



Strategic Health Policy & Care Coordination Consulting

# **Assessment of Medicaid MCO Preferred Drug Policy Options in Louisiana**

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Prepared for: Louisiana Association of Health Plans

Menges Group Consulting Team:  
Joel Menges  
Amira Mouna  
Nick Pantaleo

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## **I. Executive Summary and Introduction**

### **A. Overview**

Louisiana's Medicaid MCOs paid for approximately 90% of the state's Medicaid prescriptions as of September 2015. Louisiana has achieved significant Medicaid prescription drug savings by allowing its managed care organizations (MCOs) to utilize an MCO-derived preferred drug list (PDL) in designated therapeutic classes that collectively represent more than 60% of Medicaid's prescription volume. Legislation has been proposed to take the PDL content responsibility away from the MCOs and shift it to a single state-administered and state-determined PDL. The Louisiana Association of Health plans has engaged The Menges Group to assess the fiscal impacts of this potential policy change.

### **B. Key Findings**

The most significant findings from our analyses are summarized below.

**1. A change to a uniform, State-administered PDL would be costly to Louisiana's Medicaid program and its taxpayers.**

- The PDL responsibility should not be transitioned back to the State. This would represent a significant and costly step backwards for the Bayou Health program. We estimate that by transitioning to a state-operated PDL, Louisiana would experience an overall net annual Medicaid cost increase of approximately \$40 million, representing an added State Funds cost of nearly \$15 million.
- Across the four year timeframe 2017-2020, the additional net Medicaid costs would total \$165 million, of which \$62 million would be required in additional State Funds.

**2. National tabulations of each state's Medicaid prescriptions demonstrates importance of focusing on drug mix rather than rebates.**

- States that control the Medicaid PDL entirely are not performing well in terms of net cost per prescription. These states tend to pay more for prescriptions up-front (e.g., with greater use of brand products), and then seek to recoup that adverse cost differential through accessing relatively large rebates. Our analyses demonstrate that the states that are faring best with net (post-rebate) costs are predominantly those that have the highest generic dispensing rates and lowest initial (pre-rebate) costs. During FFY2014, the average net cost per prescription among the 17 states comprising the "top third" in terms of rebates per Medicaid prescription, \$43.09, was 32% *above* the corresponding average net cost of the 17 states that had the most favorable generic dispensing rate (\$32.72).

- The above two groups of 17 states had no overlap – states need to choose whether to focus on achieving an optimal drug mix or on rebate maximization. The two approaches conflict with one another, and the focus on optimal drug mix has been resoundingly shown to yield superior net cost outcomes.

**3. Therapeutic class level analyses further demonstrate the Bayou Health MCOs' capability to successfully manage pharmacy costs.**

- Across the 20 therapeutic classes with Louisiana's largest Medicaid prescription volume, the MCO setting delivered pre-rebate costs 29% below Louisiana's Medicaid FFS results.
- A related finding across these 20 therapeutic classes was the Bayou Health MCOs achieved a generic dispensing rate of 81%, six percentage points above Louisiana's performance in the Medicaid FFS setting in these same drug classes (75%).

**4. The programmatic advantages of using a State-administered PDL are modest at best.**

- Programmatically, the key argument typically made in favor of a uniform, state-administered PDL is ease of administration for prescribing physicians and pharmacists. However, Medicaid pays for only approximately 15% of population-wide prescriptions, and creating "uniformity" with the Medicaid PDL does not change the number of PDLs that are in use for other managed care plans (such as commercial or Medicare Part D) which pay for 85% of all prescriptions. Medicare Part D and private insurance have no path to PDL uniformity. Thus, the prescriber and pharmacy community will need to work with several dozen PDLs regardless of what the Bayou Health program does.
- In addition, the organizations serving Medicaid often serve other Louisiana populations, such as Aetna and United Healthcare. Creating different PDLs for different members of the same health insurance organization can confuse the provider community rather than simplify their administrative burden.
- In the other direction, the Bayou Health MCOs are able to create and nimbly modify PDLs. Their acumen in this arena, which is documented in this report, would be forfeited under the proposed policy change. Any efforts made by the State to "take back" from the MCOs management of the PDL runs directly counter to the entire concept of Bayou Health – which enlists the health plans to coordinate care effectively using their own unique skill sets and creating competition in the Medicaid marketplace. The prescription drug benefit has been singled out in the policymaking arena in an odd way with the uniform PDL proposal. For example, no parallel "initiatives" are being considered in any state to create uniform prior authorization requirements across the Medicaid MCOs for diagnostic tests or inpatient care.

