



Kentucky Independent Pharmacist Alliance (KIPA)

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 From: Drew Kirchner, FSA, MAAA, Senior Director at Optum
 CC: David Figg, KIPA; Gregory Warren, Vice President at Optum
 Date: 2/13/2018
 Subject: Review of Medicaid MCO Pharmacy Costs using NADAC plus a Dispense Fee

Purpose

Optum developed an analysis to review the State of Kentucky’s Medicaid prescription cost using NADAC ingredient cost for reimbursement plus a \$10.64 dispensing fee per script (hereby referred to as “NADAC + df”) using claims from 2016.

Results

An analysis of the 2016 claims re-priced at NADAC + df showed a potential for savings against the State of Kentucky’s pharmacy spend quoted by the Medicaid Commissioner. The Medicaid prescription drug spending may be up to \$348 million lower using NADAC + df and carving out pharmacy to be on a FFS basis. A summary of these calculations are displayed in **Table 1**.

Table 1: Calculation of State and Federal Savings due to Switching to NADAC Reimbursement

Cost Description	Cost without Equal Prescriptions	Number of Prescriptions	Cost per Prescription	Cost of NADAC + df with 25 million Prescriptions
MCO 2016 Pharmacy Spend	\$1,680 million	25 million	\$67.20	\$1,680 million
<i>less</i> Calc’d NADAC + df 2016 Pharmacy Spend	\$1,335 million	23 million	\$58.04	\$1,451 million ¹
Difference with NADAC + df	\$345 million	2 million	\$172.50	\$229 million
			<i>less</i> Magellan Admin Expenses	(\$10) million
			<i>less</i> DMS Staffing Expenses	(\$1) million
			<i>plus</i> Additional Rebates	\$130 million
			Potential Savings Carving Out with NADAC + df	\$348 million

Data Sources

The pharmacy cost analysis used the following data sources:

- 1) State Drug Utilization Data: Utilization data for MCOs² reported on the Medicaid.gov website from January 1, 2016 to December, 31 2016

¹ \$1,451 million = \$1,335 million + \$58.04 x 2 million additional scripts

² Note, Fee For Service claim payments were excluded from this data set



- 2) NADAC ingredient costs: National average drug acquisition cost based on a national survey to pharmacies as of 06/29/2016
- 3) State-Provided 2016 MCO Budget Estimates: Estimated 2016 pharmacy spend for Kentucky
- 4) State-Provided Carve-Out Impacts: Expected additional administrative costs and rebates due to carving out pharmacy

Kentucky Medicaid Commissioner, Steve Miller, testified that the State's pharmacy spend was estimated at approximately \$1,680 million for approximately 25 million claims in 2016 for MCOs.

NADAC + df spend on the 2016 utilization estimated spend to be \$1,451 million. The data included claims for 23 million claims from January 2016 to December 2016, so a pro-rated increase was used to assume that the missing claims had the same cost per prescription. The primary cause of this gap in total claim counts is due to suppression of Personal Health Information (PHI) within the data set if a specific NDC had not met federal Privacy Act or HIPAA requirements. This brought the re-priced total before the adjustment from \$1,335 million to the \$1,451 million shown in **Table 1**.

Cost per prescription figures are also calculated in **Table 1**. This shows that the State currently pays approximately \$67.20 per prescription, which is higher than the average cost of \$58.04 per prescription for the NADAC + df spend for the 23 million claims reported. The suppressed claims would need to cost \$172.50 per prescription in order to move the NADAC + df spend up to \$67.20.

Commissioner Miller has testified that Magellan, the PBM Kentucky currently uses for a small portion of beneficiaries not managed by MCOs, estimated that it would charge the State an additional \$10 million to process the additional claims if the State were to carve out pharmacy claims. Commissioner Miller has also testified that his department would need to hire additional internal resources at a cost of \$1 million.

In addition to the calculated savings, Commissioner Miller has testified that the State would receive \$130 million of additional rebates if Kentucky were to carve out pharmacy. After adding in revenue due to additional rebates and subtracting off estimated new administrative costs, there is the potential to save a total of \$348 million.

Methodology for NADAC + df

The total NADAC + df estimate of spend was calculated using reported units and prescriptions from the state drug utilization data, NADAC rates per unit, and a \$10.64 dispensing fee per prescription. Adjustments to NADAC rates per unit are detailed below where necessary.

These estimates did not include a Usual and Customary (U&C) pricing comparison, which could lead to additional savings if some of the prescription's U&C prices ended up lower than the NADAC plus a \$10.64 per script dispensing fee.

Within the NADAC + df analysis, if a NADAC rate was unavailable for a particular NDC, the WAC price that was effective as of 6/29/2016 was used as an estimate. If the WAC and NADAC were both unavailable, the claims data was not repriced and reported dollars were used, which represented 0.04% of prescriptions.



Additionally, Optum used adjusted NADAC estimates for outlier NDCs that affected 0.1% of prescriptions. This adjustment was used to avoid overstating or understating cost for NDCs that may have inconsistent units in the data from NADAC (e.g., solutions measuring doses per vial vs. ml/kg). The following process was used to identify and adjust outliers within the analysis:

- 1) Compare the NADAC/WAC per unit costs to the average reimbursement costs reported within the Medicaid Drug Utilization documents (done at an NDC level)
- 2) Identify outliers as NDCs with NADAC/WAC per unit greater than ten times the average per unit price reimbursed
- 3) Calculate the median percent difference of NADAC/WAC and the average per unit price reimbursed for generic, brand, and specialty drugs
- 4) If any average per unit reimbursed price had a difference of more than ten times from NADAC/WAC, then estimate NADAC as the average reimbursement costs * (1 + median difference for that drug type)
- 5) For all outlier NDCs, use this calculated value instead of the NADAC/WAC values in the analysis

Caveats and Disclosures

Optum recommends that risks and opportunities of the NADAC method be studied in making the final decision on Medicaid pharmacy benefits. This includes a consideration regarding the State's ability to pay for claim fluctuations both favorable and unfavorable within a fiscal year.

Optum cannot definitively determine that the State would save money with NADAC + df without knowing the actual costs of the 2 million suppressed claims.