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Ohio Department of Medicaid

Executive Summary
Report on MCP Pharmacy Benefit Manager Performance

June 15th, 2018

HealthPlan DATA SOLUTIONS LLC
Transparency Through Information

To: Director Sears, Ohio Department of Medicaid
Patrick Stephan, Director of Managed Care - Ohio Department of Medicaid
Dr. Donald Wharton, Assistant Medical Director - Ohio Department of Medicaid

Re: Executive Summary of Report on MCP Pharmacy Benefit Manager Performance
From: HealthPlan Data Solutions, LLC
Date: June 15th, 2018

Thank you for the opportunity to provide this executive summary of our report on the performance of Pharmacy Benefit Managers (PBM) in their management of the pharmacy benefit plans for the Managed Care Providers (MCPs) servicing the Ohio Department of Medicaid (ODM). HealthPlan Data Solutions (HDS) provides transparency to the prescription benefit data and gives the plan sponsors and managed care providers the ability to measure performance and contract terms against competitive benchmarks.

The results of the HDS analysis for the following benefit components are included in the executive summary of the report:

1. Amount of "PBM Spread" between the prices billed to the MCPs by their PBMs and the amount paid to the pharmacy providers
2. Analysis of the provider payments; looking for any anti-competitive pricing that is biased against the independent pharmacy providers
3. Financial impact of a cost-neutral, pass-through PBM pricing option for ODM, which may resolve the challenges associated with the current traditional pricing PBM-MCP pricing model
4. Financial comparison of the current MCP managed model to a Fee-for-service model for all ODM prescription services

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Summary of Results

The analysis of the current benefit structure was performed on data matching ODM Encounter data to the Managed Care Plans (MCP) provided data. The HDS Claims Insight system identified the following:

Total Calculated Spread for MCP Prescription Claims matched to Medicaid Encounter Data

The HDS Claims Insight system matched the prescription claims data provided by the Managed Care Plans (MCP) to the ODM Encounter data. HDS excluded MCP claims data that could not be matched to ODM Encounter data in this analysis. The total calculated spread between what was billed to the MCPs by the PBMs and paid to the pharmacy providers for matched claims is **$223,711,075.37.**

- This is **8.78%** of the total amount billed to the MCPs by the PBMs for matched claims
- The total spread for matched claims administered by CVS is **$197,330,048.71**
    - This is **8.70%** of the total amount billed to the MCPs by CVS for matched claims
- The total spread for matched claims administered by OptumRx is **$26,381,026.66**
    - This is **9.41%** of the total amount billed to the MCP by OptumRx for matched claims

Table: Spread in the MCP Claims Data Matched to ODM Encounter Data*

Managed Care Plan	Rx Count	Total Price Paid to Pharmacy	Total Price Billed to MCP by PBM	Spread Between Total Price Billed to MCP by PBM and Total Price Paid to Pharmacy+	Percent Spread of Total Price Billed to MCP by PBM
Buckeye Community Health Plan	4,570,618	$268,014,861.22	$300,953,989.46	$32,939,128.24	10.94%
Caresource	22,277,984	$1,289,174,706.61	$1,403,459,575.04	$114,284,868.43	8.14%
Molina Healthcare of Ohio	4,889,609	$286,187,123.03	$313,460,929.73	$27,273,806.70	8.70%
Paramount Advantage	3,468,464	$227,008,099.53	$249,840,344.87	$22,832,245.34	9.14%
United Healthcare Community Plan	4,061,308	$253,972,561.75	$280,353,588.41	$26,381,026.66	9.41%
Totals	**39,267,983**	**$2,324,357,352.14**	**$2,548,068,427.51**	**$223,711,075.37**	**8.78%**
Totals: CVS Administered Plans	35,206,675	$2,070,384,790.39	$2,267,714,839.10	$197,330,048.71	8.70%
Totals: OptumRx Administered Plans	4,061,308	$253,972,561.75	$280,353,588.41	$26,381,026.66	9.41%

*Results based on 98.88% of MCP claims matched to ODM Encounter Data

+Calculated spread does not equal PBM profitability

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Data Validation through the Comparison of Ingredient Cost and Dispensing Fees