## C. Summary of Approach

Our assessment of Louisiana's Medicaid prescription drug costs has two major components:

- a) Statewide Cost Per Prescription: Data were available that allowed for an accurate comparison between Louisiana's average costs per Medicaid prescription on a net (post-rebate) basis and every other state. These analyses are presented in Section II. We are also able to quantify the degree to which a drug mix focus (e.g., extensive use of generics) versus a rebate-focused strategy is yielding the most favorable net costs within state Medicaid programs. PDL latitude is needed in Louisiana to optimize the use of generic medications. Louisiana is now achieving favorable net costs per prescription in the pharmacy benefit (with the 19<sup>th</sup> lowest costs in the nation in Federal Fiscal Year 2015) but still has some opportunity for improvement with generics. Louisiana ranked 28<sup>th</sup> among states in its use of generics as a percentage of all Medicaid prescriptions during FFY2015, although by the last fiscal quarter of FFY2015 this ranking had improved to 17<sup>th</sup>.
- b) Therapeutic Class Assessments: Data were tabulated in Section III at the therapeutic class level to permit a more detailed assessment of where Louisiana is achieving its currently favorable net costs per prescription.

## **II. Aggregate Cost Per Prescription Analyses**

### **A. Analytical Approach and Data Sources**

The cost per prescription for every state's Medicaid program was assessed for federal fiscal years (FFY) 2013-2015, on both a pre-rebate and a post-rebate basis. This statistic was derived for the entirety of each state's Medicaid population with the exception of dual eligibles, for whom Medicare Part D serves as the primary payer for prescriptions. CMS publishes the State Drug Utilization Files, quarterly data by national drug code (NDC) for each state and for every Medicaid prescription. This source conveys the volume of prescriptions and the corresponding Medicaid amount paid. The data rows include an indicator for drugs paid in the fee-for-service setting and those paid by managed care organizations (MCOs). A separate CMS data source, the CMS 64 Reports, captures the Medicaid prescription drug rebates each state receives in each federal fiscal year. The reported rebates include both the ACA's statutory rebates as well as any supplemental rebates the state and its MCOs negotiate with drug manufacturers. Together, these two data sources allow for tabulating each state's Medicaid initial (pre-rebate) costs per prescription, rebates per prescription, and the net (post-rebate) cost per prescription.

The net cost per prescription statistic serves as a useful measure of how cost-effectively the pharmacy benefit is being managed within each state's Medicaid program by reflecting the mix of medications being filled.<sup>1</sup> This is important because within a given health condition there can be significant price variations between many different clinically effective drugs. This statistic also captures all statutory rebates required for each drug, as well as the outcomes of states' and Medicaid MCOs' efforts to negotiate supplemental rebates from drug manufacturers.

### **B. Summary of Findings**

In FFY2015, Louisiana had the 19<sup>th</sup> lowest net Medicaid cost per prescription in the country, with its cost slightly below the nationwide average. Louisiana's statistics and national ranking on a variety of measures are shown in Exhibit 1.

While Louisiana performed in the "middle of the pack" during 2013 and 2014 in terms of net Medicaid costs per prescription, the state vaulted from 31<sup>st</sup> to 19<sup>th</sup> from FFY2014 to FFY2015 in terms of net costs per prescription.

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<sup>1</sup> Given that multiple medications are often clinically effective, but that these alternative drugs often have significantly different costs, managing the "mix of medications" successfully involves steering volume towards the lowest-cost, clinically effective product through the preferred drug list (PDL) and related utilization management processes. This includes using generics in lieu of brands where appropriate, but also includes using relatively low-cost brands (when a brand drug is most cost-effective) and relatively low-cost generics (when a generic drug is most cost-effective).

