Medicaid Pharmacy Reimbursement Reform

Trends and Recommendations

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CHANGE to WIN

Key issues

- Medicaid Rx costs soaring: $27.3 billion in 2010
- Need for fresh look at drug costs in new fiscal and industry environment
- Medicaid FFS pays more for the same services than PBMs and MCOs
- Medicaid should be paying the lowest price available

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Medicaid Pays More Than Private Payors

In a sample of 12 states, Medicaid pays 1%-11% more to the pharmacy per script than commercial payers.

State	Gross Revenue / Brand	Gross Revenue / Generic	Average Gross Revenue	Average Gross Profit	Percent Overpaid	Est. Savings, CY 2011 (in millions)
Private	$ 125.37	$ 21.36	$ 58.52	$ 10.19	N/A	N/A
CO	$ 132.25	$ 23.50	$ 61.56	$ 13.23	6.6%	$ 16.6
CT	$ 132.15	$ 22.65	$ 60.98	$ 12.64	5.6%	$ 23.2
DC	$ 139.50	$ 24.00	$ 64.43	$ 16.09	11.5%	$ 5.6
IA	$ 136.34	$ 23.84	$ 63.22	$ 14.88	9.4%	$ 25.6
KY	$ 132.00	$ 24.50	$ 62.13	$ 13.79	7.6%	$ 43.6
MA	$ 130.50	$ 22.50	$ 60.30	$ 11.96	4.4%	$ 19.4
ME	$ 130.85	$ 22.85	$ 60.65	$ 12.31	5.0%	$ 10.0
NH	$ 127.75	$ 21.25	$ 58.53	$ 10.19	1.3%	$ 1.7
NY	$ 128.63	$ 22.50	$ 59.64	$ 11.31	3.3%	$ 133.3
VA	$ 138.38	$ 23.25	$ 63.54	$ 15.21	10.0%	$ 28.2
VT	$ 133.45	$ 24.25	$ 62.47	$ 14.13	8.1%	$ 9.2
WV	$ 130.00	$ 24.80	$ 61.62	$ 13.28	6.7%	$ 23.0

Unique Medicaid Features

Pharmacy Networks

- Need for adequate access
- Influence of provider community
- Different types of providers
  - Rural/Urban
  - Chain/independent
  - Higher levels of care

Medicaid as payor of last resort

- Third party liability challenge
  - Pay and chase vs. preventive actions
- Primary / secondary billings

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Fee For Service vs. MCO

Fee For Service 73% of expenditures	MCO/capitated 27% of expenditures
Open formularies [OBRA90]	Formulary restrictions
State-managed or contracted to PBA	PBM managed
Less advanced cost-containment measures	Prior Authorization, Step Therapy, etc

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Provider Reimbursement

- **Medicaid must reimburse at Estimated Acquisition Cost; most states still use AWP**
- **States reimburse at the lower of:**
  - Brand: AWP - X% or Usual & Customary (U&C)
  - Generic: SMAC or FUL or AWP - X% or U&C
- **High dispensing fees + inflated AWP + industry litigation on AMP = excess profit**
  - AWP rollback and AMP redefinition help somewhat

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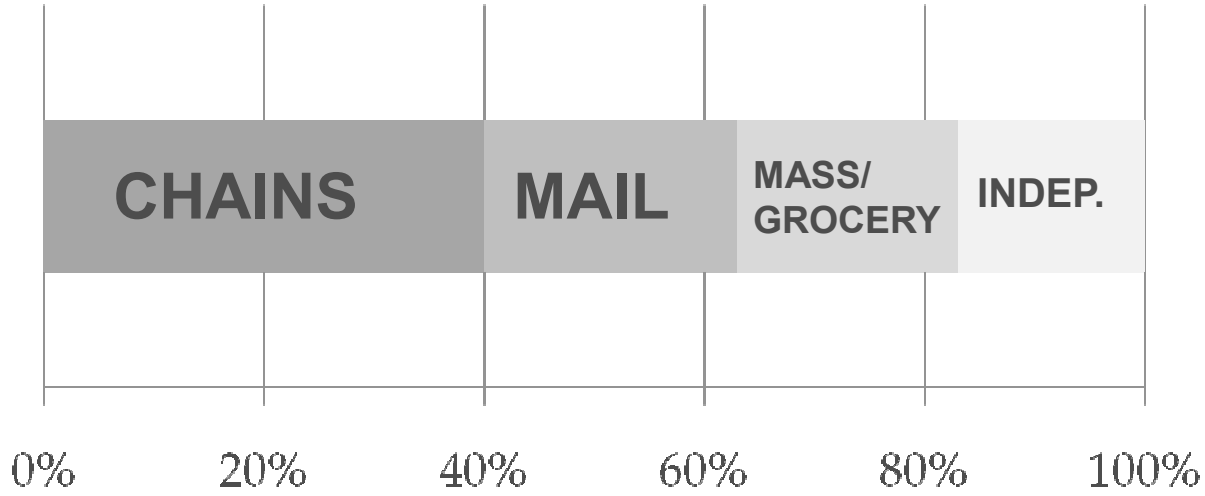
Provider Dynamics

Rx Revenue Market Share



- Chain drugstores and mass/grocery dominate
- Mail generally not an option for FFS Medicaid recipients
- Long-term care and specialty provide more complex services and are typically paid a premium

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Policy Dynamics

- **Huge variability in reimbursement rates among states**
  - Strength of pharmacy lobby
  - Sophistication of Medicaid agency
- **Some states have innovated successfully**
  - MAC lists
  - Generic substitution

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Efforts to Lower Costs Through Reimbursement

- Nine states moved from AWP to WAC, which is still manufacturer-reported
- Alabama and Oregon moving to Actual Acquisition Cost-based reimbursement
  - Transparency limits arbitrage/spread
  - AAC based on averages; still allows for competition
- Major changes require CMS approval, but a strict definition of U&C could be established through state statute or regulation

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Common Sense Reform is Possible

- Reimbursement reform can increase transparency and lower costs
- Medicaid should not pay more than commercial payors and Medicare Part D
- Pharmacies can still make a profit without hiding it from sight

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