

**Medicaid  
Prescription Drug  
Purchasing:  
Preferred Drug List  
Report 09-7**

**September 23, 2009**



STATE OF WASHINGTON  
JOINT LEGISLATIVE AUDIT AND  
REVIEW COMMITTEE

**STUDY TEAM**  
John Bowden

**PROJECT SUPERVISOR**  
Keenan Konopaski

**LEGISLATIVE AUDITOR**  
Ruta Fanning

Copies of Reports are available  
on the JLARC website at:

**[www.jlarc.leg.wa.gov](http://www.jlarc.leg.wa.gov)**

or contact

Joint Legislative Audit & Review  
Committee  
1300 Quince St SE  
Olympia, WA 98504-0910  
(360) 786-5171  
(360) 786-5180 FAX

## REPORT SUMMARY

---

### **2003 Legislative Directive: Create a Preferred Drug List**

In the early 2000s, expenditures for prescription drugs were the fastest growing segment of health care spending. Prescription drug costs were increasing by as much as 17 percent per year. In 2003, the Legislature passed SB 6088 in an attempt to address the escalating state expenditures on prescription drugs. One of the requirements in SB 6088 was the development of a state preferred drug list (PDL).

#### ***The Preferred Drug List***

The purpose of the preferred drug list is to promote clinically appropriate utilization of pharmaceuticals in a cost-effective manner. Based on cost, safety, efficacy, and effectiveness, drugs are designated as “preferred” or “non-preferred.” The practitioner then must: prescribe a preferred drug; allow the pharmacist to substitute a preferred drug for a non-preferred drug; or provide medical reasons for prescribing a non-preferred drug.

Three state agencies are involved in the creation and use of the state preferred drug list. They are the Department of Labor and Industries for the Workers’ Compensation Program, the Health Care Authority for administration of the Uniform Medical Plan, and the Health and Recovery Services Administration (HRSA) within the Department of Social and Health Services. HRSA administers the state’s Medicaid prescription drug program. This JLARC study focuses on the preferred drug list in relation to HRSA and Medicaid prescription drug expenditures.

The preferred drug list applies to point-of-sale prescription drugs. These are prescriptions filled by retail pharmacies. The list does not apply to drugs provided through managed care programs or by hospitals or clinics.

#### ***Additional Prescription Drug Purchasing Requirements***

In addition to the directive to create a preferred drug list, SB 6088 required the three state agencies to undertake other activities such as:

- Ensure less expensive generic drugs are substituted for brand name drugs when the quality of care is not diminished;
- Adopt rules governing practitioner endorsement and use of the preferred drug list; and

- Provide for reasonable exceptions to the preferred drug list. To address concerns raised by practitioners as the Legislature considered prescription drug bills, the Legislature allowed certain practitioners the option of signing a prescription with “dispense as written.” Such a designation informs the pharmacist that the prescribed drug should be dispensed exactly as written and that the pharmacist may not substitute another drug, for example, a generic drug.

## **Why a JLARC Review of the Preferred Drug List for Medicaid Prescription Drugs?**

The 2003-05 Operating Budget assumed that there would be a \$46.5 million savings in Medicaid payments resulting from the creation and implementation of the preferred drug list. In estimating these potential savings, budget writers assumed that the “dispense as written” provision would be used approximately 30 percent of the time. Budget notes from the following year indicate that this assumption proved to be inaccurate, and the savings were lower than expected. This led to an adjustment in the Medicaid Payments budget, restoring \$9.4 million in the 2004 Supplemental Budget.

Because the projected cost savings and the use of “dispense as written” proved to be different than the original budget assumptions, JLARC members directed staff to review the implementation of the 2003 legislation that directed the creation of the preferred drug list. The Committee requested an analysis of the impact the preferred drug list has had on Medicaid prescription drug expenditures, including a review of the use of the “dispense as written” provision.

## **Study Results**

In presenting the study results, it is important to note that prescription drugs are grouped into different drug classes based on the conditions or diseases that the drugs treat. Some, but not all drug classes contain preferred drugs. The report makes comparisons between drug classes that contain preferred drugs and drug classes that do not, as well as preferred and non-preferred drugs. The report is divided into three parts:

### **Part One – Creating and Using the Preferred Drug List and HRSA Compliance**

SB 6088 directed HRSA, HCA, and L&I to jointly develop a preferred drug list that would ensure the safety, efficacy, and effectiveness of prescription drugs as well as reduce drug costs. **The process the three state agencies use to develop the preferred drug list addresses safety, efficacy, effectiveness, and costs, and HRSA fully participates in the process. The process complies with all applicable statutory and regulatory requirements.**

