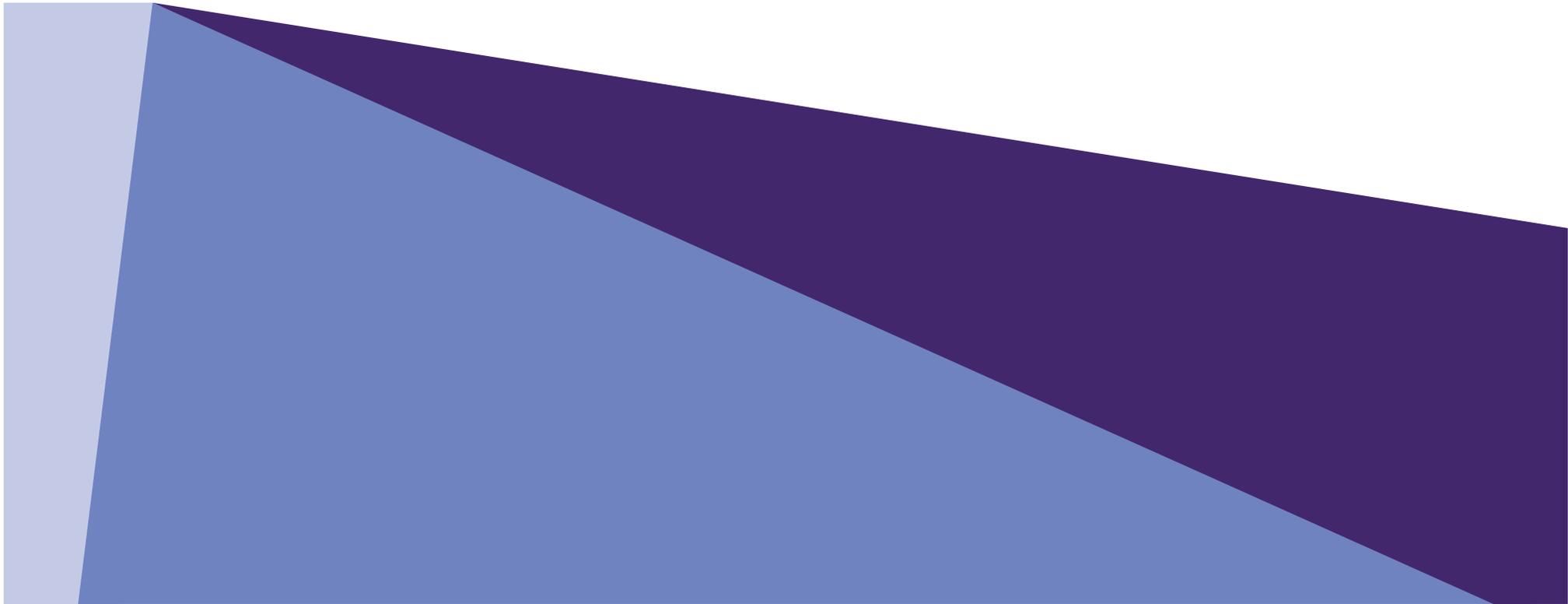


Pharmaceutical Drug Reimbursement Methodology Cost of Dispensing and Acquisition Cost Surveys

Colorado Department of Health Care Policy and Financing (HCPF)



Introductions

Shawna Kittridge, MHS, RPh – Project Lead

Carrie Gray, MBA – Project Manager

Tony Durante, CPA – Survey Consultant

Joe Petersen – Lead Implementation Consultant

Ryan Mirl, CPhT – Lead Analyst



Mercer's team

- **Relationship manager** with a long history of working with multiple state Medicaid programs provides strategic assistance and ensures overall satisfaction
- **Licensed pharmacists**, whom have worked with clients that represent both non-Medicaid (commercial) and Medicaid payers
 - Medicaid, managed care and clinical experience with comprehensive understanding of the marketplace and the challenges Medicaid pharmacy programs face on a day-to-day basis
- **Pharmacy project managers** who understand the critical effort necessary to effectively coordinate, manage and monitor the efforts of the team toward the desired process and deliverables
- **Survey consultants** with experience in cost accounting, survey development, data collection, analysis and reporting
- **Senior actuaries, statisticians, consultants and data analysts** with significant experience with summarizing and analyzing Medicaid pharmacy data, cost modeling and health care policy consulting
- **Health care policy experts**, including five former Centers for Medicare & Medicaid Services (CMS) employees, who continually monitor federal regulation updates and provide proactive expert consultation to our clients
- **Informatics/data specialists** experienced in handling HCPF's claims, encounter and eligibility data

