



PRESCRIPTIONS DRUGS: RECENT EFFORTS TO LOWER COSTS FOR CONSUMERS AND THE STATE

by Elizabeth Burger

Early in 2007, two separate efforts intended to lower the cost of prescription drugs for consumers in Colorado, as well as the state, were initiated. Enacted by the General Assembly during the 2007 legislative session, the Colorado Cares Prescription Drug Program will allow uninsured Coloradans with limited incomes to purchase generic prescription drugs at rates negotiated by the state. In addition, pursuant to an executive order issued by Governor Bill Ritter in January of 2007, the Colorado Department of Health Care Policy and Financing will establish a preferred drug list for use in the Medicaid program, Colorado's health care program for individuals with low incomes. This issue brief describes these initiatives.

Colorado Cares Prescription Drug Program

Established by Senate Bill 07-001, the Colorado Cares Prescription Drug Program will provide access to discounted drugs to approximately 264,000 Coloradans with limited incomes who do not have health insurance.

Under the program, pharmacies that enter into agreements with the Department of Health Care Policy and Financing will agree to provide generic drugs to eligible persons at rates negotiated between the department and pharmaceutical manufacturers, or the pharmacy's customary charge for the drug, whichever is less.

Persons eligible for the program must be residents of Colorado who are uninsured and who do not qualify for Medicaid or the Children's Basic Health Plan. In addition, eligible individuals must have incomes of less than 300 percent of the federal poverty level (\$30,630 for an individual; \$61,950 for a family of four in 2007).

In order to participate in the program, eligible persons must submit an application to the Department of Health Care Policy and Financing and pay a registration fee of up to \$20. Participants will receive an identification card, which they can present at participating pharmacies to purchase generic drugs. Some reports have found that participants may save as much as 80 percent over the cost of name brand drugs through the program.

The Department of Health Care Policy and Financing anticipates that applications for the program will be available in the late summer or fall, and that it will begin accepting applications for the program beginning January 1, 2008.

When the program is fully implemented in FY 2008-09, program costs will total approximately \$3.9 million, which will be paid through participants' enrollment fees.

Medicaid Preferred Drug List

On January 31, 2007, Governor Bill Ritter signed an executive order directing the Department of Health Care Policy and Financing to establish a preferred drug list for the Colorado Medicaid program. A preferred drug list, also known as a formulary, is a list of recommended drugs developed by a group of physicians and other experts based upon clinical effectiveness, cost, and other factors. Drugs that are on the list may be prescribed to Medicaid clients without special authorization from the state. A preferred drug list saves a state money by limiting the drugs that can be prescribed to Medicaid clients to those drugs that cost the least, but are still efficacious. A client must receive authorization directly from the Department of Health Care Policy and Financing to access a drug that is not on the list.

Preferred drug lists are one tool often used by states to control prescription drug costs in their Medicaid programs. According to the National Conference of State Legislatures, over 30 states have an operational Medicaid preferred drug list program.

Many states that use a Medicaid preferred drug list also obtain supplemental rebates from drug manufacturers. States can encourage the use of a certain manufacturer's drug by placing the drug on the state's preferred drug list, thereby ensuring the manufacturer a certain level of exclusivity in sales. In exchange for this exclusivity, a manufacturer agrees to provide a rebate to the state for a portion of the cost of the drugs. Supplemental rebates have also resulted in costs savings for states' Medicaid programs. Governor Ritter's executive order directs the Department of Health Care Policy and Financing to obtain supplemental rebates, and to determine the best method by which to obtain the rebates.

In addition, some states that utilize a preferred drug list also participate in multi-state prescription drug purchasing pools. In such pools, states join together to negotiate Medicaid prescription drug prices and supplemental rebates from prescription drug manufacturers. By leveraging the volume of

many states' Medicaid clients, and through pharmaceutical manufacturer competition for placement on the states' preferred drug lists, the states in the pools hope to negotiate deeper supplemental rebates and lower prescription drug prices. According to the executive order, the Department of Health Care Policy and Financing must evaluate the feasibility and cost-effectiveness of joining an existing multi-state prescription drug purchasing pool.

Before a preferred drug list can be established in Colorado's Medicaid program, the Department of Health Care Policy and Financing must appoint a Pharmacy and Therapeutics Committee. The committee will meet over several months and will utilize clinical data and evidence in considering which drugs should be included on the preferred drug list. In April 2007, the Department of Health Care Policy and Financing held a series of public meetings throughout the state to take public input into the development of the preferred drug list and the appointment of the committee.

The Department of Health Care Policy and Financing estimates that the preferred drug list will be implemented January 1, 2008. According to estimates from the Joint Budget Committee staff, the use of a preferred drug list is expected to save Colorado's Medicaid program \$670,376 in FY 2007-08. The estimated savings for FY 2007-08 reflect six months of implementation and are therefore expected to double to \$1.3 million in FY 2008-09. The Department of Health Care Policy and Financing expended about \$157.9 million for Medicaid prescription drugs in FY 2005-06, after it collected all available rebates from prescription drug manufacturers.