



Legislative Post Audit Performance Audit Report Highlights

Highlights

Prescription Drugs: A K-GOAL Audit Reviewing What the Kansas Health Policy Authority Is Doing To Control Prescription Drug Costs in the Programs It Oversees

Report Highlights

November 2010 • 10PA18

Audit Concern

Prescription drug costs are rising. Legislators have raised concerns about what Health Policy Authority officials are doing to reduce costs for prescription drugs in the programs it oversees, and whether Health Policy Authority staff have implemented cost savings recommendations from previous reports.

Other Relevant Facts for Question 1

Medicaid is a joint State and federal program that provides health care to the needy. In fiscal year 2010, the Medicaid program spent \$166 million on prescription drug costs, \$52 million of which was State funding.

Estimated Potential
Cost Savings as a
Result of This Audit:

Medicaid
\$3.8 to \$4.6 million per year

State Employee Health Plan
\$2.4 to \$3.0 million per year

AUDIT QUESTION 1: *Can the State reduce its costs for prescription drug purchases in the Medicaid program?*

AUDIT ANSWER and KEY FINDINGS:

- The Health Policy Authority already has implemented several strategies to control prescription drug costs in the Medicaid program. Five additional strategies we examined could save the Authority an additional \$3.8 to \$4.6 million per year, as shown below:

Five Additional Cost Savings Strategies Kansas Could Implement in the Medicaid Program

Proposed Strategy	Estimated Savings
Participate in a Multi-State Consortium	\$2.2 million
Regulate Mental Health Drugs	\$800,000 - \$1.5 million
Reduce the Dispensing Fee Paid to Pharmacies	\$470,000
Regulate Prescriptions Through Step Therapy Programs	\$140,000
Increase the Maximum Supply of Maintenance Drugs to 60 or 90 days	\$140,000 - \$300,000
Total	\$3.8 million - \$4.6 million

Source: LPA analysis of unaudited KHPA data.

- **Join a Multi-State Consortium**—The Authority could save about \$2.2 million per year by negotiating better prescription drug rebates for Medicaid through a multi-state consortium. About half of all states have joined a multi-state consortium. One nearby state in a consortium— Iowa— has negotiated rebates three times higher than Kansas’.
- **Regulate Mental Health Drugs**—Kansas could save up to \$1.5 million per year by regulating mental health prescription drugs like most other states. State law currently prohibits the regulation of mental health prescription drugs in Kansas.
- **Reduce the Dispensing Fee Paid to Pharmacies**—The Authority could save about \$470,000 per year by reducing the dispensing fee by one dollar per prescription.
- **Implement More Aggressive Step Therapy Programs**—Kansas could save at least \$140,000 per year by implementing a more aggressive step therapy program. We estimated these savings based only on blood pressure medications. State law currently prohibits some types of step therapy.

- **Increase the Maximum Supply of Drugs That Can Be Dispensed at One Time**—The Authority could save between \$140,000 and \$300,000 per year by allowing pharmacies to dispense more than a one-month supply for certain prescription drugs.

We Recommended

- Health Policy Authority officials should explore implementing the strategies listed above and report to the Authority's oversight board and the Legislative Post Audit Committee on the feasibility of each strategy.
- The Legislature should consider amending statutes to allow the Health Policy Authority to regulate mental health prescription drugs and to further implement step therapy in the Medicaid program.

To help reduce Medicaid's prescription drug costs, the federal government negotiates for rebates from drug manufacturers on behalf of Kansas and other states. Kansas, like other states, negotiates for additional drug rebates, known as supplemental rebates.

Authority officials have implemented five of six cost saving strategies identified in our 2000 Medicaid audit and a report from the 2003 Kansas Senate President's Task Force on Medicaid Reform. Authority officials also have implemented other cost savings measures, for combined savings of about \$9.1 million annually.

The audit focuses only on prescription drug expenditures for the fee-for-service portion of Medicaid and excludes the managed-care program (Healthwave). In managed care, prescription drug costs are rolled into one rate paid to managed-care organizations for all health services and aren't separately available.

