ISSUE REVIEW

Iowa Legislative Fiscal Bureau

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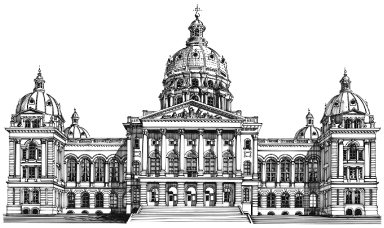

State Capitol
Des Moines, IA 50319
November 30, 1994

Medical Assistance Prior Authorization Program

ISSUE

Success of the Prior Authorization Program in the Department of Human Services

AFFECTED AGENCIES

Department of Human Services

CODE AUTHORITY

Chapter 249A, Code of Iowa

BACKGROUND

During the 1992 Legislative Session, the General Assembly authorized the Department of Human Services (DHS) to begin the process of Prior Authorization for Medical Assistance recipients. The DHS has contracted with Unisys, the fiscal agent for the Medical Assistance Program, to administer Prior Authorization in Iowa. The goal of Prior Authorization is to reduce the cost of prescription drugs to the State and federal government, while ensuring that those individuals who need a class of medications receive it.

CURRENT SITUATION

Prior Authorization requires approval by the Prior Authorization Agent -- Unisys -- before a drug on the Prior Authorization list can be prescribed. The physician may phone Unisys directly for authorization. Unisys maintains a staff of 4 (2 of whom are pharmacists) to give over-the-phone authorization of drugs on the Prior Authorization list. Physicians must provide a justification for prescribing the original drug; justifications may include a statement that the original drug is more effective than the alternatives or that the patient is not responding to the alternatives. If Unisys declines to give Prior Authorization, the Medical Assistance recipient may appeal the decision through administrative channels.

Drugs are placed on the Prior Authorization list by the following process:

- The Drug Utilization Review Commission, a group of doctors and pharmacists, makes recommendations prior to the beginning of the fiscal year regarding drugs

which they believe should be placed on the list. Reasons for placing a drug on the list include the drug having a high probability of misuse or the drug has effective, less costly alternatives. The Department may also make recommendations to the Drug Utilization Review Commission regarding drugs that it feels should be included on the list.

- The Drug Utilization Review Commission informs the DHS of the drugs on the list. The DHS formulates administrative rules to implement the recommendations. As with the prior step, the Department may also include drugs on the list that the Drug Utilization Review Commission did not include.
- The Council on Human Services then reviews the rules which are formulated by the Department and passes or modifies them. The rules are passed on to the Administrative Rules Review Committee for approval or modification.

The savings methodology used by Unisys computes the difference between the average name brand price and the average generic price (if such a generic exists) for each month. The difference between the 2 prices is then multiplied by the number of prescriptions to determine the gross savings. For drugs where there is no alternative, the gross savings is the number of prescriptions denied multiplied by the average price per prescription. Savings stated in this Issue Review are from all funding sources. To arrive at the approximate General Fund savings, it is necessary to multiply by 37.20%, the FY 1994 State match rate.

The table below lists the drugs on the Prior Authorization list, a description, and a common treatment usage.

Table 1
Prior Authorization Drugs and Treatment Usages

Name	Description	Treatment Usage
NSAIDS	Non-steroidal anti-inflamatory drugs	Arthritis
Benzodiazepines	Commonly known as tranquilizers	Anxiety disorders
Growth Hormones	see Treatment Usage	Stimulate growth in persons with growth abnormalities
Anti-Ulcers	see Treatment Usage	Peptic ulcers (e.g., Tagamet, Pepcid)
Prescription Topical Acne Products and Topical Tretinoin	see Treatment Usage	Acne
Dipyridamole	Reduces for tendency of blood platelets to stick together	Heart patients
Keftab	Broad spectrum antibiotic	Infections
Non-Sedating Antihistamines	see Treatment Usage	Allergies (e.g., Seldane)
Epogin and Filgirastim	see Treatment Usage	Anemias

Overall gross savings due to the Prior Authorization program for the 12 month period from July 1993 to June 1994 are listed in the table below. Administrative costs are determined by taking the total administrative costs for a month and distributing the costs by the average time spent on each class of drug.

