Washington State Health Care Authority

Overview of Prescription Drug Prices and Transparency

Senate Health and Long Term Care Committee
January 11, 2018

Donna L. Sullivan, Pharm.D, M.S.
Chief Pharmacy Officer
Clinical Quality and Care Transformation

Washington State Health Care Authority

Summary of Federal Prescription Drug Milestones

1990 — OBRA 1990

Medicaid Drug Rebate Program created. Federal rebates set at 15.1% of AMP. Mandated drug coverage and prohibited drug formularies.

1992 — Federal Supply Schedule, 340B, & VA prices established

1993 — OBRA 1993

Reinstated use of Medicaid formularies with restrictions.

1997 — VA National Formulary

VA can exclude coverage of non-formulary products.

2003 — Medicare Modernization Act

Created Medicare Part-D; prevented government from negotiating Medicare drug pricing and created a "safe harbor" for Medicaid supplemental drug rebates.

2006 — Medicare Part-D

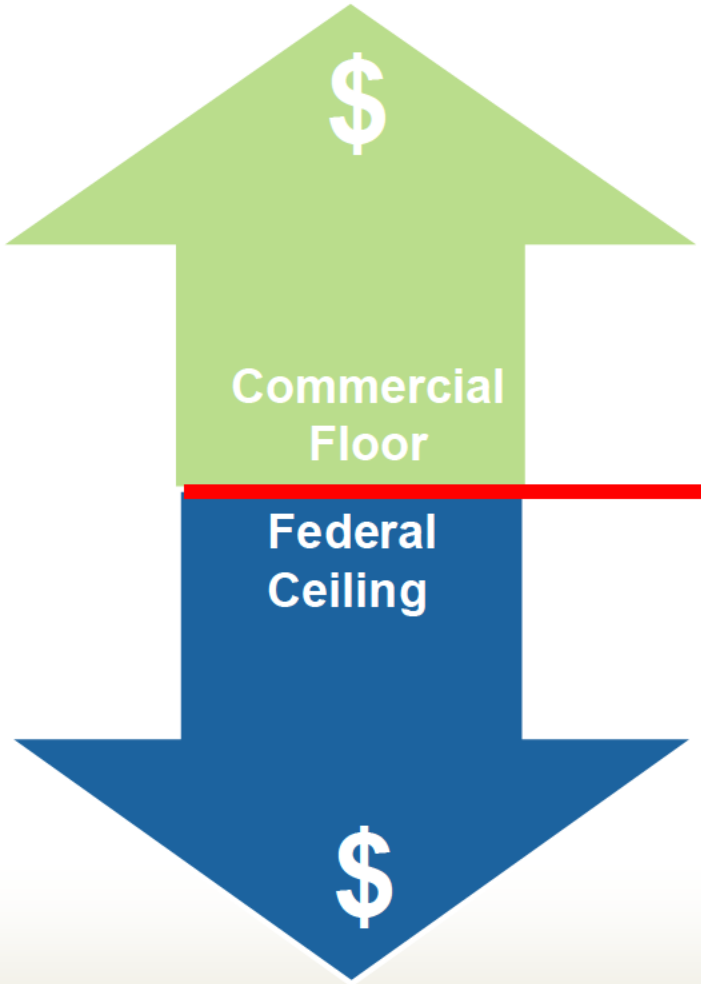
Medicare enrollees required to purchase prescription drug coverage.

2010 — Affordable Care Act

Expanded Medicaid drug rebate program to Medicaid managed care. This requires HCA to collect federal rebates on managed care claims.

