



TennCare Formulary Management Tools

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Objectives

- Examine formulary management tools employed to provide access to cost-effective drug therapy
- Discuss how plan design can be leveraged to improve value in prescription drug benefit management
- Understand the impact of formulary management on stakeholders

TennCare Snapshot

Program Overview

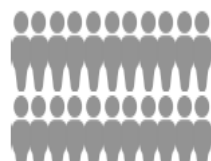
53%

TennCare pays for more than 50 percent of births in the state



TennCare Health Plans

BlueCare and TennCare Select
United Community HealthCare
AmeriGroup



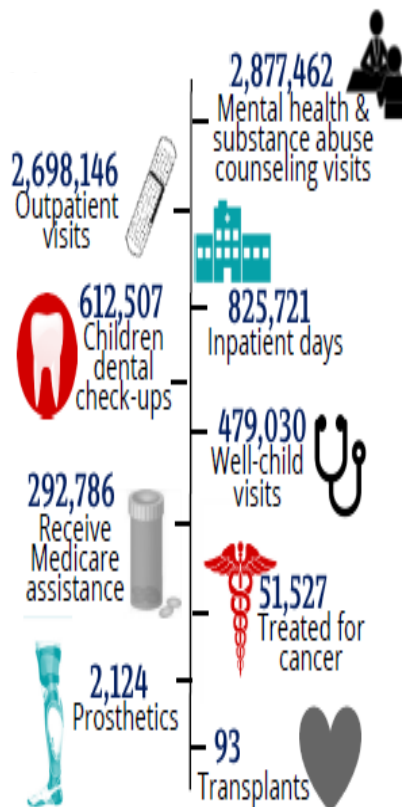
1,422,877

Approximately 1.4 million Tennesseans are enrolled in the TennCare program

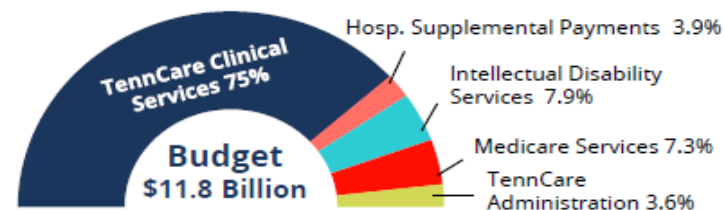
That's more than **20%** of the state's population

