

READY FOR NEXT

Together...We Are Ready For What Comes Next

MERCER GOVERNMENT HUMAN SERVICES CONSULTING

PBM SPREAD

IMPACT ON STATE MEDICAID PROGRAMS

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PHARMACY BENEFIT MANAGER SPREAD PRESENTATION OVERVIEW

1 Industry Background

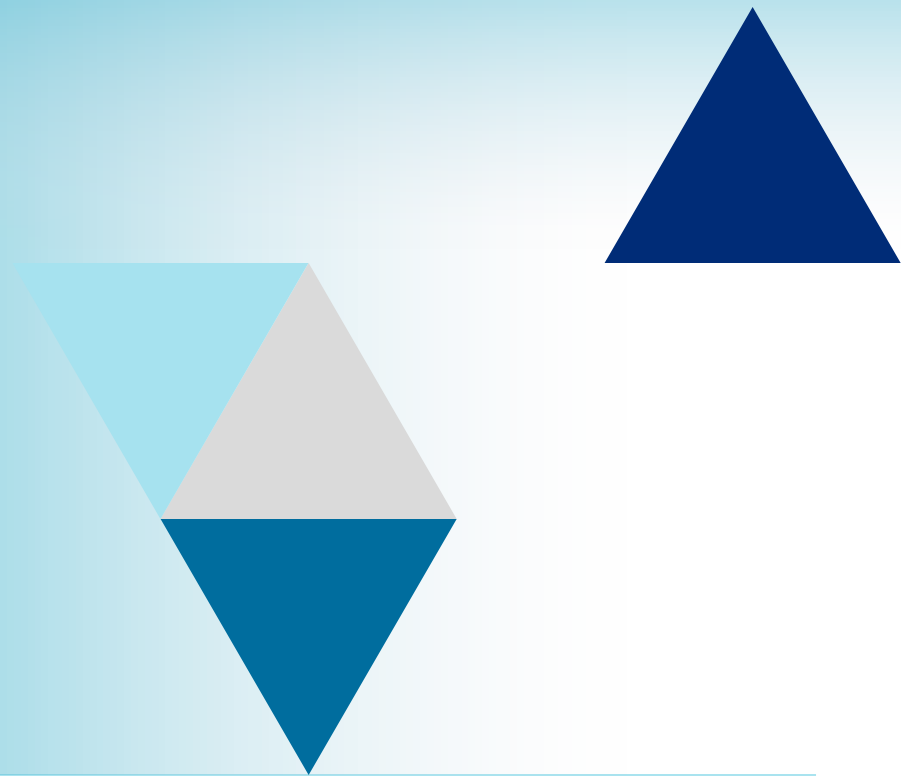
2 National Attention

3 Case Study in South Carolina Managed Medicaid

4 Recommendations for State Medicaid Programs

5 Questions and Answers

INDUSTRY BACKGROUND



MANAGED CARE AND MEDICAL LOSS RATIO

Medicaid Managed Care

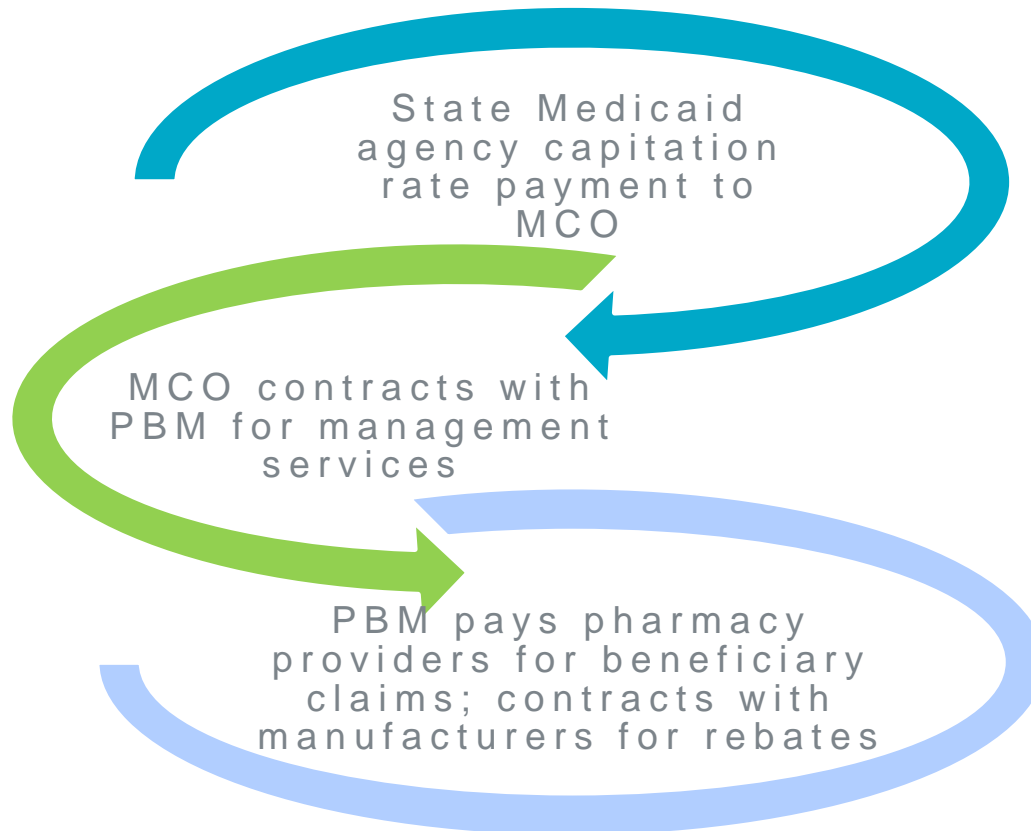
- Delivery of Medicaid health benefits through a Managed Care Organization (MCO) that accepts a set payment rate for the services provided

Medical Loss Ratio (MLR)

- MLR is a measure of how much of an MCO's premium is used towards health care costs (medical claims, quality improvement, fraud prevention)



