Pricing Drugs in the Public Interest

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How Medicaid Pays for Drugs

- Federal law requires state to reimburse pharmacists based on Agency's best estimate of price generally and currently paid by pharmacies to acquire the drug
- The current pharmacy reimbursement is based on data such as Average Wholesale Price (AWP) and Wholesale Acquisition Cost (WAC); recent state trial documents have identified multiple national audits to find these components to be inaccurate determinants of price

How Alabama Medicaid Pays for Drugs

- "Lower of" Method for drug ingredient cost
- AWP, FUL, WAC, SMAC, U&C, Medicare rates (blood clotting factors)
- Reimbursement a combination of drug ingredient cost and dispense fee
- $475 million paid to pharmacies in FY 2009
- Dispense fee now $5.40/Rx
- 7.8 million prescriptions FY09

Alabama saves money and ensures quality

- Preferred drug list / Pharmacy & Therapeutics Committee
- Prior Authorization
- Criteria based on sound clinical evidence (FDA labeling, evidenced-based medicine, peer-reviewed clinical literature)
- Increased use of generics and covered OTCs

Alabama saves money and ensures quality

- Edits and audits (max unit, early refill, catching drug-drug conflicts, etc)
- Dispense as Written
- Drug Utilization Review
- Brand Limit
- Internal/manual audit on every claim over $2K
- Hemophilia Standard of Care
- Academic Detailing

Alabama's fight for accurate pricing

- AG files lawsuits against 70 drug companies in 2005
- State juries rule for State; award $352.4 million verdicts in 4 cases
- Found State of Alabama paid inflated reimbursement amounts
- Based on evidence in discovery process and presented at trials
- Overturned by (elected) State Supreme Court

Trial Evidence Proved

- Alabama pharmacists were paid millions in excess of their actual drug costs
- Average Brand drug overpayment - 20%
- Average Generic drug overpayment - 84.5%
- Based on prices reported by brand and generic drug companies
- Prices reported by manufacturers (and upon which pharmacists were paid) were not net prices as required
- GSK, Norvartis and Sandoz did not include substantial discounts (x7,8,9)
- 78 % of every Medicaid pharmacy dollar goes to pay drug manufacturers

Example 5

ACTUAL PRICES LESS THAN MAC

Drug Name	Dispensed Date	MAC	Reported WAC	Reported AWP	Cardinal Price
DESIPRAMINE HCL	3/10/2000	0.75	0.89	2.20	0.42
DICLOFENAC SODIUM	10/1/2003	0.43	0.63	1.06	0.07
METHOCARBAMOL	11/6/2000	0.20	0.22	0.38	0.09
SPIRONOLACTONE	3/13/1999	0.22	0.22	0.39	0.03

Example 6

ACTUAL PRICES LESS THAN FUL

Drug Name	Dispensed Date	FUL	Reported WAC	Reported AWP	Cardinal Price
TRAZODONE HCL	1/2/1996	0.08	0.09	0.28	0.04
PERPHENAZINE	12/28/1998	0.21	0.21	0.46	0.11
METHOCARBAMOL	6/16/2001	0.17	0.28	0.49	0.09
ATENOLOL	3/14/2002	0.06	0.07	0.67	0.02

Example 10

SANDOZ PUBLISHED PRICES VS. ACTUAL PRICES

Plaintiff's Exhibit	Drug Name	AWP	WAC	Actual Price
P1357	Atenolol	$969.00	$61.29	$36.72
P1088	Lonox	$420.78	$252.20	$71.04
P1088	Lorazepam 2.0 MG	$594.11	$270.94	$63.36
P1088	Prochlorperazine 5 MG	$59.25	$31.95	$7.61
P1362	Glyburide 5 MG	$77.70	$20.94	$6.00
P1362	Lovastatin 10 MG	$80.64	$51.31	$7.38
P1362	Nabumetone 500 MG	$129.70	$97.25	$16.61
P1356	Bupropion HCL 75 MG	$72.00	$54.06	$14.59
P1356	Carisoprodol 350 MG	$286.38	$197.51	$58.01
P1356	Lisinopril/HCTZ	$122.75	$79.79	$20.04
P1356	Naproxen 500 MG	$123.62	$57.30	$17.19
P1356	Trimox 250 MG	$5.31	$4.25	$1.19
P1082	Fluvoxamine 50 MG	$257.24	$171.68	$46.55
P1082	Ranitidine 150 MG	$150.85	$48.80	$13.10

October 16, 2009 - Justice Denied

- Alabama Supreme Court rules that three companies - GlaxoSmithKline, Novartis and AstraZeneca - did not defraud the state in pricing Medicaid prescription drugs, $274 million judgment reversed.
- Rehearing denied in January 2010
- Fourth case remains on appeal

Supreme Court Ruling

- Confirmed that Alabama Medicaid's reimbursement to pharmacists for the ingredient cost of drugs "must not exceed"
  - What providers actually paid for the drug

  OR

  - On the basis of an estimated cost

Insult to Injury:

"If you knew it was wrong, why didn't you do something about it?"