Figures updated Oct. 2017

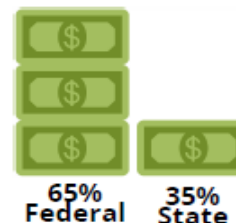
Utilization Overview



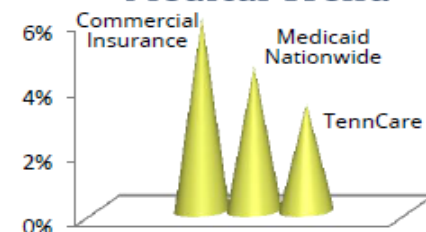
Finance Overview



Funding



Medical Trend



TN

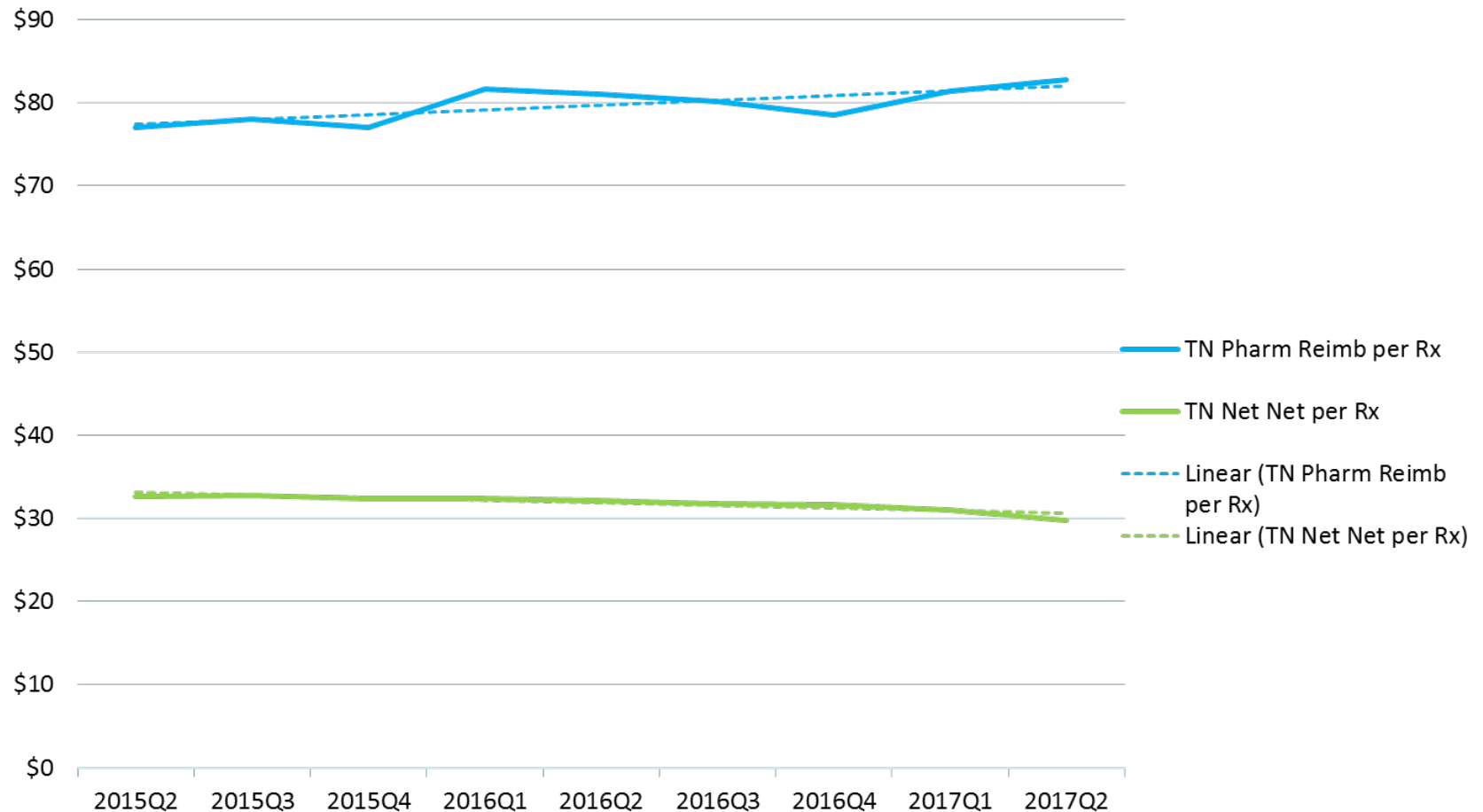
Division of
TennCare

TennCare Pharmacy Benefit Net Spend and Utilization

Utilization / Expenditure	2Q2016	2Q2017	FFS % Change Over Quarter	SFY16	SFY17	FFS % Change Over SFY
Net Spend	\$114,953,427	\$100,737,029	-12.4%	\$466,579,212	\$444,843,299	-4.7%
Total Paid Claims	3,577,983	3,381,162	-5.5%	14,383,746	14,335,375	-0.3%
Avg Members/Month	1,551,141	1,468,228	-5.3%	1,498,565	\$1,529,066	2.0%
Claims/Member /Month	0.77	0.77	-0.2%	0.80	0.78	-2.4%
Avg Utilizers / Month	416,262	385,395	-7.4%	417,081	413,735	-0.8%
% Users	26.84%	26.25%	-2.2%	27.84%	27.05%	-2.8%
Claims / Utilizer / Month	2.87	2.92	2.1%	2.87	2.89	0.5%

Magellan Rx. TennCare Financial Trend Analysis: Q2 2016 to Q2 2017. 2017

Pharmacy Reimbursement vs Net Spend/Rx



Magellan Rx. TennCare Financial Trend Analysis: Q2 2016 to Q2 2017. 2017

TennCare Pharmacy

Preferred Drug List

- The Preferred Drug List (PDL)-list of out-patient formulary drug therapies classified as Preferred and Non-Preferred based on efficacy, safety, and cost effectiveness.
- The list is determined by the State, taking into account recommendations from the TennCare Pharmacy Advisory Committee.
- Created as an effort to promote clinically appropriate utilization of pharmaceuticals in a cost-effective manner.