**Exhibit 1. Medicaid Prescription Drug Statistical Overview, Louisiana & USA, FFY 2013-2015**

Net Post-Rebate Cost Per Prescription					% of Prescriptions Paid by Medicaid MCOs	
Federal Fiscal Year	Louisiana	USA	LA % of USA	Louisiana Rank Among All State (plus District of Columbia)	Louisiana	USA
2013	\$33.46	\$33.40	100.2%	24th lowest	40.4%	52.2%
2014	\$40.46	\$37.37	108.3%	31st lowest	42.8%	55.2%
2015	\$38.50	\$41.00	93.9%	19th lowest	63.8%	62.5%
July-Sep 2015*	\$36.84	\$45.91	80.2%	not available	89.5%	63.7%

\* Assumes same average percentage rebate as for full fiscal year

Louisiana's net costs per Medicaid prescription decreased by \$3.62 (or 9.0%) from the FFY 2014 average to the most recent available quarter (July – September of 2015). Nationwide during these same timeframes, average net Medicaid costs per prescription *increased* by \$8.54 (or 22.8%). We would attribute Louisiana's enormous recent achievement to the transition of the Medicaid population into the Bayou Health MCOs. These health plans paid for 89.5% of Medicaid's prescriptions during the months of July-September 2015. This marked more than a doubling of MCO-paid prescription volume during FFY 2015 -- at the beginning of the fiscal year, Bayou Health enrollment was much smaller and the MCOs collectively paid for 42% of statewide Medicaid prescriptions.

The MCOs were required in the new contract effective February 2015 to implement an unusual PDL arrangement in Louisiana, whereby they needed to collaboratively develop a single PDL for several key therapeutic classes, which all the health plans would utilize across their Bayou Health enrollees. The plans developed this over the six month period as required in the contract with implementation in October 2015.

The recent performance of Louisiana's Medicaid MCOs demonstrates the health plans' ability to manage the PDL effectively, notwithstanding their being required to do so in a uniform and collaborative manner that differs from their typical individual operational pharmacy benefits management processes.

Louisiana lowered its net Medicaid costs per prescription in FFY 2015 primarily by managing the mix of medications at the front end, as evidenced in Exhibit 2. Louisiana's initial payments to pharmacies, pre-rebate, were 11<sup>th</sup> lowest in the nation during FFY 2015. As of the most recent quarter available, Louisiana's initial payments to pharmacies per Medicaid prescription were 25.2% below the USA average.

**Exhibit 2. Initial (Pre-Rebate) Costs Per Medicaid Prescription, Louisiana and USA, 2013-2015**

<b>Initial Cost Per Prescription (pre-rebate)</b>				
<b>Federal Fiscal Year</b>	<b>Louisiana</b>	<b>USA</b>	<b>LA % of USA</b>	<b>Louisiana Rank Among All States (plus District of Columbia)</b>
2013	\$69.68	\$66.30	105.1%	30th lowest
2014	\$73.14	\$72.38	101.1%	33rd lowest
2015	\$68.30	\$78.08	87.5%	11th lowest
July-Sep 2015	\$65.35	\$87.42	74.8%	not available

Several states are adopting a strategy in Medicaid of paying more for prescriptions at the front end, and seeking to offset that initial excess through enhanced rebates. (This approach is not working well, as demonstrated below in Exhibit 5 and the ensuing narrative.) Louisiana has successfully moved in the opposite direction. Exhibit 3 conveys that Louisiana's rebates per Medicaid prescription in FFY 2015 were less than only 8 other states and decreased by 12.7% from FFY 2014 to the July-September 2015 calendar quarter (the most recent time period available). During this same timeframe, nationwide Medicaid rebates per prescription increased by 18.6%.

Louisiana's MCOs have not focused on securing optimal rebates, but rather on achieving an optimal net cost. This primarily requires driving volume to lower-cost products on the front-end and securing whatever rebates are associated with those medications.

**Exhibit 3. Average Rebates Per Medicaid Prescription, Louisiana and USA, 2013-2015**

<b>Rebates Per Prescription</b>				
<b>Federal Fiscal Year</b>	<b>Louisiana</b>	<b>USA</b>	<b>LA % of USA</b>	<b>Louisiana Rank Among All State (plus District of Columbia)</b>
2013	\$36.22	\$32.89	110.1%	17th highest
2014	\$32.68	\$35.00	93.4%	36th highest
2015	\$29.80	\$37.07	80.4%	43rd highest
July-Sep 2015*	\$28.52	\$41.51	68.7%	not available

\* Assumes same average percentage rebate as for full fiscal year

Exhibit 4 conveys the percentage of overall Medicaid prescriptions filled with a generic drug. Louisiana's performance in this area lagged behind the USA average in all three full years assessed, but as of the most recent calendar quarter Louisiana outperformed the national average with regard to the generic dispensing rate. Again, this is almost certainly attributable to the dramatic growth in the proportion of the state's Medicaid prescriptions paid by MCOs that occurred over the course of FFY 2015).

