



Medicaid Prescription Drug Program Expenditures

Office of Health Data & Analytics
And
Department for Medicaid Services
February 19, 2019

Outline

- i. Overview
- ii. Pharmacy Reimbursement Model
- iii. Medicaid-to-Pharmacy
- iv. Professional Dispensing Fees
- v. Ingredient Cost
- vi. Recommendations
- vii. Questions & Answers

Department for Medicaid Services

I. OVERVIEW

Senate Bill 5

- KRS 205.647 Mandates:
 - Pharmacy benefit manager transparency
 - Monitoring of contracts
 - Monitoring of pharmacy product rates

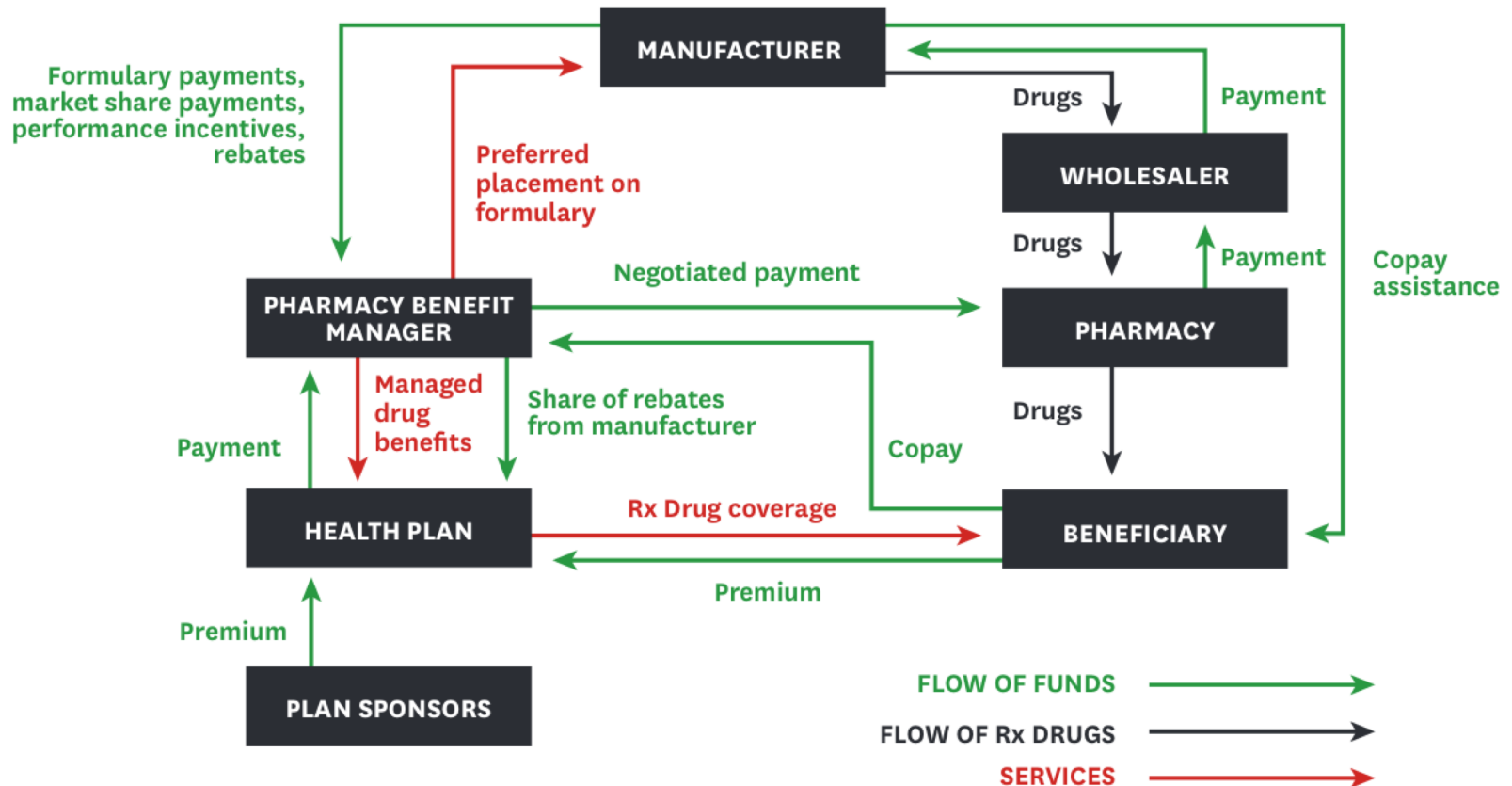
Timeline

- Senate Bill 5 Effective Date: July 1, 2018
- The Office of Health Data and Analytics was created by the ***Executive Order 2018-325 Reorganization Plan*** on May 16, 2018
- Data collection template September 2018
 - MCO executives and pharmacy directors were invited to provide comments
 - Engaged with surrounding states
 - Myers & Stauffer LC completed a detailed review
 - Recommendations were adopted and the template revised and distributed to MCOs
 - After receiving the template, PBMs were invited to a conference call to clarify data elements (Monday, October 19th)
- The revised data submission, including all of calendar year 2017 and the year-to-date data for 2018, were due November 16, 2018.