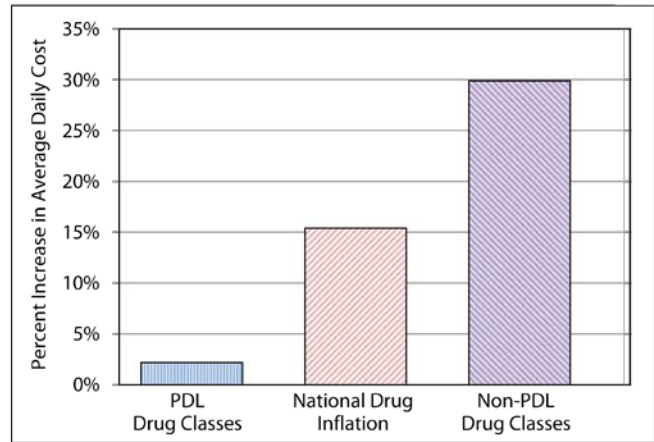
### **Part Two – Information on Medicaid Prescription Drug Usage, Expenditures, and Cost Savings**

**Six positive indicators suggest that HRSA has achieved savings in Medicaid prescription drug expenditures since the creation of the state preferred drug list.** While it is difficult to isolate the exact savings that can be attributed to the state preferred drug list, the positive indicators that suggest savings from the preferred drug list include the following:

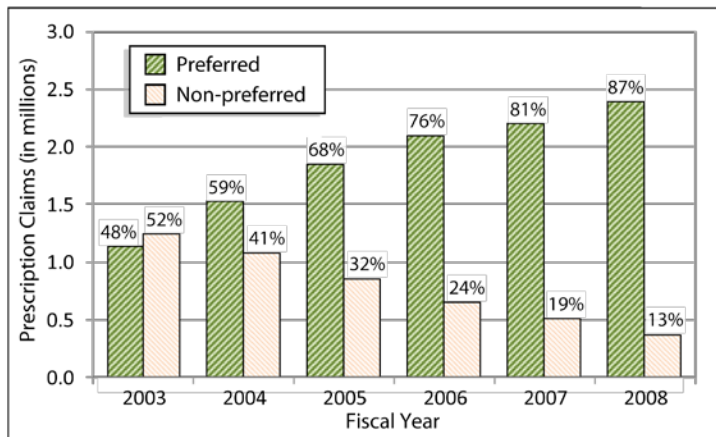
## Report Summary

1. The average daily cost of drugs within the 28 preferred drug classes has increased less than drug inflation and non-PDL drugs (as shown at right);
2. Over time, the drug review process has yielded preferred drug designations in the higher use/higher expenditure drug classes;

Increase in Average Daily Costs from FY 2003 to FY 2008



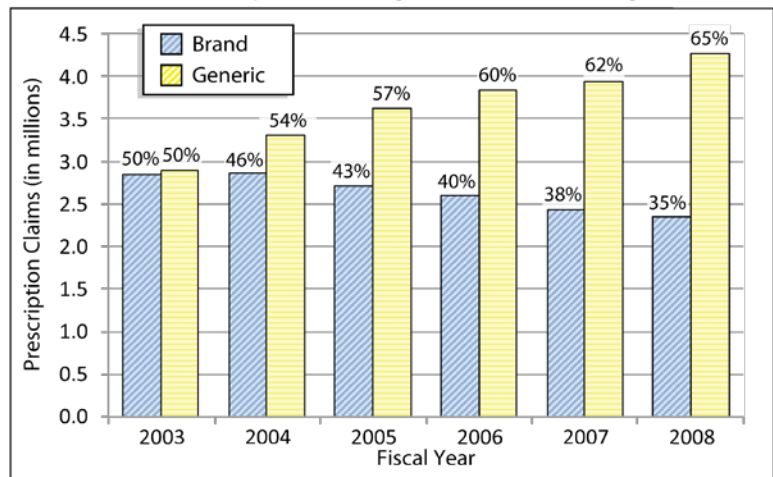
More Prescriptions are Being Filled with Preferred Drugs



3. HRSA clients are increasingly receiving preferred drugs (as shown at left);
4. Use of “dispense as written” on prescriptions has declined;

5. HRSA receives supplemental rebates when select brand preferred drugs are dispensed; and
6. The percentage of claims for generic prescription drugs has increased (as shown at right).

More Prescriptions are Being Filled with Generic Drugs



### Part Three – PDL Savings Incorporated into Budget

For budget development purposes the Legislature may no longer need specific estimates of Medicaid cost savings related to the preferred drug list. HRSA, Office of Financial Management, and legislative fiscal committee staff recognize that the majority of first-time costs savings from adding drugs to the preferred drug list have been realized. Ongoing and additional cost savings from including more drugs on the PDL are now incorporated into the maintenance level budget forecasts. However, it is important for the three agencies to continue to participate in the review process for designating preferred drugs.