Table 2

FY 1994 Savings and Costs of the Prior Authorization Program

Drug Class	Gross Savings	Administrative Costs	Net Savings
NSAID	$ 1,582,394	$ 69,313	$ 1,513,081
Benzodiazepines	1,186,463	8,900	1,177,563
Anti-Ulcer	793,103	99,620	693,483
Growth Hormones	24,511	2,590	21,921
Non-sedating Antihistamines	240,326	10,684	229,642
Dipyridamole	24,260	1,257	23,003
Anti-Acne	86,236	26,224	60,012
Keftab	1,619	126	1,493
Epogen/Neupogen	6,252	3,018	3,234
Total	$ 3,945,164	$ 221,732	$ 3,723,432

The table below lists the average name brand price and the average generic price for the drugs on the original Prior Authorization list for the July 1993 through June 1994 time period. For the drugs listed, the difference between the name brand and generic prices ranges from 18.3 percent for Anti-Ulcer drugs up to 66.6 percent for Non-sedating anti-inflammatory drugs.

Table 3
Comparison of Average Name Brand Price and Average Generic Price

Name	Average Name Brand Price	Average Generic Price	Average Name Brand Number of Prescriptions	Average Generic Number of Prescriptions
NSAIDS	$39.03	$13.02	3,037	14,672
Benzodiazepines	$41.97	$9.97	2,066	8,603
Growth Hormones*	$2,101.17	N/A	N/A	N/A
Anti-Ulcers**	$53.09	$43.40	5,478	6,695

*For Growth Hormones there is no generic alternative.

**For anti-ulcer medications the focus is the difference between the cost of high dose and low dose treatments. The figures provided are the average cost per day of high dose prescriptions and average cost per day for low dose prescriptions. The number listed for Average Name Brand Number of Prescriptions is the average number of high dose prescriptions. The number listed for Generic Number of Prescriptions is the average number of low dose prescriptions.

DRUGS ADDED DURING FY 1994

The table below lists the original savings estimate prepared by the Drug Utilization Review Commission and the actual FY 1994 savings. The actual FY 1994 savings for all of these drugs is based on 11 months because these drugs did not enter the Prior Authorization Program until August 1993.

Drugs Added During FY 1994

Drug Class	Original Savings Estimate	Net Savings	Difference
Prescription Topical Acne Products	$ 70,000	$ 60,012	$ -9,988
Dipyridamole	58,000	23003	-34997
Cephalexin Hydrochloride Monohydrate	37,000	1493	-35507
Non-sedating Antihistamines	180,000	229642	49642
Epogen	39,000	3234	-35766
Total	$ 384,000	$ 317,384	$ -66,616

One of the reasons for not meeting the savings estimate is due to changing the savings methodology for Keftab. Originally, Keftab savings were calculated by assuming the trend prior to implementing Prior Authorization and comparing to usage after Prior Authorization. The current method determines the number of denials issued and calculates the savings from each denial. The change in methodology reduced the savings from $43,872 to $1,493. Unisys changed the methodology because of evidence that the trend for Keftab was falling before implementation of the Prior Authorization Program, making it inappropriate to assume an average trend for comparison.

However, one known factor is the difference in average cost between Keftab and generic alternatives of $44.07 per claim ($53.52 for Keftab and $9.45 for the generic alternatives). The difference may be overstated because the data does not distinguish between prescription sizes and the low number of Keftab claims during FY 1994.

Overall Issues

One concern regarding Prior Authorization type programs and restricted formularies is the proposition that Prior Authorization has a tendency to reduce the number of drugs being prescribed because of the increased difficulty involved for clients and physicians. One method of evaluating this concern is to examine the average weekly pharmacy claims to determine if demand is somehow dampened. Although the number of claims processed has fallen throughout the March 1994, to July 1994 time period, the percentage of claims denied by the Prior Authorization Program have been relatively constant. The number of denied claims as a percentage of total processed claims has been relatively constant, ranging from 11.7% to 13.1% with the average being 12.2%. This indicates that the number of denials is a relatively constant proportion of the total, and disproves the theory that the Prior Authorization Program is restricting demand for prescribed drugs.

A second issue is related to the first. Because of the perceived difficulty involved in prescribing a drug on the Prior Authorization list, a physician may prescribe an alternative which is not on the list, but may actually be more expensive than either the brand name or the generic. No data is available regarding the issue.