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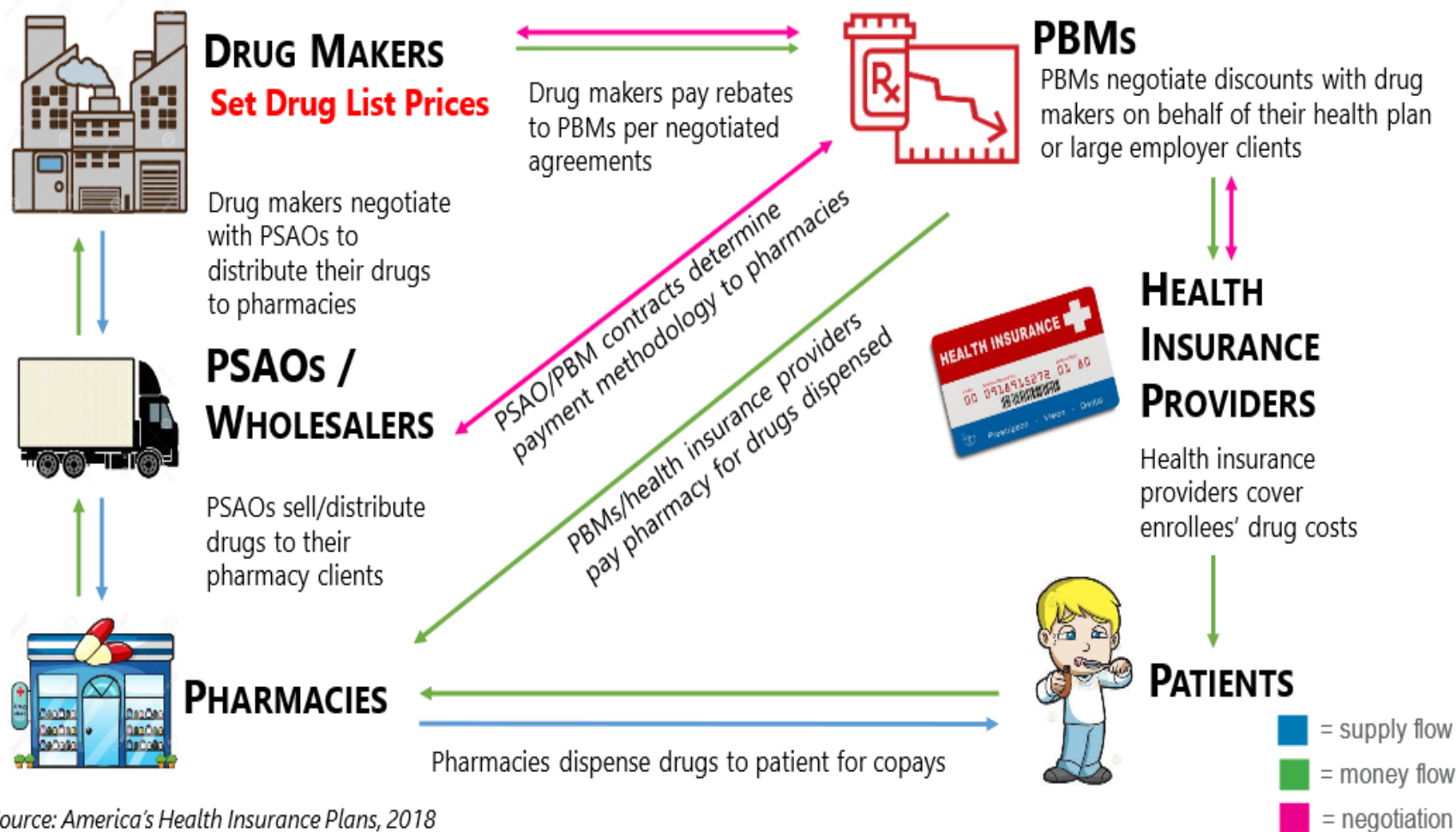
II. PHARMACY REIMBURSEMENT MODEL