Mercer's experience

- Recent reimbursement consulting experience
 - State Maximum Allowable Cost (MAC) programs
 - Over 10 years experience
 - Six current state Medicaid program clients
 - Expanded State MAC
 - Establish reimbursement rates for products without Average Wholesale Prices (AWP) in the fiscal agent system
 - AWP replacement and financial impact
 - Alternative AWP, Wholesale Acquisition Cost (WAC), Acquisition Cost pharmacy reimbursement benchmark options
 - Cost of dispensing (COD) surveys
 - Acquisition cost surveys

Mercer's knowledge of the reimbursement landscape

- Why the industry is changing
 - AWP as a reimbursement benchmark is obsolete
 - Challenges with fiscal agents' access to AWP through Medispan
 - Limitations of WAC as reimbursement benchmark
- Movement to acquisition cost based reimbursement
 - Alabama, Oregon, Idaho
 - National Average Drug Acquisition Costs
- Recognize the role of a cost of dispensing study
 - Need to analyze all components of pharmacy reimbursement
 - CMS requirement
- Understand that State Medicaid programs need to establish fair and reasonable reimbursement for providers

Cost of Dispensing Study Overview

- HCPF has contracted with Mercer to conduct a survey of Medicaid pharmacy providers to obtain a comprehensive cost analysis regarding the cost of dispensing prescription medications to Medicaid recipients
- Purpose of survey study
 - To measure the costs associated with dispensing drugs to Colorado Medicaid enrollees for pharmacies defined under 42 CFR 256 (340B Pharmacies, rural pharmacies and regular pharmacies) within the State of Colorado
 - To determine the labor and overhead costs including:
 - Staffing salaries and benefits
 - Preparing and dispensing prescriptions
 - Store operations and overhead
 - Assuring appropriate use of medication
 - Providers can input survey information directly online through the secure proprietary website <https://employeesurveys.mercer.com/coloradopharmacy.aspx> or download a copy and fax the completed survey via confidential fax to Mercer at +1 602 522 6499
 - Typically a three week response timeline

Mercer's best practices for conducting a Cost of Dispensing study

- Survey representation and response rate
- Develop the established survey tool based on the specific HCPF project objectives (e.g., provider types)
 - Communicate CMS' definition of “cost of dispensing”
- Identify the study population to be surveyed based on list of Colorado pharmacy providers and pharmacies registered with the Colorado Board of Pharmacy
- Engage providers with effective and efficient communication plan
 - Obtain key contacts for chain pharmacies doing business with HCPF to optimize COD survey response
 - Obtain key contacts for multi-site pharmacies doing business with HCPF to optimize COD survey response
 - Distribute an introduction letter from HCPF to the study population and instructions to access the survey tool
 - Ensure easy electronic data submission process to increase survey response rate
 - Collaborate with HCPF staff in providing outreach, educating providers and resolving questions submitted directly to HCPF or Mercer

Mercer's best practices for conducting a Cost of Dispensing study (cont'd)

- Perform initial cost analysis of the data
 - Data evaluated for reasonableness based on descriptive statistics
 - Identify usable survey responses as those responses that contained sufficient information to allow for the calculation of dispensing fees and associated components
- Conduct a comprehensive statistical analysis of the cost data to determine an average cost and percentile distribution of the cost of dispensing a prescription to Medicaid recipients within the State of Colorado, including:
 - Test for reporting bias determined by comparing the distributions of the responding sample to the study population by type and geographic characteristics
 - Descriptive statistics and measures of central tendency – means and medians
 - Mercer's statisticians develop survey weights to account for non-response probability and allow the results to be generalized to the study population
 - Stratify the survey results by a variety of factors to determine those factors that had statistical significance on the cost of dispensing, including provider type (i.e., 340B)
 - Use a multivariable linear regression model to examine the relationship between a set of pharmacy characteristics and the average cost of dispensing

Mercer offers options for HCPF consideration: Cost of Dispensing study

- Tiering of dispensing fee
 - Pharmacy type (chain, independent, specialty, 340B, long-term care)
 - Pharmacy provider prescription volume (total prescription volume, Medicaid prescription volume)
 - Geographic characteristics (rural, urban)
- Fiscal impact
 - Assess the aggregate financial impact considering the potential change to cost of dispensing

Acquisition Cost Survey Overview

- HCPF has contracted with Mercer to conduct ongoing surveys of Medicaid pharmacy providers to obtain acquisition cost data for drugs reimbursed under the State MAC program
- Purpose of survey study
 - To develop State MAC Price List for approximately 4,000 Generic Code Numbers (GCN) determined by HCPF
 - To determine the State's MAC Price List based on average acquisition costs provided by Colorado specific providers
- Acquisition cost survey to be conducted of approximately 1200 Colorado Medicaid pharmacy providers
- Provider responses may be submitted either via a secure website portal, via email or toll-free phone provider support line
 - <https://benefitsuite.mercer.com/Sites/colorado>
 - CO.Rx_reimbursement@mercercor.com
 - +1 866 447 9021
- Typically a three week response deadline
- Options to optimize pharmacy provider survey response rate