A final issue is the extent to which savings from the current Prior Authorization drugs can be used as evidence that further expansion of the list will result in similar savings. According to Mike Purcell of the Drug Utilization Review Commission, the Commission has placed drugs on the list because of the therapeutic value. In many cases, these are the same drugs that produce the most savings. It is likely that as more drugs are added the savings attributable to each is likely to decrease. It appears this is the case because the savings for the drugs added during FY 1994 are lower than the drugs added prior to FY 1994.

ALTERNATIVES

This Issue Review is presented as an informational item only. Currently the Drug Utilization Review Commission evaluates each class of drugs on an ongoing basis evaluating potential cost savings for each class of drugs.

BUDGET IMPACT

The FY 1995 General Fund budget for the Medical Assistance Program is $344.7 million. The FY 1994 net savings from all funding sources due to the Prior Authorization Program is $3.7 million.

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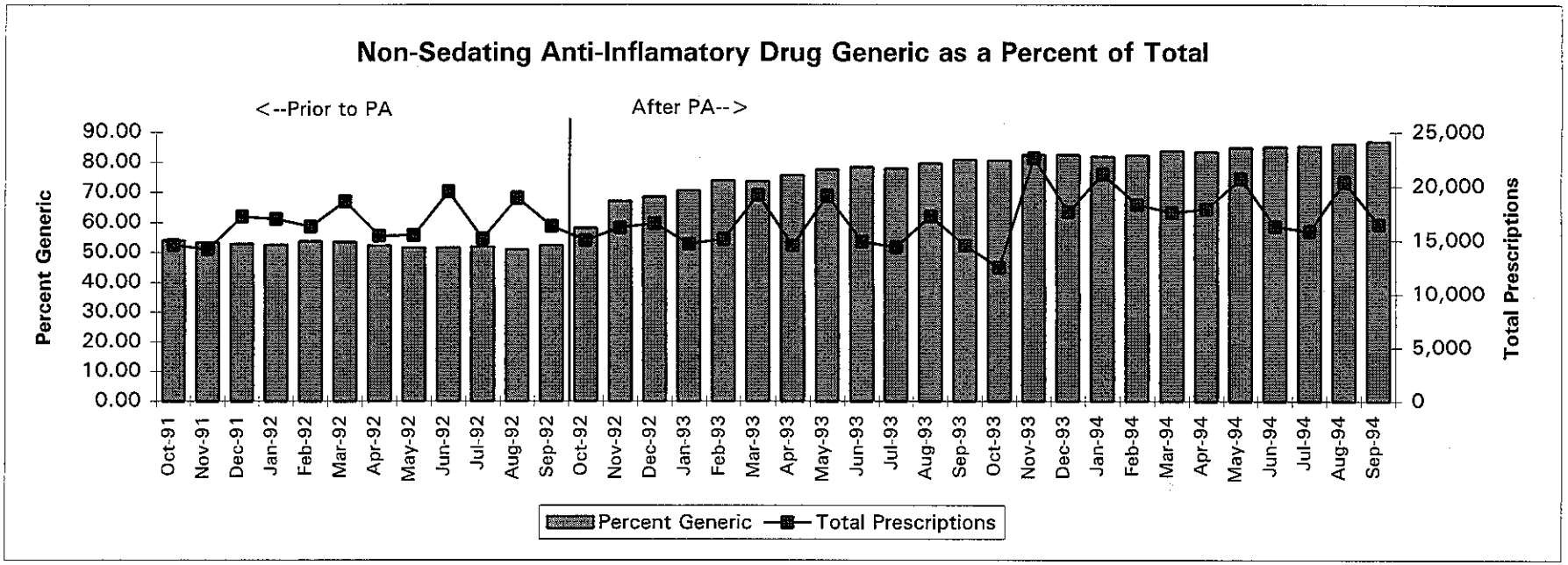
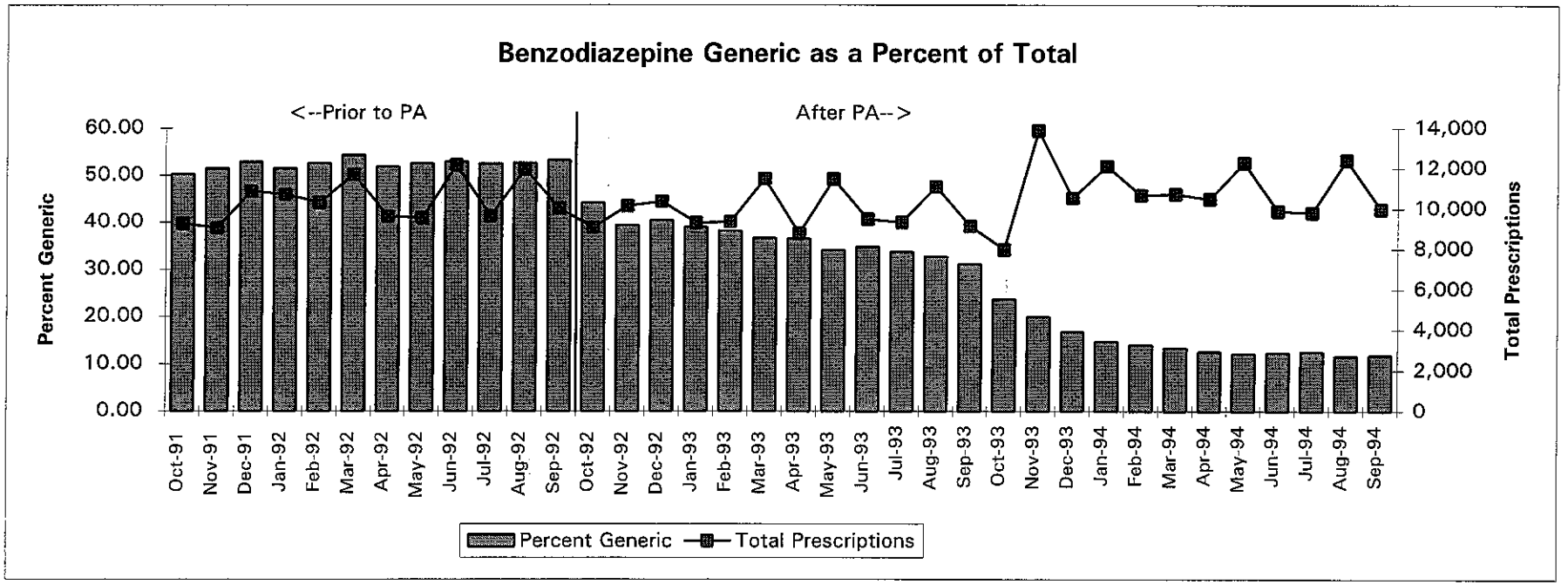
Attachment 1



