

DMAS UPDATE FOR JOINT SUBCOMMITTEE FOR HEALTH AND HUMAN RESOURCES OVERSIGHT – PHARMACY BENEFIT DELIVERY MODELS

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Evaluation of Cost-Effective Pharmacy Delivery Models

Item 307.EE.1. *The Department of Medical Assistance Services shall cause its contracted actuary, not later than October 1, 2019, to evaluate and determine the most cost-effective pharmacy benefit delivery model, taking into account cost savings and other considerations such as clinical benefits, for all programs managed or directed by the department. In determining cost savings for each model considered, the actuary shall consider factors including rebates captured by the Commonwealth, decreased capitation rates, drug ingredient costs, generic drug dispensing, dispensing fees, drug utilization, and a single drug formulary (including the existing Common Core Formulary). The department shall report its findings to the Chairmen of the House Appropriations and Senate Finance Committees by December 1, 2019.*

Model Overview



Overview – Virginia’s Current Model

CURRENT MODEL	MANAGED CARE ORGANIZATION (MCO) MANDATORY PASS-THROUGH PRICING	STATE MANDATED PHARMACY PROVIDER REIMBURSEMENT	PHARMACY BENEFIT CARVE-OUT
MCO	■ DMAS pays 6 Managed Care Organizations (MCOs) to administer Pharmacy benefits. The MCOs in turn contract with Pharmacy Benefit Managers (PBMs).		
Spread Pricing	■ Spread pricing is the difference between what PBMs charge MCOs and what they pay pharmacies.		
Variable Pharmacy Reimbursement	■ Each MCO/PBM negotiates contractual reimbursement rates with pharmacies.		
Multiple Preferred Drug Lists	■ Each MCO/PBM has its own Preferred Drug List.		

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CURRENT MODEL	MANAGED CARE ORGANIZATION (MCO) MANDATORY PASS-THROUGH PRICING	STATE MANDATED PHARMACY PROVIDER REIMBURSEMENT	PHARMACY BENEFIT CARVE-OUT
MCO	MCO		
Spread Pricing	No Spread Pricing		
Variable Pharmacy Reimbursement	Variable Pharmacy Reimbursement		
Multiple Preferred Drug Lists	Multiple Preferred Drug Lists		

Model Overview

CURRENT MODEL	MANAGED CARE ORGANIZATION (MCO) MANDATORY PASS-THROUGH PRICING	STATE MANDATED PHARMACY PROVIDER REIMBURSEMENT	PHARMACY BENEFIT CARVE-OUT
MCO	MCO	MCO	
Spread Pricing	No Spread Pricing	Spread Pricing	
Variable Pharmacy Reimbursement	Variable Pharmacy Reimbursement	Consistent Pharmacy Reimbursement	
Multiple Preferred Drug Lists	Multiple Preferred Drug Lists	Single Preferred Drug List	

Model Overview

CURRENT MODEL	MANAGED CARE ORGANIZATION (MCO) MANDATORY PASS-THROUGH PRICING	STATE MANDATED PHARMACY PROVIDER REIMBURSEMENT	PHARMACY BENEFIT CARVE-OUT
MCO	MCO	MCO	DMAS
Spread Pricing	No Spread Pricing	Spread Pricing	No Spread Pricing
Variable Pharmacy Reimbursement	Variable Pharmacy Reimbursement	Consistent Pharmacy Reimbursement	Consistent Pharmacy Reimbursement
Multiple Preferred Drug Lists	Multiple Preferred Drug Lists	Single Preferred Drug List	Single Preferred Drug List

Priorities for Consideration

PRIORITY	CURRENT MODEL	MCO MANDATORY PASS-THROUGH PRICING	STATE MANDATED PHARMACY PROVIDER REIMBURSEMENT	PHARMACY BENEFIT CARVE-OUT
Fiscal Impact	---	\$(10,097,000)	\$20,329,000	\$(32,048,000)
Budget Predictability	Yes	Yes	Yes	No
MCO Risk Sharing	Yes	Yes	Yes	No
PBM Transparency	No	Yes	No	Yes
Increased Pharmacy Reimbursement	No	No	Yes	Yes
Single Point of Decision-Making	No	No	No	Yes
Coordinated MCO Member Experience	Yes	Yes	Yes	No
Implementation Timeline	---	6–12 months	6–12 months	18–36 months

MCO Mandatory Pass-through Pricing

PRIORITY	MCO MANDATORY PASS-THROUGH PRICING
Fiscal Impact	\$(10,097,000)
Implementation Timeline	6–12 months

- The Pharmacy Benefit Manager (PBM) is required to charge the Managed Care Organization (MCO) the same amount for a prescription as what is paid to the pharmacy.
- The most significant advantage of this model is the transparency of the payments made to the PBMs by the MCOs, which in effect eliminates spread pricing.
- PBMs may continue to pay pharmacies based on a (different) negotiated rate.

Mandated Pharmacy Provider Reimbursement

PRIORITY	STATE MANDATED PHARMACY PROVIDER REIMBURSEMENT
Fiscal Impact	\$20,329,000
Implementation Timeline	6–12 months

- The Commonwealth requires that pharmacies are paid using the Commonwealth's reimbursement methodology.
- Pharmacies would have consistent and enhanced reimbursement, and prescribers would enjoy the benefit of a single Preferred Drug List for all Medicaid members.
- This is the only one of the three models that does not generate savings.

Pharmacy Benefit Carve-Out

PRIORITY	PHARMACY BENEFIT CARVE-OUT
Fiscal Impact	\$(32,048,000)
Implementation Timeline	18–36 months

- A pharmacy benefit carve-out model provides the highest level of transparency of any model as the Commonwealth is directly managing the benefit.
- Pharmacies would have consistent and enhanced reimbursement, and prescribers would enjoy the benefit of a single Preferred Drug List for all Medicaid members.
- In this model, rather than sharing risk with the MCO, the state would absorb the risk of unplanned fluctuations in annual pharmacy spend.

Implementation Timeline and Costs / (Savings)

PRIORITY	MCO MANDATORY PASS-THROUGH PRICING	STATE MANDATED PHARMACY PROVIDER REIMBURSEMENT	PHARMACY BENEFIT CARVE- OUT
Fiscal Impact	\$(10,097,000)	\$20,329,000	\$(32,048,000)
Implementation Timeline	6–12 months	6–12 months	18–36 months