Pharmacy Advisory Committee

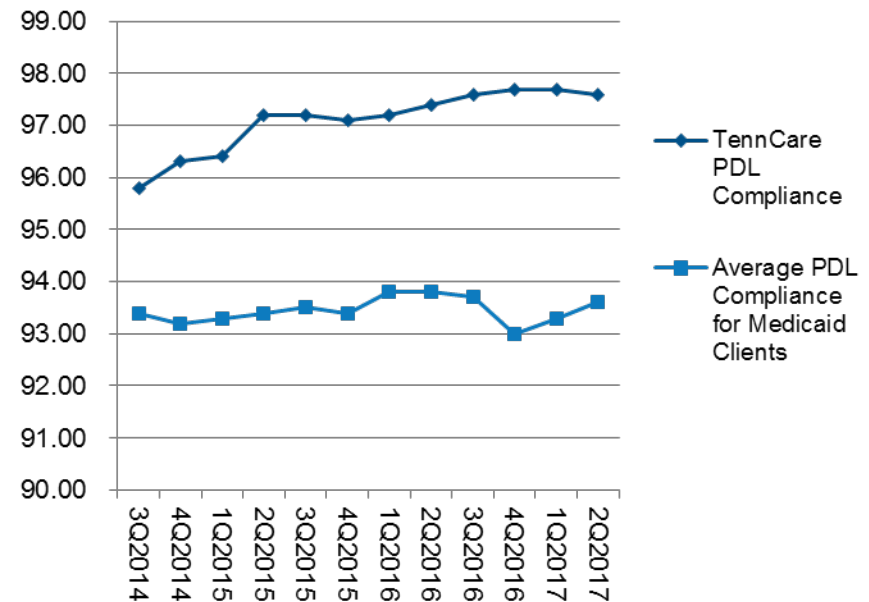
- Consists of healthcare professionals including doctors, pharmacists, a nurse practitioner or physician assistant, and a patient health advocate
- Purpose:
 - Weigh the benefits and risks of prescription therapy and advises the State on the clinical utility and safety of various products.
 - They also make recommendations on the PDL status of drugs and whether any clinical criteria is needed.

TennCare Preferred Drug List Compliance

PDL Compliance Report Executive Summary

Quarter	TennCare PDL Compliance	Average PDL Compliance for Medicaid Clients
3Q2014	95.80	93.40
4Q2014	96.30	93.20
1Q2015	96.40	93.30
2Q2015	97.20	93.40
3Q2015	97.20	93.50
4Q2015	97.10	93.40
1Q2016	97.20	93.80
2Q2016	97.40	93.80
3Q2016	97.60	93.70
4Q2016	97.70	93.00
1Q2017	97.70	93.30
2Q2017	97.60	93.60

FFS PDL Compliance



Magellan Rx. TennCare Financial Trend Analysis: Q2 2016 to Q2 2017. 2017

Criteria for the PDL

- Preferred and Non-Preferred drugs on the PDL may be subject to various criteria that must be met before the medication can be obtained.
 - **Clinical Criteria:** clinical requirements or diagnoses that must be met in order to receive the drug.
 - **Quantity Limits:** maximum amounts or strengths of a drug that cannot be exceeded without prior authorization
 - **Step Therapy:** criteria that require the member to try and fail a “first line” medication before they can be approved for a “second line” (usually more costly) therapy.

Medical Necessity Criteria

- Must satisfy all of the following:
 - Recommended by licensed treating physician or healthcare provider practicing within scope of practice
 - Required in order to diagnose or treat a medical condition;
 - Safe and effective;
 - Not be experimental or investigational; and
 - Be the least costly alternative course of diagnosis or treatment that is adequate for the condition

Future Tools and Resources?

- Pharmacy Benefit and Federal Regulations
- Tracking current CMS proposals

States should be permitted the flexibility to exclude drugs until market prices are consistent with reasonable fiscal administration and sufficient data exists regarding the cost effectiveness of the drug, without losing the Medicaid Drug Rebate.

