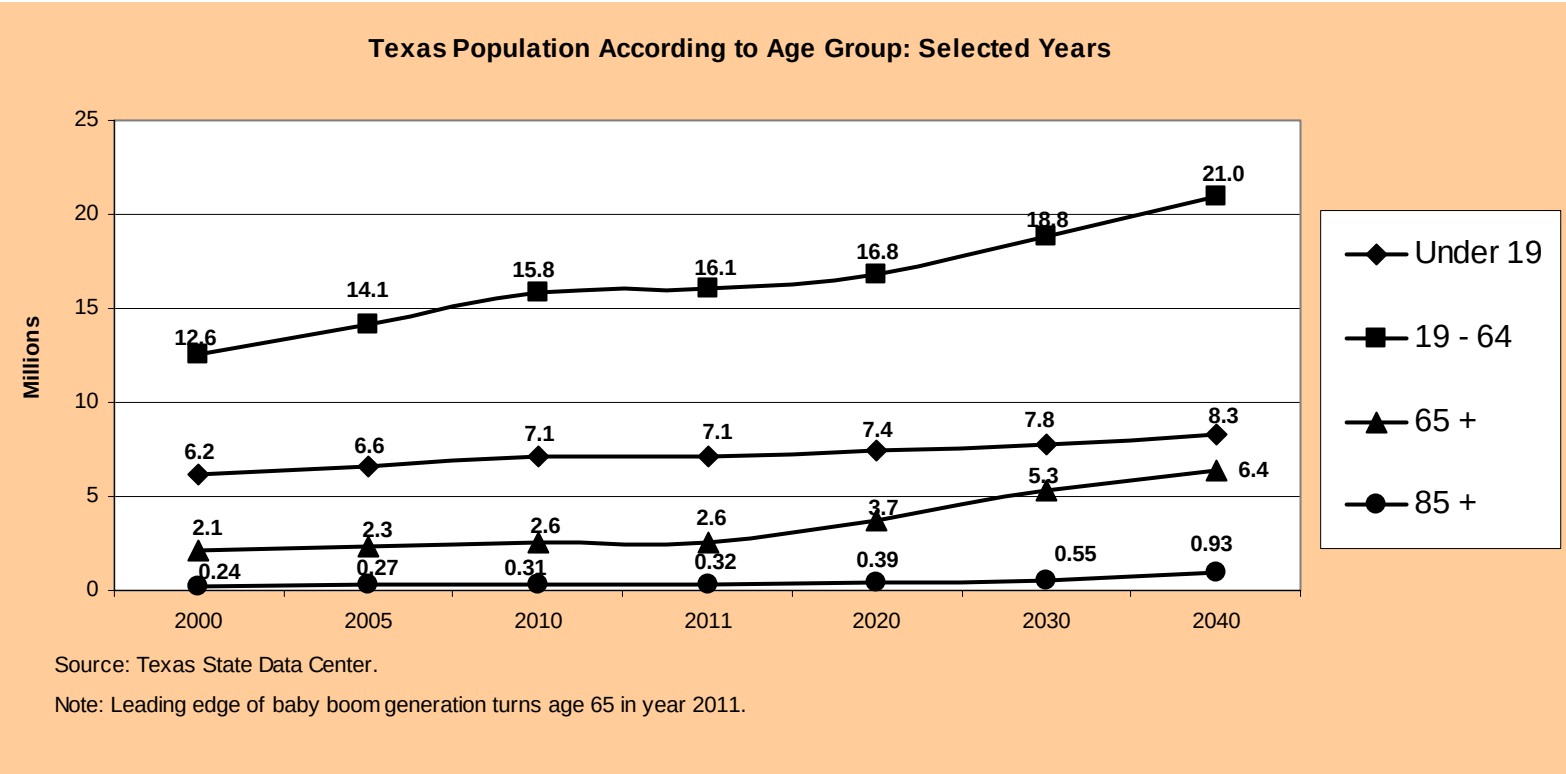


Source: Texas State Data Center.