MEDICAID MANAGED CARE PAYMENT AND CONTRACT FLOW

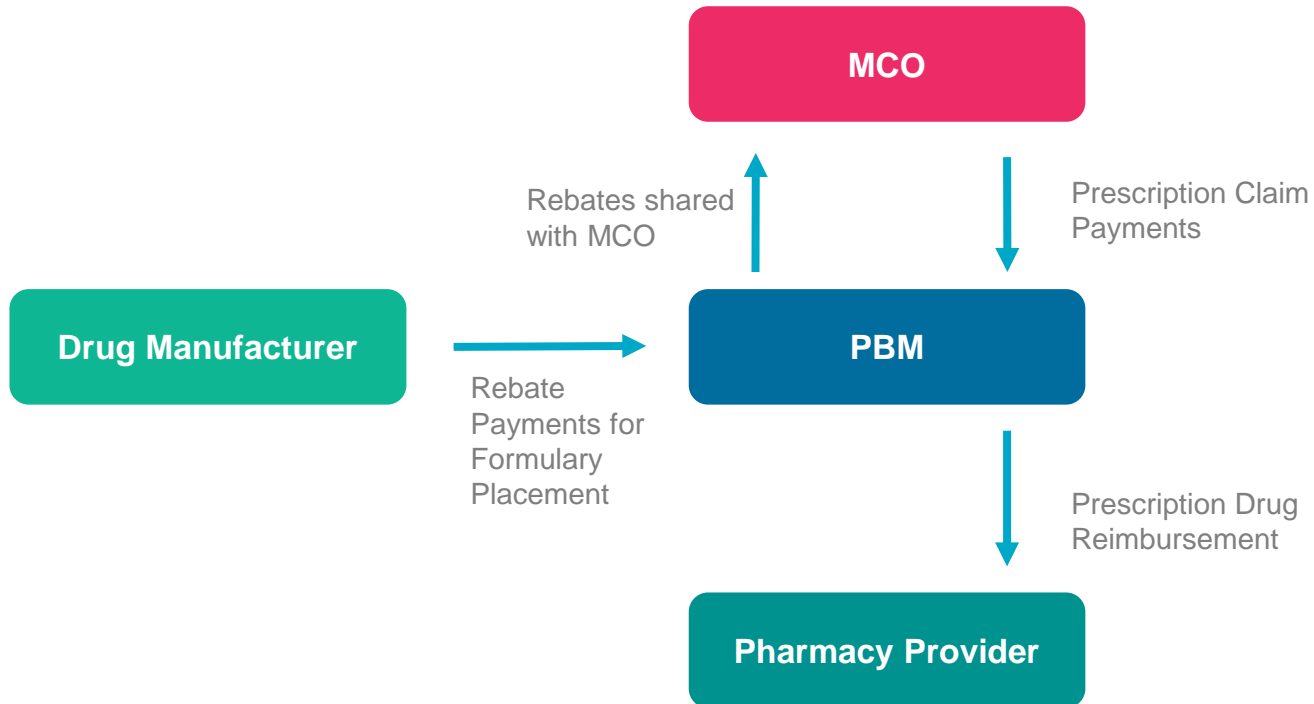


PHARMACY BENEFIT MANAGERS

An MCO may sub-contract with a PBM for all or some of the services associated with providing the pharmacy benefit



MEDICAID MANAGED CARE PAYMENT AND CONTRACT FLOW



PBM CONTRACTING MODELS

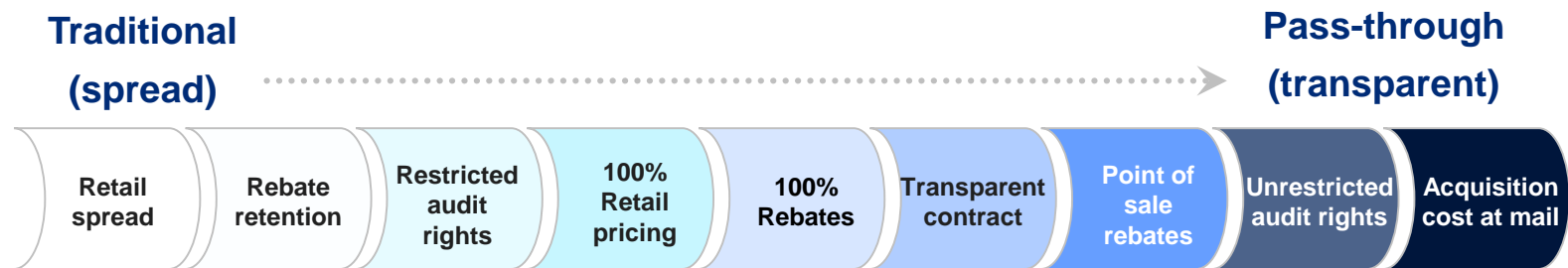
TRADITIONAL (SPREAD) CONTRACT MODEL

- The PBM purchases drugs through their provider network at a lower cost than what is charged to the MCO
- Utilizes the revenue earned based on the spread to cover costs for PBM services.

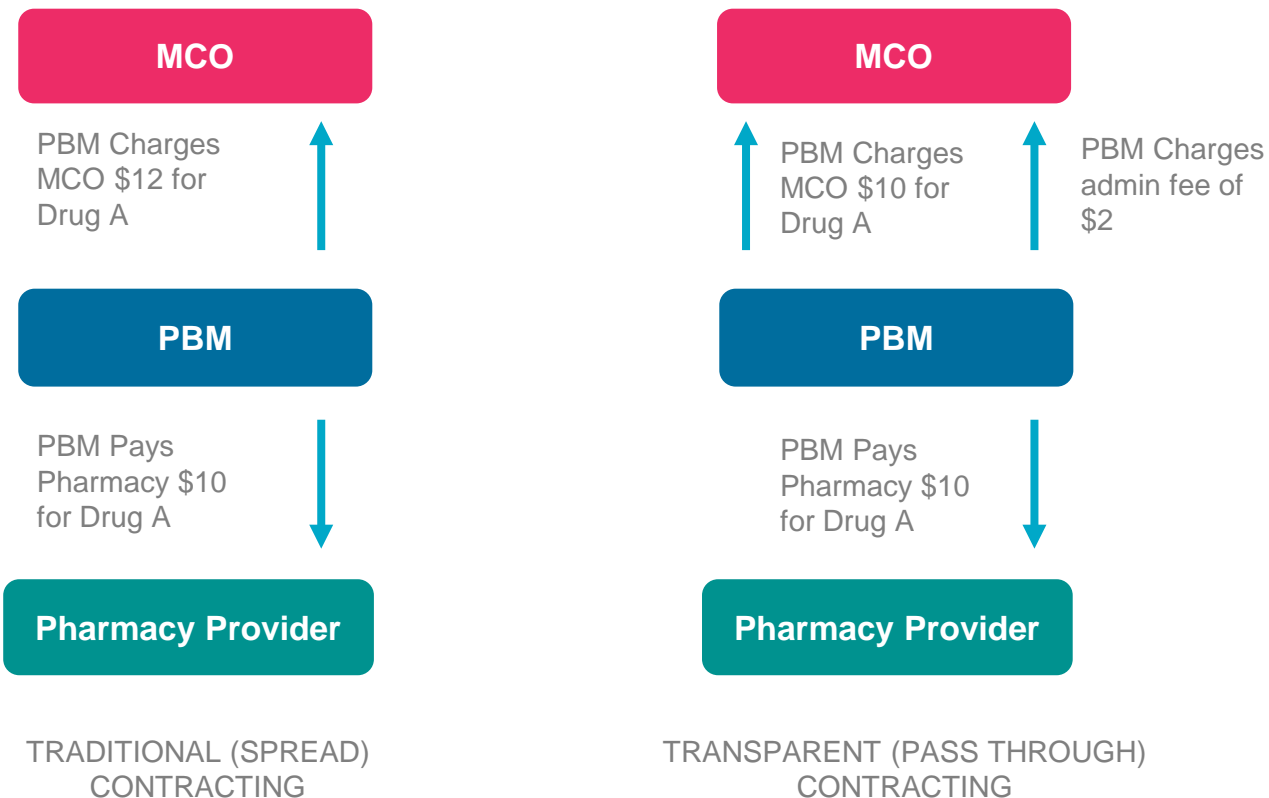
PASS-THROUGH (TRANSPARENT) CONTRACT MODEL