- Arizona letter to CMS
(November 17, 2017)

Future Tools and Resources

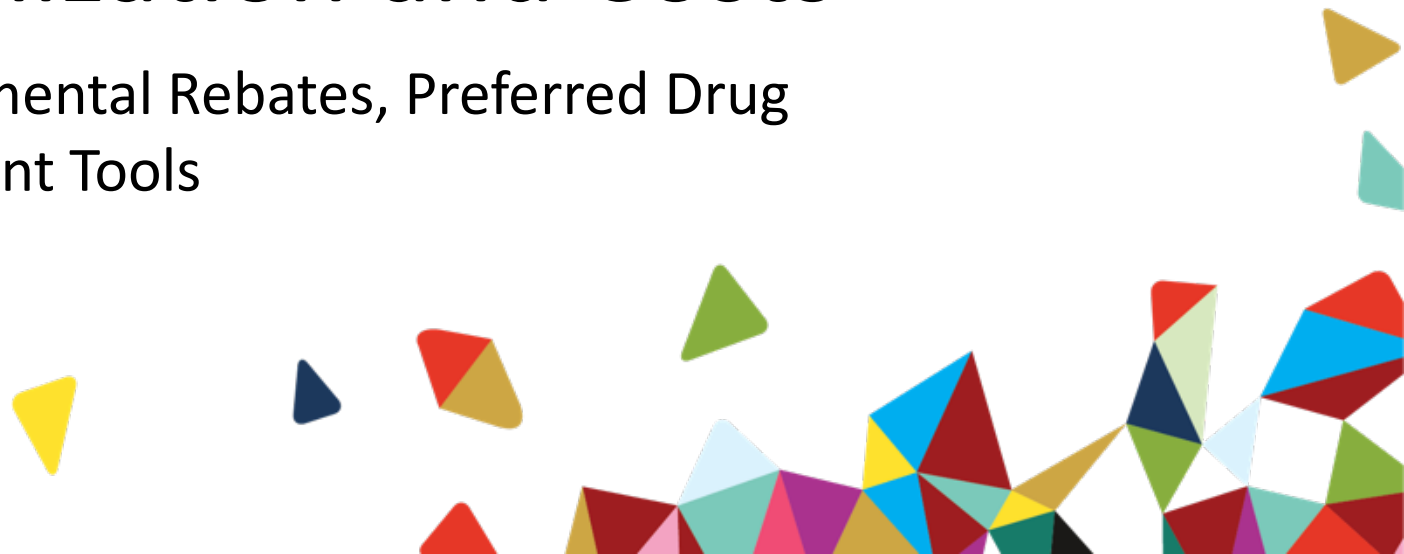
- Value-based purchasing
- Closed formulary model
- Data sharing and analysis
- Resources and support



State Levers for Managing Medicaid Prescription Drug Utilization and Costs

Connecting the Dots between Supplemental Rebates, Preferred Drug
Lists, and Other Utilization Management Tools

Douglas Brown, RPh, MBA



Magellan Health: One company, two unique platforms



Focused on Complex Populations, Delivering Differentiated Services

- State Medicaid programs and integrated management for special populations, including individuals with serious mental illness and those needing long-term services and supports
- Behavioral health management and employee assistance programs
- Specialty healthcare management, including musculoskeletal, cardiac and advanced imaging

25.7 million
commercial
behavioral lives

25.2 million
commercial
specialty lives

5.1 million
lives in
government
programs



Offices in 27
states & D.C.



Full-Service PBM Focused on High-Growth Specialty Spend

- Full-service Pharmacy Benefit Manager (PBM) that expands beyond traditional core services
- Value-driven solutions: targeted clinical and powerful engagement strategies, advanced analytics, leading-edge specialty pharmacy programs
- More than 40 years of Medicaid and more than 30 years of self-funded employer experience
- Medicare Part D Prescription Drug Program