Mercer's best practices for establishing State MAC Price List

- Engage providers with effective and efficient communication plan
- Targeted communication strategy between HCPF, providers and Mercer
- Easy data submission process to increase response rates for all survey processes
- Upon completion of the data collection, Mercer's proven approach continues with the following steps:
 - Validate the data, review distributions of the responding sample by differentiating characteristics (e.g., pharmacy type, geography, etc.) and identify outliers
 - Conduct the statistical analyses and pricing exercises to determine State MAC Price List based on average acquisition costs
 - Present the State MAC Price List results and final methodology
 - Provide HCPF with weekly State MAC Price List updates
 - Complete all contractual reporting requirements
 - Maintain a provider help line and email address to effectively and efficiently address provider inquiries and appeals

Mercer's best practices for establishing State MAC Price List (cont'd)

- Supplement the survey data with Mercer's national acquisition cost database. The benefits of which include:
 - Utilizing this supplemental data source to establish interim State MAC price points for GCN that lack adequate survey data, until additional survey data can be obtained through the next regularly scheduled survey process
 - Striking a balance between the frequency of ongoing provider surveying and the utilization of data from the acquisition cost database to calculate price points
 - Using the database, along with the HCPF-specific survey data, to provide a third party comparison to the acquisition cost data information being developed by the Federal government

Mercer offers options for HCPF consideration: Acquisition Cost Survey

- Frequency of pharmacy provider acquisition cost surveys to maximize responses and minimize provider disruption
 - Rolling quarterly surveys for a fixed number of providers (e.g., survey each pharmacy provider no more than once every 24 months)
 - Annual survey of all providers during similar timeframe
 - Potential for old or 'stale' data
 - Need for reliance on proportional cost increases, especially for brand and specialty medications, based on reported WAC or AWP increase
 - Establish an agreement with select group of pharmacies that will routinely (e.g., quarterly) provide all acquisition cost data

Project timeline

Task	Responsible Party	Estimated Completion Date
Planning		
Kick-off meeting (onsite)	Department/Mercer	December 20, 2011
Survey communications – Provider focus group meetings	Department/Mercer	Two live focus groups; First meeting to be held January 6, 2012
Bi-weekly implementation status updates (via telephone)	Department/Mercer	Bi-weekly during first 90 days of contract and monthly thereafter
Monthly project meetings (via telephone)	Department/Mercer	Monthly – through at least first contract term
Contract meetings (annual – onsite; quarterly – via telephone)	Department/Mercer	Three quarterly meetings and an annual meeting each contract year
Initial surveys development		
Identification of Colorado providers to participate in Cost of Dispensing and Actual Acquisition Cost Data surveys	Department/Mercer	Week of January 2, 2012
Provide list of GCNs and Department's desired monthly reimbursement level	Department	Week of January 16, 2012
Request and provide historical Colorado claims data for modeling and reporting	Department/Mercer	Week of January 16, 2012
Development of surveys	Mercer	January 6, 2012
Provider stakeholder and State review of survey templates	Department/Stakeholders	January 13, 2012
Pre-communication fax ("blast fax")	Department/Mercer	Week of January 16, 2012
Finalization of survey design and send surveys to providers	Department/Mercer	January 23, 2012
Data collection and follow-up with providers	Mercer	Ongoing through February 10, 2012
Data entered into databases	Mercer	Week of February 13, 2012

Project timeline (cont'd)

Task	Responsible Party	Estimated Completion Date
Dispensing fee study		
Statistical analysis	Mercer	Ongoing February 20, 2012 through March 5, 2012
Draft Dispensing Fee Study Report	Mercer	March 9, 2012
Final Dispensing Fee Study Report	Mercer	March 23, 2012
Initial State MAC Price List		
Statistical analysis and modeling	Mercer	Ongoing February 20, 2012 through March 23, 2012
Draft State MAC Pricing Methodology	Mercer	March 28, 2012
Final State MAC Pricing Methodology	Mercer	April 10, 2012
Testify at Medical Services Board Meeting	Mercer	Upon the Department's request
Respond to Medical Services Board or CMS review of draft State MAC Pricing Methodology	Department/Mercer	Within 1 week of presentation to Medical Services Board and/or CMS review
Test upload State MAC Price List file	Mercer	Completed at least 2 weeks prior to upload of final State MAC Pricing List file
State MAC Price List	Department/Mercer	Three business days from the final approval of the State MAC Pricing Methodology by the Medical Services Board or CMS, whichever is later
Reimbursement Methodology presentation	Mercer	Within 30 days from the approval of the State MAC Pricing Methodology by the Medical Services Board, unless the Department directs a later presentation

Mercer's overall approach