- The PBM passes cost for prescriptions (ingredient cost + dispensing fee) back to the MCO
- Charges admin fees for all other PBM services.

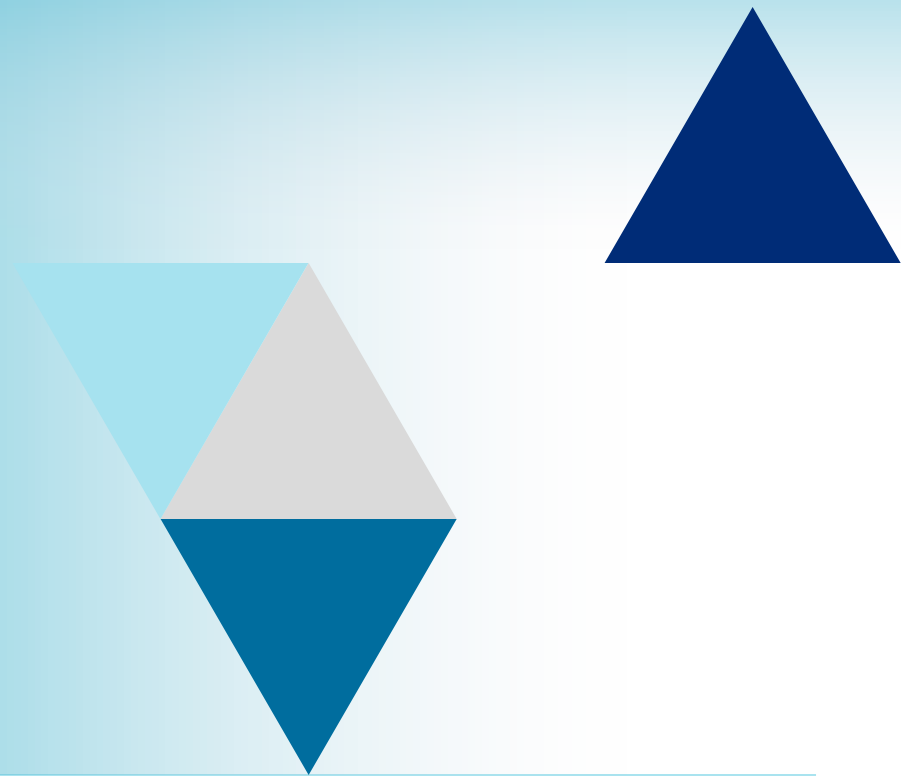
PBM CONTRACT MODELS FINANCIAL SPECTRUM



TRADITIONAL AND TRANSPARENT CONTRACTING EXAMPLE

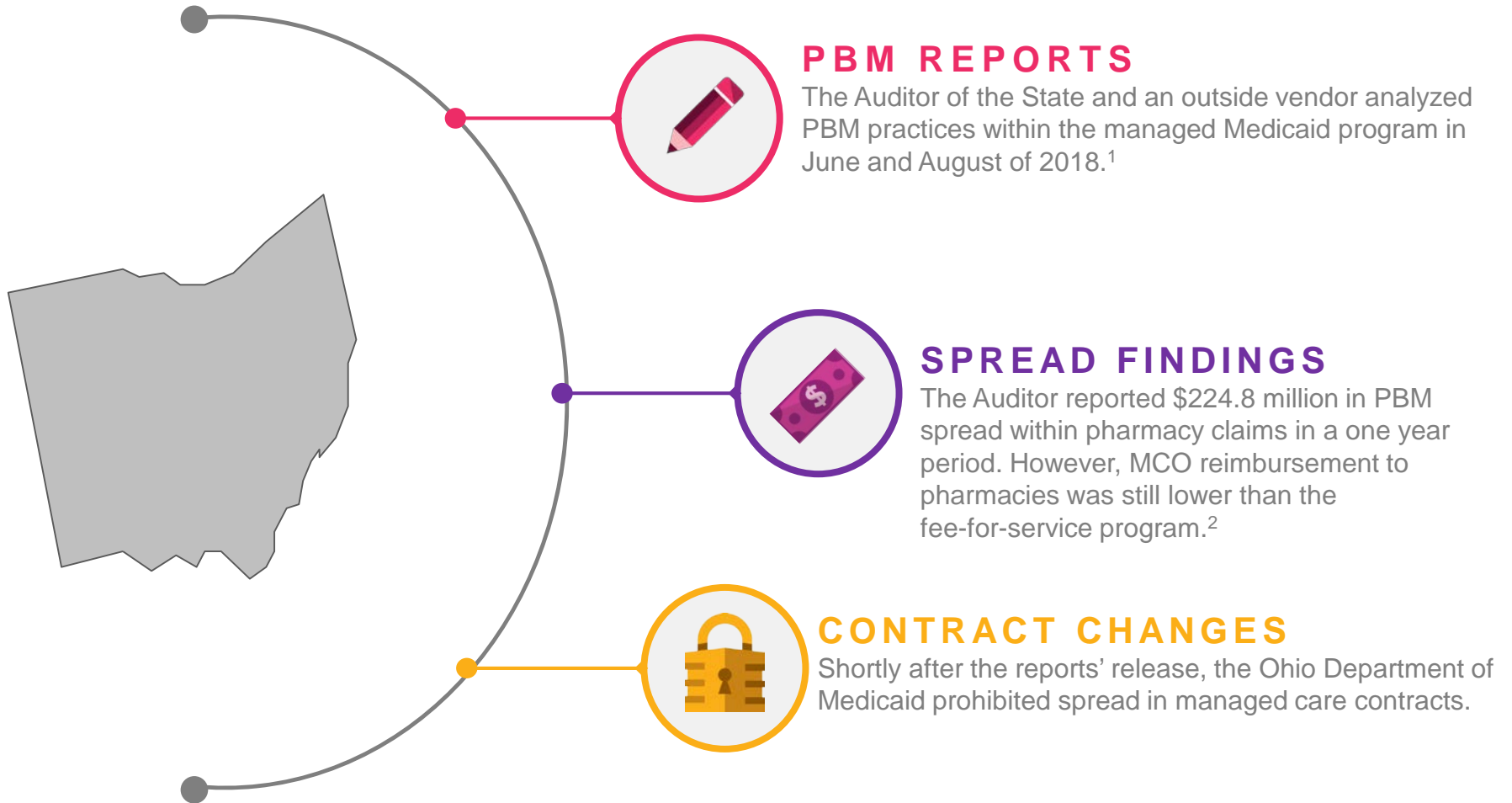


NATIONAL ATTENTION



STATE PBM ACTIVITY

OHIO

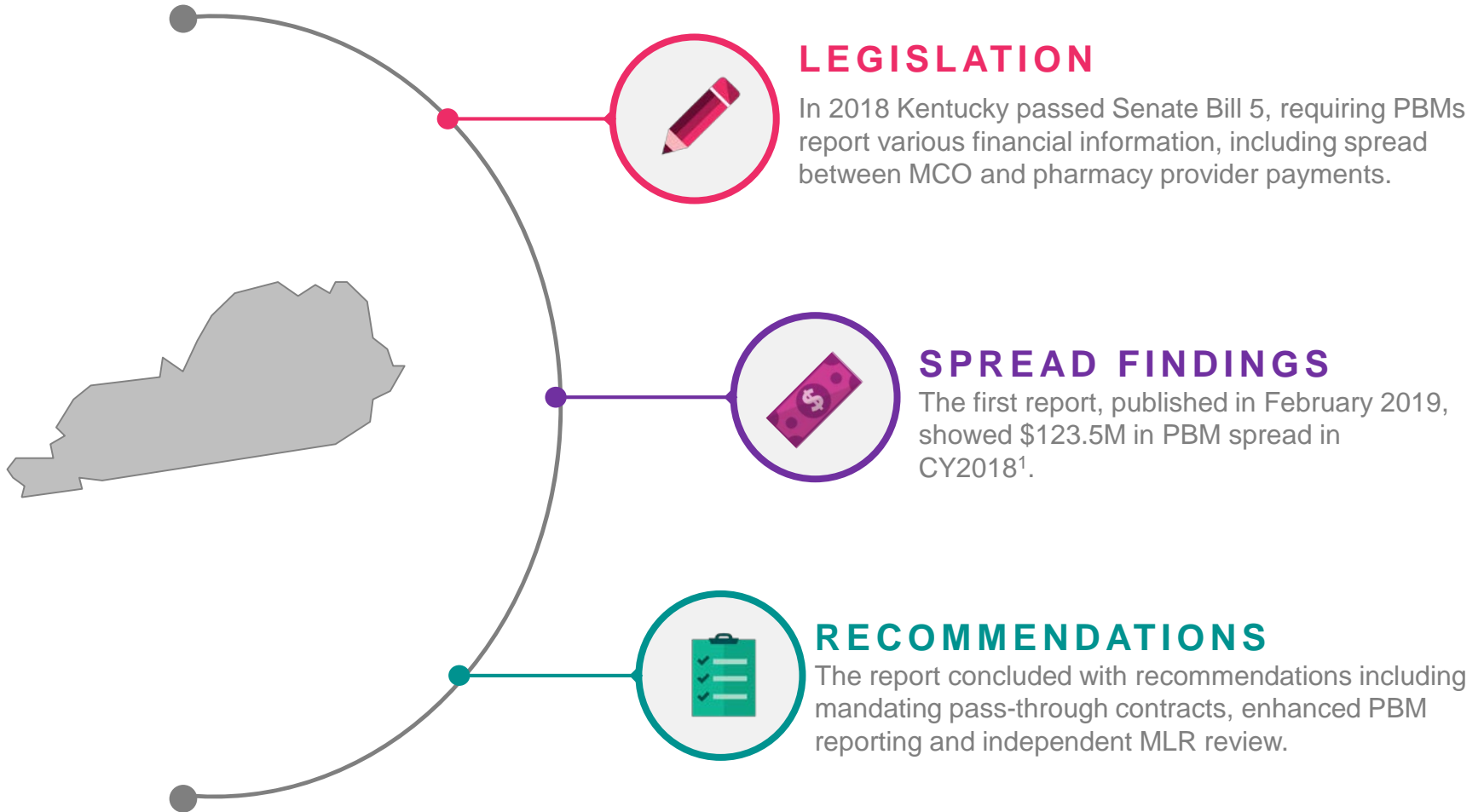


1) Ohio Auditor of the State "Auditor's Report: Pharmacy Benefit Managers Take Fees of 31% on Generic Drugs Worth \$208 million in One-Year Period" *Press Release* 16 August 2018

2) Ohio Department of Medicaid Report on MCP Pharmacy Benefit Manager Performance. Health Plan Data Solutions LLC. June 15, 2018.

STATE PBM ACTIVITY

KENTUCKY



¹) Medicaid Pharmacy Pricing. Opening the Black Box. Prepared for the Kentucky Cabinet for Health and Family Service. February 19, 2019

RECENT STATE SPONSORED PBM ACTIVITY

STATE	ACTIVITY
CALIFORNIA	Enacted AB 315 (2018), which requires PBM pharmacy provider payment reporting and creates a 'Pharmacy Benefit Management Reporting' task force by July 2019.
LOUISIANA	Enacted SB 130 (2018), requiring PBMs serving Medicaid MCOs be compensated only on a transaction-fee-per-claim basis based on a set rate established by the Louisiana Department of Health.
MASSACHUSETTS	Massachusetts Health Policy Commission released a PBM pricing report for generic drugs in June 2019.
MONTANA	SB 71 (2019), which prohibits spread pricing agreements between PBMs and MCOs for generic drugs, passed both chambers and was vetoed.
NEW YORK	State Senate Committee on Investigations and Government Operations published PBM investigative report in coordination with the Committee on Health in May 2019.

RECENT STATE SPONSORED PBM ACTIVITY

STATE	ACTIVITY
NORTH DAKOTA	Enacted SB 2301 (2017), requiring spread pricing disclosure to payers for pharmacies in which the PBM has an ownership interest. It also restricts PBM specialty pharmacy accreditation practices, and requires fiduciary duty in certain PBM-owned pharmacy network scenarios.
OREGON	Enacted HB 2185 (2019), restricting pharmacy benefit manager practices in mail order, specialty pharmacy, 340B, and maximum allowable cost lists.
PENNSYLVANIA	Auditor General's office issued special reports, Bringing Transparency & Accountability to Drug Pricing, focusing on different PBM practices in December 2018 and February 2019.

