

# MassHealth Prescription Drug Pricing FY20 Budget Reforms

September 2019

**MassHealth prescription drug spending has nearly doubled from ~\$1.1B to ~\$1.9B since 2012, twice the growth vs. other MassHealth spending.**

- Rapid prescription drug cost growth is expected to continue, with high cost drugs as a major driver.
- 20 drugs recently launched or pending FDA approval are expected to cost well over \$100 million annually, after expected rebates.
- Increasingly, new high cost drugs (at times ~\$1 million per course of treatment) are the only drugs in their classes. With no competition for these drugs, MassHealth lacks effective tools to negotiate rebates or cost-effective payment arrangements with manufacturers.

**MassHealth has maximized rebates and management of prescription drug costs under statutory and federal authorities in recent years.**

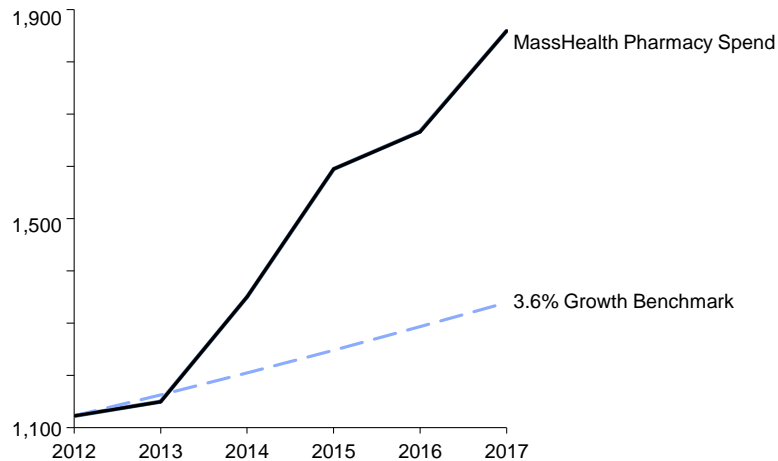
**The FY20 budget authorizes MassHealth to directly negotiate with drug manufacturers while maintaining coverage for members.**

- The reforms were proposed by The Baker-Polito Administration, and enacted by the Legislature.
- The reforms establish enhanced accountability and transparency of drug prices and incorporate drug manufacturers into public processes similar to those that already exist for health care providers and health plans in Massachusetts.
- Access to medically necessary prescription drugs will not be impacted by the reforms.
- The reforms give MassHealth greater negotiating leverage for prescription drug prices, including authority to engage in:
  - 1) **Direct Negotiations:** Gives MassHealth authority to negotiate supplemental rebate agreements, including value- or outcomes-based contracts, directly with drug manufacturers.
  - 2) **Public Process:** If direct negotiations are unsuccessful and the drug costs at least \$25K person/year or \$10M in the aggregate annually, MassHealth can establish a target value for a given high-cost drug through a public process, similar to the rate-setting process that exists for most other services that MassHealth covers. MassHealth will renew rebate negotiations with the drug manufacturer consistent with the publicly determined target value.
  - 3) **Health Policy Commission (HPC) Accountability Process:** The reforms also leverage features of existing HPC processes and oversight tools for health care providers and payers to hold drug manufacturers more accountable.
    - If Steps 1 and 2 above are unsuccessful, MassHealth may refer the manufacturer of a high-cost drug to the HPC.
    - Upon referral, the HPC may require the manufacturer to disclose additional information, and after analyzing the disclosures and other relevant information, will issue a determination as to whether the drug is reasonably priced.
    - The manufacturer may be subject to penalties if it does not comply with the HPC process.
- Additionally, MassHealth is implementing requirements to limit and make more transparent Pharmacy Benefit Manager (PBM) margins and “spread pricing” within its ACOs and MCOs.

**Together, these MassHealth pharmacy initiatives are projected to save the Commonwealth \$80 million gross in FY20.**

## MassHealth Rx spending has nearly doubled over 5 years

MassHealth pharmacy spend  
\$ Millions



## MassHealth Pharmacy Reforms: Overview of Process

### Step 1: MassHealth direct negotiations

- Identify highest cost drugs and engage drug manufacturers in direct negotiations with the goal of entering into supplemental rebate agreements
- Includes value- or outcomes-based agreements



### Step 2: MassHealth public process

- If direct negotiations are unsuccessful, MassHealth may publicly identify a target value for the drug and hold a public comment period and/or hearing on that value
- MassHealth may amend the target value based on public input and comments from the manufacturer
- MassHealth will renew rebate negotiations with the drug manufacturer consistent with the publicly determined target value



### Step 3: Health Policy Commission Accountability Process

- If no agreement is reached, MassHealth may refer the manufacturer to the HPC for review – consistent with existing frameworks to hold providers and health plans more accountable
- The HPC may require the manufacturer to disclose additional information
- After reviewing all information, the HPC must issue a determination as to whether the drug is reasonably priced
- The manufacturer may be subject to penalties if it does not comply with the HPC process