



COMMONWEALTH of VIRGINIA  
*Department of Medical Assistance Services*

CYNTHIA B. JONES  
DIRECTOR

SUITE 1300  
600 EAST BROAD STREET  
RICHMOND, VA 23219  
804/786-7933  
800/343-0634 (TDD)  
[www.dmas.virginia.gov](http://www.dmas.virginia.gov)

September 29, 2016

**MEMORANDUM**

TO: The Honorable Thomas K. Norment, Jr.  
Co-Chairman, Senate Finance Committee

The Honorable Emmett W. Hanger, Jr.  
Co-Chairman, Senate Finance Committee

The Honorable S. Chris Jones  
Chairman, House Appropriations Committee

FROM: Cynthia B. Jones   
Director, Virginia Department of Medical Assistance Services

SUBJECT: Report on Analysis of Pharmacy Claims

The 2016 Appropriation Act, Item 310P, directed the Department of Medical Assistance Services to analyze pharmacy claims data to identify the difference in the value of payments made to contracted Medicaid managed care plans and their payments to contracted network pharmacies. The budget language states: "The Director of the Department of Medical Assistance Services shall analyze pharmacy claims data from the past biennium in order to assess the value of payments made to the Medicaid program's contracted managed care plans' network pharmacies and payments made to the Medicaid program's contracted managed care plans. The Director shall identify and report any difference in value of payments made to network pharmacies and to the contracted managed care plans and shall make recommendations to improve cost effectiveness of Medicaid managed care expenditures for contracted network pharmacy payments to the Chairman of the House Appropriations Committee and Senate Finance Committee by October 1, 2016.

Should you have any questions or need additional information, please feel free to contact me at (804) 786-8099.

CBJ/

Enclosure

pc: The Honorable William A. Hazel, Jr., MD, Secretary of Health and Human Resources

# DEPARTMENT OF MEDICAL ASSISTANCE SERVICES

ADMINISTERING MEDICAID AND THE STATE CHILDREN'S HEALTH INSURANCE PROGRAM IN VIRGINIA



## Report to the General Assembly Report on Analysis of Pharmacy Claims

**DMAS' mission is to provide a system of high quality and cost effective health care services to qualifying Virginians and their families.**

The Medicaid program, signed into law by President Lyndon B. Johnson on July 30, 1965, celebrated its 50<sup>th</sup> year in 2015.

Medicaid is a joint federal and state program authorized under Title XIX of the Social Security Act that provides health and long-term care coverage for specific groups of Virginians with low incomes. In Virginia, Medicaid is administered by the Department of Medical Assistance Services (DMAS) and is jointly funded by Virginia and the federal government. Virginia's federal matching rate, known as the Federal Medical Assistance Percentage (FMAP) is generally 50%, so Virginia receives \$1 of federal matching funds for every \$1 Virginia spends on Medicaid.

Medicaid is primarily available to children in families with low-income, pregnant women, elderly, individuals with disabilities, and parents below strict income limits.

DMAS also administers Virginia's Children's Health Insurance Program (CHIP) known as FAMIS. FAMIS covers children and pregnant women in families earning too much to qualify for Medicaid but too little to afford private insurance.

All states must follow federal Medicaid/CHIP guidelines regarding who is covered, but set their own income and asset eligibility criteria. Virginia's eligibility criteria are among the strictest in the nation.



**Report Mandate:** The 2016 Appropriation Act, Item 310P, directed the Department of Medical Assistance Services to analyze pharmacy claims data to identify the difference in the value of payments made to contracted Medicaid managed care plans and their payments to contracted network pharmacies. The budget language states: "The Director of the Department of Medical Assistance Services shall analyze pharmacy claims data from the past biennium in order to assess the value of payments made to the Medicaid program's contracted managed care plans' network pharmacies and payments made to the Medicaid program's contracted managed care plans. The Director shall identify and report any difference in value of payments made to network pharmacies and to the contracted managed care plans and shall make recommendations to improve cost effectiveness of Medicaid managed care expenditures for contracted network pharmacy payments to the Chairman of the House Appropriations Committee and Senate Finance Committee by October 1, 2016."