Washington State Health Care Authority

Impact of Medicaid Best Price



Non-government programs

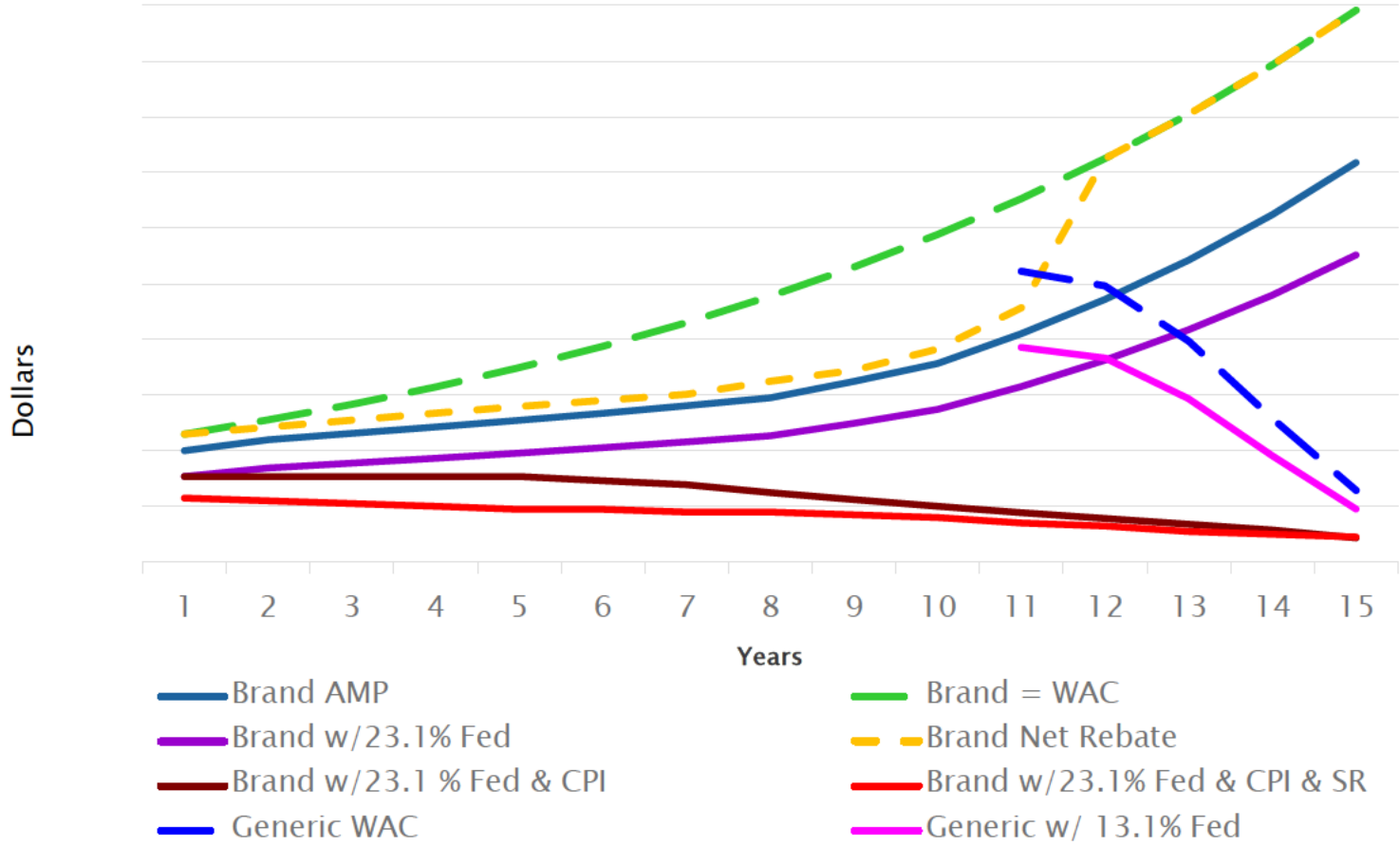
- Fully-insured commercial plans
- Self-insured employers
- Medicaid managed care (gross payments)
- Medicare Advantage/Medicare Part-D

Average manufacturer's price (AMP)

- Medicaid Drug Rebate Program (MDRP)
- 340B ceiling price cannot exceed AMP-federal unit rebate amount
- Veterans Affairs pricing

