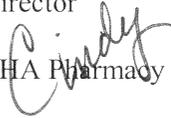


MEMORANDUM

TO: Rep. Ann Pugh, Co-Chair, Health Access Oversight Committee
Sen. Jane Kitchel, Co-Chair, Health Access Oversight Committee

CC: Robert D. Hofmann, Secretary, Agency of Human Services
Susan W. Besio, PhD, Director

FROM: Cynthia D. LaWare, OVHA Pharmacy Director 

DATE: October 30, 2009

RE: Enclosed study on the promotion of generics in Medicaid

Per Special Session 2009 Act 1, Section E.309.4:

(a) The office of Vermont health access shall determine the impacts of modifying the co-payment structure in Medicaid and VPharm from a three-tiered structure which varies depending on the cost of the drug to a two-tiered structure with a higher co-payment for a brand-name drug than for a generic drug. The office shall analyze the impacts of changing the fee structure on spending in the Medicaid and VPharm programs, on patient utilization of generic drugs and brand-name drugs, and on any access issues.

The enclosed report analyzes the current pharmacy copayment structures of \$1, \$2 and \$3 for Medicaid and \$1 and \$2 for VHAP, VHAP Pharmacy, VScript and VPharm, depending on the cost of the drug, to a structure based on brand/generic classification.

The analysis demonstrates that OVHA would not realize additional savings from the migration to a brand/generic co-pay structure. Further, OVHA would, in fact, see a reduction in savings of \$250,269 per year. This can be partially attributed to the loss of the three-tier structure (\$1,\$2,\$3) for Medicaid that currently exists. Currently, OVHA aggressively promotes generics in its Preferred Drug List and requires that generics be dispensed when available. Per state law, claims for brand drugs that have generic alternatives will reject at the pharmacy, and substitution is required unless the physician certifies through the use of a "Dispense As Written" designation that the brand is medically necessary.

Further, in select situations, the State prefers the brand drug over the generic alternative when it is determined to be more cost effective to the State net of all rebates and discounts. In those situations, claims for the generic reject and the pharmacy is required to dispense the brand.

In summary, the OVHA is currently aggressively managing and mandating generic utilization whenever it is more cost-effective to the State, so moving to a Brand-Generic co-pay would not further encourage the use of generics beyond what is already required. The OVHA feels that a co-pay based on the calculated cost of the claim is a more suitable application of cost share by maximizing savings to the State.

Please let me know if further analysis is required.

Comparing Copayment Structures
 Copayments Based on Claim Dollar Amount (Current Process) vs.
 Based on Generic / Brand Classification

CURRENT CO-PAY STRUCTURE FOR OVHA				
Copaysof \$1, \$2 and \$3 based on dollar amount of claim.				
		# CLAIMS	AVGE CO-PAY PER CLAIM	CURRENT 6 MO. SAVINGS
MEDICAID				
\$1 for claims \$29.99 and under; \$2 for claims \$30-\$49.99; \$3 for claims \$50 and greater.				
	TOTAL MEDICAID SAVINGS	298,175	\$ 1.64	\$ 489,274.93
FULL BENEFIT DUALS (CMS Excluded only)				
\$1 for claims \$29.99 and under; \$2 for claims \$30-\$49.99; \$3 for claims \$50 and greater.				
	FBDUALS	69,801	\$ 1.10	\$ 76,812.75
VHAP,VPharm				
\$1 for claims \$29.99 and under; \$2 for claims \$30 and over.				
	VTM-VHAP	281,236	\$ 1.30	\$ 366,667.73
	VTD-VPHARM	290,367	\$ 1.24	\$ 361,461.42
	TOTAL VHAP/VPHARM	571,603	\$ 1.27	\$ 728,129.15
		6 MOS SAVINGS	\$	1,294,216.83
		ONE YEAR OF SAVINGS	\$	2,588,433.65

IF CO-PAY STRUCTURE WERE MODIFIED TO BRAND/GENERIC TIERS				
Keeping Co-Pays comparable: Copayments of \$1 for generics and \$2 for brands.				
		# CLAIMS	AVGE CO-PAY PER CLAIM	SAVINGS
MEDICAID				
\$1 for generics; \$2 for brands				
	TOTAL MEDICAID SAVINGS	298,175	\$ 1.16	\$ 345,290.00
FULL BENEFIT DUALS (CMS Excluded only)				
\$1 for generics; \$2 for brands				
	FBDUALS	\$ 69,801	\$ 1.10	\$ 76,734.00
VHAP,VPharm				
\$1 for generics; \$2 for brands				
	VTM-VHAP	\$ 281,236	\$ 1.30	\$ 366,167.40
	VTD-VPHARM	\$ 290,367	\$ 1.31	\$ 380,890.75
	TOTAL VHAP/VPHARM	\$ 571,603	\$ 1.31	\$ 747,058.15
		6 MOS SAVINGS	\$	1,169,082.15
		ONE YEAR OF SAVINGS	\$	2,338,164.30