**Exhibit 4. Generic Usage, Louisiana and USA Overall, FFY 2013 – 2015**

<b>Generic Percentage of Prescriptions</b>			
<b>Federal Fiscal Year</b>	<b>Louisiana</b>	<b>USA</b>	<b>Percentage Point Difference (Louisiana minus USA)</b>
2013	75.9%	79.5%	-3.6%
2014	78.6%	80.7%	-2.1%
2015	81.0%	81.5%	-0.4%
July-Sep 2015	82.7%	81.9%	0.8%

Louisiana's generic usage statistics in Exhibit 4, while trending favorably, do suggest that further prescription drug savings opportunities exist. With 90% of the Medicaid prescriptions now paid by Medicaid MCOs, and with these organizations achieving greater generic dispensing rates in other states where they serve Medicaid populations and have latitude to implement their own PDLs, we anticipate that Louisiana can improve upon its 19<sup>th</sup> place status among states during FFY 2015 in achieving low net Medicaid costs per prescription. Louisiana seems poised to become one of the nation's very best pharmacy management performers.

Exhibit 5 provides a detailed comparison of different groups of states, focusing on FFY 2014 Medicaid costs per prescription. The 50 states plus the District of Columbia were divided into "thirds" to assess collective state performance across several dynamics (e.g., overall size/purchasing power, generic dispensing rates, rebates per prescription, PDL latitude, etc.)

## Exhibit 5. Medicaid Prescription Drug Cost Management Outcomes, FFY 2014

State Group	Net Post-Rebate Cost Per Prescription	Initial Cost Per Prescription	Rebates Per Prescription	Rebates as % of Initial Cost	Generics as % of Total Prescriptions	% of Medicaid Prescriptions Paid by MCOs
<b>Groups of States with Net Costs Below US Average</b>						
States in Top Third, Net Cost Per Prescription	\$29.42	\$58.95	\$29.53	50.1%	82.5%	64.5%
States in Top Third, Generic % of All Prescriptions	\$32.72	\$63.71	\$30.99	48.6%	82.8%	67.8%
States in Top Third, % of Prescriptions Paid by MCOs	\$34.48	\$67.36	\$32.88	48.8%	81.6%	82.1%
30 States (plus District of Columbia) with MCO Paid Drugs and where PDL Latitude Exists	\$35.53	\$68.39	\$32.87	48.1%	81.8%	65.1%
States in Top Third, Medicaid Prescription Volume	\$36.01	\$70.66	\$34.64	49.0%	81.2%	65.6%
<b>Groups of States with Net Costs Above US Average</b>						
4 States Requiring Uniform PDL of Medicaid MCOs	\$39.26	\$79.70	\$40.44	50.7%	78.5%	65.8%
States in Top Third, Rebate Per Prescription	\$43.09	\$86.64	\$43.55	50.3%	77.4%	35.2%
16 States With No MCO Paid Drugs	\$45.80	\$87.42	\$41.62	47.6%	77.0%	0.0%
<b>USA Total</b>	<b>\$37.37</b>	<b>\$72.38</b>	<b>\$35.00</b>	<b>48.4%</b>	<b>80.7%</b>	<b>55.3%</b>

The figures in Exhibit 5 demonstrate which attributes of states' Medicaid pharmacy cost management efforts are proving to be most effective – as well as those that have not been effective.