- Alabama Supreme Court criticized State for not changing its pricing methodology in light of evidence revealed during the trials that they were not reporting their net costs or actual prices paid as required
- Court stated that the State has never altered its course of conduct (the reimbursement system) since taking issue with the pharmaceutical manufacturers' reporting methods

No choice: A new mandate

- While the State strongly disagrees with the State Supreme Court's decision, the evidence proven at the trials and the Alabama Supreme Court's opinion mandates that the state's reimbursement methodology must change

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Alabama Medicaid Director of Pharmacy

AWP: Average Wholesale Price

- In use for almost 40 years
- Widely known as a “inflated, unreliable pricing benchmark” unrelated to prices actually charged in the marketplace
- HHS OIG: AWP often exceeds pharmacies’ actual acquisition costs
- By September 2011, FDB is to end use of AWP

AWP: Average Wholesale Price

"[d]espite its name, AWP is not an average of prices charged by wholesalers to providers (such as pharmacies and doctors) and it does not necessarily bear any relationship to any prices actually charged in the marketplace"

Judge Patti Saris
in her Final Order and Judgment
regarding the FDB/AWP adjustment issue

New England Carpenters Health Benefits Fund, et al., v. First Data Bank, Inc. and McKesson Corporation. United States District Court; District of Massachusetts. Filed 3/17/2009. http://www.firstdatabank.com/download/pdf/FinalJudgment.pdf. Accessed April 29, 2010.

WAC: Wholesale Acquisition Cost

- Similar to AWP, found in litigation to be inflated
- Not available for all drugs
- Probable option for many payers post-AWP

What Now?

- Alabama Medicaid has been struggling and studying to improve system even before lawsuits filed in 2005
- Issues:
  - Lack of an alternative source of prices on a regular basis for 60,000 different drug formulations
  - Requirements imposed by federal law
  - Evidence presented at trials
  - Stakeholder support

Reimbursement system changes needed

- Manageable system for state
- Fairly reimburses providers for both drug ingredient as well as cost of dispensing
- Complies with federal law

What is needed?

- Single national benchmark which is:
  - is more efficient
  - less prone to error
  - more consistent with national healthcare information standardization
  - compliant with federal regs

Average Acquisition Cost (AAC)

- Price benchmark based on actual average acquisition cost data most clearly fulfills legal and practical requirements and has great potential.
  - Using true, acquisition cost data complies with federal law
  - Combined with reasonable dispensing fee is equitable and legally defensible
  - May require changes in law; reporting obligations for wholesalers, pharmacies or manufacturers, SPAs and process for price reporting

Average Acquisition Cost (AAC)

- Obtaining valid source of acquisition cost information will require strict definitions, legal reporting obligations, identification of data gathering and reporting process

Alabama moves to AAC-based system

Goal:

To implement changes that establish a transparent, timely and accurate pharmacy reimbursement system based on actual acquisition cost (invoice) data and an updated Cost of Dispensing Survey…..

…..and to do so with all stakeholder involvement and support.

Computing the AAC

- Worked collaboratively with all pharmacy associations to develop RFP for AAC/SMAC services
- Contract awarded
- 3 surveys conducted thus far
- Preparing to enter routine survey schedule

Computing the AAC

Surveys:

- Mandatory
- Random
- Semi-Annually
- Each pharmacy will participate once every two years by submitting one month's invoices from all sources. The contractor calculates the average cost per drug.

Computing the AAC

Survey Submission:

- Chain: electronically by chosen representative
- Non-chain: least burdensome as possible
  - Fax
  - Email
  - Electronically via wholesaler
  - Mail

Computing the AAC

Three-prong approach to weekly pricing updates:

1) Semi-annually: calculate/re-base AAC from actual invoices
2) Weekly: apply pricing fluctuations (%s) from published pricing data
3) Daily: address provider inquiry (help desk/website)

RFP from Website

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Welcome to the Alabama Medicaid Agency

Medicaid is a state/federal program that pays for medical and long-term care services for low-income pregnant women, children, certain people on Medicare, disabled individuals and nursing home residents. These individuals must meet certain income and other requirements.

