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DRUG COST MANAGEMENT REPORT

A Framework for Evaluating Pharmacy Cost Management Strategies in the Public Sector

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The topic of increasing prescription drug costs has received significant attention over the last several years, and public sector programs have been particularly hard hit.

Many states are struggling to develop programs and services to mitigate the rising cost of providing prescription drug benefits to Medicaid recipients. Strategic alternatives being explored include:

◆ renegotiating network pharmacy contracts;

◆ implementing preferred drug lists; and

◆ forming purchasing coalitions.

States that propose changes to their Medicaid prescription drug programs will encounter opposition to their proposals. Being aware of the potential issues and proactively developing a response to those potential issues will be critical if states are to achieve their goals of implementing programs designed to control costs.

As states evaluate various approaches to controlling pharmaceutical costs, they may wish to apply a consistent decision-making framework to each alternative that might be pursued. One potential decision-making framework includes five key areas, and is outlined below:

(1) Evaluate program cost drivers.

(2) Evaluate alternative strategies to address cost drivers.

(3) Evaluate stakeholder impact and political climate.

(4) Determine cost to implement the recommended strategy.

(5) Evaluate the financial benefit(s) of the selected strategy.

Evaluate Program Cost Drivers

Prior to designing an overall strategy, a state should complete an analysis of the current cost and utilization trends inherent in its pharmacy program. The analysis will provide meaningful data to support the business case for change, and will also provide the baseline from which savings estimates can be derived. Though each state may wish to develop its own approach to data analysis, all could benefit from examining the following areas:

◆ Current utilization rates / cost trends.

◆ Current reimbursement to pharmacies.

◆ Current cost-sharing approach, if any.

◆ Current utilization management strategies and outcomes (including any prior authorization programs).

◆ Analysis of top therapeutic classes, including drivers of cost.

◆ Analysis of generic utilization patterns.

◆ Analysis of potential fraud and abuse.

◆ Analysis of top prescribers.

Once a state has evaluated its current program data in detail, it will be in a better position to evaluate strategic

Suggested Strategies for Specific Program Goals

Goal	Suggested Strategies
Decrease ingredient costs and net costs.	● Create a preferred drug list to encourage cost-effective prescribing.
	● Negotiate supplemental rebates.
	● Ensure network contracts are market competitive.
	● Encourage generic utilization.
Improve quality of care.	● Develop best-practice guidelines.
	● Implement "evidenced based medicine."
	● Implement utilization management/disease management programs.
	● Increase patient compliance with medication regimens.
Manage inappropriate utilization.	● Implement fraud and abuse programs.
	● Implement prior-authorization and step-therapy programs.
	● Install quantity limits on prescriptions/quantities for each prescription.
Increase member and provider awareness of prescription drug costs.	● Develop appropriate incentives for physicians and members.
	● Develop customized member and provider education tools to demonstrate the relative value of pharmaceuticals, including generic
Increase purchasing power and lower administrative costs.	● Consider starting or joining a purchasing coalition.

alternatives. The analysis will yield gaps in the provision of certain services, and will serve as the baseline for establishing program savings estimates.

Evaluate Alternative Strategies to Address Cost Drivers

At the conclusion of the evaluation phase, most states will identify needs that should be addressed in several areas. For example, they may find that reimbursement to retail pharmacies has not been adjusted in many years, and is no longer competitive with the marketplace.

At the same time, it may be discovered that 50% of costs are being driven by 15 to 20 therapeutic classes, and that some of that utilization seems inappropriate. To encourage more cost-effective prescribing, a state may wish to create and implement a preferred formulary.

States should develop a unique strategy for each program goal that is proposed. Figure 4 provides an example of strategies that could be pursued to achieve designated goals.

Evaluate Stakeholder Impact and Political Climate

There are a number of stakeholders that have a vested interest in the provision, coverage and payment for pharmacy services in the public sector. Each stakeholder has its own goals, objectives and biases. To effectively implement any change in Medicaid programs, administrators must be aware of stakeholder concerns, and must design an effective strategy for managing stakeholder resistance to change.

Developing a "stakeholder concern matrix" such as the one suggested below will allow states to clearly focus on developing an effective strategy for each potential stakeholder. States may find it useful to develop a similar framework for each of their proposed initiatives to proactively address issues from stakeholders, and increase the chances of program success.

Changing the coverage or delivery of pharmacy services to Medicaid recipients is an emotional issue for many. Some stakeholders will be strong supporters immediately. Others will be formidable opponents to any plan proposed by the state. Completing a thorough stakeholder analysis will allow states to predict where opposition is likely to occur. In addition, the analysis will form the basis for designing the multifaceted political strategy that will be required for states to succeed in adopting any major changes to the Medicaid program.