During the validation of the data provided by the MCPs, the HDS Claims Insight System identified inconsistencies on **6.96%** of the claims provided by the MCPs. HDS defined an inconsistency where the total price billed or paid did not equal the ingredient cost plus dispensing fee. The ingredient cost and dispensing fee usually equals the total amount billed or paid for most claims. Without a complete data set from the PBMs, HDS could not determine the specific reasons for these inconsistencies. Some of the common reasons include:

- Coordination of benefit (COB) or secondary coverage claims
- Vaccine claims with additional dispensing fee or incentive fees to the pharmacy provider
- Sales tax charged on prescriptions filled in states that charge sales tax on prescriptions
- Claims submitted manually by the member
- Subrogation claims

Since the calculation of spread is based on the difference between the price billed to the MCP by the PBM and the price paid to the pharmacy provider, HDS included these claims in the calculation of the spread.

Table: Ingredient Cost and Dispensing Fees for MCP Claims Matched to ODM Encounter Data

Managed Care Plan	Rx Count	Total Ingredient Cost Paid to Pharmacy	Total Ingredient Cost Billed to MCP by PBM	Total Dispensing Fee Paid to Pharmacy	Total Dispensing Fee Billed to MCP by PBM
Buckeye Community Health Plan	4,570,618	$269,510,125.59	$298,584,042.93	$1,840,631.44	$2,358,898.18
Caresource	22,277,984	$1,291,705,837.09	$1,402,704,233.32	$11,770,693.27	$15,425,384.29
Molina Healthcare of Ohio	4,889,609	$286,966,690.81	$313,813,700.19	$2,033,836.65	$2,558,044.83
Paramount Advantage	3,468,464	$228,400,715.39	$250,914,832.34	$1,494,203.15	$1,909,709.27
United Healthcare Community Plan	4,061,308	$253,372,283.36	$277,516,774.01	$2,765,797.14	$5,002,423.15
Totals	**39,267,983**	**$2,329,955,652.24**	**$2,543,533,582.79**	**$19,905,161.65**	**$27,254,459.72**
Totals: CVS Administered Plans	35,206,675	$2,076,583,368.88	$2,266,016,808.78	$17,139,364.51	$22,252,036.57
Totals: OptumRx Administered Plans	4,061,308	$253,372,283.36	$277,516,774.01	$2,765,797.14	$5,002,423.15

Identification of Potentially Anti-Competitive Pricing by CVS against Independent Pharmacies

HDS did not identify preferential pricing paid to CVS-owned pharmacies by CVS that would create an anti-competitive advantage over independent pharmacies

- A pharmacy was classified as independent based on publicly available data in combination with the number of pharmacies under common ownership
- In the aggregate, CVS paid independent pharmacies more than they paid CVS pharmacies
    - Independent pharmacies would have been reimbursed **3.61%** less for traditional brand drugs if reimbursed at the rates paid to CVS pharmacies
    - Independent pharmacies would have been reimbursed **3.36%** less for traditional generic drugs if reimbursed at the rates paid to CVS pharmacies

Pharmacy Group	Retail/Mail Order Indicator	Brand/Generic Indicator	Aggregate Pricing Discount Paid to Independent pharmacies by CVS	Dispensing Fee/Rx Paid to Independent pharmacies by CVS	Aggregated Pricing Discount Paid to CVS pharmacies by CVS	Dispensing Fee/Rx Paid to CVS pharmacies by CVS	Percent Change in Reimbursement if Independent pharmacies were paid at rates CVS paid CVS pharmacies: Increase (+) / Decrease (-)
Independent	Retail	Brand	15.07%	$1.23	17.80%	$0.37	-3.61%*
Independent	Retail	Generic	86.53%	$0.48	86.91%	$0.38	-3.36%*

*Percent change in reimbursement is measured by calculating the percent change in the amount paid to independent pharmacies if CVS had paid independent pharmacies the same rates CVS paid its own pharmacies: Percent change in reimbursement = (Price paid using CVS rates – Current price paid)/Current Price Paid x 100%

