

The Economic Impact of Changing the Texas Medicaid Pharmacy Benefit Structure: An Analysis of the Potential Effects of Switching from a Carve-Out to a Carve-In System or Limiting Network Access

Executive Summary

Given tight budget conditions, rising numbers of enrollees in Medicaid, and growing costs, Texas legislators are considering ways to reduce the cost of Medicaid. This study develops three scenarios based on various cost-reduction proposals and finds that each of these proposals will cause large numbers of community-based pharmacies to close, leading to decreased quality of and access to service for both Medicaid and non-Medicaid patients, dramatic permanent job losses, and significant overall economic harm to the state.

Texas currently uses a “carve-out” method to provide pharmacy benefits for Medicaid patients. This system essentially excludes certain health and pharmacy services from Medicaid Managed Care. Proposed changes could reflect one of the three scenarios listed below:

- Scenario I assumes changes proposed by the Texas Health and Human Services Commission to move to a proposed “carve-in” or shift of pharmacy benefits within the role of the middleman such as a Managed Care Organization (MCOs) or Prescription Benefit Managers (PBMs), a for-profit firm which acts as administrator of the prescription drug programs put in place, alongside fee reductions currently proposed by the Texas Legislature;
- Scenario II reflects the fee cuts discussed by the Texas Legislature (two 1% reductions now in place and an additional \$1.00 reduction being discussed), but assumes that a broad pharmacy network is maintained irrespective of whether a “carve-in” or “carve out” approach is implemented;
- Scenario III presumes the implementation of the dispensing fee policy recommendations embodied in a widely circulated study by the Lewin Group.

The Perryman Group finds that the purported savings due to “efficiency” under each of the three options are not only “illusory,” but also harmful.

The first scenario assumes changes proposed by the Texas Health and Human Services Commission (THHSC) are implemented (including a switch to 'carve in', which reduces network size or restricts contracts (which is typical of PBMs)). In this case, the total annual impact of pharmaceutical losses and incremental outlays for health care among all patients (Medicaid and Non-Medicaid) associated with the potential network reductions include \$3.1 billion in output (real gross product) each year and **42,923 permanent jobs**. The cost-saving measures outlined by the THHSC and the likely associated network limitations also have the potential to cause notable harm to the pharmacy sector including the loss of more than **770** (primarily independent and small chain) locations.

In the second scenario, the presumption is that fee reductions discussed in the Legislature (the two 1% cuts that have already occurred plus an additional \$1.00) are enacted. In this instance, the annual reduction in output (real gross product) was found to be \$722.3 million as well as **9,904 permanent jobs**. This scenario assumes networks are kept in place, whether in a carve-in or carve-out system. The Perryman group estimates the reduction in annual business activity within the pharmacy sector will include about **175** store closures.

The third scenario involves dispensing fees as outlined in the Lewin study. In this case, the annual losses would include an estimated \$4.7 billion in reduced output (real gross product) and **64,632 permanent jobs**. Within the pharmacy sector, such a scenario leads to losses of more than **1150** pharmacies.

The Perryman Group concludes that changing the Texas system of providing pharmacy benefits to Medicaid recipients to a carve-in method or otherwise limiting pharmacy access would involve substantial negative fallout and should be carefully evaluated within a framework that fully reflects the overall consequences of policy changes.