



# Preliminary Feasibility Study of a Pharmacy Carve-Out Model

Department for Medicaid Services

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# I. OVERVIEW

# Pharmacy Benefits

- Carve-In
  - Pharmacy benefit is “carved-in” to the managed care plan and costs associated with pharmacy care are included in capitation rate setting process
- Carve-Out
  - Pharmacy benefit is “carved-out” from managed care plans and handled as a fee-for-service benefit

# Current Status

- MCOs subcontract pharmacy benefits to a pharmacy benefits manager (PBM) (in-house or external) to manage pharmacy benefits
- DMS contracts with a PBM to administer pharmacy benefits for all beneficiaries in fee-for-service

# Delivery System and PBM

Managed Care Organization	Pharmacy Benefit Manager
Aetna	CVS
Anthem	IngenioRx*
Humana	CVS*
Passport	CVS
WellCare	CVS
Fee-for-Service	Magellan

\*IngenioRx uses the CVS network and platform for PBM functions

\*Humana will be moving to an in-house PBM (Humana Pharmacy Solutions) beginning 1/1/2020

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## II. GOAL

# Primary Objective

“The primary goal of the study is to compare prescription claims reimbursement methodologies under the two delivery systems and to calculate an estimated fiscal impact associated with the prescription claims reimbursement methodologies were DMS to carve out the pharmacy benefit.”



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# I. METHODOLOGY

# Repricing Claims

- Pharmacy encounters: 1/1/2017-12/31/2018
- Prescription reimbursement as reported by MCOs and their PBMs
  - **These do not reflect actual payments to pharmacies**
- Dispensing fee differential taken into account for the additional \$2 dispensing fee allocated to MCO cap rates

# Repricing Claims

*Table 7. Adjusted Estimated Fiscal Impact by Plan (State and Federal Dollars in Millions)*

MCO	2017			2018			Total		
	Ingredient	Dispense Fee	Total	Ingredient	Dispense Fee	Total	Ingredient	Dispense Fee	Total
Aetna	(\$27.9)	\$28.9	\$1.0	(\$28.0)	\$26.6	(\$1.4)	(\$56.0)	\$55.5	(\$0.5)
Anthem	(\$26.0)	\$14.9	(\$11.1)	(\$35.7)	\$16.1	(\$19.6)	(\$61.7)	\$31.0	(\$30.7)
Humana	(\$27.5)	\$4.3	(\$23.2)	(\$33.3)	\$6.8	(\$26.5)	(\$60.8)	\$11.2	(\$49.7)
Passport	(\$39.8)	\$39.2	(\$0.6)	(\$47.6)	\$39.7	(\$7.9)	(\$87.4)	\$78.9	(\$8.5)
Wellcare	(\$72.1)	\$78.5	\$6.4	(\$51.5)	\$78.5	\$26.9	(\$123.6)	\$157.0	\$33.4
<b>Total</b>	<b>(\$193.3)</b>	<b>\$165.9</b>	<b>(\$27.4)</b>	<b>(\$196.2)</b>	<b>\$167.7</b>	<b>(\$28.6)</b>	<b>(\$389.5)</b>	<b>\$333.6</b>	<b>(\$56.0)</b>