Summary of Recommendations

Implementation of Pass-Through Pricing Model PBM Contracts for MCPs

Based the on analysis by the HDS Claims Insight system of the current benefit structure after matching ODM Encounter data to the Managed Care Plans (MCP) provided data, **HDS is recommending that the MCPs move to a pass-through pricing option with their PBM in place of the traditional PBM contract with spread pricing.** HDS considered the following four factors before recommending moving to a pass-through pricing model PBM contract:

1. Increased administrative fees charged in a pass-through model
2. Negotiating the appropriate AWP discount based on historical pricing performance and market benchmarks
3. Remaining cost neutral to the Ohio Department of Medicaid
4. Improving reimbursement to the pharmacy providers

Based on our analysis of the current PBM contracts signed by the MCPs, a solution in which increased administrative fees paid to the PBM for administering a pass-through pricing model can be offset with more competitive pricing discounts and dispensing fee guarantees. In the pass-

through pricing model, the guaranteed discount rates are the same for the MCP and pharmacy providers. The HDS suggested discounts would result in improved payments to the pharmacies while offsetting the increased administrative fees and keeping the pass-through model cost neutral to ODM and the MCPs. Based on information in the PBM contracts provided and HDS market intelligence, the fees should be in the range of $0.95 to $1.90 per prescription. This will result in an increase in the administrative cost to the MCPs of **$43,414,533.15**. This can be offset by increasing the pricing discounts and reducing the dispensing fee rates guaranteed to the MCPs. With the suggested discounts, the overall **net decrease** in prescription plan costs for the MCPs would be **$16,154,557.17** while **increasing** the pharmacy reimbursement by **$191,038,145.91**.

Fee-for-Service Pricing Comparison

The HDS Claims Insight system calculated prescription pricing if MCP matched prescription claims had been paid under the Medicaid Fee-For-Service (FFS) methodology utilizing NADAC to estimate acquisition cost. HDS ran two separate dispensing fee models to estimate the total billed price that would be paid under the Fee-for-Service model.

- **Dispensing Fee Model 1**: if the professional dispensing fee paid to pharmacies with no assigned dispensing fee tier is assumed to be **$9.79** per prescription, the NADAC plus dispensing fee price would increase the cost of pharmacy claims by **$145,778,114.92**
- **Dispensing Fee Model 2**: if the professional dispensing fee paid to pharmacies with no assigned dispensing fee tier is assumed to be the default dispensing fee formulas used by ODM, the NADAC plus dispensing fee price would increase the cost of pharmacy claims by **$145,146,577.97**
  - In both models HDS applied the tiered dispensing fee if the pharmacy was assigned a tier by ODM

Table: Estimated Pricing for MCP Claims if paid under the Medicaid-Fee-for-Service Methodology

Managed Care Plan	Total Price Billed to MCP by PBM	Estimated Medicaid Fee-For-Service Price Paid Dispensing Fee Model 1	Increase in Estimated Price Paid Dispensing Fee Model 1	Estimated Medicaid Fee-For-Service Price Paid Dispensing Fee Model 2	Increase in Estimated Price Paid Dispensing Fee Model 2
Buckeye Community Health Plan	$300,993,309.56	$312,348,117.25	$11,354,807.69	$312,726,009.49	$11,732,699.93
Caresource	$1,403,459,575.04	$1,501,923,869.31	$98,464,294.27	$1,503,336,631.32	$99,877,056.28
Molina Healthcare of Ohio	$313,460,929.73	$337,128,960.78	$23,668,031.05	$337,514,236.66	$24,053,306.93
Paramount Advantage	$249,840,344.87	$262,077,602.75	$12,237,257.88	$259,072,590.74	$9,232,245.87
United Healthcare Community Plan	$280,353,588.41	$280,407,312.44	$53,724.03	$280,604,857.37	$251,268.96
Totals	**$2,548,107,747.61**	**$2,693,885,862.53**	**$145,778,114.92**	**$2,693,254,325.58**	**$145,146,577.97**

HDS would recommend a follow up analysis to determine if the potential increase in rebates would offset the increase in prescription claim costs in the FFS model and the prescription claims were carved out of the Managed Care Program. This analysis will provide a net quantification of the potential savings for ODM.