Pharmacy Reimbursement - Complex



Source: The Flow of Money Through the Pharmaceutical Distribution System, 2017

Pharmacy Reimbursement - General



Source: America's Health Insurance Plans, 2018

Pharmacy Benefit Manager (PBM)

- Administers prescription drug benefits on behalf of plan sponsors including managed care organizations



PBM Benefits

- Organizational Responsibilities
 - Discounts and rebate negotiations
 - Pharmacy networks
- Clinical Responsibilities
 - Pharmacy reimbursements
 - Drug utilization reviews
 - Disease management

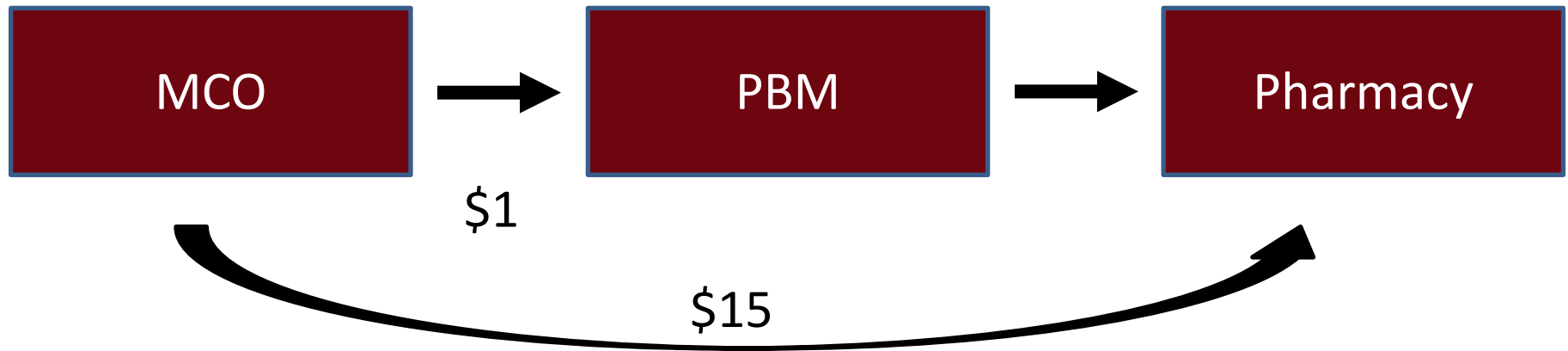
Rebates, Administrative, and Remuneration Fees

- **Rebate:** a discount on a medication a drug manufacturer gives a PBM in return for the PBM agreeing to cover the drug manufacturer's product
- **Administrative Fees:** Costs and fees charged by PBMs to drug manufacturers, MCOs, and pharmacies
- **Direct and indirect remuneration fees (DIR):** Costs and fees assessed after the point of sale for prescriptions

Spread Pricing and Pass-Through Pricing Models

- **Spread Pricing:** PBMs retain the difference between what is charged to an MCO for a prescription and the reimbursement the PBM pays to the pharmacy
- **Pass-Through Pricing:** MCO pays a flat administrative fee either per claim or per member per month to PBM

Pass-Through Model



1. MCO pays the PBM \$15 for Drug A
2. PBM keeps the \$1 administrative fee
3. PBM pays the pharmacy \$15 to dispense Drug A

→ Flow of funds

Spread Pricing Model



1. An MCO pays the PBM \$15 for Drug A
2. PBM pays the pharmacy \$14 for dispensing Drug A

Spread = \$1

→ Flow of funds

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III. MEDICAID-TO-PHARMACY

MCO Contract: Section 38.0, Contractor Reporting Requirements

- **Section 38.1 General Reporting and Data Requirements**
 - Reporting in compliance with 42 C.F.R. 438.604
 - “the parties agree for the Contractor to provide any additional reports requested by the Department”
 - Ad-hoc reports must be requested with a minimum of “five (5) business days’ notice prior to submission”
- **Section 38.3 Reporting Requirements and Standards**
 - The Contractor shall verify the accuracy for data” and the “required information shall be fully disclosed in a manner that is responsive and without material omission.”
 - “The Contractor shall be responsible for assuring the accuracy, completeness and timely submission of each report.”