- **Securing relatively large rebates was not an effective strategy in achieving optimal net costs.** The “top third” of states that achieved the highest rebates per prescription fared poorly in their net cost per prescription drug. Despite obtaining average rebates of \$43.55 per prescription, which were 24.4% above the USA average (\$35.00), the average net cost per prescription across these 17 states (\$43.09) was 15.3% above the USA average (\$37.37). The 17 states with the highest generic dispensing rate and the 17 states with the largest rebates per prescription are entirely separate groups of states. ***Maximizing rebates and optimally managing drug mix are two separate strategies that are in conflict with each other, with managing drug mix producing lower overall prescription drug spending for state Medicaid programs.*** Net costs in the top third of states with regard to generic mix are 24.1% below the net costs per prescription in the top third of states with regard to rebates per prescription.
- **Use of generics was strongly correlated with achieving relatively low net costs.** The states in the “top third” with regard to generic dispensing rate (generics as a percentage of all Medicaid prescriptions) consistently achieved highly favorable net costs per prescription. This group of 17 states collectively had a net cost of \$32.72 per prescription (post-rebate) during FFY2014, which was 12.5 percent lower than the national average. Of the 17 states in the top third with regard to generic dispensing rate, 13 were also in the top third of states in terms of lowest net costs per prescription; 10 were among the top third in terms of the degree to which Medicaid prescriptions were paid by MCOs.
- **Volume purchasing was not a key driver in achieving relatively low net costs.** The status of being a particularly large state (and thus having relatively large purchasing power) does not appear to be of significant value, in and of itself, in achieving favorable net costs per prescription. The largest 17 states (with regard to the volume of Medicaid prescriptions) collectively averaged \$36.01 in net costs per prescription, slightly (3.6%) below the USA average. While it appears that having particularly large purchasing power may be of some benefit,

leveraging purchasing power tends to be a **price-focused** strategy. As shown above with the rebates, this general approach is not as effective as managing the **mix of drugs** effectively – which smaller states appear to be equally positioned to do as larger states.

- **States with no MCO involvement in Medicaid drug purchasing experienced higher net costs per prescription.** Enlisting MCOs to manage the pharmacy benefit is clearly yielding favorable net costs per prescription. During 2014, ten states engaged in no MCO contracting and another six states used a pharmacy carve-out model within their capitated MCO program. Across these 16 states where 100% of Medicaid drugs were paid in the Medicaid fee-for-service setting, net costs per prescription were \$45.80, 22.5% above the USA average of \$37.37 and 27% above the net cost across the 34 states with at least some MCO-paid Medicaid prescriptions (\$36.08). Generics comprised 77.0% of Medicaid prescriptions across the 16 states with no MCO-paid drugs, versus 81.3% in the 34 states (plus the District of Columbia) using MCOs to some degree.<sup>2</sup>
- **States with MCO involvement that allow MCOs to have PDL latitude experienced lower net costs per prescription than the national average.** During FFY2014, collective net costs in the 30 states (plus the District of Columbia) where MCOs have PDL latitude were 10% below the net costs in the four states where the MCOs must work within a uniform PDL.
- **The four states requiring Medicaid MCOs to utilize uniform PDLs were collectively above the national average in net cost per prescription.** Florida, Kansas, Texas and West Virginia require MCOs to utilize a uniform statewide PDL. Average net costs per prescription across these states during FFY2014 were \$39.26, 5% above the USA total and 20% above the average net per prescription cost across the 17 states in the “top third” in terms of the generic dispensing rate.

### C. Fiscal Impact Estimates of Changes to PDL Policy

Louisiana's current PDL policy allows the MCOs to use a PDL independent from the state Medicaid PDL but requires the plans to collaboratively develop and use a single PDL for all their collective Bayou Health enrollees. We have modelled the impacts of a policy change that would remove the MCOs from shaping the PDL, requiring all the MCOs to utilize a PDL that is developed and maintained by the state. The projected impacts of this approach are unfavorable. *In summary, we estimate the annual increased Medicaid cost of moving to a state-administered UPL would be \$38.3 million in 2017 (which we assume to be the initial implementation year). At the current Federal match rate of 62.28%, \$14.4 million of these additional costs during 2017 would be Louisiana State Funds (i.e., paid by the state's taxpayers).*

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<sup>2</sup> The value of using the MCO carve-in approach was documented in detail in our April 2015 report, “Comparison of Medicaid Pharmacy Costs and Usage in Carve-In Versus Carve-Out States,” sponsored by America’s Health Insurance Plans (AHIP).

The derivation of these impact estimates are presented in Exhibits 6-10. Exhibit 6 presents estimated costs through CY2020 under the current pharmacy benefits management structure – with the MCOs using a single, collaboratively established PDL, with the key derivation assumptions shown in the right-hand column.