FEDERAL PBM ACTIVITY

United States Senate – Committee on Finance

- In April 2019, Charles Grassley and Ron Wyden wrote a letter to the Office of the Inspector General asking for additional transparency and oversight of PBM practices:
 - Letter cited PBM spread reports from Ohio, Pennsylvania and Kentucky and asked for a similar federal-level analysis.

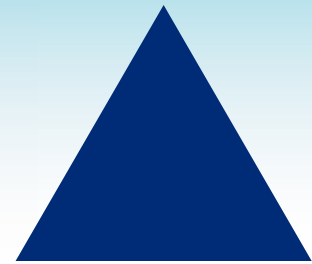
MLR Bulletin

- In May 2019 Centers for Medicare & Medicaid Services (CMS) issued an informational bulletin clarifying how spread embedded in pharmacy claim payments and rebates should be accounted for in MLR calculations.



CASE STUDY

SOUTH CAROLINA MANAGED MEDICAID



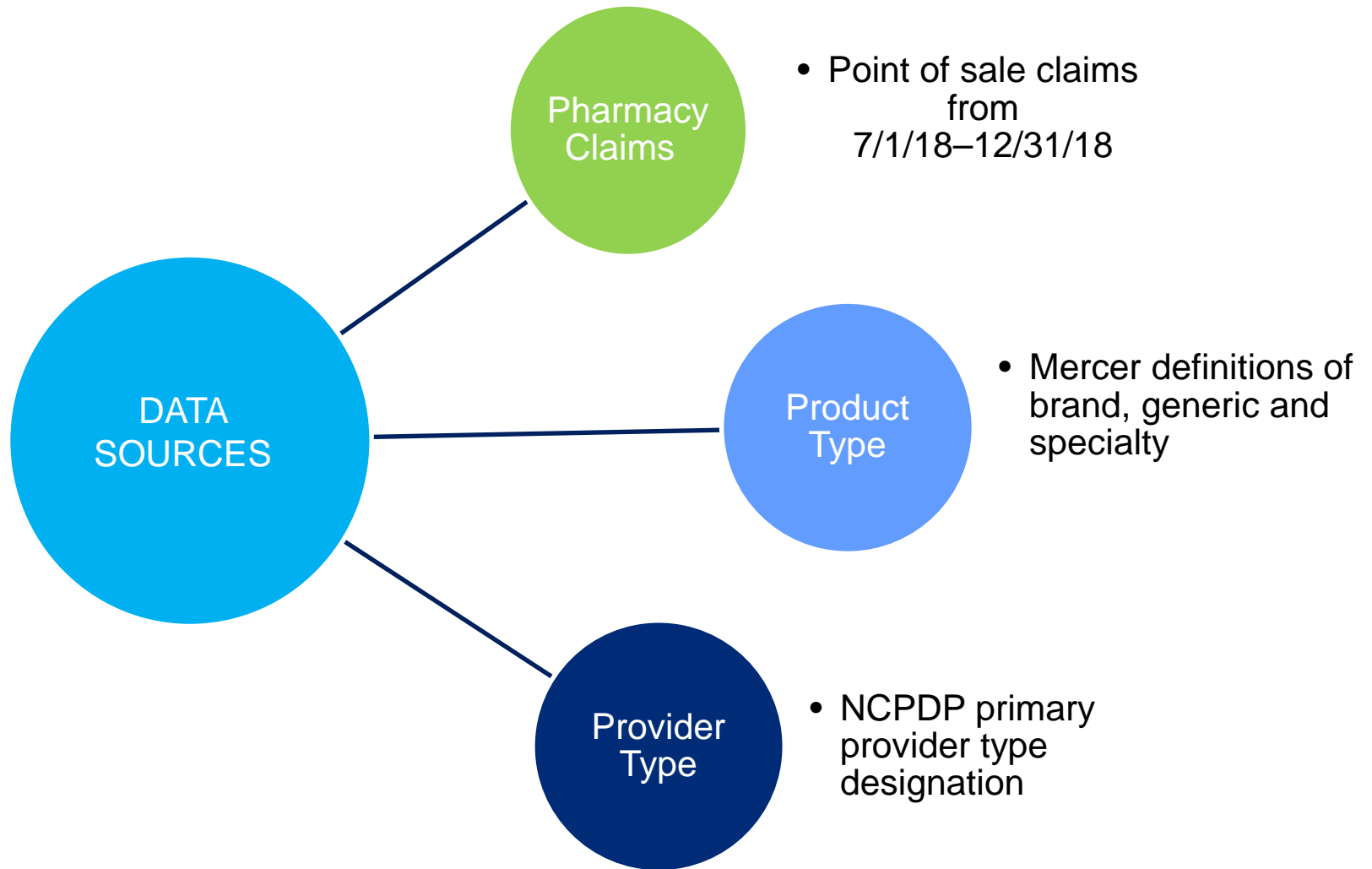
MCO CONTRACT LANGUAGE

SCDHHS updated MCO Contract Language

Section 4.2.21.9 Reporting of Pharmacy Claim Level Reimbursement

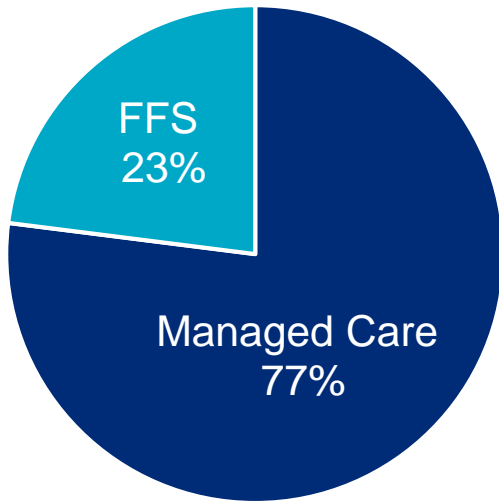
To facilitate accurate measurement of the pharmacy component of the Medical Loss Ratio (MLR) the CONTRACTOR shall provide Claim-level pharmacy reimbursement detail, reflecting the amount paid by the Pharmacy Benefit Manager (PBM) to the pharmacy Provider, per Section 7,2.1.3.