13.1 million
medical pharmacy
lives

1.9 million
commercial
PBM lives

27 states
& Washington, DC
in State Medicaid
PBA business



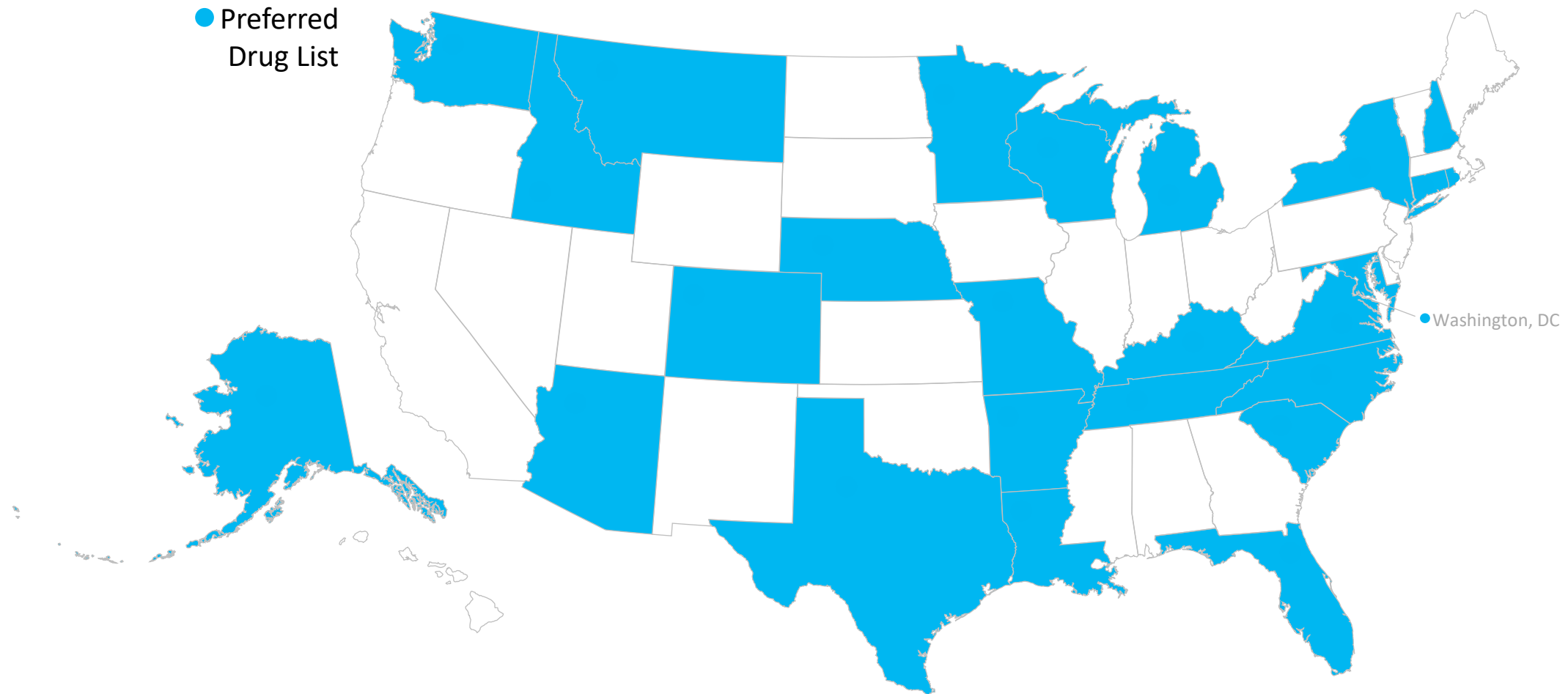
10,000
Total Employees

Overview

- Summary of Medicaid Drug Pricing
- Supplemental Rebates and Preferred Drug Lists (PDLs)
- Tools for State Medicaid Programs to Manage Prescription Drug Utilization and Costs
- Outcomes-based Contracting



Magellan Rx Management provides PDL management to 25 state Medicaid programs and D.C.