Source: <https://chfs.ky.gov/agencies/dms/dpgo/Pages/mco-contracts.aspx>

Spread

	MCO Payments to PBM		Spread		Spread (%)	
MCO	CY2017	CY2018	CY2017	CY2018	CY2017	CY2018
Aetna	\$214,227,881	\$222,023,236	\$19,714,930	\$30,491,779	9.20%	13.73%
Anthem	\$174,383,053	\$158,545,913	\$18,469,099	\$24,005,526	10.59%	15.14%
Humana	\$187,154,417	\$208,137,360	\$19,248,376	\$21,459,419	10.28%	10.31%
Passport	\$344,653,440	\$368,990,814	\$29,298,462	\$47,559,130	8.50%	12.89%
WellCare	\$564,375,331	\$613,357,054	\$0	\$0	0.00%	0.00%
<i>Subtotal w/o WellCare</i>	<i>\$920,418,792</i>	<i>\$957,697,323</i>	<i>\$86,730,868</i>	<i>\$123,515,854</i>	<i>9.42%</i>	<i>12.90%</i>
Grand Total	\$1,484,794,123	\$1,571,054,377	\$86,730,868	\$123,515,854	--	--

Note: Data submitted by the PBMs using SB5 categories.

Spread

Excluding Pass-Through

	MCO Payments to PBM		Spread		Spread (%)	
Pharmacy Type	CY2017	CY2018	CY2017	CY2018	CY2017	CY2018
> 11 Locations	\$448,433,890	\$426,620,909	\$51,503,257	\$92,338,069	11.49%	21.64%
≤ 10 Locations	\$346,603,798	\$372,177,767	\$30,420,473	\$23,446,745	8.78%	6.30%
Common Ownership	\$125,381,104	\$158,898,647	\$4,807,137	\$7,731,040	3.83%	4.87%
Grand Total	\$920,418,792	\$957,697,323	\$86,730,868	\$123,515,854	9.42%	12.90%

Spread

		MCO Payments to PBM		Spread		Spread (%)	
MCO	Pharmacy Type	CY2017	CY2018	CY2017	CY2018	CY2017	CY2018
Aetna	> 11 Locations	\$76,636,905	\$69,365,347	\$8,109,597	\$18,411,690	10.58%	26.54%
	≤ 10 Locations	\$101,429,179	\$104,085,582	\$10,169,895	\$9,639,179	10.03%	9.26%
	Common Ownership	\$36,161,797	\$48,572,306	\$1,435,438	\$2,440,909	3.97%	5.03%
Anthem	> 11 Locations	\$133,159,801	\$103,461,024	\$17,117,622	\$21,665,278	12.85%	20.94%
	≤ 10 Locations	\$13,980,246	\$16,050,421	\$1,351,477	\$2,340,248	9.67%	14.58%
	Common Ownership	\$27,243,007	\$39,034,468	\$0	\$0	0.00%	0.00%
Humana	> 11 Locations	\$75,398,247	\$81,446,108	\$9,353,225	\$16,444,496	12.41%	20.19%
	≤ 10 Locations	\$85,446,545	\$95,091,384	\$8,337,788	\$2,788,128	9.76%	2.93%
	Common Ownership	\$26,309,625	\$31,599,867	\$1,557,363	\$2,226,794	5.92%	7.05%
Passport	> 11 Locations	\$163,238,937	\$172,348,429	\$16,922,812	\$35,816,604	10.37%	20.78%
	≤ 10 Locations	\$145,747,827	\$156,950,380	\$10,561,313	\$8,679,189	7.25%	5.53%
	Common Ownership	\$35,666,675	\$39,692,005	\$1,814,337	\$3,063,337	5.09%	7.72%
WellCare	> 11 Locations	\$171,280,650	\$190,052,699	N/A	N/A	0.00%	0.00%
	≤ 10 Locations	\$349,220,652	\$368,372,738	N/A	N/A	0.00%	0.00%
	Common Ownership	\$43,874,029	\$54,931,618	N/A	N/A	0.00%	0.00%
Grand Total		\$1,484,794,123	\$1,571,054,377	\$86,730,868	\$123,515,854	5.84%	7.86%

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IV. PROFESSIONAL DISPENSING FEES

Drug Type

- Non-Specialty Brand Drug
- Non-Specialty Generic Drug
- Specialty Brand Drug
 - **Harvoni**® for Hepatitis C
- Specialty Generic Drug
 - **Tacrolimus** for post organ transplant immunosuppressive agent

Professional Dispensing Fees

- July 2018 \$2.00 rate increase
 - Capitation rate increase went into effect July 1, 2018 to fund the change in dispensing fee
 - Additional appropriation of **\$50,000,000** to cover the increased cost for the Medicaid program
- All else being equal, the fee increase should exert **downward pressure** on the “spread” because the rate increase passes through to the pharmacy.