Attachment 2



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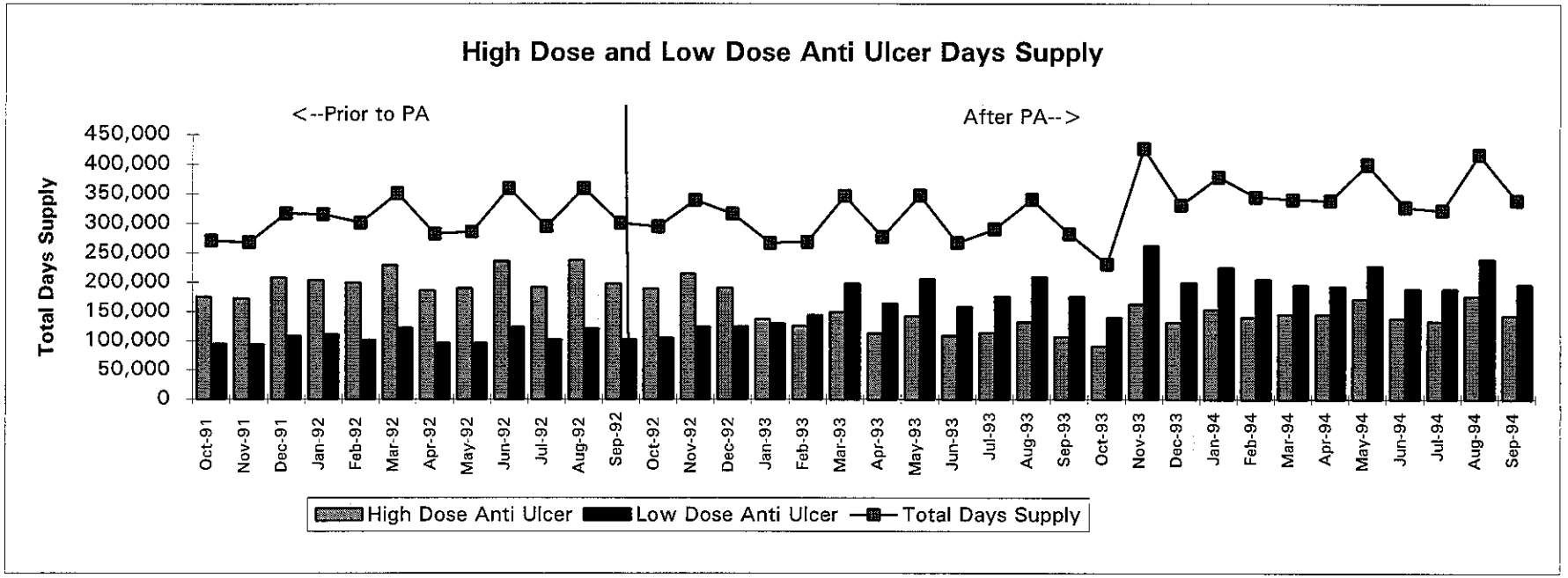
ATTACHMENTS 1 & 2