AUDIT QUESTION 2: *Can the State reduce its costs for prescription drug purchases in the State Employee Health Plan?*

AUDIT ANSWER and KEY FINDINGS:

- The Health Policy Authority has implemented several strategies to control prescription drug costs in the State Employee Health Plan. Four additional strategies we examined could save the State \$2.4 to \$3.0 million per year, as shown below:

Four Additional Cost Savings Strategies KHPA Officials Could Implement in the State Employee Health Plan	
Proposed Strategy	Estimated Savings
Reduce Coverage on Some or All Prescription Drugs	\$2.2 million - \$2.8 million
Increase the Maximum Supply of Maintenance Drugs	\$126,000
Implement a Starter Dose for Certain Prescription Drugs	\$74,000
Limit the Number of Prescriptions Beneficiaries Can Receive Per Month	Unknown
Total	\$2.4 million - \$3.0 million

Source: LPA analysis of unaudited KHPA data.

- **Reduce Coverage On Some or All Prescription Drugs**—The State could reduce costs by decreasing the amount of coinsurance it pays on behalf of employees. We developed two options to illustrate the potential savings:
 - Reducing the State’s coinsurance share by 5% on all prescription drugs would save the State more than \$2.8 million each year by shifting costs to beneficiaries.
 - Reducing the State’s coinsurance share by 5% on non-generic prescription drugs would shift some costs to beneficiaries and might encourage them to use more generic drugs, saving the State an estimated \$2.2 million each year.
- **Increase the Maximum Supply of Drugs That Can Be Dispensed at One Time** —The Authority could save more than \$126,000 per year by allowing pharmacies to dispense a 90-day supply for certain prescription drugs. Kansas’s current 60-day maximum is less than three other nearby states we contacted.
- **Use a Starter Dose For New Prescriptions**—The Authority could save about \$74,000 by implementing a starter dose for prescription drugs, which limits the initial fill of a prescription to reduce waste. Currently, the Medicaid program’s starter dose is set at 15 days for initial fills on certain medication.
- **Establish a Prescription Limit**—The Authority could potentially reduce costs by limiting the number of prescriptions a beneficiary can receive each month, similar to the Medicaid program. We couldn’t estimate savings for this strategy.
- Staff from the Medicaid program and the State Employee Health Plan could do more to coordinate with each other on cost savings strategies.

Other Relevant Facts for Question 2

The State Employee Health Plan spent a total of \$83 million in calendar year 2009 on prescription drugs, more than half of which—about \$46 million—were State dollars.

Authority officials contract with Caremark to administer the prescription drug benefit including negotiating prescription drug prices with drug manufacturers and processing beneficiary’s claims.

Authority officials have implemented all four cost savings strategies identified in our previous 2004 audit to improve prescription drug claims accuracy as well as other cost saving measures, saving about \$3.0 million annually.

We Recommended

- Authority Officials should explore implementing the strategies listed above and report to the Authority's oversight board and the Legislative Post Audit Committee on the feasibility of each strategy.
- Authority officials should implement a plan for the Medicaid program staff and State Employee Health Plan staff to coordinate better on cost savings strategies.

Agency Response: *The Authority generally concurred with the report's findings, conclusions, and recommendations.*

**DO YOU HAVE AN IDEA FOR
IMPROVED GOVERNMENT EFFICIENCY OR COST SAVINGS?**

If you have an idea to share with us, send it to ideas@lpa.ks.gov, or write to us at the address shown. We will pass along the best ones to the Legislative Post Audit Committee.

LEGISLATIVE DIVISION OF POST AUDIT

800 SW Jackson
Suite 1200
Topeka, Kansas 66612-2212
Telephone (785) 296-3792
FAX (785) 296-4482
E-mail: LPA@lpa.ks.gov
Website:
<http://kslegislature.org/postaudit>

Scott Frank,
Legislative Post Auditor

For more information about this
audit report, please contact

Dan Bryan
(785) 296-3792
Dan.Bryan@lpa.ks.gov