Determine the Cost to Implement Recommendations

Initiatives that are designed to control drug costs will require states to make investments in time, money, and, in many cases, political capital. Each state should develop a plan to measure the cost associated with each proposed intervention. Some initiatives that states could pursue will require minimal costs (e.g., implementing a new drug utilization review edit in a prescription benefit manager computer system), while other efforts will require substantial investments (developing a process for negotiating supplemental rebates).

States may elect to develop some of the strategies for controlling costs "in-house." It is important for states to capture the cost of implementing changes even if the changes are to be performed in-house.

Many states will elect to partner with experienced private-sector firms to design and implement certain elements of their overall strategy. For program elements

Sample Stakeholder Concern Matrix for Implementing a Preferred Drug List

Stakeholder	Interests	Level of Concern Over Initiative	Strategy for Managing Resistance to Change
Pharmacy providers	Minimizing administrative burden on pharmacy and patient.	Low	Efficient program design/operation. Early communication around implementation.
Physicians	Minimizing administrative burden and resistance to "cookbook" medicine.	Medium to Hight	Efficient program design/operation. Early communication around implementation. Ensure basis for program is solid, measurable clinical outcomes.
Pharmaceutical firms	Limiting restrictions on products.	High	Create equal opportunity for firms to demonstrate clinical and cost benefits of products. Enlist support of firms whose products are "preferred" to support lobbying efforts, implementation, etc.
Patients and patient advocates	Limiting restrictions on products	High	Minimize administrative hassles. Base decisions on solid clinical criteria. Clear and consistent communication. Ensure access to nonpreferred products based on patient-specific need.

that the state elects to outsource, a complete financial evaluation of commercial providers should be conducted. The state should seek contracts with firms that have demonstrated expertise in performing the types of cost-reduction services demanded by the states, and place an emphasis on those firms that have demonstrated expertise in the public-sector arena.

Once the state has outlined the costs—both internal costs and outsourcing costs, it can then develop a return-on-investment model that can be used in discussion with policy-makers. The cost development process will be crucial to developing support for the proposed initiatives with policy-makers. In addition, it will form the basis for securing the appropriate level of funding required to implement the proposed initiatives.

Expected Financial Benefit

Reducing the costs associated with providing prescription benefits to Medicaid recipients is the primary goal of implementing program changes. As states begin to develop their estimates of financial savings that can be achieved by pursuing various initiatives, they should include an analysis of the following:

◆ **Source of Benefit.** Program savings can be achieved from a variety of sources as discussed throughout this article. Analyzing the source of benefit (supplemental rebates, increased utilization of generics, increased copays, reduced waste, etc.) will allow the state to discover the stakeholder(s) that will be impacted by the proposed change. It will also help define the political will behind a particular source of benefit (e.g., there may be more support for negotiating price discounts from pharmaceutical manufacturers than for implementing a modest prescription drug copay for Medicaid recipients).

◆ **Timing of Benefit.** Proposed program changes will offer financial savings in different time intervals. For example, supplemental rebates will reduce the cost of certain medications, but those savings typically occur many months after actual product utilization occurs. Implementing a prior-approval program will generate program savings both now and potentially in the future (cost avoidance). Achieving a higher level of generic dispensing from network pharmacies will make an immediate impact on prescription drug costs, and will also provide ongoing savings. Understanding and appropriately accounting for the timing of savings associated with each proposed strategy will be important as states forecast the potential impact of suggested strategies. Timing is particularly important if states elect to budget for proposed savings by reducing the Medicaid budget by the amount of the proposed savings. If the timing and sustainability of recommended programs is not carefully considered, states could underfund their Medicaid pharmacy programs.

◆ **Sustainability of Benefit.** Though Medicaid program administrators and political officials are interested in achieving immediate cost reductions, they are also interested in mitigating the longer-term trend of escalating costs. Each state's cost savings analysis should include assumptions about how current and proposed efforts will impact state budgets in current cycles as well as future budget cycles. In addition, many states are electing to propose a staggered implementation of program initiatives that are designed to provide savings in the short, intermediate and longer terms.

The challenge of rising prescription drug costs is not likely to go away any time soon. The framework provided here can serve as a guide for states that are currently evaluating opportunities to reduce program costs. If states approach their pharmacy benefit strategy in a logical and consistent way, their chances of being able to implement cost reduction strategies will increase significantly.

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