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P.O. BOX 202119
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(717) 787-1751

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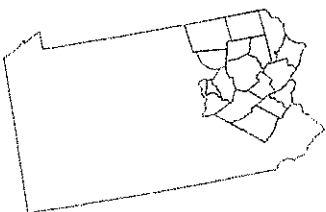
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MICHAEL P. THOMAS
EXECUTIVE DIRECTOR



NORTHEAST DELEGATION

June 16, 2008

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
225 Capitol Building
Harrisburg, PA 17120

Dear Governor Rendell:

We are writing today to express our deep concern with the Department of Public Welfare's (DPW) plan to "carve-out" pharmacy in the HealthChoices program. The General Assembly has a long-history of bipartisan opposition to this proposal, which would negatively affect our constituents' healthcare, as well as put the Commonwealth at risk for \$900 million in possible medical assistance costs in the future that the Managed Care Organizations currently assume. We are concerned both with the policy implications as well as the approach to implementing it.

As you are aware, this proposal was rejected by the General Assembly during budget negotiations for during the last two budget cycles, including the current fiscal year. Yet, on February 6, 2008, DPW issued Requests for Proposals (RFP) to re-procure HealthChoices contracts in three large areas of the state that would not include managing recipient's pharmacy benefit, effectively adopting the carve-out policy that the Legislature clearly rejected. This troublesome effort appears to preclude the General Assembly's leaders from weighing in on this important public health issue during upcoming budget



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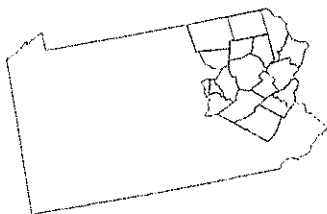
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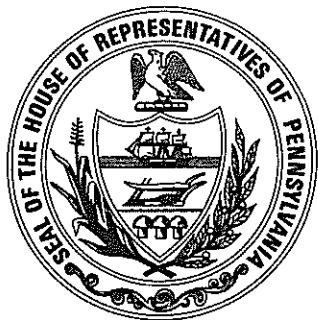
negotiations. Therefore, we first ask that any action by DPW to move forward with a re-procurement that includes a carve-out of the pharmacy benefit be suspended until after the Fiscal Year 08-09 budget is finally negotiated.

Our policy concerns regarding carve-out are the same as those outlined in the letter we sent to you during last year's budget negotiations. Sixty-three percent of the Medical Assistance population is currently enrolled in a managed care plan with joint pharmacy and physical health coverage. The managed care organizations (MCOs) operating in the Commonwealth today have served consumers well, and have even been recognized by *US News and World Report* as among the top health care plans in the county. The proactive nature of the MCOs intensive case management of both physical health and pharmacy has lowered the rate of healthcare cost escalation for Medicaid by achieving superior health outcomes and producing vastly improved access to medical care for our most vulnerable citizens.

This proposed initiative will fragment the healthcare delivery system. Lack of real time information about consumers' medications will severely inhibit the MCOs' ability to appropriately develop and coordinate case management interventions and monitor patient and provider compliance to drug regimens. This sort of fragmentation is almost sure to lower the quality of consumers' physical health benefit, which will in turn increase costs to the healthcare system and state in the long run.

In addition, DPW has done little to reassure us that they intend to dedicate the staff and resources necessary to manage the pharmacy benefit in a way that provides timely access to medications to consumers in order to ensure the best health outcomes. Instead, the distinct impression we got during recent committee hearings was that DPW expects to have little or no direct contact with consumers; rather they will merely run the pharmacy benefit through the existing preferred drug list. Currently, the MCOs are jointly logging more than 1 million calls a year that are related to pharmacy.

The current budget proposal projects that the carve-out would save \$9 million in the upcoming fiscal year, a small percentage of the \$117 million in savings proposed in the HealthChoices program. The savings are negligible when you factor in the \$900 million in risk in



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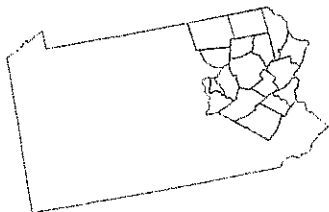
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pharmacy costs that the Commonwealth will also be assuming – a cost that the MCO’s currently shield us from through the contracted payment system. A 1% decrease in the generic utilization rate could potentially negate up the entire \$9 million in the first year. This scenario is far more likely under a pharmacy benefit that lacks intensive case management, as described by DPW during the hearings.

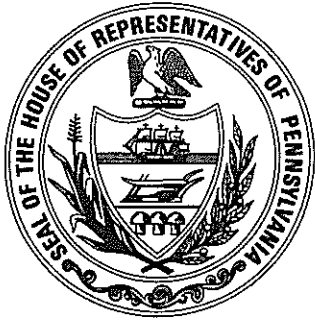
In closing we ask that DPW not move forward with the re-contracting process until all parties have had the opportunity to weigh in on this policy during budget negotiations. In addition, we ask that the Administration re-evaluate the efficacy of a policy that would fragment Medicaid consumers’ health coverage and put the Commonwealth at risk for \$900 million in pharmacy costs in order to capture a small percentage of savings through rebates. While such savings are worth consideration in a tight budget year, we must not lose sight of the negative impact upon the quality of care provided to the MA population and the resulting increase in medical costs which would most likely reduce or negate any optimistically projected savings.

Sincerely,

John T. Yudichak
Chairman
Northeast Delegation

Neal P. Goodman
Vice Chairman
Northeast Delegation

[More signatures to follow]



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