PBM SPREAD ANALYSES METHODOLOGY

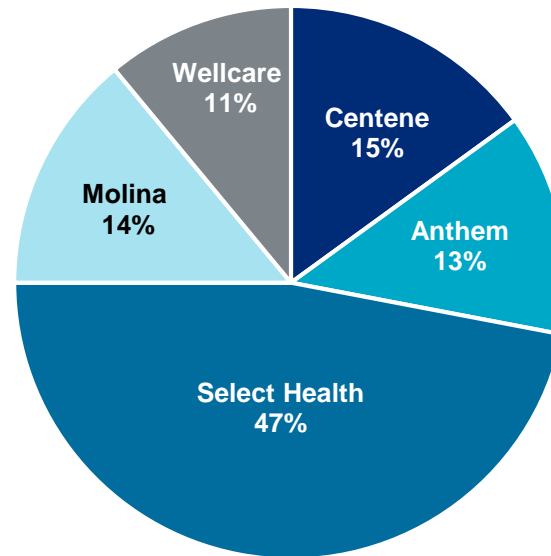


SCDHHS DEMOGRAPHICS

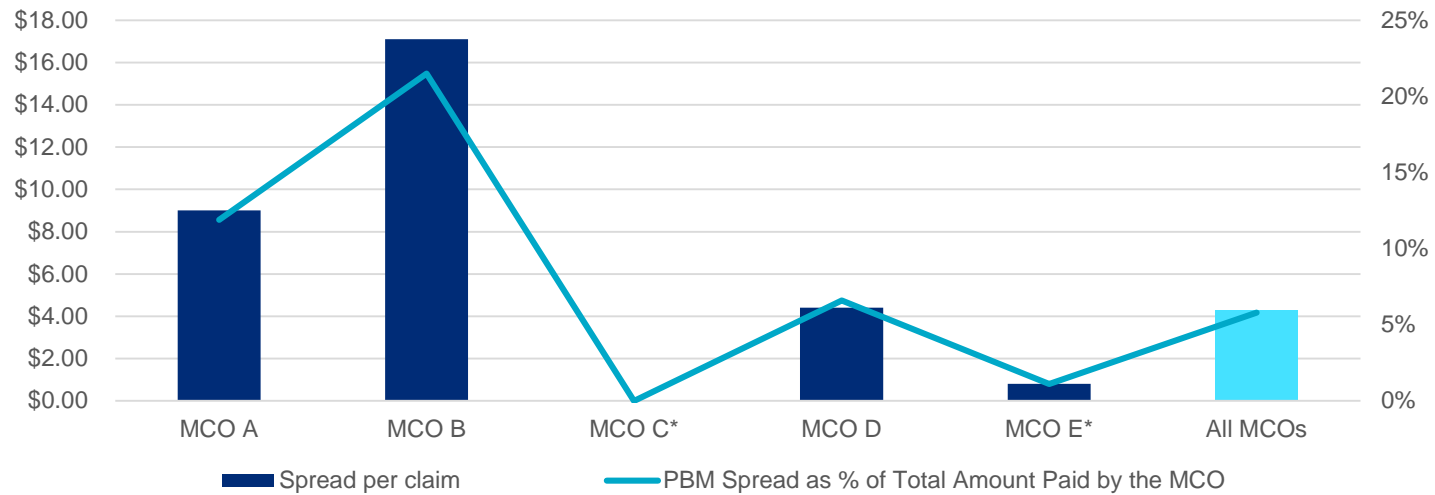
Enrollment by Benefit



Enrollment by MCO

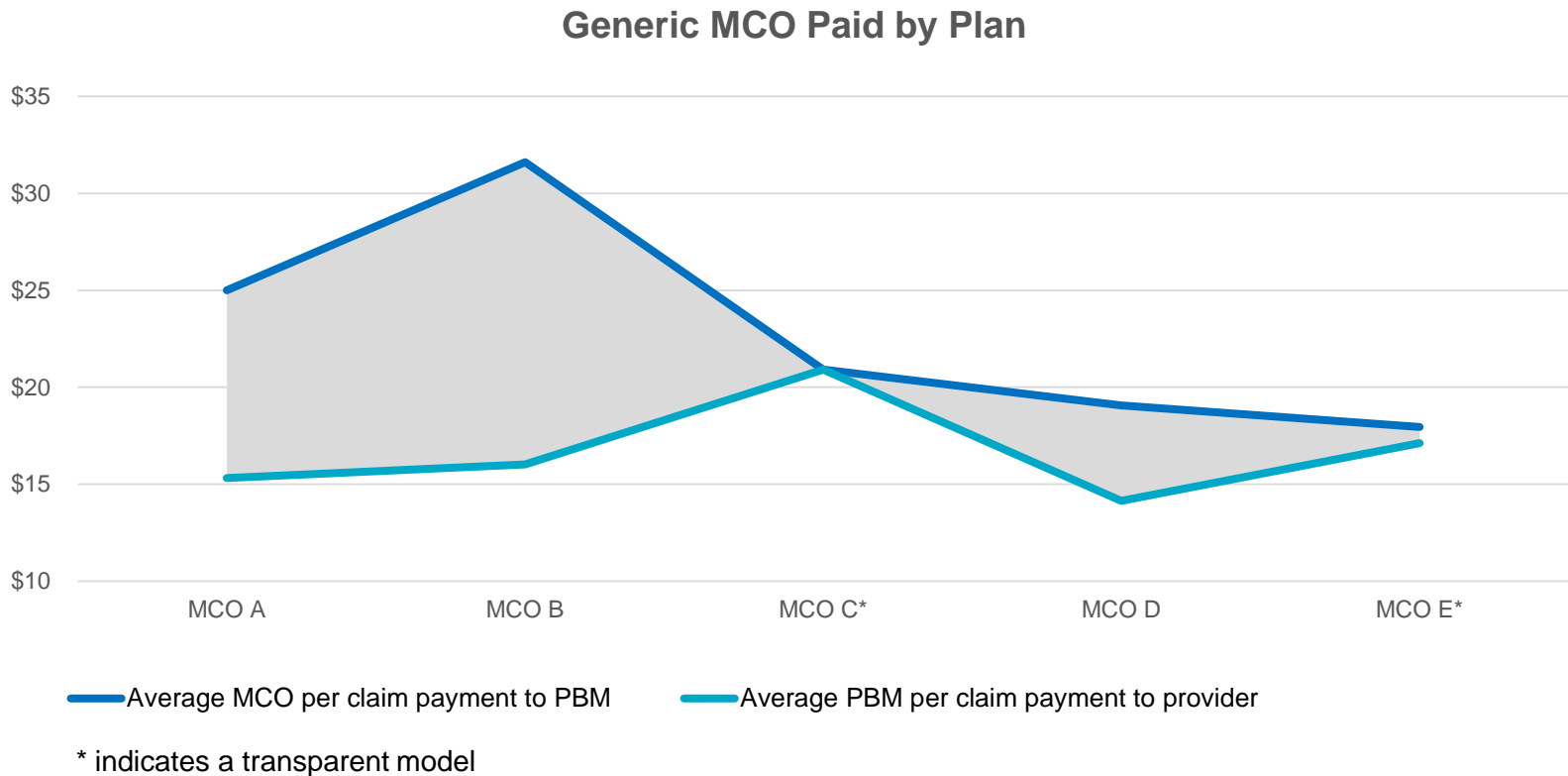


SPREAD PER CLAIM BY PLAN



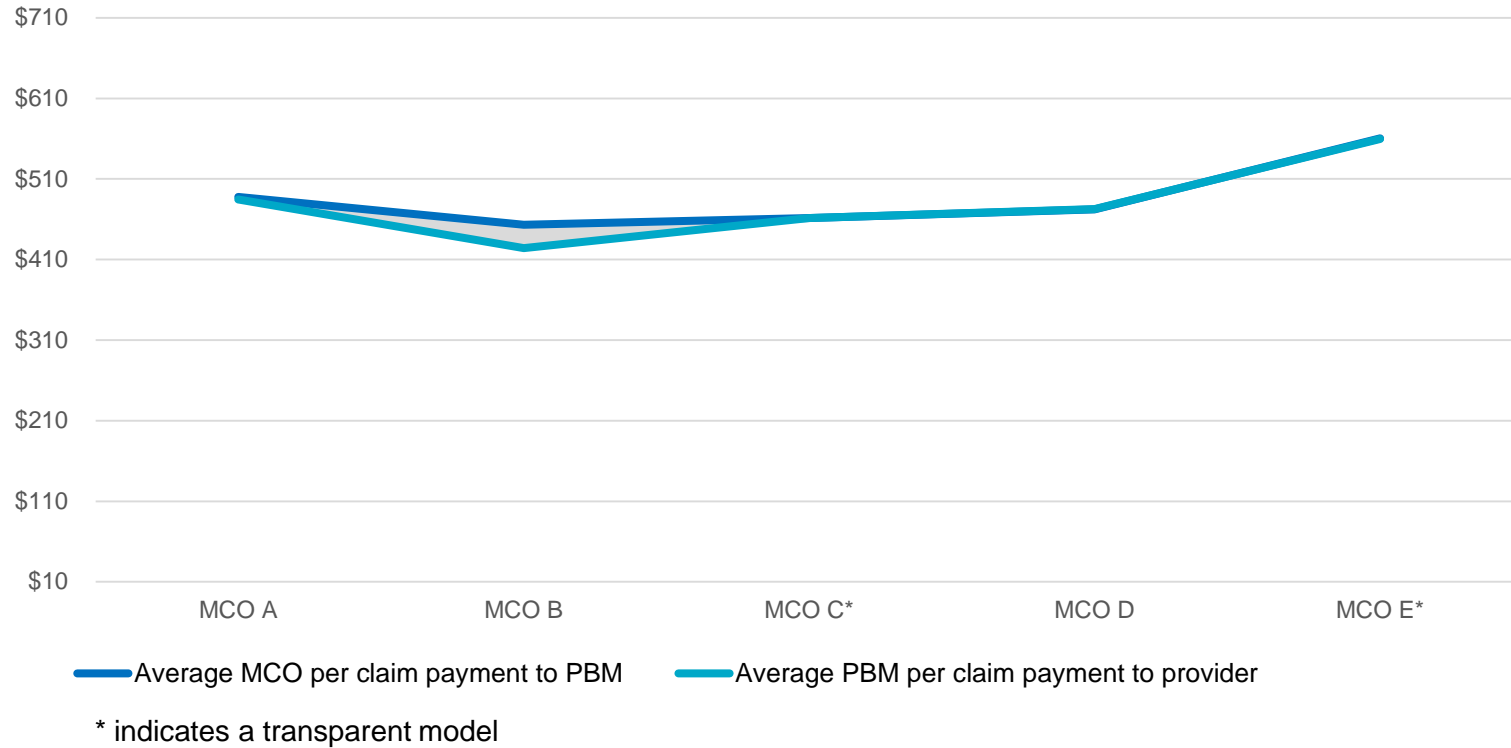
* indicates a transparent model

CASE STUDY – SCDHHS MANAGED CARE GENERIC MCO SPREAD COMPONENTS



CASE STUDY – SCDHHS MANAGED CARE BRAND MCO SPREAD COMPONENTS

Brand MCO Paid by Plan



SCDHHS SPREAD BY PRODUCT TYPE

	(a)	(b)	(c)	(d=b-c)	(e=d/a)	(f=d/b)
PROVIDER TYPE	CLAIM COUNT	TOTAL AMOUNT PAID BY THE MCO	TOTAL AMOUNT PAID BY PBM TO PHARMACY PROVIDER	SPREAD	SPREAD PER CLAIM	PBM SPREAD AS % OF TOTAL AMOUNT PAID BY THE MCO
Specialty	32,911	\$103,747,658	\$102,934,863	\$812,795	\$24.70	0.8%