#### **Exhibit 6. Estimated Medicaid Prescription Drug Costs Under Current Policy Through CY2020**

	FFY 2015	CY2016	CY2017	CY2018	CY2019	CY2020	Assumptions
<b>Prescriptions</b>							
Generic	10,472,719	10,682,173	10,735,584	10,789,262	10,843,208	10,897,425	2% increase in 2016 to capture recent growth in MCO script volume, then 0.5 annual increase
Brand	2,451,443	2,241,989	2,188,578	2,134,900	2,080,954	2,026,737	derived by subtracting constant total from generic estimate
Total	12,924,162	12,924,162	12,924,162	12,924,162	12,924,162	12,924,162	no annual change assumed
<b>Initial Amount Paid</b>							
Generic	\$246,938,396	\$264,471,022	\$276,425,112	\$288,919,527	\$301,978,690	\$315,628,127	5% unit price growth assumed for 2016; 4% annual thereafter
Brand	\$635,769,574	\$610,521,051	\$619,815,680	\$628,798,390	\$637,425,800	\$645,651,397	5% unit price growth assumed for 2016; 4% annual thereafter
Total	\$882,707,970	\$874,992,073	\$896,240,792	\$917,717,917	\$939,404,490	\$961,279,524	sum of generic and brand components
<b>Rebates</b>							
Generic	\$32,101,991	\$34,381,233	\$35,935,265	\$37,559,539	\$39,257,230	\$41,031,656	13% ACA rebate used throughout
Brand	\$353,069,713	\$339,048,141	\$344,209,841	\$349,198,319	\$353,989,485	\$358,557,507	2015 average brand rebate (55.5%) used throughout
Total	\$385,171,704	\$373,429,374	\$380,145,106	\$386,757,858	\$393,246,714	\$399,589,163	sum of generic and brand components
<b>Net Amount Paid</b>							
Generic	\$214,836,404	\$230,089,789	\$240,489,848	\$251,359,989	\$262,721,460	\$274,596,470	subtract rebates from initial amount paid
Brand	\$282,699,861	\$271,472,910	\$275,605,839	\$279,600,070	\$283,436,315	\$287,093,891	subtract rebates from initial amount paid
Total	\$497,536,266	\$501,562,699	\$516,095,687	\$530,960,059	\$546,157,775	\$561,690,361	subtract rebates from initial amount paid

Exhibit 7 presents estimated average costs per prescription in Louisiana for brand and generics in each time period. On a pre-rebate basis, average costs per brand drug are 11 times higher than for generics. While much larger rebates apply to brand drugs (55.5% on average in Louisiana during FFY2015 versus 13% for generics), on a post-rebate basis the average cost per prescription in Louisiana's Medicaid program is still *six times* higher for brands than for generics. The size of this differential demonstrates the fiscal importance of utilizing lower cost therapies (between generic and brand, but also within brands and within generics) wherever it is clinically appropriate.

#### **Exhibit 7. Estimated Medicaid Costs Per Prescription in Louisiana**

Average Cost Per Rx, Pre-Rebate						
	FFY 2015	CY2016	CY2017	CY2018	CY2019	CY2020
Generic	\$23.58	\$24.76	\$25.75	\$26.78	\$27.85	\$28.96
Brand	\$259.35	\$272.31	\$283.20	\$294.53	\$306.31	\$318.57
Average Net Cost Per Rx (Post-Rebate)						
	FFY 2015	CY2016	CY2017	CY2018	CY2019	CY2020
Generic	\$20.51	\$21.54	\$22.40	\$23.30	\$24.23	\$25.20
Brand	\$115.41	\$121.18	\$126.03	\$131.07	\$136.31	\$141.76

We developed a set of factors to model the projected impacts of moving from the current program design to a state-administered PDL for all Bayou Health members' prescriptions. These impact factors are shown in Exhibit 8, with the derivation explanation provided in the right-hand column titled "Assumptions."