Attachment 3



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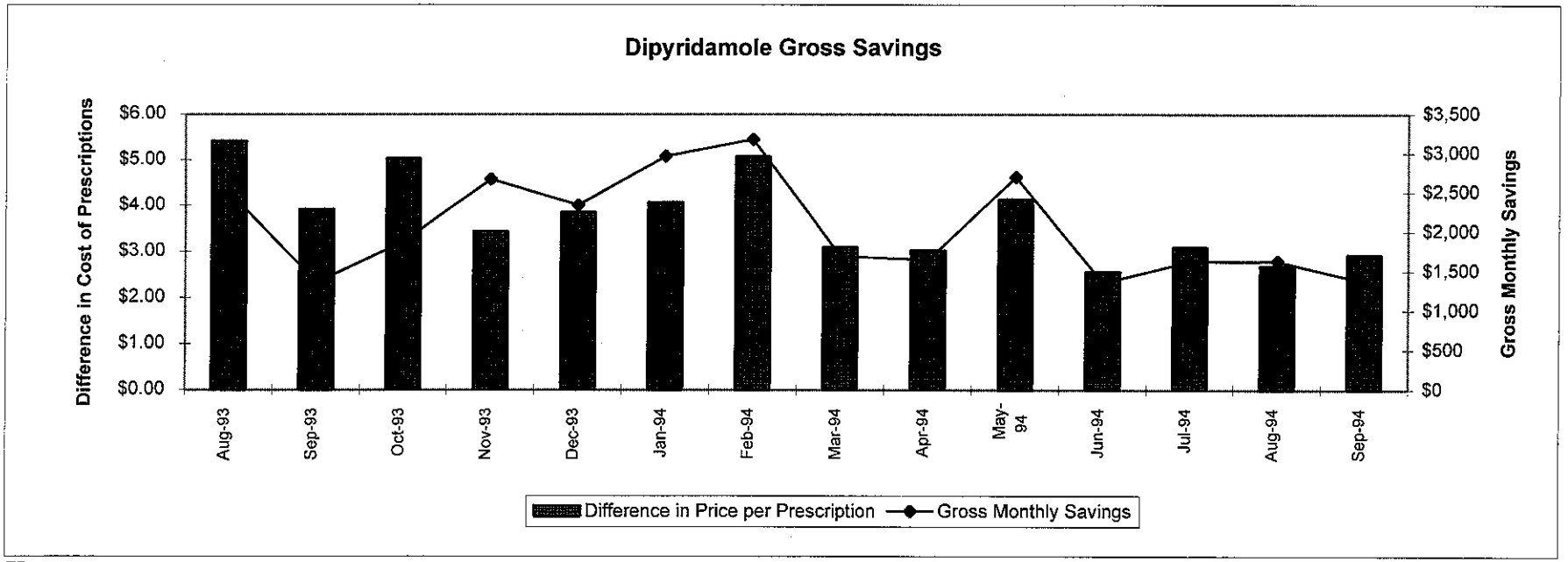

