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June 20, 2014

Ms. Karen Chang
Bureau Chief
Medicaid Program Analysis
Agency for Health Care Administration
2727 Mahan Drive – Building 3
Tallahassee, FL 32308-5407

Re: May 2014 – December 2014 High Cost Hepatitis C Kick Payment Development

Dear Karen:

The Florida Agency for Health Care Administration (AHCA) retained Milliman to develop kick payments to be paid to capitated plans to cover high cost hepatitis C treatments under MMA. The kick payments vary by length of authorization but not by treatment type. This letter documents the process used to create the proposed kick payment and the types of treatments that would trigger this payment.

BACKGROUND

Hepatitis C is a viral infection that is the leading cause of chronic liver disease. Over time, it can cause permanent liver damage such as cirrhosis, liver cancer, and ultimately liver failure. However, active treatment can cure the infection (i.e., sustained virological response) and preserve liver function.

Efficacy of treatments for hepatitis C can be measured by their sustained virological response (SVR) in patients. SVR is defined as the absence of detectable RNA of the hepatitis C virus in blood serum for 12 to 24 weeks after treatment is completed. In the late 1990s and early 2000s, a common treatment for hepatitis C was pegylated interferon plus ribavirin (PR) for 48 weeks. This treatment resulted in an SVR of between 40 - 50%. Certain conditions prevented patients from taking this treatment, such as psychiatric illness, autoimmune disease, or advanced liver disease. Additionally, the treatment resulted in severe side effects, such as fatigue, fever, anemia, depression, and anxiety. In addition to drug therapy, SVR rates are impacted by the patient's hepatitis C viral genotype, which is defined by 1 through 6.

In 2011, Incivek and Victrelis were introduced. In combination with PR, these drugs raised the SVR to between 60 - 65% for those patients who had not taken the PR treatment previously. Again, there are many disadvantages to taking this treatment. For example, between 6 and 12 pills were required to be taken each day on a very specific 8-hour schedule, anemia increased from roughly 30% to 50%, and the treatment could not be taken with several other drugs simultaneously. These disadvantages limited the number of treatments of hepatitis C.

In December 2013, the Federal Drug Administration (FDA) approved Sovaldi. Sovaldi can be taken with or without PR. In initial tests, the drug has an SVR slightly under 90% when taken with PR. Additionally, more patients may be eligible for this treatment. The treatment is one pill per day for 12 - 24 weeks and

has fewer side effects than previous treatments, which allows more patients to complete the treatment. Olysio, which was approved by the FDA in November 2013, has also shown an increase in the SVR in studies and requires fewer treatments than Incivek and Victrelis.

Due to the possibility that more members will take Sovaldi and / or Olysio than past experience would have suggested and the additional costs associated with Sovaldi and / or Olysio, AHCA will provide plans with an additional kick payment for these drugs based on the length of authorization approved.

RESULTS

We are proposing the following post-MMA kick payments for high cost hepatitis C treatments for the May 2014 – December 2014 period shown in Table 1:

Table 1 Proposed High Cost Hepatitis C Kick Payment May 2014 – December 2014	
Payment Tier	Amount
4-week payment	\$34,972
8-week payment	\$69,943
12-week payment	\$104,915

Note that the beginning date for MMA expansion varies based on region. Table 2 shows the expected start date for each region.

Table 2 MMA Expansion Starting Dates by Region	
Region	Start Date
1	August 1, 2014
2	May 1, 2014
3	May 1, 2014
4	May 1, 2014
5	June 1, 2014
6	June 1, 2014
7	August 1, 2014
8	June 1, 2014
9	August 1, 2014
10	July 1, 2014
11	July 1, 2014

Below are some additional details regarding the kick payment:

- A kick payment is triggered if a member in a capitated plan is authorized for a hepatitis C treatment that includes Olysio or Sovaldi.
- The payment is intended to cover the pharmacy costs of the entire hepatitis C treatment when Olysio or Sovaldi is part of the treatment.

- If a kick payment is triggered, the 4-week payment will be paid for the initial 4 week treatment. The 8-week payment is triggered if a member is authorized and continues treatment from 4 – 12 weeks. The 12-week payment is triggered if a member is authorized and continues treatment from 12 – 24 weeks.
- The kick payment is the same amount by authorization duration regardless of the type of treatment that is authorized.
- An administrative allowance of 5.5% is included in the kick payment.

METHODOLOGY

Milliman considered several sources in determining the kick payment:

- HMO authorization data from December 2014 – April 2015
- HMO encounter data from July 2011 – April 2015
- FFS authorization data from December 2014 – April 2015
- FFS costs by treatment type

The HMO authorization data was provided by month, while the FFS authorization data was provided in total. Exhibit 1 summarizes the FFS and HMO authorizations by treatment type approved to receive the hepatitis C kick payment and the total 4-week cost by treatment. We included a 5.5% administrative expense in our calculation. Although the administrative percent is lower than the assumptions used in the MMA rate range development, the additional utilization of Sovaldi and Olysio is expected to result in higher payments for hepatitis C treatments and at least partially offset the lower administrative percentage assumed in the kick payments.