Brand (Non-Specialty)	374,093	\$90,467,317	\$89,270,099	\$1,197,218	\$3.20	1.3%
Generic (Non-Specialty)	3,126,845	\$65,096,183	\$52,087,443	\$13,008,740	\$4.16	20.0%
In aggregate	3,533,849	\$259,311,158	\$244,292,405	\$15,018,753	\$4.25	5.8%

SCDHHS SPREAD BY PROVIDER TYPE

	(a)	(b)	(c)	(d=b-c)	(e=d/a)	(f=d/b)
PROVIDER TYPE	CLAIM COUNT	TOTAL AMOUNT PAID BY THE MCO	TOTAL AMOUNT PAID BY PBM TO PHARMACY PROVIDER	SPREAD	SPREAD PER CLAIM	PBM SPREAD AS % OF TOTAL AMOUNT PAID BY THE MCO
Independent Pharmacy	748,136	\$89,696,820	\$85,851,407	\$3,845,413	\$5.14	4.3%
Chain Pharmacy	2,745,271	\$166,612,503	\$155,652,941	\$10,959,562	\$3.99	6.6%
Alternate Dispensing Site	40,442	\$3,001,835	\$2,788,056	\$213,779	\$5.29	7.1%
In aggregate	3,533,849	\$259,311,158	\$244,292,405	\$15,018,753	\$4.25	5.8%