What's New:

- Governor Riley announces $39.1 million bonus for Alabama Medicaid efforts to enroll uninsured children
- Special Presentations - ***Commissioner Carol Steckel presents FY 11 Budget***
- Web Portal File Download Process
- Invitation to Bids (ITBs)/Requests for Proposals (RFPs)
- Health Information Activities (HIE) - ***HIE***

RFP from Website

- Responses to Submitted Questions for Statewide Health Information Exchange (HIE) Request for Proposals - ***Updated 1/29/10***

- State Maximum Allowable Cost (SMAC) Program Implementation Request for Proposals - ***Medicaid Pharmacy Average Acquisition Cost/State Maximum Allowable Cost Project - Released 1/12/10***

  - State Maximum Allowable Cost (SMAC) Program Amendment One - ***Posted 1/26/10***

  - Questions and Answers for State Maximum Allowable Cost (SMAC) Program Implementation Request for Proposals - ***Updated 1/26/10***

  - 2008 SMAC RFP - Awarded to Myers and Stauffer LC

  - Announcement of Selected Vendor

- **Announcement of Selected Vendor for the Medicaid Accounting, Auditing, and Consulting Services RFP.**

SMAC Website

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Pharmacy Services

The Alabama Medicaid Agency pays for most medicines legally prescribed by a doctor or authorized health professional when dispensed by a licensed doctor or pharmacist in accordance with state and federal laws. In FY 2007, Medicaid paid for approximately 7 million prescriptions for qualifying Alabama recipients.

- AAC - ***Link to Alabama Medicaid Pharmacy Average Acquisition Cost (AAC)/ Myers and Stauffer webpage***
- ***ALERT - Usual & Customary Amount on Electronic Drug Claims*** ***effective 4/13/2010***
- ***ALERT - Reimbursement for Administration of Seasonal Influenza and H1N1 Vaccines*** ***effective 11/2/2009***
- Billing Resources /Policy for Providers - ***Includes instructions for billing compound prescription claims***

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SMAC Website

State MAC List

MSLC.com > Home > State MAC List

- Home
- State MAC List
- State MAC Rate Review
- FAQs
- Administrative

Alabama State MAC List

Help Desk:(800) 591-1183

The Alabama Medicaid Agency has contracted with Myers and Stauffer LC, a national consulting firm, to provide assistance in establishing and maintaining the State MAC list for drugs based on the Average Acquisition Cost. As new MAC rates are developed, the rates will be posted on this website prior to implementation. Please check this site regularly for changes to the State MAC list.

If you have trouble opening or downloading the files listed below, please contact Myers and Stauffer at 800-591-1183 and ask for the Alabama pharmacy unit.

	Adobe PDF Version	Effective Date
	(click on the appropriate check mark)	
Generic Drugs		
Average Acquisition Cost-Generic	☑	N/A
Brand Drugs		
Average Acquisition Cost-Brand	☑	N/A

Pharmacy Concerns

- *Concern:* It was determined that the reimbursement modification would be an overall cut to pharmacies; some would be forced out of business
- *Response:* As determined through the AWP litigation discovery process, the Agency has been overpaying for drugs based on an inaccurate, flawed drug pricing model. It is time for the State to move to an accurate, fair, reimbursement process based on the actual cost of dispensing, and the actual drug ingredient cost.

Dispensing Fees

- Recognizes all costs associated with dispensing a drug:
- Personnel (pharmacist, technicians, clerks)
- Computers, equipment, shipping
- Cost of running a pharmacy, maintaining inventory, submitting claims, etc.

New Dispensing Fees

- Fee found through statistical survey to be $10.64, up from $5.40 per prescription
- Fee based on independent, confidential, statistically sound survey
- The survey instrument and instructions were developed in coordination with pharmacy organizations and administered by contractor

New Dispensing Fees

- Variables analyzed included chain versus independent/non-chain, rural versus urban, pharmacy specialty
- While other variables had an influence, prescription volume was by far the most significant variable influencing the cost to dispense.

NASMD/AAMPA White Paper

- AMPAA/NASMD collectively drafted, reviewed, and finalized a white paper discussing the "post-AWP" world for States
- Reviewed current pricing options available
- Recommended a single national benchmark

NASMD/AAMPA White Paper

ADD INFO FOR Commissioner to wrap up with

QUESTIONS?

Contact

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