#### Exhibit 8. Impact Factors of Moving to State-Administered PDL

	CY2016	CY2017	CY2018	CY2019	CY2020	Assumptions
<b>Prescriptions</b>						
Generic	1.00	0.96	0.96	0.96	0.96	4% fewer generics assumed throughout; policy estimated to take effect jan 2017
Brand	1.00	1.20	1.20	1.21	1.22	derived by subtracting constant total from generic estimate
Total	1.00	1.00	1.00	1.00	1.00	policy change not expected to impact overall volume
<b>Initial Amount Paid</b>						
Generic	1.00	0.96	0.96	0.96	0.96	4% fewer generics assumed throughout; policy estimated to take effect jan 2017
Brand	1.00	1.20	1.20	1.21	1.22	derived by subtracting assumed prescription volume change by average brand price/rx
<b>Rebates</b>						
Generic	1.00	0.96	0.96	0.96	0.96	applies 13% rebate to all generic initial amounts paid
Brand	1.00	1.21	1.22	1.23	1.23	increases baseline brand rebates by 1.5% for more supplemental rebates,

Exhibit 9 conveys the projected costs under a state-administered PDL, applying the impact factors in Exhibit 8 to the baseline current policy program's figures in Exhibit 6.

The cost impacts of moving to a State-administered PDL in Louisiana are derived by subtracting the baseline costs in Exhibit 6 by the projected costs shown in Exhibit 9. These results are conveyed in Exhibit 10. **Our analyses show that a policy change to a uniform, State-administered PDL will result in additional Medicaid costs of approximately \$40 million per year. The additional state fund cost (i.e., Louisiana taxpayer cost) of this change will be approximately \$15 million per year.**

These additional costs will compound as the policy change remains in effect -- the right-hand column of Exhibit 10 projects that the four-year cost of the policy change (from 2017-2020) will be \$165 million in overall Medicaid spending and \$62 million in State funds.

**Exhibit 9. Projected Usage and Costs Under a State-Administered PDL**

	CY2017	CY2018	CY2019	CY2020
<b>Prescriptions</b>				
Generic	10,306,161	10,357,692	10,409,480	10,461,528
Brand	2,618,001	2,566,470	2,514,682	2,462,634
Total	12,924,162	12,924,162	12,924,162	12,924,162
<b>Initial Amount Paid</b>				
Generic	\$265,368,108	\$277,362,746	\$289,899,542	\$303,003,002
Brand	\$741,430,431	\$755,910,127	\$770,282,988	\$784,513,730
Total	\$1,006,798,539	\$1,033,272,874	\$1,060,182,530	\$1,087,516,732
<b>Rebates</b>				
Generic	\$34,497,854	\$36,057,157	\$37,686,940	\$39,390,390
Brand	\$417,923,867	\$426,085,672	\$434,187,256	\$442,208,733
Total	\$452,421,721	\$462,142,829	\$471,874,197	\$481,599,123
<b>Net Amount Paid</b>				
Generic	\$230,870,254	\$241,305,589	\$252,212,602	\$263,612,611
Brand	\$323,506,564	\$329,824,456	\$336,095,731	\$342,304,997
Total	\$554,376,818	\$571,130,045	\$588,308,333	\$605,917,609

**Exhibit 10. Net Cost Impacts of Switching to a State-Administered PDL**

	CY2017	CY2018	CY2019	CY2020	Four Year Total, 2017-2020
Net Cost, Current Design	\$516,095,687	\$530,960,059	\$546,157,775	\$561,690,361	\$2,154,903,882
Net Cost, Switch to State-Administered PDL	\$554,376,818	\$571,130,045	\$588,308,333	\$605,917,609	\$2,319,732,805
Additional Medicaid Cost of State-Administered PDL	\$38,281,131	\$40,169,986	\$42,150,558	\$44,227,248	\$164,828,923
Louisiana Taxpayer Cost (at 62.28% Federal Match)	\$14,439,643	\$15,152,119	\$15,899,190	\$16,682,518	\$62,173,470
Additional Cost as % of Current Policy Approach	7.4%	7.6%	7.7%	7.9%	7.6%

Note that our fiscal forecasts did not model the implementation of Medicaid expansion in Louisiana. If Medicaid expansion is implemented, the overall Medicaid savings of retaining the MCO-administered UPL (versus a state-administered UPL) would increase substantially. However, the State Fund savings would increase only slightly under Medicaid expansion given the predominant Federal contribution to the expansion population's costs. The Federal government currently pays 100% of medical costs for the expansion population (in those states that have implemented expansion). In Louisiana, the Federal Government would contribute 95% of the expansion population's medical costs as of October 2016, with this contribution decreasing in each subsequent year but never falling below 90%.