Average Dispensing Fee by Pharmacy & Drug Type

Pharmacy Type	Non-Specialty Brand	Non-Specialty Generic	Specialty Brand	Specialty Generic	Overall Drug Average
<u>January 2017 - June 2018</u>					
> 11 Locations	\$0.71	\$0.78	\$1.98	\$0.61	\$0.77
≤ 10 Locations	\$0.54	\$0.53	\$6.69	\$2.97	\$0.56
Common Ownership	\$0.42	\$0.45	\$24.44	\$8.80	\$0.73
Total	\$0.62	\$0.65	\$10.01	\$2.52	\$0.68
<u>July 2018 – December 2018</u>					
> 11 Locations	\$2.37	\$2.52	\$4.29	\$2.11	\$2.50
≤ 10 Locations	\$2.42	\$2.57	\$10.27	\$5.21	\$2.60
Common Ownership	\$2.22	\$2.40	\$27.69	\$10.75	\$2.71
Total	\$2.38	\$2.53	\$12.99	\$4.49	\$2.56

Average Number of Claims by Month by Pharmacy & Drug Type

Pharmacy Type	Non-Specialty Brand	Non-Specialty Generic	Specialty Brand	Specialty Generic	Total
<u><i>January 2017 - June 2018</i></u>					
> 11 Locations	107,101	906,688	1,111	2,063	1,016,963
≤ 10 Locations	98,806	807,107	3,674	2,177	911,764
Common Ownership	12,594	125,871	1,464	471	140,399
Total	218,500	1,839,665	6,249	4,711	2,069,126
<u><i>July – December 2018</i></u>					
> 11 Locations	107,462	867,694	1,643	2,195	978,994
≤ 10 Locations	96,641	796,779	4,196	2,424	900,040
Common Ownership	14,210	129,968	1,749	558	146,485
Total	218,313	1,794,441	7,588	5,177	2,025,519

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V. INGREDIENT COST

Average Ingredient Cost by Pharmacy & Drug Type

Pharmacy Type	Drug Type	CY2017	CY2018	% Change
> 11 Locations	Non-Specialty Brand	\$237.47	\$258.74	8.95%
	Non-Specialty Generic	\$14.47	\$10.97	-24.18%
	Specialty Brand	\$5,018.23	\$4,743.83	-5.47%
	Specialty Generic	\$111.58	\$93.91	-15.84%
> 11 Locations Total		\$43.48	\$44.39	2.11%
≤ 10 Locations	Non-Specialty Brand	\$251.39	\$285.52	13.57%
	Non-Specialty Generic	\$17.56	\$16.21	-7.72%
	Specialty Brand	\$4,354.53	\$4,432.88	1.80%
	Specialty Generic	\$256.67	\$273.53	6.57%
≤ 10 Locations Total		\$61.04	\$64.94	6.39%
Common Ownership	Non-Specialty Brand	\$243.39	\$259.06	6.44%
	Non-Specialty Generic	\$12.54	\$10.05	-19.87%
	Specialty Brand	\$6,546.38	\$6,933.84	5.92%
	Specialty Generic	\$673.28	\$740.91	10.04%
Common Ownership Total		\$100.65	\$116.22	15.47%
Grand Total		\$55.01	\$58.63	6.57%

Note: Ingredient costs reflect the drug acquisition cost by drug category.

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VI. RECOMMENDATIONS

Expand Analysis to Include

- i. Contract analysis (fees, restrictions, etc.)
 - MCO to PBM
 - PBM to PSAO/Pharmacy
 - PBM/PSAO to Drug Manufacturer/Wholesaler
- ii. Compare PBM claims data to MCO encounter data
- iii. Case study following the “dollar chain” through the drug distribution/pricing system

Recommendations to DMS Contracts

- Implement a pass-through model for MCO PBM contracts for DMS
 - The amount billed to the MCO, subsequently DMS, is the same as the reimbursement to the pharmacy
- Prohibit all retroactive fees, direct and indirect remunerations fees, and any other performance incentive fees from PBM contracts with PSAOs/pharmacies

Recommendations to DMS Contracts

- Evaluate the implementation of a pricing methodology to managed care Medicaid pharmacy benefits
- Ensure the MLR review incorporates drug rebates and PBM administrative fees as part of an independent MLR review process

Recommendations to DMS Contracts

- PBM cannot provide financial incentives in the form of copayments, deductibles, or premiums as incentives to use specific retail, mail order, or other network pharmacies in which the PBM has common ownership
- Evaluate the inclusion of efficiency incentives for MCOs and PBMs based on pharmacy-related outcomes

Recommendations for Transparency Reporting

- Annual transparency report from each MCO-PBM contract
 - Aggregate rebate amount collected by PBM from all manufacturers and from all MCOs
 - Aggregate administrative fees collected by PBM from all manufacturers and from all MCOs
 - Aggregate retained rebate percentage

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QUESTIONS & ANSWERS