



TEXAS HEALTH CARE POLICY COUNCIL

-POLICY PAPER-

IMPROVING STATE PHARMACEUTICAL PURCHASING IN TEXAS

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EXECUTIVE SUMMARY

Many distinct agencies and programs purchase pharmaceuticals or negotiate pharmaceutical purchasing arrangements on behalf of state public program clients. There are two primary drug purchasing arrangements utilized by the state – establishment of a pharmacy benefit through which drugs are obtained from commercial pharmacies, and direct purchase of drugs from manufacturers or wholesalers for distribution through public clinics and program offices.

METHODOLOGY

Policy Council staff will be evaluating state agencies and programs that purchase pharmaceuticals to identify best practices that can be transferred to other agencies and possible areas for pooled purchasing.

BEST PRACTICES

There are several federally-defined drug purchasing arrangements that allow public programs to obtain low prices, in some cases even below Medicaid best price. Policy Council staff will be working with agency staff to review each drug purchasing program administered by the state to determine if any of them can leverage the 340B or State Pharmaceutical Assistance Program (SPAP) to obtain lower prices.

POOLED PURCHASING

In a previous effort to leverage the state's purchasing power in the area of pharmaceuticals, the 77th Legislature created the Interagency Council on Pharmaceuticals Bulk Purchasing (ICPBP) through House Bill 915, and directed it to "develop procedures that member agencies must follow in purchasing pharmaceuticals." The ICPBP developed and implemented two sets of procedures to promote interagency communication and cost containment.

Pursuant to legislation passed during the 79th Regular Legislative Session, the ICPBP is scheduled to sunset on September 1, 2007. The role of promoting further interagency collaboration in the purchase of pharmaceuticals has been absorbed into the work of the Texas Health Care Policy Council.

PRELIMINARY FINDINGS

BEST PRACTICES

- ✦ Implement a SPAP for non-Medicaid clients of existing community mental health centers. \$6 million in annual General Revenue Savings is anticipated.

POOLED PURCHASING

- ✦ Coordinate with Health and Human Services Commission staff to evaluate the possibility of developing a multi-state Medicaid drug purchasing arrangement with other large states.

FUTURE EVALUATION

BEST PRACTICES

- ✦ Review each drug purchasing program administered by the state to determine if any of them can leverage the 340B or SPAP to obtain lower prices.

POOLED PURCHASING

- ✦ Identify mechanisms to leverage public employee Pharmacy Benefit Management contracts.
- ✦ Evaluate the possibility of establishing a statewide Pharmacy Benefits Manager contract.