Demographic Trends

- Trends in Age Group Composition
  - Growth in population size is projected for the 3 major age groups (under 19, 19-64, and 65 and older).
    - During the 2000 to 2010 period, children under age 19 will grow 1.3% per year, ages 19-64 will grow by 2.3% per year, and the population age 65 and older will grow 2.2% per year, on average.
    - During the period 2010 to 2020, the population ages 65 and older will grow from 2.6 million to more than 3.7 million, on average about 3.7% per year. The leading edge of the baby boom generation turns 65 in 2011.

Demographic Trends



Source: Texas State Data Center.

Note: Leading edge of baby boom generation turns age 65 in year 2011.

Demographic / Social Trends Impacting Medicaid

- Long-standing socioeconomic trends along race/ethnic lines could potentially impact the demand for Medicaid services.
  - Working-age Hispanics age 18 – 64 have a lower rate of private health insurance coverage.
    - In 2002, 47% of working-age Hispanics had private coverage, compared to 79% of working-age Anglos.
- The percent of Hispanic children below poverty level is more than 4 times higher compared to Anglo children
  - 70% of Hispanic children (under 19) are below 200% of poverty, compared to 24% of Anglo children
  - Hispanic children also have lower rates of private insurance compared to Anglo children (36% vs 78%).

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Medicaid/CHIP Forecasting Methodology

Lisa Carruth, Director
System Forecasting

Forecasting Methodology

- HHSC performs Medicaid Acute Care and Vendor Drug forecasts, and will be conducting Long-term Care forecasts
  - Medicaid forecasts currently are conducted by HHSC, DHS (Long-term Care), and MHMR
- Medicaid Acute Care forecasts are disaggregated by Risk Group:
  - Children's and Medically Needy Risk Groups
  - Adult Risk Groups
  - Aged & Disabled Risk Groups

Forecasting Methodology

- Medicaid forecasts are statistical time-series models, that predict future caseloads by analyzing trends and seasonality in historical data
  - Long-term, consistent historical data is a necessary component of time-series modeling
  - Policy impacts can be added/subtracted in a time-series model
- Forecasts are conducted every three to four months, to maintain accuracy and currency
  - Forecasts are joint efforts of financial and program staff, reviewed by the Executive Commissioner.
  - An outside actuary reviews forecast models yearly

Forecasting Methodology: CHIP

- Children's Health Insurance Program (CHIP) forecasts are based on past caseloads and the proportional flow of eligible children through the system
  - Not enough long-term, consistent data is available for CHIP to be forecast as a time series model.
  - CHIP forecasts are broken down by GR (General Revenue) Groups and Federal Poverty Level Categories
    - GR Groups include those Federally Funded, Immigrants, and Children of Teachers

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Medicaid/CHIP Forecasting Methodology

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Medicaid Spring 2004 Forecast

	Medicaid Acute Care		Medicaid Vendor Drug	
	Recipient Months *(average monthly)*	$ per Recipient Month	Total Prescriptions	$ per Prescription
2004	2,668,374	$184.86	36,949,047	$60.05
2005	2,876,541	$179.08	39,646,427	$64.21