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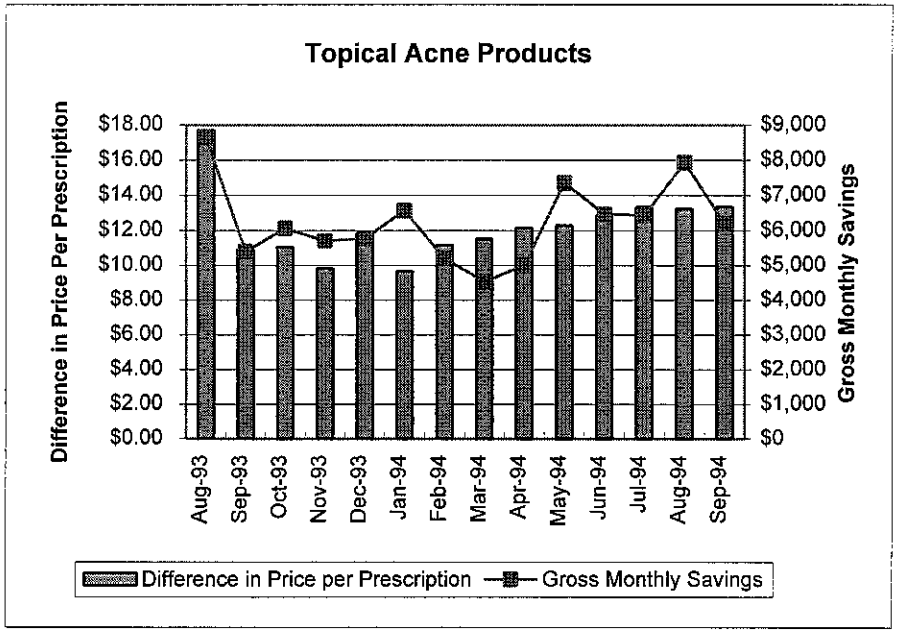
ATTACHMENTS 3 & 4

Attachment 5



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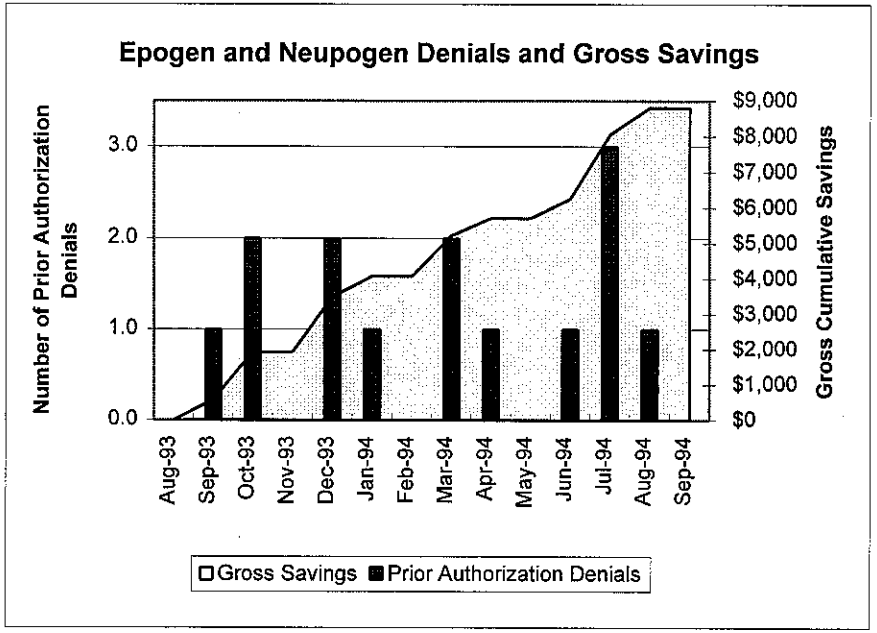