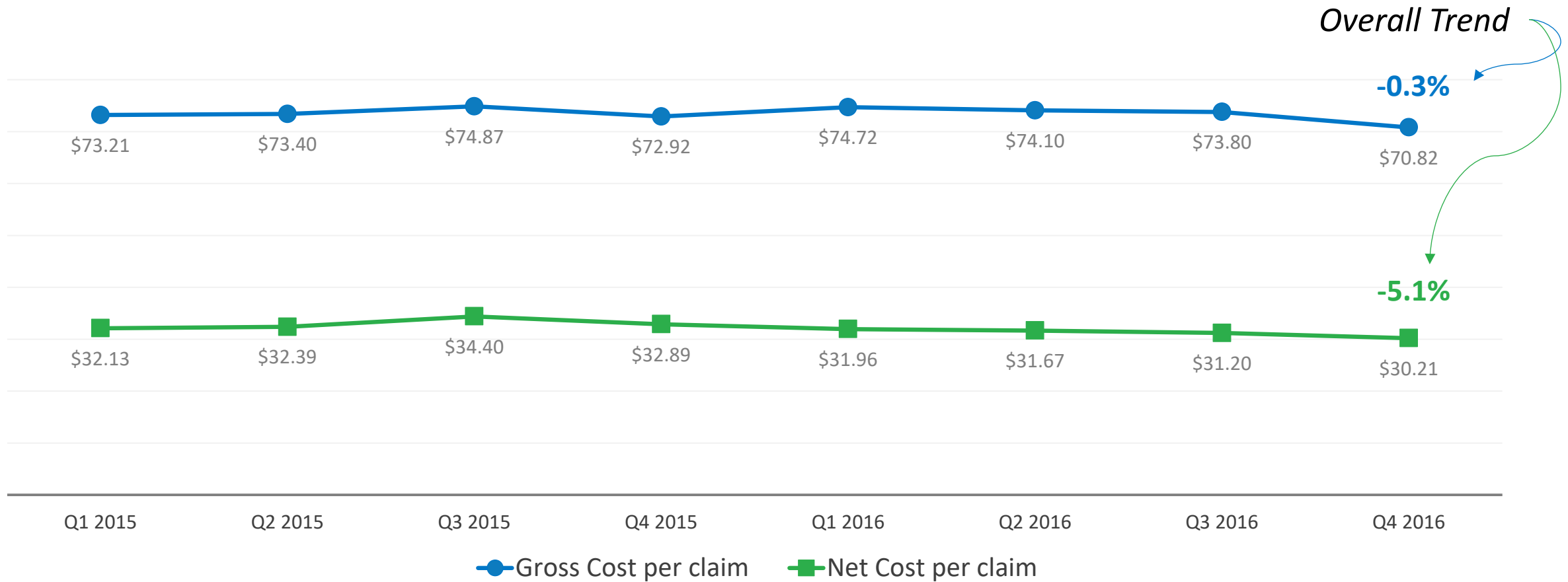


2016 Medicaid drug pricing

- Average federal rebate for Magellan state customers is 53 percent
- Supplemental rebates add an additional 3-6 percent on top of federal rebate, for total discounts ranging between 56 and 59 percent
- Net spend of traditional drugs was down 5.1 percent year-over-year (YOY) 2015-16
- Net spend of specialty drugs was up 20.5 percent YOY 2015-16
- Unique to the Medicaid program, some brands net of rebates are lower cost than their corresponding generics

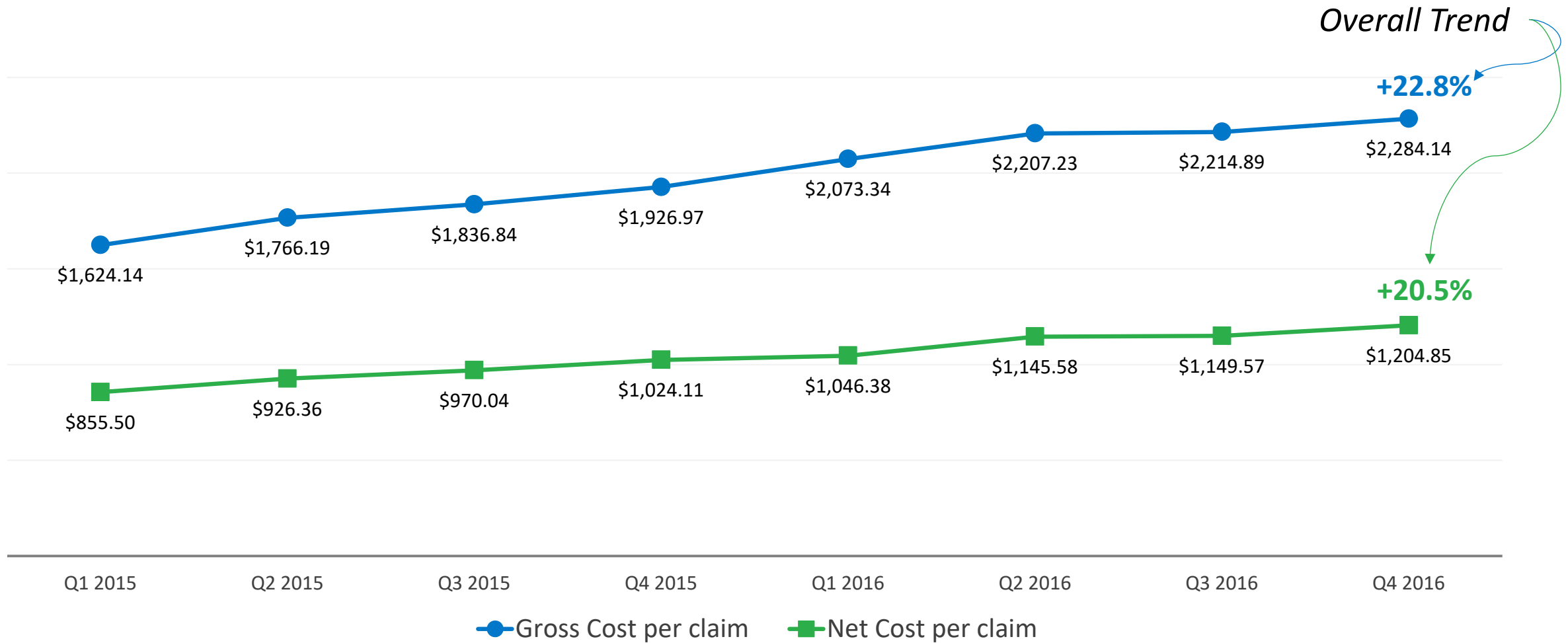
Source: Magellan Rx Management, *Medicaid Pharmacy Trend Report™* 2017 Second Edition (August 2017), <https://www1.magellanrx.com/media/671872/2017-mrx-medicaid-pharmacy-trend-report.pdf>.