FY 2004 includes a 2.5% rate reduction; FY 2005 includes a 5% rate reduction

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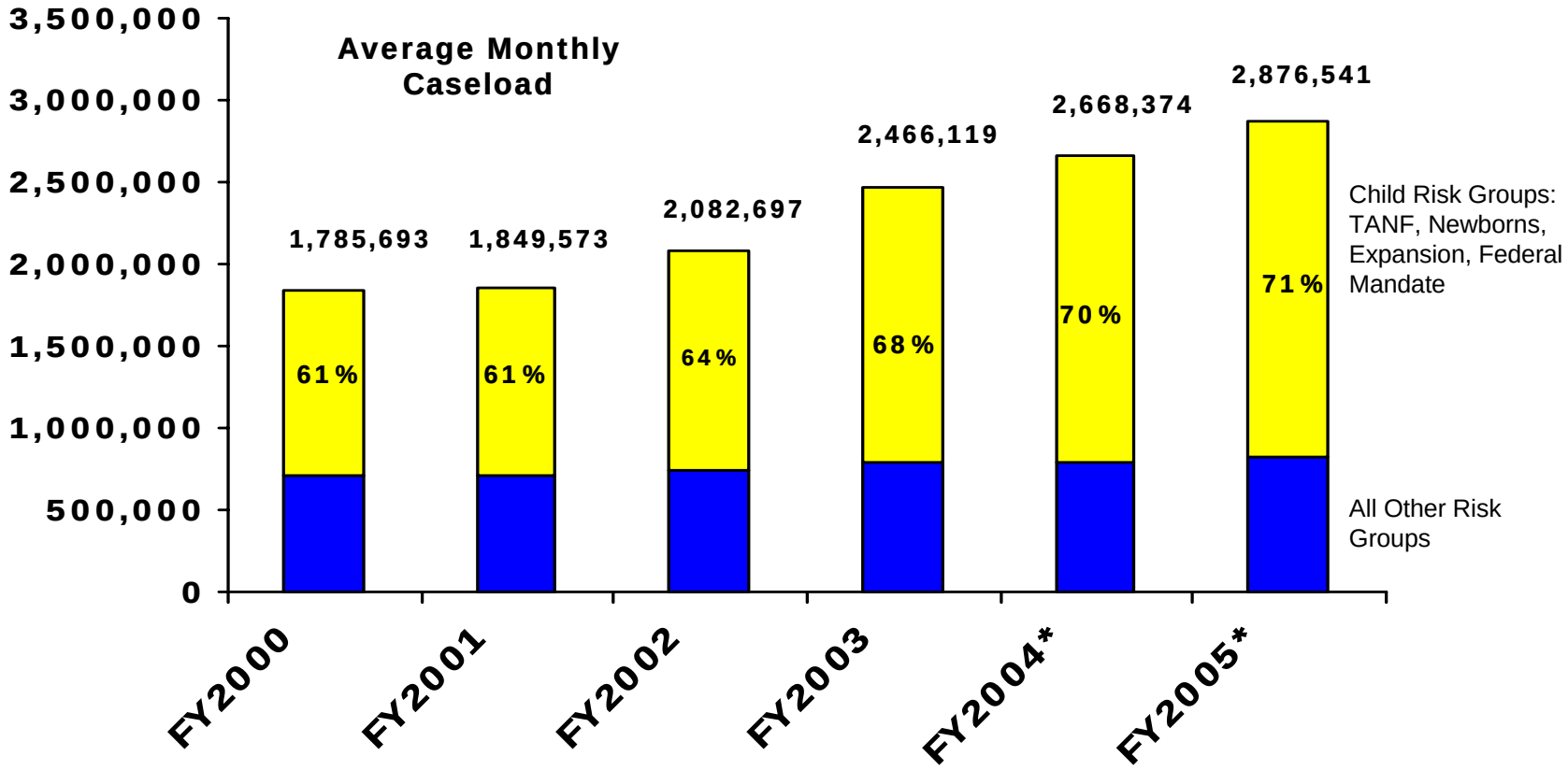
Medicaid Caseload and Cost Trends

Medicaid caseload forecasted to grow 61% from FY 2000 to FY 2005

	Caseload (Recipient Months)	Caseload Trend	Cost per Recipient Month	Cost Trend
FY 2000	1,785,693	-1.5%	$174.40	0.8%
FY 2001	1,849,573	3.6%	$185.59	7.0%
FY 2002	2,082,697	12.6%	$ 190.96	2.3%
FY 2003	2,466,119	18.4%	$194.41	1.8%
FY 2004	2,668,374	8.2%	$184.86	-4.9%
FY 2005	2,876,541	7.8%	$179.08	-3.1%