QUALITATIVE INFORMATION



REBATES

PBMs retained between
0% and 25% of rebates



ADMINISTRATION FEES

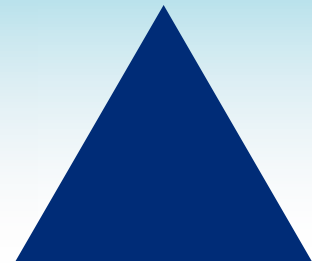
Varied Payment
Arrangements



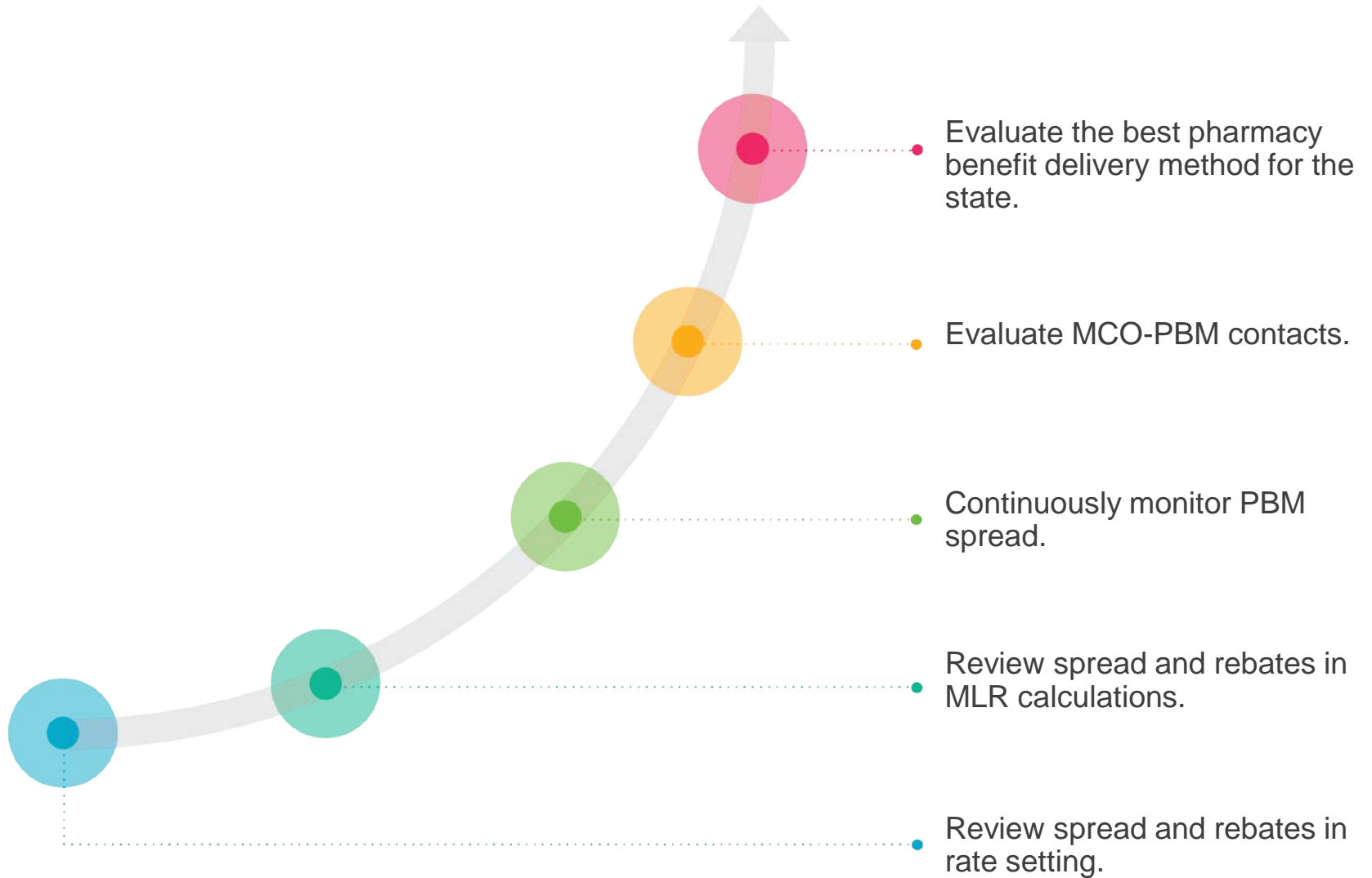
SERVICES PROVIDED

Claims adjudication, network
contracting and management,
regulatory support and
e-prescribing capabilities

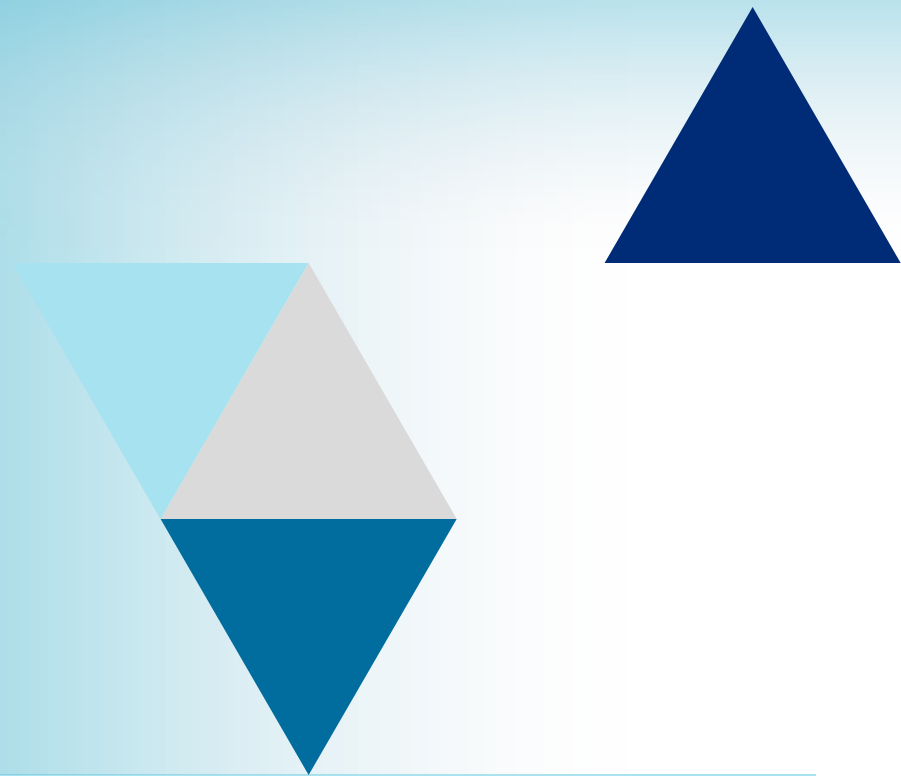
RECOMMENDATIONS FOR STATE MEDICAID PROGRAMS



REVIEW, MONITOR, EVALUATE



QUESTIONS AND ANSWERS



MERCER GOVERNMENT

READY FOR NEXT. TOGETHER.

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