

State Medicaid Agencies Research— Spring 2011



**Managed Markets
& National
Accounts Service**

States Still Optimistic About Manufacturers' Supplemental Rebates

The health care reform bill is reshaping the rebate landscape, providing states upside from newly-instituted rebates on MCO lives, but threatening to shrink manufacturers' supplemental rebates to the states. As of early 2011 when HIRC's interviews were conducted, State Medicaid panelists were still uncertain of the net dollar impact of these changes, as many manufacturer contracts were just being re-bid or had not yet expired.

The State Medicaid panelists anticipate manufacturers will continue to provide supplemental rates for access to their PDLs, although they expect the rebates to be lower due to the increase in the mandated rebate level. *"It's still a competitive market so they still want to have a place at the PDL table."*

Novartis Rated Best in Rebates/Discounts; Merck is Tops in Programs & Resources

State Medicaid Agencies rated Novartis highest on willingness to offer rebates/contracts, followed by Merck and Astellas. All top-rated companies had improvements in their rebate ratings in 2011, and were cited by Medicaid panelists for providing aggressive rebates and discounts to secure and maintain preferred drug status for their products. In contrast, Takeda and Novo Nordisk had notable declines in rebate ratings.

Merck was rated highest in programs and resources, and is credited with supportive and responsive account reps and clinical liaisons, extensive disease state and product information and informative seminars on medical home.

Top Manufacturers —State Medicaid Agencies

Best in Contracting	Best in Programs/ Resources	Best Account Managers
Novartis	Merck	Pfizer

About HIRC

Health Industries Research Center (HIRC) conducts strategic market research on trends in health care, pharmaceuticals, and managed care businesses.



HIRC

519 Seabright Ave, Suite 211
Santa Cruz, CA 95062

www.hirc.com

State Medicaid Programs Feeling the Squeeze from States' Budget Crises

State Medicaid programs are challenged to provide services as they continue to struggle with state budget shortfalls and increasing program enrollment due to the recession.

- Several states are considering reimbursement cuts and reductions in services and benefits to cut costs.
- Long term strategies include better management of high-cost specialty products and formation of medical home networks.

Health care reform will transform many states' Medicaid programs by greatly increasing enrollment and costs as eligibility is expanded in 2014. Panelists' viewpoints on the impending expansion vary widely, ranging from, "we are in trouble" to it "is an amazing opportunity" to offer additional programs and services.

State Medicaid Agencies Looking to Better Manage Specialty Pharmacy

PDLs for supplemental rebates, prior authorization and aggressive state MAC programs promoting generic utilization remain the three most reliable and consistent programs for controlling costs for traditional pharmaceuticals for state Medicaid programs.

Controlling specialty pharmacy costs, however, remains a challenge that many State Medicaid panelists are looking to better address. Although high-cost specialty products are covered under Medicaid, panelists report they are subject to prior auth for approved indications. Two panelists indicate their programs also have set MAC prices on physician-administered specialty products to influence product choice.

Report Methodology and Availability

HIRC's State Medicaid research was conducted in the first quarter of 2011 through a combination of 13 surveys with State Medicaid agencies and 3 Medicaid PBMs that have a large share of their business in Medicaid; and in-depth interviews with 11 State Medicaid agencies and 2 PBMs. The complete findings are outlined in Chapter VI of the Spring Managed Markets & National Accounts Handbook, which is available to subscribers at www.hirc.com.

About HIRC's Managed Markets & National Accounts Service

Managed Markets and National Accounts is the most comprehensive research service available to help pharmaceutical firms assess performance and stay abreast of trends within a multitude of managed care, government and institutional markets. Surveys and interviews conducted with:

- *Health Plan Pharmacy Dir.*
- *Health Plan Medical Dir.*
- *PBMs*
- *Medicare PDPs*
- *Medicaid MCOs*
- *State Medicaid Directors*
- *Specialty Pharmacies*
- *LTC Consultant Pharmacists*
- *Hospital Pharmacists*
- *Retail Drug Chains*

Key reports include:

- *Ratings of Manufacturers on Contracting & Programs*
- *Customer Needs Assessment*
- *Pharma's Ratings of Customers*
- *Market Segment Situation Analyses*
- *Future Scenarios*
- *Headcounts & Organizations*