Growth in Medicaid Child Risk Groups



** Projected Caseload for FY2004 and FY2005*

Medicaid Vendor Drug Utilization and Cost Trends

	FY2001	FY2002	FY2003	FY2004	FY2005
Aged, Blind, & Disabled					
Nursing Home - UNLIMITED					
Rx	5,366,333	5,539,951	5,876,560	5,935,689	6,239,206
Cost/Rx	$ 46.2	$ 50.0	$ 54.3	$ 59.3	$ 64.6
Rx/RM	6.33	6.6	7.01	7.1	7.51
Own Home - UNLIMITED					
Rx	2,016,105	2,180,230	2,495,887	2,554,848	2,688,001
Cost/Rx	$ 53.6	$ 57.7	$ 63.1	$ 69.8	$ 77.0
Rx/RM	5.71	5.84	6.07	6.27	6.5
Own Home - LIMITED					
Rx	8,287,666	8,678,347	9,917,160	10,291,210	10,965,993
Cost/Rx	$ 74.1	$ 81.7	$ 90.4	$ 99.4	$ 111.0
Rx/RM	1.66	1.69	1.73	1.85	1.91
All Other					
Rx	11,814,927	13,362,525	16,307,239	17,912,332	19,468,326
Cost/Rx	$ 28.9	$ 31.9	$ 35.8	$ 39.6	$ 44.2
Rx/RM	0.74	0.71	0.7	0.7	0.7
Total*					
Rx	27,706,197	29,946,750	34,097,754	36,949,047	39,646,427
*Cost/Rx**	$ 47.7	$ 51.7	$ 55.8	$ 61.6	$ 68.2
Rx/RM	1.23	1.19	1.14	1.14	1.14

Average cost of prescriptions increases 43% from FY 2001 to FY 2005

- This increase does not include cost savings (PDL Market Shift)
- Average cost per Rx increases 30% (instead of 43%) when savings are considered

Average cost per Rx increased 20% from FY 2001 to FY 2003

Medicaid Vendor Drug Historical Trends

	Prescriptions	Trend	Cost per Prescription	Cost Trend
FY 2000	26,245,401	4.2%	$42.79	13.7%
FY 2001	27,706,197	5.6%	$47.68	11.4%
FY 2002	29,946,750	8.1%	$51.65	8.3%
FY 2003	34,097,754	13.9%	$55.77	8.0%
FY 2004	36,949,047	8.4%	$60.05	7.7%
FY 2005	39,646,427	7.3%	$64.21	6.9%
FY2004 and FY2005 Cost per Prescription and Trends, with State Supplemental Rebate Removed from Total Cost				
		FY2004	*$59.18*	*6.1%*
		FY2005	*$62.32*	*5.3%*

**Cost per prescription is adjusted for savings (PDL, Reimbursement change, 2.5% Fee Reduction) in FY 2004 and FY 2005. The last two rows show cost per prescription with the state supplemental rebate from the PDL removed from cost. Federal rebates have not been removed from cost.*

CHIP Spring 2004 Forecast

	Spring 2004 Forecast	
	Average Monthly Clients	$ per Client
2004	406,760	$96.12
2005	345,380	$97.29

FY 2004 and FY2005 General Revenue Medicaid, Vendor Drug, and CHIP Costs

	HB1 Adj* *(millions)*	Current Cost *(millions)*	Adjustments *(millions)*	Current Cost, with Adjustments *(millions)*	Variance *(millions)*	HB1 Adj* *(millions)*	Current Cost *(millions)*	Adjustments *(millions)*	Current Cost, with Adjustments *(millions)*	Variance *(millions)*	Variance *(millions)*
Medicaid	$ 2,906.1	$ 2,978.3	$ (91.2)	$ 2,887.1	$ 19.0	$ 3,023.7	$ 3,096.2	$ 81.9	$ 3,178.1	$ (154.4)	$ (135.4)
Medicaid Drug	$ 698.8	$ 834.7	$ (4.3)	$ 830.4	$ (131.6)	$ 716.2	$ 997.4	$ (0.6)	$ 996.8	$ (280.6)	$ (412.2)
Total Medicaid	$ 3,604.9	$ 3,813.0	$ (95.5)	$ 3,717.5	$ (112.6)	$ 3,739.9	$ 4,093.6	$ 81.3	$ 4,174.9	$ (435.0)	$ (547.6)
CHIP	$ 152.3	$ 172.8	--	$ 172.8	$ (20.5)	$ 127.9	$ 160.3	--	$ 160.3	$ (32.4)	$ (52.9)
										Total	$ (600.5)