Washington State Health Care Authority

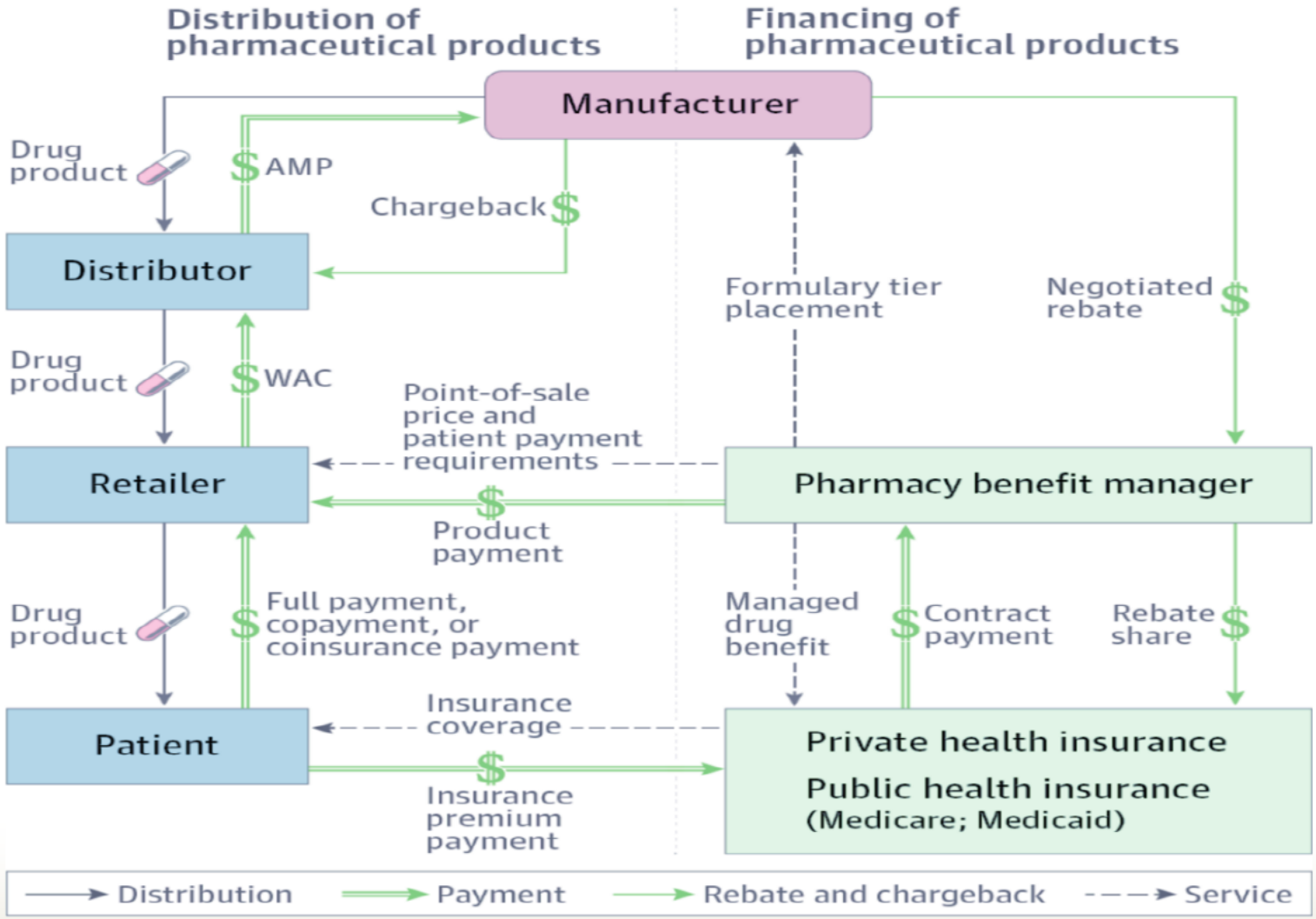
Drug Price Increases Over Time



This example shows a hypothetical drug with a 10% WAC increase per year; supplemental rebate starting at 20% and going to zero.

Washington State Health Care Authority

Flow of Pharmaceutical Funds, Products, and Services



Source: Dabora, Turaga, Schulman. JAMA. 2017; 318(1): 21-22.

Increases in Medicaid Transparency

- MCO contract amendments
  - July 2017: MCO report rebates to HCA at the drug level
  - January 2018: MCO report sum of spread pricing

Drug Price Benchmarks

- **Average Manufacturer's Price (AMP)**
  - Average price wholesalers and retail pharmacies pay directly to manufacturers during rebate period, including off-invoice discounts
- **Consumer Price Index (CPI) Penalty**
  - AMP rises 1% faster than inflation; manufacturer must pay the difference in additional rebates
- **Federal Ceiling Price (FCP) or "Big Four Prices"**
  - Available only to DOD, VA, PHS, U.S. Coast Guard
  - By law, are 24% lower than non-federal AMPs; generally do not apply to generic drugs (38 U.S.C §8126(a)(2))
- **Federal Supply Schedule (FSS)**
  - Participation required to be eligible for Medicaid
  - Available to all direct federal purchasers; intended to be no more than AMP
- **Medicaid Best Price (Best Price)**
  - Lowest price available from the manufacturer during the rebate period, for which the AMP is computed, to any wholesaler, retailer, provider, health maintenance organization, nonprofit entity, non-government entity in any pricing structure (including capitated payments)
- **Wholesale Acquisition Cost (WAC)**
  - Manufacturer-reported prescription drug "list price" for sale to wholesalers
  - Not accurate representation of what wholesaler or end provider actually pays; WAC does not include discounts such as rebates, volume purchase agreements, or prompt-pay agreements

Washington State Health Care Authority

Questions?

More Information:

http://hca.wa.gov

Donna L. Sullivan, Pharm.D, M.S.
Chief Pharmacy Officer
Clinical Quality and Care Transformation

donna.sullivan@hca.wa.gov

Tel: 360-725-1564