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TO: The Honorable Senator Russell E. Ruderman, Chair  
Senate Committee on Human Services

FROM: Pankaj Bhanot, Director

SUBJECT: **SB 534 – RELATING TO HEALTHCARE**

Hearing: Friday, February 8, 3:00 p.m.  
Conference Room 016, State Capitol

**DEPARTMENT'S POSITION:** The Department of Human Services (DHS) appreciates the intent and offers comments on the bill to require the State to join the Sovereign States Drug Consortium (Consortium).

**PURPOSE:** The purpose of this bill is to require DHS to enroll Hawaii as a member of the Consortium in order to lower Medicaid purchasing and administrative costs to the State. The Consortium is a collaborative group of state Medicaid programs organized as a shared purchasing and rebate pool that is intended to leverage the purchasing power of its member states' collective Medicaid populations. The primary activity of the Consortium is a drug rebate program that negotiates for supplemental rebates that are in addition to those required under the federal Medicaid drug rebate program.

DHS supports the underlying goal of the bill, which is to lower Medicaid prescription drug costs. However, DHS has analyzed the benefits of enrolling in the Consortium and doubts that the State would see significant prescription drug cost savings. Furthermore, DHS would have to make business process and system changes to enroll in the Consortium. These changes would require the employment of several new staff with specialized knowledge and experience.

Currently, the prescription drug benefit provided to MQD beneficiaries is managed by QUEST Integration (QI) health plans. The QI plans are responsible for negotiating supplemental rebates with drug manufacturers directly. The QI plans are required to report their supplemental rebates to MQD, and MQD adjusts their capitation payments to the QI plans to account for the supplemental rebates. MQD can make sure that the supplemental rebate savings are passed on to the State through this payment arrangement.

Enrolling in the Consortium would result in new DHS staffing and resource needs. One of the requirements of joining the Consortium is the use of a Preferred Drug List (PDL). DHS presently does not have need for a PDL because prescription drug coverage is managed by the QI plans. DHS would need to hire at least two additional full-time pharmacists as well as policy and clerical support to establish and maintain a PDL. The administrative budget for MQD would have to be raised from a staffing and resource perspective to participate in the Consortium.

The QI program is a comprehensive managed care program. One of the virtues of a comprehensive managed care program is the ability for a health plan to coordinate care for all of a beneficiary's health care needs. This includes pharmacy. DHS believes that continuing to keep the prescription drug benefit under the management of QI plans helps the QI plans better manage the health of their beneficiaries. Enrolling in the Consortium could disrupt QI plans' efforts.

DHS supports the goal of the bill to keep Medicaid prescription drug costs low. The QI plans have experienced success in negotiating supplemental rebates in recent years. Requiring DHS to enroll in the Consortium may not be the most cost-effective approach to prescription drug cost management at this time. However, DHS acknowledges that enrollment in the Consortium in the future may be a good option and suggests that the best course of action be to continue to monitor QI plan progress on supplemental rebates.

Thank you for the opportunity to testify.