Figure 1. Chart of Average Ingredient Amount Paid Per Claim

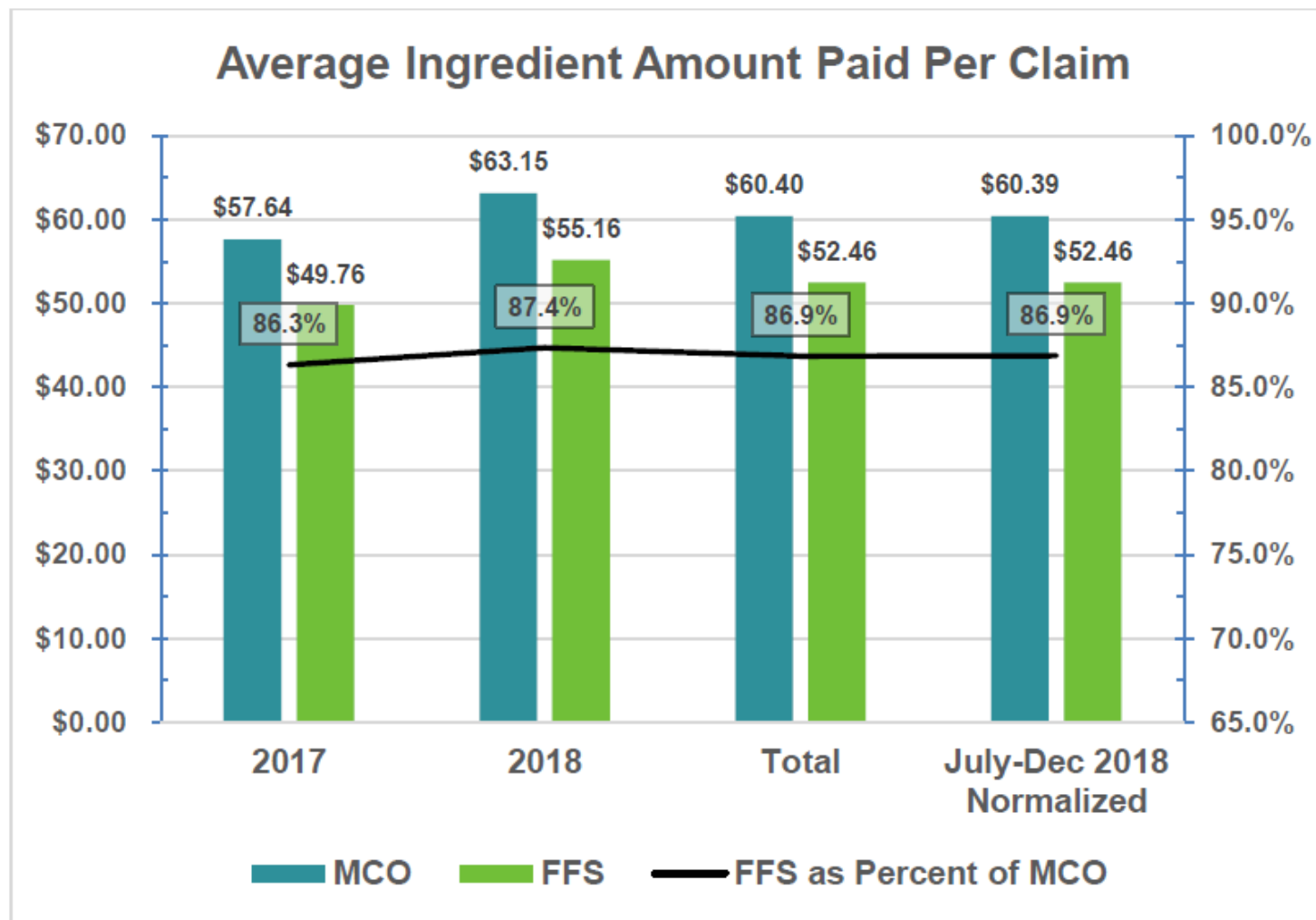
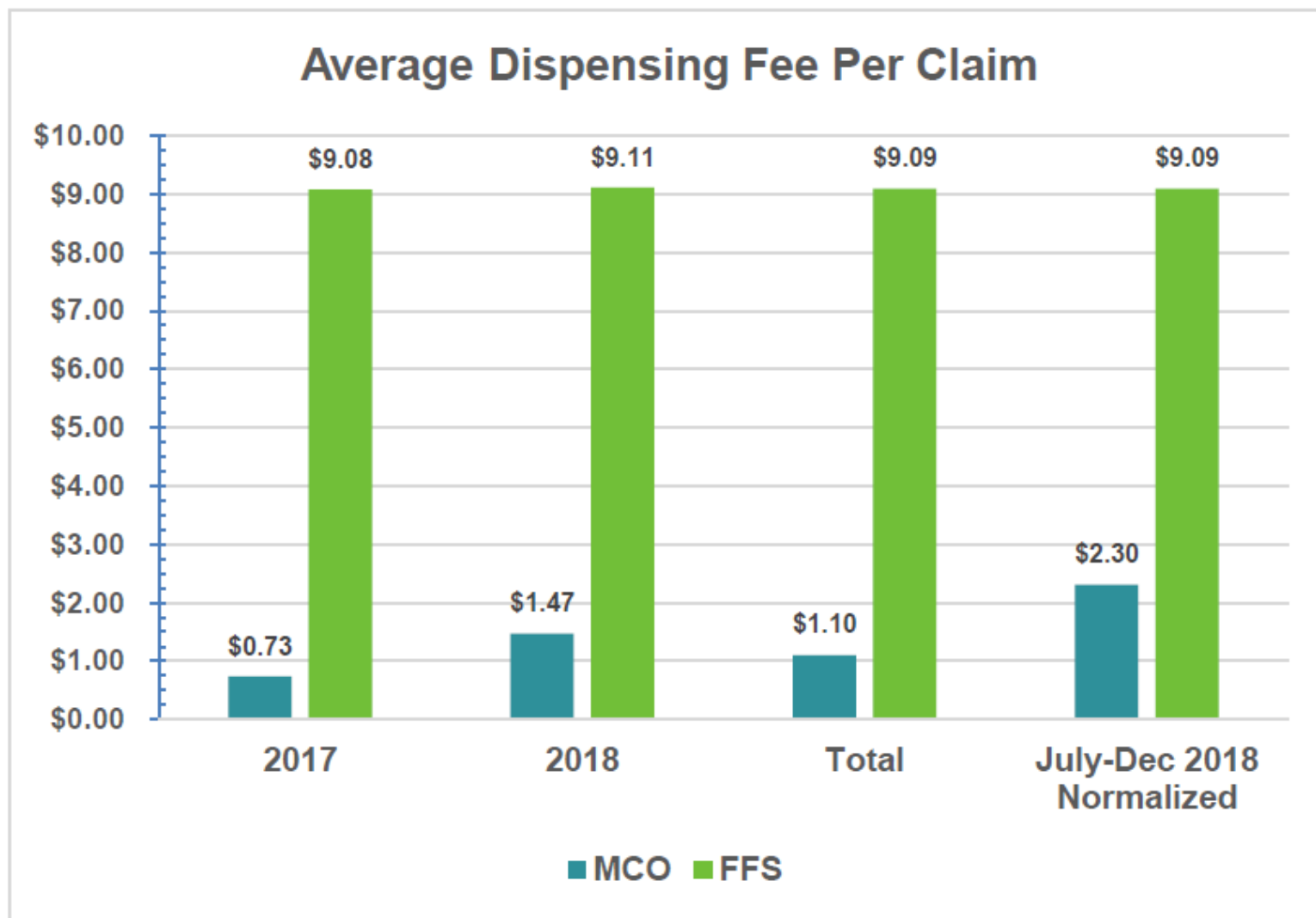