2015-16 Medicaid drug trend: Traditional drugs



Source: Magellan Rx Management, *Medicaid Pharmacy Trend Report™* 2017 Second Edition (August 2017), <https://www1.magellanrx.com/media/671872/2017-mrx-medicaid-pharmacy-trend-report.pdf>.

2015-16 Medicaid drug trend: Specialty drugs



Source: Magellan Rx Management, *Medicaid Pharmacy Trend Report™* 2017 Second Edition (August 2017), <https://www1.magellanrx.com/media/671872/2017-mrx-medicaid-pharmacy-trend-report.pdf>.

Multi-state purchasing pools lower Medicaid drug costs

- Three multi-state purchasing pools spanning 29 states and the District of Columbia (D.C.)
 - NMPI (Magellan): 10 states and D.C.
 - TOP\$ (Magellan): Seven states
 - SSDC (Change Health Care): 12 states
- Small to mid-size states achieve buying power of large states through pool arrangements
- Operational overview
 - Programs contract on competitive drugs
 - Require manufacturers to bid multiple-positioned offer
- Requirement of member states and P&T Committees
 - States retain independent control of their PDL
 - Financial modeling is based on multiple bid positions
 - States, through their P&T committees, select drugs clinically and financially supportive of their Medicaid populations
- Supplemental rebates are one part of a comprehensive strategy to manage Medicaid drug costs
 - Other tools include clinical and financial levers
 - Optimally, the goal for regulators is to manage to the lowest net cost

Tools to manage prescription drug utilization and costs differ between Medicaid and other healthcare payers

Medicaid

- PDL
- Clinical levers
 - Prior authorization and clinical criteria
 - Utilization management
- Financial levers
 - Supplemental rebate contracting
 - Maximum Allowable Cost (MAC, for generics) management

Other Payers

Employer-sponsored insurance and other private healthcare payers have the same tools available to Medicaid, plus:

- Copay differentials (e.g., \$15, \$30 and \$65, or percent of total cost)
- Tiered formulary
- Drugs excluded from plan coverage
- Channel optimization
 - Preferred retail network
 - Preferred specialty network
 - Mail-order pharmacy for deeper discounts (versus retail pharmacy)

Outcomes-based contracting: where does it fit?