IMPROVING STATE PHARMACEUTICAL PURCHASING IN TEXAS

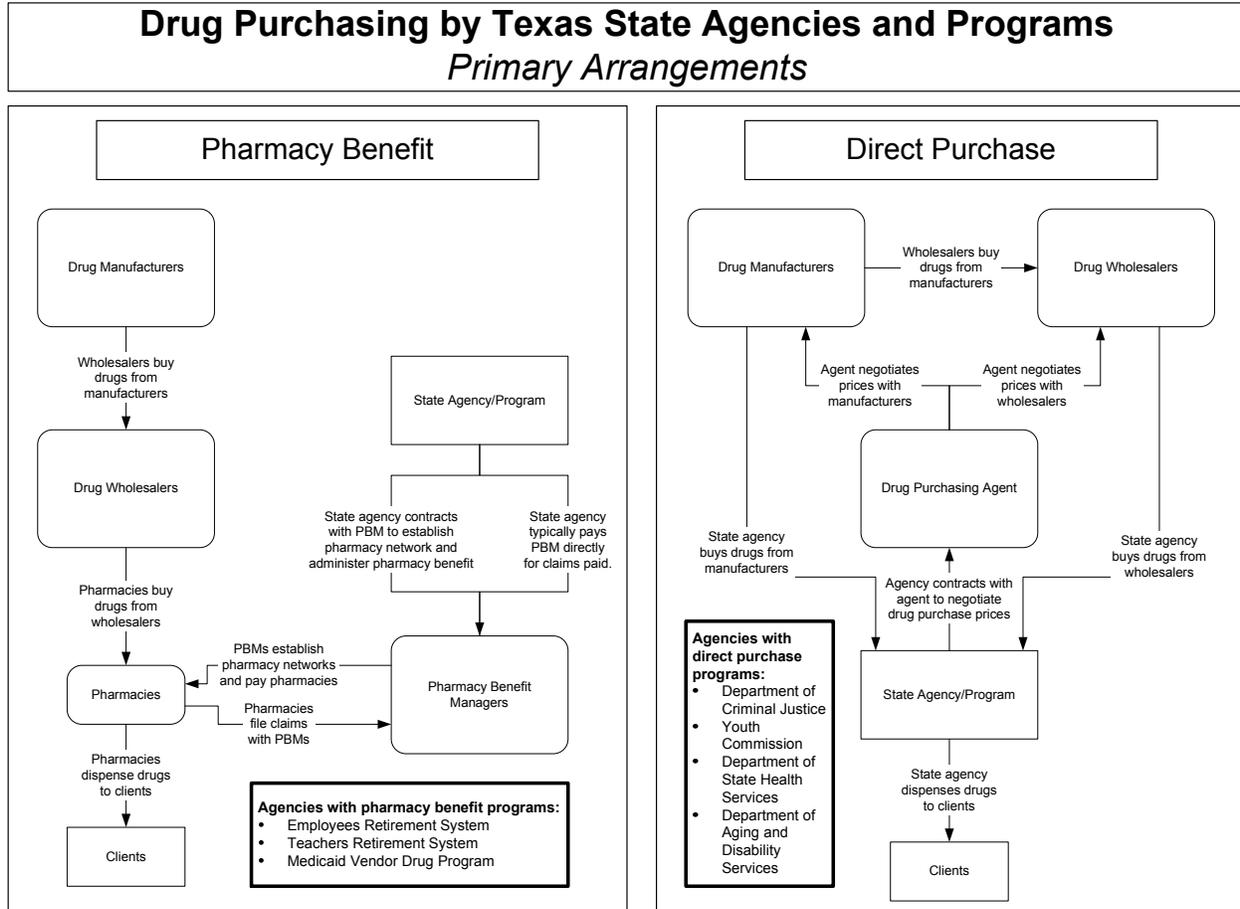
BACKGROUND

Texas Health and Safety Code, Section 113.011 (Purchase of Health Care Products or Services) directs the Texas Health Care Policy Council to ensure the most effective collaboration among state agencies in the purchase of health care products or services. Section 113.011 provides further direction, stating that as a state agency develops an expertise in purchasing health care products or services, that agency shall assist other agencies in the purchase of the same products or services.

Many distinct agencies and programs purchase pharmaceuticals or negotiate pharmaceutical purchasing arrangements on behalf of state public program clients. There are two primary drug purchasing arrangements utilized by the state – establishment of a pharmacy benefit through which drugs are obtained from commercial pharmacies, and direct purchase of drugs from manufacturers or wholesalers for distribution through public clinics and program offices.

METHODOLOGY

As in the case of health care goods and services in general, Policy Council staff will be evaluating state agencies and programs that purchase pharmaceuticals to identify best practices that can be transferred to other agencies and possible areas for pooled purchasing.



IDENTIFY OPPORTUNITIES TO EXPAND BEST PRACTICES

Although Policy Council staff will be evaluating all promising pharmaceutical purchasing strategies being utilized by state agencies, there are several federally-defined drug purchasing arrangements that allow public programs to obtain low prices, in some cases even below Medicaid best price. Policy Council staff will be working with agency staff to review each drug purchasing program administered by the state to determine if any of them can leverage the 340B or State Pharmaceutical Assistance Program to obtain lower prices.

340B

The 340B Drug Pricing Program resulted from enactment of Public Law 102-585, the Veterans Health Care Act of 1992, which is codified as Section 340B of the Public Health Service Act. Section 340B limits the cost of covered outpatient drugs to certain federal grantees, federally-qualified health center look-a likes and qualified disproportionate share hospitals. Significant savings on pharmaceuticals may be seen by those entities that participate in this program. One of the particular benefits of 340B pricing is that it allows eligible entities to receive prices that are even lower than Medicaid best price.

A number of entities in Texas currently receive 340B drug pricing including disproportionate share hospitals and federally qualified health centers. The Department of Criminal Justice is also able to receive 340B drug pricing for most prisoners since health care in the majority of the Texas prison is provided by the University of Texas Medical Branch (UTMB), a disproportionate share hospital. UTMB is in the process of expanding the 340B drug pricing program to those Texas Youth Commission facilities for which it provides health care services. In addition, UTMB has been evaluating the possibility of partnering with a state school to allow state school residents to receive 340B drug pricing.