Figure 2. Chart of Average Dispensing Fee Per Claim





# Administrative Functions

- Pharmacy network management (establish, contract, and maintain network; monitor and audit for compliance)
- Eligibility management (24 hour eligibility/claims processing support)
- Online electronic claims processing/administration (including online viewing access to 12 months of claims history)
- Drug utilization review
- Full-service pharmacist/member help desk (live – available 24/7)
- Formulary/therapeutic management programs
- Financial services (including pharmacy reimbursement)
- ID cards and member welcome communications
- Maintain accurate pharmacy directory, searchable by zip code to allow members to find in-network pharmacy
- Prior authorization management
- Rebate management (submit, collect, and remit to plan)

# Administrative Costs

- Evaluated PBM spread reported by MCOs (DMS Spread Report)
  - Dependent on services provided by PBM for MCOs
- Evaluated FFS PBM contract for increased covered lives
- Administrative add on value to capitation rates taken at 8.2%
- FMAP considerations with increased staff and roles for contract oversight

### Estimated savings in administrative cost under the fee-for-service delivery model

- *Total estimated savings in administrative cost (state and federal share): \$132.0 million (i.e., \$186.8 million - \$54.8 million = \$132.0 million).* 
- *Estimated savings in administrative cost (state share only): \$23.3 million (i.e., \$37.8 million – \$14.5 million = \$23.3 million).* 



# Medicaid Rebate

- Federal rebate
  - Medicaid Drug Rebate Program
- Supplemental rebate
  - Magellan National Medicaid Pooling Initiative
- High level analysis extrapolated

■ *In total, DMS could potentially realize a net decrease in cost of approximately \$14.1 million annually due to the ability to collect additional rebates (federal and state share combined; with the state share portion of this amount estimated at \$2.9 million<sup>24</sup>).*

# Additional MCO Considerations

- Premium assessments
- Target profit margin
- ACA health insurer fees

The combined impact of these add-ons (i.e., premium assessment, target profit margin, and ACA insurer fees) are equivalent to approximately 4 percent of the portion of MCO premiums associated with the pharmacy benefit. Using the total reimbursement reported within the MCO encounter data as a proxy for the portion of capitated rates associated with the pharmacy benefit, the 4 percent allowance is approximately \$63.4 million ( $4\% \times \$1.5855 \text{ billion} = \$63.4 \text{ million}$ ) for CY 2018 and would have been considered in the development of the gross premiums received by MCOs. The state share portion associated with these factors is estimated as \$12.8 million.<sup>26</sup> Under a carve-out model, DMS would not incur portions of these expenses that are associated with the pharmacy portion of the MCO premiums.<sup>27</sup>

# Summary of Findings

*Table 1. Estimated Fiscal Impact -- Summary of Findings in Millions*

	2017	2018	Total
<b>Pharmacy Claims Reprice</b>			
Ingredient	(\$193.3)	(\$196.2)	(\$389.5)
Dispensing Fee <i>(incorporates "normalized dispensing fee" adjustment)</i>	\$165.9	\$167.7	\$333.6
<b>Total Pharmacy Reprice</b>	<b>(\$27.4)</b>	<b>(\$28.6)</b>	<b>(\$56.0)</b>
		<b>Annualized State / Federal Funds</b>	<b>Annualized State Only Funds</b>
<b>Pharmacy Claims Reprice</b> <i>(average, based on 2017 and 2018 analysis)</i>		(\$28.0)	(\$5.7)
<b>Administrative</b> <i>(detailed in "Additional Factors Impacting a Pharmacy Carve-Out Fiscal Impact" section of the report)</i>		(\$132.0)	(\$23.3)
<b>Rebates</b>		(\$14.1)	(\$2.9)
<b>Other</b> <i>(includes allowances for premium assessments, target profit margin and HIF totaling 4% add to capitation rates; 4% x \$1.5855 billion = \$63.4 million)</i>		(\$63.4)	(\$12.8)
<b>Net Estimated Impact</b>		<b>(\$237.5)</b>	<b>(\$44.7)</b>

# Implications to Federal 340B

- 340B program allows covered entities to buy drugs at a discounted price
- Medicaid is prohibited from collecting a rebate on any 340B reimbursed drugs
- CMS requires states to reimburse 340B purchased drugs at the 340B acquisition cost for FFS
- Medicaid managed care reimburses for 340B purchased drugs at a contractual rate with the covered entity

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# QUESTIONS & ANSWERS