Exhibit 2 provides the calculated kick payments by blending different subsets of authorizations:

- The last 2 months of encounter authorization data only
- All FFS and encounter authorization data
- All encounter authorization data only
- All FFS authorization data only
- All FFS and encounter authorization data excluding treatments that combine Olysio / Sovaldi

During the December 2014 – April 2015 time period, AHCA used different criteria to determine which treatment authorizations were approved. Plans did not authorize treatments for the combination of Olysio / Sovaldi until February 2014. Our proposed recommendation is based on a blend of estimated treatment costs using the March 2014 – April 2014 period of encounter authorization data only in order to incorporate Olysio / Sovaldi treatments. If the Olysio / Sovaldi combination treatment is not allowed going forward, the kick payment should be adjusted to reflect the change.

Additional drugs used to treat hepatitis C are expected to be approved in the coming months. These drugs may provide similar or better efficacy in treating hepatitis C and serve to lower the overall cost. Therefore, we recommend that this kick payment be re-evaluated later this year to determine if an adjustment needs to be made to the kick payment after December 2014.



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CAVEATS AND LIMITATION ON USE

This letter is intended to provide AHCA with a kick payment for high cost hepatitis C treatments after implementation of the MMA program. This information may not be appropriate for other purposes.

In preparing this information, we relied on information provided by AHCA and the capitated plans. We accepted this information without audit but reviewed the information for general reasonableness. Our results and conclusions may not be appropriate if this information is not accurate.

Differences between the kick payments for high cost hepatitis C treatments and actual experience will depend on the extent to which future experience conforms to the kick payments. It is certain that actual experience will not conform exactly to the kick payments. Actual amounts will differ from kick payments to the extent that actual experience is better or worse than the current summaries.

This information should not be relied upon by anyone other than AHCA. Milliman does not intend to benefit, and assumes no duty or liability to, other parties who receive this work. This letter assumes that the reader is familiar with the Florida Medicaid program.

I am a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

The terms of Milliman's contract with AHCA signed on July 24, 2012 apply to this report and its use.



If you have any questions, please contact John Meerschaert (262-796-3434) or me (262-641-3562).

Sincerely,

A handwritten signature in black ink that reads "Andrew L. Gaffner".

Andrew L. Gaffner, FSA, MAAA
Actuary

ALG/vrr

Attachments

Exhibit 1
State of Florida Medicaid
High Cost Hepatitis C Authorization Data and Costs by Treatment
Encounter and FFS Utilization and Costs from December, 2013 to April, 2014

Treatment Types Approved to Receive Hepatitis C "Kick" Payment									
Drug Name	4-Week Cost	Sovaldi + Interferon	Interferon + Ribavirin + Sovaldi	Olysio	Sovaldi	Sovaldi + Olysio	Ribavirin + Sovaldi	Sovaldi + Olysio + Ribavirin	Olysio + Interferon + Ribavirin
Sovaldi	\$28,424	X	X		X	X	X	X	
Olysio	22,456			X		X		X	X
Interferon	3,150	X	X						X
Ribavirin	132		X				X	X	X
4-Week Cost by Treatment	\$54,161	\$31,574	\$31,706	\$22,456	\$28,424	\$50,879	\$28,555	\$51,011	\$25,737
5.5% Administrative Expense	\$3,152	\$1,838	\$1,845	\$1,307	\$1,654	\$2,961	\$1,662	\$2,969	\$1,498
Total 4-Week Cost by Treatment	\$57,313	\$33,412	\$33,551	\$23,762	\$30,078	\$53,840	\$30,217	\$53,980	\$27,235
Encounter Data Authorizations by Month									
Dec-13		0	2	0	0	0	2	0	0
Jan-14		4	2	0	5	0	5	0	0
Feb-14		3	13	0	6	2	8	0	0
Mar-14		5	11	1	6	4	9	0	0
Apr-14		3	10	1	7	8	10	0	1
Total Encounter Data Authorizations		15	38	2	24	14	34	0	1
FFS December 2013 - April 2014 Authorizations		3	110	0	5	54	98	14	0
Total Encounter and FFS Data Authorizations		18	148	2	29	68	132	14	1

Exhibit 2
State of Florida Medicaid
High Cost Hepatitis C "Kick" Payment by Tier¹
4, 8 and 12-Week Payment Tier Options

Payment Tiers	Last 2 Months of Encounter Authorization Data	Including all Authorization Data	Encounter Authorization Data Only	FFS Authorization Data Only	All Authorizations Other Than Olysio + Sovaldi Treatment
4-Week Payment	\$34,972	\$36,212	\$34,015	\$37,203	\$32,728
8-Week Payment	\$69,943	\$72,425	\$68,030	\$74,406	\$65,456
12-Week Payment	\$104,915	\$108,637	\$102,044	\$111,609	\$98,183

¹Hepatitis C "Kick" payments are effective during the MMA implementation of May 2014 - December 2014.