



Larry Hogan, Governor · Boyd K. Rutherford, Lt. Governor · Dennis R. Schrader, Acting Secretary

March 2, 2021

The Honorable Shane E. Pendergrass
Chair, House Health and Government Operations Committee
241 House Office Building
Annapolis, MD 21401-1991

RE: HB 1107 – Maryland Medical Assistance Program – Supplemental Rebate Program – Subscription Model for Hepatitis C Therapies - Letter of Information

Dear Chair Pendergrass and Committee Members:

The Maryland Department of Health (MDH) respectfully submits this letter of information on House Bill (HB) 1107 – Maryland Medical Assistance Program – Supplemental Rebate Program – Subscription Model for Hepatitis C Therapies. HB 1107 would require MDH to apply to the Centers for Medicare and Medicaid Services (CMS) to authorize the State to enter into value-based arrangements with drug manufacturers and to implement a subscription-based model (also known as the “Netflix-model”) for Hepatitis C (HCV) prescription drugs.

HB 1107 would reverse the General Assembly’s previous policy direction¹ to have the managed care organizations (MCOs) administer the Medicaid pharmacy benefit to ensure access to prescription drugs and to manage drug costs. Since CY16, the cost of HCV drugs has decreased substantially due to the introduction of new drugs and generic equivalents. This makes a “Netflix-model” type contract, as required under HB 1107, less appealing. The subscription model has substantial risks for the State - (1) prescription costs may decrease faster in the competitive market than under a contract where the rate is locked in and (2) MDH may fail to meet contractual utilization goals, resulting in payments for unutilized treatment.

If Medicaid entered a five-year contract to treat at least 3,200 participants annually at a rate of \$24,200 for a full course of treatment (which is \$1,269 below the current average cost), adopting the Netflix model would still pose a financial risk. From 2016 through 2020, the price of HCV drugs decreased on average approximately 10% every six months. MDH assumes, conservatively, that the price of HCV drugs will continue to decrease approximately 5% annually moving forward, consistent with decreases observed from July 2019 to the present day. Locking in the price of \$24,200 in the “Netflix-model” would be detrimental because it will cost \$41 million more to treat the participants than the costs projected under the current payment model.

These costs would be even greater if MDH failed to meet its contractual treatment goals. Washington State has experienced this challenge. Assuming MDH failed to meet its target

¹ HB 1290 (2015); report available at:

<https://mmcp.health.maryland.gov/Documents/JCRs/MCOPharmacynetworksJCRfinal12-15.pdf>

utilization goal of 3,200 by just 500 people each year, the total fiscal impact of switching to the Netflix-model from FY 2022 through FY 2026 would be \$95.2 million.

Finally, MDH notes that HCV drugs are carved into the HealthChoice program. To implement a Netflix-model approach, MDH would need to carve them out and remove those drugs from managed care. MDH also instituted a new method for paying for Hepatitis C treatments in the MCO capitation rates while controlling for differences in treatment volume across MCOs in CY21. The new method eliminates the previous Hepatitis C case rate and instead funds Hepatitis C by including the expenses in the capitation rating cohorts. After the contract period has ended, the Hepatitis C prescriptions provided by MCO will be compared to the amount funded via the capitation rates, and a risk pool will be calculated to protect MCOs from adverse selection. The model will be operated on a budget neutral basis in CY22 and going forward.

I hope this information is useful. If you would like to discuss this further, please do not hesitate to contact me at webster.ye@maryland.gov / (410) 260-3190 or Heather Shek, Director of Governmental Affairs at heather.shek@maryland.gov or at the same phone number.

Sincerely,



Webster Ye
Assistant Secretary for Health Policy