** Numbers include TDH Programs. Adjustments that reduce projected variance in FY2004 include fiscal agent accounting savings of $29.5 million, using Trust Fund balances of $76.1 million, additional premium credits of $37.3 million, and applying FY2003 balances of Enhanced FMAP of $75.2 million. FY2004/2005 CHIP variance assumes approval of Federal Cost Sharing Waiver. The biennial variance without waiver in FY2004 is $622.3 million.*

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Medicaid Cost Containment Initiatives

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Vendor Drug Initiatives

- 34 day supply, if cost effective
- 4 brand name limit, if cost effective
- Medicaid/CHIP Preferred Drug List (PDL)
- Pharmacy Benefits Manager (PBM) Procurement

4-Brand Name and 34-Day Supply Limits

- House Bill 2292 directs HHSC to implement 4-brand name or 34-day supply limits if cost effective
  - HHSC is working with the University of Texas Center for Pharmacoeconomics to determine cost effectiveness.
  - Will evaluate 4-brand and 34-day supply limits in context of current Vendor Drug initiatives and Texas' generic utilization rate.

Medicaid/CHIP Preferred Drug List (PDL)

- House Bill 2292 required HHSC to establish a preferred drug list for Medicaid/CHIP.
  - Pharmaceutical companies are required to offer a supplemental rebate or a program benefit proposal to be considered for the PDL.
  - The Governor-appointed Pharmacy and Therapeutics Committee (P&T) considers three factors when reviewing drugs: clinical efficacy, safety, and cost effectiveness.
  - Non-preferred drugs require prior authorization.

Pharmaceutical and Therapeutics Committee

- Has reviewed drug classes representing 70% of Medicaid drug spend.
- Will make recommendations for the CHIP PDL in August.
- Begins its annual re-review of initial drug classes in November.

Medicaid/CHIP PDL: Prior Authorization

- For non-preferred drugs, prescribers request prior authorization via the Texas Prior Authorization Call Center: 1-877-PA-Texas.
- An automated prior authorization system, SmartPA, also will be used at the pharmacy point of sale to determine if a patient meets the state's prior authorization criteria.
- Prior authorization has been rolled out monthly for certain drug classes since February 2004.

Medicaid/CHIP PDL: Savings Status

- Early data show that HHSC is on target for $150 million savings for the 2004-2005 biennium.
  - Prescribing patterns are shifting toward preferred products.
  - HHSC sent first quarter supplemental rebate bills to drug manufacturers in early June.

Pharmacy Benefits Manager (PBM) Procurement

- HHSC issued a Request for Proposals for Pharmacy Benefits Manager (PBM) services on June 7, 2004.
  - The RFP includes claims processing, rebate management, formulary and customer services functions currently performed by state staff.
  - Vendors may propose additional strategies to contain costs and improve quality.
  - Proposals due August 2nd.

Disease Management

- HB 727 requires HHSC to contract with vendor(s) to implement Disease Management in fee-for-service.
- Goals
  - Increase focus on preventive care
  - Increase compliance with physician guidelines
  - Decrease unnecessary hospital and outpatient services
- Status
  - On July 1, HHSC issued a tentative statewide, all-diseases award to McKesson Health Solutions, LLC.
  - The contract will focus on diabetes, coronary artery disease, congestive heart failure, asthma, and chronic obstructive pulmonary disease.

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Disease Management

- HB 1735 requires disease management in managed care.
- Goal
  - Build on existing health plans' case management programs
- Status
  - Focus on asthma as initial targeted disease
  - Review of current health plans' disease management activities
  - HMO procurement includes disease management program requirement