Contact Information

Dorothy Hess
VP, MMNA Research
215.517.6860
dhess@hirc.com

Medicaid MCOs Research—Spring 2011

Managed Markets & National Accounts Service

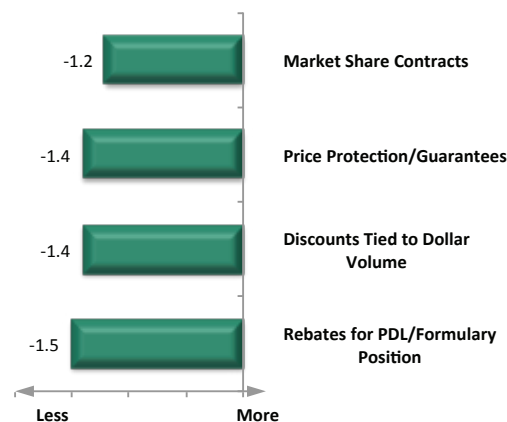
Manufacturers Cut Rebates to Medicaid MCOs in Response to Reform Bill

Medicaid Managed Care Plans report that, since passage of the health care reform bill, most manufacturers have substantially reduced or eliminated their rebates to Medicaid MCOs.

Some manufacturers applied the change in rebates retroactively to the start of 2010, while others reduced them prospectively in a stepwise manner.

The degree of rebate loss varies by state, plan and level of competition within therapeutic categories. Panelists note manufacturers are finding room to still offer rebates in the highly competitive PPI category.

Medicaid MCOs: Greatest Decline in Availability of Manufacturers' Tactics (2011 to 2010)



Medicaid MCOs in a Financial Squeeze

Medicaid MCOs are feeling financial strain due to the reduced rebates from manufacturers and funding cuts from State Medicaid agencies that are struggling with budget shortfalls. Medicaid plans are responding by:

- Removing brands from formulary
- Increasing utilization controls
- Decreasing provider reimbursement
- Being more selective in accepting state contracts.

Over time, Medicaid plans expect high volume growth from health care reform, though with continued declines in reimbursements and rebates.

About HIRC

Health Industries Research Center (HIRC) conducts strategic market research on trends in health care, pharmaceuticals, and managed care businesses.



HIRC

519 Seabright Ave, Suite 211
Santa Cruz, CA 95062

www.hirc.com

Merck Rated Best in Contracting, GSK is Top "Partner of Choice"

Although most manufacturers have severely reduced their rebates to Medicaid MCOs, panelists indicate that Merck, Teva and GSK still have some rebates in place. Merck was rated #1 in willingness to negotiate contracts, with a substantial lead over Teva and GSK, both of whom were rated significantly higher than other manufacturers.

Only half of the Medicaid MCO panelists indicated they use manufacturer programs or resources; these panelists find unbranded patient education valuable, when available in multiple languages and at low literacy levels.

Although GSK was rated best on value of programs and resources, there was little differentiation among other manufacturers' ratings. Panelists mentioned GSK's excellent patient education materials and strong asthma and migraine programs.

GSK was selected most often as Medicaid MCOs' "Partner of Choice", while Merck received the most Best Account Manager nominations.

Top Manufacturers — Medicaid MCOs			
Best in Contracting	Best in Programs/ Resources	Partner of Choice	Best Account Managers
Merck	GSK	GSK	Merck

Report Methodology and Availability

HIRC's Medicaid MCO research was conducted in the first quarter of 2011 through a combination of 27 surveys and 11 in-depth interviews with Pharmacy and Medical Directors from key Medicaid managed care plans. The complete findings are outlined in Chapter VI of the Spring Managed Markets & National Accounts Handbook, which is available to subscribers at www.hirc.com.

About HIRC's Managed Markets & National Accounts Service

Managed Markets and National Accounts is the most comprehensive research service available to help pharmaceutical firms assess performance and stay abreast of trends within a multitude of managed care, government and institutional markets. Surveys and interviews conducted with:

- *Health Plan Pharmacy Dir.*
- *Health Plan Medical Dir.*
- *PBMs*
- *Medicare PDPs*
- *Medicaid MCOs*
- *State Medicaid Directors*
- *Specialty Pharmacies*
- *LTC Consultant Pharmacists*
- *Hospital Pharmacists*
- *Retail Drug Chains*

Key reports include:

- *Ratings of Manufacturers on Contracting & Programs*
- *Customer Needs Assessment*
- *Pharma's Ratings of Customers*
- *Market Segment Situation Analyses*
- *Future Scenarios*
- *Headcounts & Organizations*

Contact Information

Dorothy Hess
 VP, MMNA Research
 215.517.6860
dhess@hirc.com