PCMA

Setting the Record Straight

PBM Contracting Practices and the Florida Statewide Medicaid Managed Care Program

Pharmacy benefit managers (PBMs) help improve health outcomes and reduce healthcare costs. A recent report[1] commissioned by the Florida Agency for Healthcare Administration (AHCA) and conducted by Milliman found:

- **PBMs saved Florida's Medicaid program and taxpayers $98.8 million**
- **All Florida Medicaid managed care plans reimbursed independent pharmacies *more than* chain pharmacies** and pharmacies owned by PBMs when the independent pharmacy provided the same services to Medicaid enrollees

There is no requirement for any plan sponsor, including managed care plans serving Florida's Statewide Medicaid Managed Care (SMMC) Program, to use a PBM; however, PBMs promote more efficient and affordable access to medications for patients and plan sponsors.[2]

Independent Pharmacy Reimbursement

Milliman found independent pharmacies were reimbursed $13 per claim for dispensed generics by SMMC plans using a risk mitigation model, while PBM-owned pharmacies were reimbursed $12 per claim. For SMMC plans using a pass-through model, independent pharmacies were reimbursed $23 per claim, while PBM-owned pharmacies were reimbursed $11.[3] The report notes these figures "**align with expectations for a managed Medicaid program**" and, for SMMC plans using a pass-through model, "the administration fees are consistent with other payers."[4]

PBM Transaction Fees

Like an ATM fee for access to a bank's network, PBM transaction fees are used to **support pharmacies' access and use of PBMs' national computer systems, which validate prescription drug coverage and confirm patient out-of-pocket costs for the medication**. These systems assist in streamlining the process for pharmacies that otherwise would have to contract with individual SMMC plans in order to dispense medications and provide other pharmacy services to plans' enrollees. In exchange for these services, pharmacies contractually agree to pay a small fee. Milliman estimated these PBM-to-pharmacy transaction fees average approximately $0.13 per claim.

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[1] Milliman. "Pharmacy Benefit Manager Pricing Practices in Statewide Medicaid Managed Care Program." Prepared for the Florida Agency for Health Care Administration. December 2020.
[2] Visante. "Pharmacy Benefit Managers (PBMs): Generating Savings for Plan Sponsors and Consumers." Prepared for PCMA. February 2020.
[3] Milliman, Op. Cit.
[4] Milliman, Op. Cit. Page 3.

Types of Pharmacy Benefit Contracts

When an SMMC decides to contract with a PBM to help administer the Florida Medicaid pharmacy benefit, the plan issues a request for proposal, to which **PBMs respond and compete on quality, cost effectiveness, and accountability.** SMMC plans use two basic approaches to pay for the services their selected PBM performs: risk mitigation ("spread") or pass-through pricing. PBMs will underwrite both pricing arrangements to help SMMC plans choose which approach works best for the plan.

- Risk Mitigation Pricing Model

A **risk mitigation** pricing model provides SMMC plans predictability by giving a price-certain for prescription drug benefit reimbursement to pharmacies. If the pharmacy charges more than the rate agreed to between the SMMC plan and the PBM, the PBM takes a loss, as it must pay the pharmacy more than it will be reimbursed by the plan. If the pharmacy charges less than the PBM's negotiated rate with the SMMC plan, the PBM earns a margin. **Under this model, the PBM takes on the risks of daily fluctuations in drug prices and differing pharmacy charges for the same drug.**

The risk mitigation model is not unique to PBMs; other health care sectors and industries operate using the same principle to manage financial risks. As an example, this model is similar to a core component of Florida's SMMC Program. **Through the SMMC Program, AHCA uses risk-based contracting with private managed care plans to achieve state budget predictability, improve access to care, and promote value.** In exchange for a set per member, per month capitated payment, SMMC plans provide comprehensive services to Florida Medicaid enrollees and inherit financial risk for the services provided should the costs exceed the AHCA-set capitation rate.

- Pass-through Pricing Model

In a **pass-through** pricing model, the amount paid by the PBM to the pharmacy is *passed through* to the SMMC plan and **the PBM is paid for its services through administrative fees.** Under this model, a plan takes on *greater risk* for each prescription dispensed and may realize *less cost predictability* because of the likelihood of pricing differences between and among pharmacies, as well as daily fluctuations in drug prices.

What does this mean for Florida's SMMC Program?

For SMMC plans contracting with PBMs, 10 of 15 plans selected a risk mitigation model. The total difference between the plan-to-PBM and the PBM-to-pharmacy payments for the aggregate SMMC Program was $89.6 million.[5]

Contrary to some claims, so-called "spread" in these contracts is not a mark-up; it is the average over time of the difference in the *totality* of pharmacy reimbursements agreed to, and the *totality* of the *actual reimbursement charged by the pharmacy*. **Whether the pharmacy charges less or more, the SMMC plan (and, thereby, the State of Florida and taxpayers) are held harmless and experiences predictable costs.**

[5] Milliman, Op. Cit. Page 2.