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HEALTH

States' Efforts to Cut Drug Prices Get a Boost From Medicaid Chief

By SARAH LUECK
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WASHINGTON -- Bolstering efforts to wring lower prices from pharmaceutical companies in the face of fierce industry opposition, the head of the federal government's health-care programs wants to make it easier for states to band together to buy prescription drugs for Medicaid patients.

"We're trying to give states the ability to save immediately," said Thomas Scully, administrator of the Centers for Medicare and Medicaid Services. "Clearly it's in our interest. The states' option is to save money or drop patients."

States would be able to join multistate drug-buying programs administered by private companies without breaking federal purchasing rules, Mr. Scully said, but only if the purchase contract is shorter than six months. That would open the door for states to join a program announced earlier this year by Michigan, Vermont and South Carolina. The three states have separately contracted with the same pharmacy-benefit administrator -- First Health Services Corp. -- to negotiate discounts on lists of preferred drugs.

CMS -- which has authority over the federal/state Medicaid program for the poor and disabled -- still hasn't given formal approval to the arrangement and continues to review the details. Because Medicaid is partially funded with federal money, it falls under federal rules that require competitive bidding for contracts. About 10 other states, including Texas, New York, Wisconsin and Iowa, have been in discussions with Michigan officials about joining the program, said Geralyn Lasher, spokeswoman for the Michigan Department of Community Health. She said the three initial states hope to start purchasing drugs together this year.

Faced with budget shortfalls due to the sputtering economy and rising expenses, states have been seeking ways to control prescription-drug costs, the fastest-rising cost for state Medicaid programs. Between 1998 and 2000, Medicaid's average annual spending on prescription drugs grew by 19.7%. By banding together, state governments can purchase drugs in huge quantities, increasing their bargaining clout with pharmaceutical makers.

CMS officials had said states that want to join with Michigan, Vermont and South Carolina would have to obtain approval from the federal government to use a list of preferred drugs as part of their state Medicaid plan. Mr. Scully said CMS would decide on a case-by-case basis whether to allow states to take advantage of other states' contracts.

CMS's green light could deliver a raft of new clients to

MAINE CASE

Read [Scott Hensley's column](#)¹ on the Supreme Court's recent decision regarding a Maine program that would require discounts from drug firms.

First Health Services, the pharmacy-benefits administrator. It is a unit of **First Health Group Corp.** of Downer's Grove, Ill., which had revenue last year of \$760 million. If states can ride along on Michigan's contract with First Health Services without having to immediately go through a bidding process with pharmacy-benefit companies, they can get the discounted prices for their Medicaid drugs more quickly.

Michigan Gov. Jennifer Granholm lobbied Health and Human Services Secretary Tommy Thompson to make it as easy as possible for states to jointly buy prescription drugs. She and the other participating governors have urged other states to unite with them in the bulk-purchasing effort.

"There's a time factor in this," Ms. Lasher of Michigan said. "The sooner we can bring the states together ... the sooner we can start realizing the savings."

The states expect to use preferred-drug lists when buying drugs for Medicaid together. Michigan created such a list for its Medicaid program. Drugs that aren't on the list require prior authorization. In some cases, if drug makers want their product on the list, they must give the state a deeper discount. Vermont also has a preferred-drug list. South Carolina is in the process of creating one.

States that buy drugs in the purchasing pool could have their own preferred-drug lists, Ms. Lasher said. The more overlap, the more money they will tend to save.

The drug industry has aggressively fought state efforts to contain drug costs, with drug-industry trade group Pharmaceutical Research and Manufacturers of America filing lawsuits to stop programs in Michigan and Maine based on lists of preferred drugs. The industry argues that preferred-drug lists limit patients' access to medicine.

"We urge states to carefully consider the consequences of allowing politicians and bureaucrats, rather than patients' own physicians, to decide on patient care," said PhRMA spokesman Bruce Lott.

A spokesman for Pfizer Inc. couldn't address the CMS stance directly, but said that in general Pfizer is concerned about state programs such as Michigan's. "Our view is that any program of this nature needs to include patient protections," the spokesman said. Those protections should include the right of a patient to get the drug prescribed by his or her doctor without extra red tape, he said.

This month, the Supreme Court lifted a barrier to a Maine program that would require drug companies to give the state the same discount on all its drug purchases -- about 20% off retail prices -- that it receives when buying medications for Medicaid. The savings would be passed onto state residents who lack drug coverage. Companies that refuse to participate would face regulations that make it difficult to sell their products to the state's Medicaid program.

In March, a federal judge in Washington dismissed a PhRMA lawsuit over the Michigan program that sought to block states from using preferred-drug lists and prior authorization. PhRMA is appealing that decision.

-- Peter Landers contributed to this article.

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