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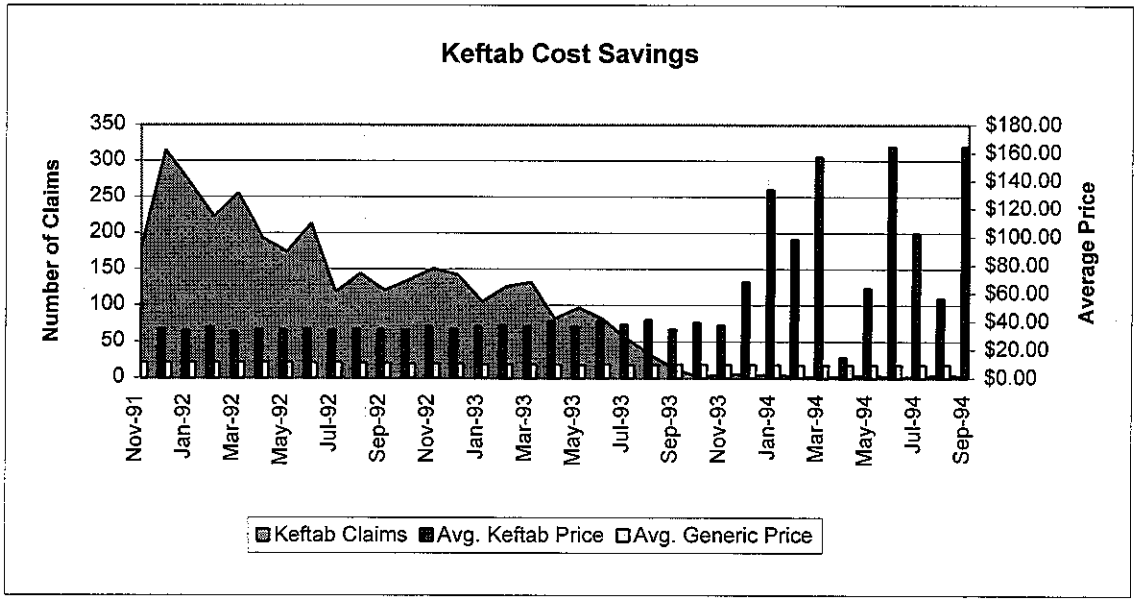

ATTACHMENTS 5, 6, & 7

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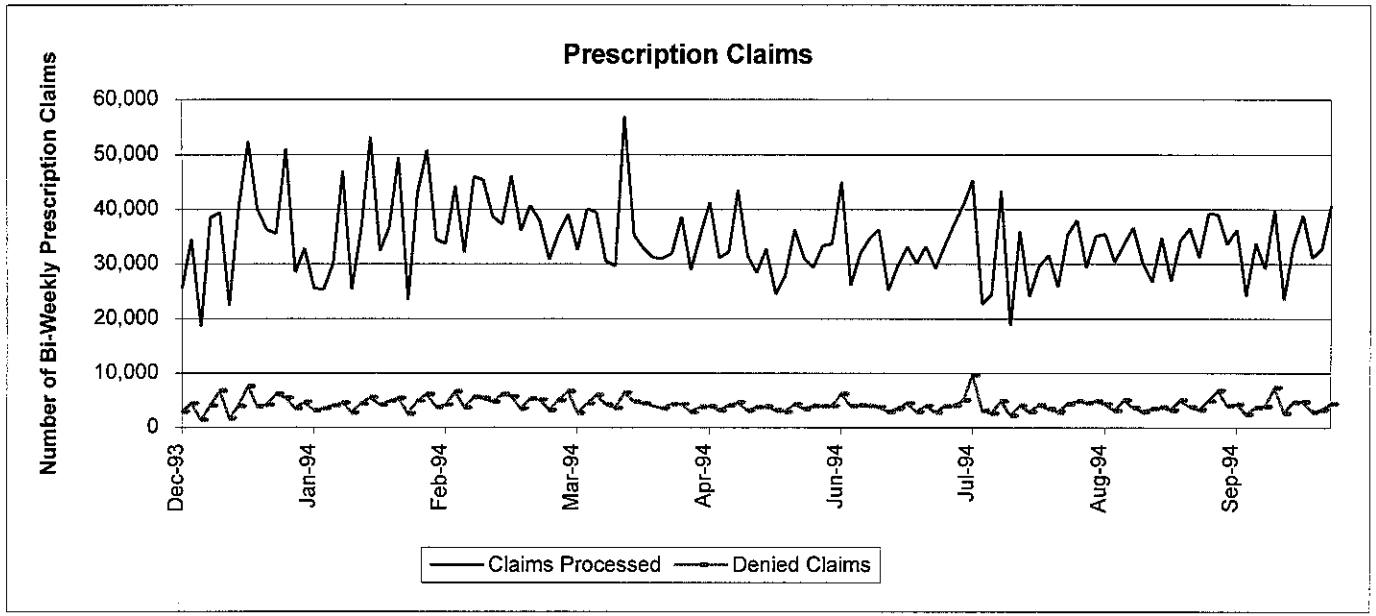
Attachment 8



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