STATE PHARMACEUTICAL ASSISTANCE PROGRAM

A State Pharmaceutical Assistance Program (SPAP) is a non-Medicaid program operated by a state that provides financial assistance to select beneficiaries for the purchase of prescription drugs. Federal law allows SPAPs to obtain prices for drugs below Medicaid best-price levels. Individuals covered by SPAPs may not have any other drug coverage and cannot be eligible for Medicaid. To qualify as an SPAP under the federal enabling legislation, a state program may not be funded by federal funds.

The State of Texas currently has one SPAP – the Kidney Health Care Program.

IDENTIFY OPPORTUNITIES TO POOL PURCHASING POWER

In a previous effort to leverage the state's purchasing power in the area of pharmaceuticals, the 77th Legislature created the Interagency Council on Pharmaceuticals Bulk Purchasing (ICPBP) through House Bill 915, and directed it to "develop procedures that member agencies must follow in purchasing pharmaceuticals." The ICPBP developed and implemented two sets of procedures to promote interagency communication and cost containment. The first set of interagency collaboration procedures applies to agencies that purchase drugs directly from manufacturers or wholesalers (direct purchase agencies). The other set of interagency collaboration procedures applies to agencies that contract with or may act as their own pharmacy benefit manager to administer the prescription drug benefit for their programs (pharmacy benefit manager agencies).

Pursuant to legislation passed during the 79th Regular Legislative Session, the ICPBP is scheduled to sunset on September 1, 2007. The role of promoting further interagency collaboration in the purchase of pharmaceuticals has been absorbed into the work of the Texas Health Care Policy Council.

PRELIMINARY FINDINGS

BEST PRACTICES

ADDITIONAL STATE PHARMACEUTICAL ASSISTANCE PROGRAM

Additional state programs that may qualify for SPAP status include county indigent health care programs, community mental health/mental retardation centers and community primary care services. Implementation of a SPAP for non-Medicaid clients of existing community mental health centers, as allowed by federal legislation, should reduce state General Revenue drug spending for community-based mental health.

Community mental health centers currently spend approximately \$60 million annually on drugs for non-Medicaid clients. Assuming the same savings under a SPAP for community mental health centers as have been achieved in the Kidney Health Care Program (13%), General Revenue savings could be as high as \$7.8 million annually. Further assuming contracting and system costs, it is reasonable to estimate General Revenue savings at around \$6 million annually.

POOLED PURCHASING

The initial analysis of drug purchasing programs did not suggest any new pooled purchasing arrangements for immediate analysis and implementation. Several possible arrangements were identified for further evaluation. Policy Council staff will be working with Health and Human Services Commission staff to evaluate the possibility of developing a multi-state Medicaid drug purchasing arrangement with other large states.

FUTURE EVALUATION

Having reviewed best practices in pharmaceutical purchasing and potential opportunities for pooled purchasing, Policy Council staff identified several additional promising areas for future evaluation and further analysis.

BEST PRACTICES

Policy Council staff will be working with agency staff to review each drug purchasing program administered by the state to determine if any of them can leverage the 340B or State Pharmaceutical Assistance Program to obtain lower prices. In particular, Policy Council staff will be evaluating whether the innovative agency partnering programs being pursued by UTMB to expand 340B drug pricing to additional programs can be expanded.

POOLED PURCHASING

After evaluating agencies and programs that purchase pharmaceuticals, Policy Council staff identified several additional potential opportunities for pooled, inter-agency purchasing. These additional areas will require further evaluation.

LEVERAGING PUBLIC EMPLOYEE PHARMACY BENEFIT MANAGEMENT CONTRACTS

The State of Texas currently administers three different contracts for the management of statewide pharmacy benefit programs for public employees – one through the Employees Retirement System (ERS) and two through the Teachers Retirement System (TRS). These three contracts are for essentially the same services, albeit for different clients.

Policy Council staff will continue to evaluate the possibility of leveraging the multiple, similar pharmacy benefit management contracts currently administered by ERS and TRS to obtain lower prices and contain overall costs.

STATEWIDE PHARMACY BENEFIT MANAGER CONTRACT

The State of Georgia has contracted with a single pharmacy benefits manager (PBM) to administer all drug purchasing programs for the state. Although each program still operates under a different pricing regime, having a single PBM has allowed for a reduction in administrative costs and lower costs in some cases through bulk purchasing. Policy Council staff will evaluate the possibility of contracting with a single PBM for the administration of all of its pharmacy purchasing programs.



Office of the Governor
Post Office Box 12428
Austin, Texas 78711-2428