- No outcomes-based contracts for Medicaid fee-for-service drugs—yet
 - Template agreement pending approval at CMS
 - Manufacturer negotiations are progressing based on template agreement
- Hurdles
 - CMS approval of template, Medicaid Best Price, and off-label contracting (i.e., the outcome to be measured was not part of the FDA-approval process)
- Opportunities
 - In addition to existing high-cost drugs, new-to-market drugs can be measured against FDA approval criteria
- States may use a combination of both supplemental rebate and outcomes-based contracting to achieve optimal overall cost savings for their Medicaid programs

Medicaid Coverage Policies for Prescription Drugs

December 2017

CMCS Division of Pharmacy

- Priorities
 - Administer Medicaid Drug Rebate Program
 - Implement new Covered Outpatient Drug Regulation
 - Work with states on Medicaid drug coverage and SPA reimbursement policies
 - Administer NADAC and FULs files
 - Work with states on DUR Programs/comparison report
 - Develop cross agency drug policies (i.e. Medicare, HRSA, SAMHSA)
 - Work with states and DMCP on Medicaid MCO drug coverage policies

Medicaid Drug Program – General Overview

- Prescription drugs are an optional benefit under the Medicaid program, but all states have elected to cover drugs.
- Medicaid doesn't buy drugs; it pays for drugs purchased by providers, primarily independent and chain pharmacies, and administered by physicians.
- Medicaid reviews state payment parameters (i.e., reimbursement, coverage) for drugs dispensed under FFS Medicaid but not under Medicaid managed care plans.
- The Medicaid Drug Rebate Program (MDRP), which involves CMS, State Medicaid Agencies, and participating drug manufacturers, helps to offset the federal and state costs of most outpatient prescription drugs dispensed to Medicaid patients.

Medicaid Drug Rebate Program (MDRP)

- Manufacturers pay rebates to states each quarter. Rebates are based on Average Manufacturer Price (AMP) and/or Best Price.
 - Manufacturers send the data to CMS at the end of each quarter and CMS sends a Unit Rebate Amount (URA) to the states for each drug.
- Approximately 650 drug manufacturers currently participate in this program. All fifty States and the District of Columbia cover prescription drugs under the MDRP.
- The MDRP has been operating for 26 years, since January 1, 1991, and has brought in approximately \$37.5 billion in rebates and offsets in FY16 and \$26.7 billion in FY15 for the federal and state government.

Medicaid Drug Program: Managed Care Organizations (MCO)

- All outpatient drugs are covered when manufacturers of such drugs participate in Medicaid rebate program.
 - MCO Preferred Drug Lists (PDL) may differ from FFS Medicaid, but a state may require that they align.
- Amount, duration, and scope of coverage must be same as FFS, and medical necessity criteria cannot be any more strict.
- If the managed care plan's PDL does not include a covered outpatient drug that is otherwise covered by the state plan, access to the covered outpatient drug must be made available via prior authorization requirements at 1927(d)(5) of the Act.

Pharmacy Sections of Medicaid Managed Care Regulation

- MCO Contracts with States must include:
 - Requirement that MCOs report drug utilization to states no more than 45 days after the end of the calendar quarter for rebate billing purposes;
 - Mechanism to prevent duplicate discounts in 340B program;
 - Make Medicaid MCO Drug Utilization Review (DUR) programs consistent with Medicaid FFS DUR programs such that drugs are appropriate, medically necessary and not likely to result in adverse events;
 - Report MCO DUR activities to state each year, which will be reported to CMS and published in annual CMS DUR Comparison Report; and
 - Provide a response to a PA request within 24 hours and provide a 72 hour emergency supply of medication.

Value-Based Purchasing

- **Manufacturer Release #99** and **State Release #176** issued on July 14, 2016 – Provided guidance on Value Based Purchase Arrangement and the impact on Medicaid. Informs manufacturers on how to seek guidance from CMS on specific value based purchasing (VBP) arrangement, as well as encourage states to consider entering into VBP arrangements as a means to address, as well as offset, Medicaid's high cost drug treatments.
- **Prescription Drug Models**

CMS wants to test new models for prescription drug payment, in both Medicare Part B and Part D and State Medicaid programs that incentivize better health outcomes for beneficiaries at lower costs and align payments with value. Models that better align incentives and engage beneficiaries as consumers of their care can continue to improve patient outcomes while controlling drug costs. Models that contemplate novel arrangements between plans, manufacturers, and stakeholders across the supply chain, including, but not limited to innovative value based purchasing arrangements, and models that would increase drug pricing competition while protecting beneficiaries' access to drugs are of particular interest.

 - September 19, 2017