



NEWS RELEASE

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STATE PHARMACY ASSISTANCE PROGRAMS PROVIDE LESSONS FOR REDUCING COSTS AND IMPROVING PATIENT SAFETY

New York City, February 13, 2004—As the federal government begins to implement the Medicare prescription drug benefit, State Pharmacy Assistance Programs (SPAPs) offer lessons for managing escalating program costs and reducing medication errors while ensuring access to prescription drugs for low-income elderly and disabled enrollees, a new report from The Commonwealth Fund finds.

States' experiences with mandatory generic prescribing and manufacturer rebates have been promising in containing program costs. In some states generic drugs account for nearly half of claims paid, yielding considerable savings as the average cost of a generic is much lower than the cost of a brand-name drug. Prospective drug utilization reviews have shown promise in decreasing medication errors but have not yet been proven to reduce costs. Multi-tiered copayments have only recently been introduced to SPAPs and need further study to assess their impact on patients' access to needed medication and on costs.

"Private drug plans that will be serving Medicare beneficiaries can learn from states which approaches to administering a drug benefit are cost-effective, and which can be used to promote better quality of care," said Karen Davis, president of The Commonwealth Fund. "States' experiences also highlight which methods may raise concerns among beneficiaries, drug manufacturers, or pharmacies."

Coordination between the federal and state programs will also be an important issue as the Medicare benefit is implemented. Unlike Medigap or retiree coverage, SPAP spending for a beneficiary with high drug bills will count towards reaching Medicare catastrophic protection.

Stephen Crystal, principal investigator for the research team at the Rutgers Center for State Health Policy that prepared the report said, "The states' role in pharmacy assistance will continue to be extremely important, but states' experience in interacting with other existing sources of coverage suggests that considerable effort will be needed by the new private pharmacy plans, states, and the federal government in order to create the systems needed for coordination of benefits to work effectively." Kimberley Fox, lead author of the report, also noted, "As states move into the business of wrap-around versus primary coverage under the new Medicare benefit, they may have fewer opportunities to capitalize on some of the cost

containment strategies that have been particularly effective in the past, such as manufacturer rebates.”

Managing Program Costs in State Pharmacy Assistance Programs is based on a survey of all direct benefit SPAPs in place throughout the year 2000 and additional qualitative analysis of programs in eight states. The report analyzes methods state programs have put in place to control program costs and their effectiveness:

- **Mandatory Generic Substitution** - Nearly all states with SPAPs require substitution of generic drugs, as they do in their Medicaid programs. Some states monitor physicians' use of the override allowance, and a few states have also implemented two-tiered copayment programs to encourage patients to use generics, with lower copays. SPAP officials in Pennsylvania generally felt that mandatory generic substitution yields the greatest cost savings of all methods.
- **Manufacturer Rebates** - Most SPAPs follow the model of the Medicaid drug rebate program and require pharmaceutical companies to provide rebates to the state as a condition of providing coverage for their drugs. Program officials report that rebates are second only to generic substitution in producing savings for their state programs.
- **Senior-Specific Online Prospective Drug Utilization Review (OPDUR)** - New Jersey and Pennsylvania's SPAPs use Online Prospective Drug Utilization Review, which blocks payment for drug combinations and doses identified as unsafe for seniors, and requires a demonstration of clinical necessity to override. Pennsylvania's OPDUR averts approximately 140,000 potential medication errors, not counting those that are avoided by modifying prescriptions before they are filled. New Jersey's program identified 3,272 potentially life-threatening drug interactions in the first year, for both its Medicaid and SPAP programs. While there is some evidence in New Jersey of cost savings from the program, the evidence is ambiguous. Both states regard OPDUR as important measures to improve patient safety measures rather than cost containment. This goes beyond the DUR in the federal Medicare legislation, which allows overrides by pharmacists, and may be a model the Medicare drug plans may be interested in replicating.
- **Multi-tiered copayments** - Two case-study states follow an insurance model, using three copayment tiers, for generic, preferred name-brand, and nonpreferred name-brand drugs. States with tiered copayments allow lower copayments for nonpreferred drugs if they are deemed medically necessary. These programs are too new to assess their effect on costs and access to medication.