### III. Therapeutic Class Level Analyses

We grouped all NDC codes into one of approximately 300 therapeutic classes to conduct comparative analyses within each class. To simplify the volume of information, we focused on the 20 therapeutic classes with the largest overall prescription volume in Louisiana's Medicaid program during 2015. These 20 therapeutic classes collectively represented 49% of Louisiana's Medicaid prescriptions during the most recent available calendar quarter (July-September, 2015) and 35% of Louisiana's pre-rebate Medicaid spending. Our analyses are summarized in Exhibit 12 for each of these 20 high-volume therapeutic classes.

Louisiana's average cost per Medicaid prescription for MCO-paid prescriptions was compared with corresponding fee-for-service (FFS) paid prescriptions for Q3 2015 in each class in the left-hand columns of Exhibit 12. In 17 of the 20 classes, the average cost per prescription was lower in the MCO setting than in FFS. Collectively across the 20 therapeutic classes, the average cost per MCO prescription was 29% below the FFS average.

**Exhibit 12. Average Cost Per Prescription Within Highest-Volume Therapeutic Classes, Q3 2015**

Therapeutic Class	Cost Per Prescription			Generic Percent of Prescriptions			MCO Percentage Point Differential Versus FFS	
	Q3 2015			Q3 2015				
	MCO	FFS	MCO % of FFS	MCO	FFS			
CNS stimulants	\$169	\$195	87%	32%	23%		9%	
Antihistamines	\$9	\$14	67%	100%	100%		0%	
Narcotic analgesic combinations	\$35	\$26	134%	95%	99%		-5%	
Aminopenicillins	\$10	\$15	69%	94%	96%		-2%	
Nonsteroidal anti-inflammatory agents	\$11	\$12	90%	99%	99%		0%	
Adrenergic bronchodilators	\$71	\$49	143%	36%	64%		-28%	
Glucocorticoids	\$10	\$14	69%	97%	92%		5%	
Selective serotonin reuptake inhibitors	\$9	\$29	31%	91%	81%		10%	
Atypical antipsychotics	\$186	\$156	119%	80%	81%		-1%	
Contraceptives	\$61	\$71	86%	47%	42%		5%	
Macrolides	\$22	\$24	89%	58%	55%		3%	
Antidiuretic agents, centrally acting	\$26	\$33	80%	100%	95%		5%	
Topical steroids	\$20	\$40	50%	98%	97%		1%	
Narcotic analgesics	\$22	\$34	65%	90%	81%		9%	
Inhaled corticosteroids	\$59	\$120	49%	76%	66%		10%	
Statins	\$18	\$34	52%	91%	87%		3%	
Leukotriene modifiers	\$15	\$18	84%	99%	99%		0%	
Skeletal muscle relaxants	\$11	\$50	21%	100%	95%		5%	
5HT3 receptor antagonists	\$15	\$17	84%	99%	96%		3%	
Proton pump inhibitors	\$23	\$74	31%	93%	74%		19%	
<b>Total, Top 20 Classes</b>	<b>\$46</b>	<b>\$65</b>	<b>71%</b>	<b>81%</b>	<b>75%</b>		<b>6%</b>	

The right-hand columns of Exhibit 12 convey the generic percentage of the prescriptions filled in each high-volume therapeutic class. Generics were prescribed more frequently in the MCO setting than the FFS setting in 14 of the 20 classes, and more frequently in the FFS setting than the FFS setting in four classes (with no difference between the MCO and FFS settings in two classes). Collectively across the 20 classes, the generic dispensing rate was 6 percentage points higher in the MCO setting.

These differences at the therapeutic class level are closely aligned with the findings from the aggregate analyses conducted in Section II. Louisiana's Medicaid MCOs have demonstrated significant acumen – in the aggregate and at the therapeutic class level, in achieving far lower costs per prescription (relative to Louisiana's FFS setting). The usage of generics is much greater in the MCO setting than the FFS setting in most therapeutic classes.

These analyses argue strongly in favor of not transitioning management of the preferred drug list back to the Medicaid FFS setting for Louisiana's Bayou Health enrollees. The MCOs are clearly achieving success with drug mix management, far surpassing what the FFS setting is delivering.