### **Executive Summary Recommendations or Background**

Arrangements between managed care plans and their contracted Pharmacy Benefit Managers (PBMs) can be very complicated and they may vary between Medicaid plans and commercial plans. There often is a difference between the charges the provider includes on the claims and the reimbursement to providers but only the actual reimbursement to providers is taken into account in developing rates to pay the Medicaid managed care plans.

The managed care plans have certified that the claims submitted to the Department of Medical Assistance Services (DMAS) actuarial contractor, PricewaterhouseCoopers, represent the amounts actually paid to pharmacy providers. DMAS surveyed the Medicaid managed care plans to confirm that there is no "spread" between the paid amount reported on the claims and the amounts paid to pharmacy providers. Based on the certifications made by the Medicaid managed care health plans, DMAS concludes that there is no difference in value in payments made to the PBMs, payments made to the contracted Medicaid managed care health plans and payments to network pharmacies.

The final pharmacy costs used for developing managed care capitation payment rates are based on the claims that managed care plans have paid to contracted pharmacies adjusted by the various pharmacy pricing arrangements employed by the Medicaid managed care health plans and their contracted PBMs. These pricing arrangements include a change in managed care discounts between the base period and the rate period. If the plan has negotiated lower or higher prices after the base period for claims, this adjustment reflects that. Pricing arrangements also include rebates the plans receive directly from pharmacy manufacturers or through its PBM. The final pharmacy costs also include an adjustment to account for administrative costs paid by the Medicaid managed care plan to the PBM. The PBM administrative cost is approximately 1% of the total pharmacy value included in the rates. The total value for pharmacy included in the rate is approximately 99% of the amount paid to network pharmacies. See attached "FY 2016 Capitation Rate Development, Health Plan Encounter Data, Pharmacy Adjustment."

# DEPARTMENT OF MEDICAL ASSISTANCE SERVICES

*ADMINISTERING MEDICAID AND THE STATE CHILDREN'S HEALTH INSURANCE PROGRAM IN VIRGINIA*



Pharmacy Benefit Managers are cost effective entities that work with Medicaid managed care health plans to get the most value for the dollar spent. PBMs help health plans to control pharmacy costs while ensuring that pharmaceutical therapy contributes to overall health care of Medicaid members.

The Department recommends no change to the current process.

**Virginia Medicaid  
FY 2016 Capitation Rate Development  
Health Plan Encounter Data  
Pharmacy Adjustment**

**Exhibit 2a**

	LIFC	ABAD	Adoption Assistance	Foster Care	ALTC Child	ALTC Adult	Source
1. Health Plan Total Drug Cost PMPM	\$35.94	\$292.97	\$122.96	\$120.36	\$369.26	\$517.20	FY13-14 Health Plan Encounter Data
2. Health Plan Drug Ingredient Cost PMPM	\$35.01	\$287.49	\$121.55	\$118.48	\$365.60	\$507.58	Health Plan Encounter Analysis
3. Change in Average Managed Care Discount	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	From Plan Data
4. Current Average Managed Care Rebate	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	From Plan Data
5. FY16 Managed Care Dispensing Fee PMPM	\$0.92	\$5.55	\$1.32	\$1.78	\$3.54	\$9.66	From Plan Data
6. Average PBM Admin Cost PMPM	\$0.41	\$2.60	\$0.54	\$0.78	\$1.58	\$4.05	From Plan Data
7. Adjusted PMPM with FY16 Pharmacy Pricing Arrangements	\$35.58	\$289.50	\$120.82	\$118.50	\$362.98	\$510.54	= (2.) * (1 - (3.)) * (1 - (4.)) + (5.) + (6.)
<b>8. Pharmacy Adjustment</b>	<b>-1.0%</b>	<b>-1.2%</b>	<b>-1.7%</b>	<b>-1.6%</b>	<b>-1.7%</b>	<b>-1.3%</b>	= (7.) / (1.) - 1
Member Month Distribution	588,808	75,432	5,761	4,630	3,223	4,693	
PBM Admin Cost as a Percent of Total Pharmacy Cost	1.1%	0.9%	0.4%	0.7%	0.4%	0.8%	= (6) / (7)