



# COLORADO DEPARTMENT OF HEALTH CARE POLICY AND FINANCING

*A Fact Sheet*

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*November 2009*

## BRI-3 Expansion of a State Maximum Allowable Cost Reimbursement Rate Methodology

**Request:** The Department requests a reduction of \$960,682 total funds, \$443,253 General Fund, for FY 2010-11. The reduction in FY 2011-12 would be \$2,114,900 total funds and \$1,057,450 General Fund. The request reduces total funds by \$1,057,450 in (2) Medical Services Premiums in FY 2010-11 as a result of an expansion of the State Maximum Allowable Cost reimbursement rate for pharmacy claims by including more drugs in the State Maximum Allowable Cost methodology. A portion of the savings created through expansion of this program would be used to perform one-time changes to the Medicaid Management Information System. Therefore, this request also includes one-time funding in FY 2010-11 of \$96,768 for (1) Executive Director's Office; (C) Information Technology Contracts and Projects, Information Technology Contracts.

Summary of Request FY 2010-11	Total Funds	General Fund	Federal Funds
<b>Total Request</b>	(\$960,682)	(\$443,253)	(\$517,429)
(1) Executive Director's Office; (C) Information Technology Contracts and Projects, Information Technology Contracts	\$96,768	\$24,192	\$72,576
(2) Medical Services Premiums	(\$1,057,450)	(\$528,725)	(\$528,725)
(2) Medical Services Premiums - ARRA Adjustment	\$0	\$61,280	(\$61,280)

Summary of Request FY 2011-12	Total Funds	General Fund	Federal Funds
<b>Total Request</b>	(\$2,114,900)	(\$1,057,450)	(\$1,057,450)
(2) Medical Services Premiums	(\$2,114,900)	(\$1,057,450)	(\$1,057,450)

**Highlights:** The Department requested and received approval for implementation of a State Maximum Allowable Cost reimbursement methodology in 2008. Implementation is currently in the development phase and the Department believes that the program can be expanded in FY 2010-11 to generate greater savings. The Department currently determines reimbursement rates based on the lowest rate as determined by four methodologies. In FY 2008-09, the Department reimbursed approximately 54% of all pharmacy claims using the *Average Wholesale Price*, 26% using the *Federal Upper Limit*, 19% using the *Usual and Customary Pharmacy Charge*, and approximately 0.5% using the *Direct Price* methodology. Utilizing multiple methodologies allows the Department to maximize the cost-effectiveness of the program while maintaining client access to prescription drugs.

The expansion would require changes to the Medicaid Management Information System interface and screens at a total one-time cost of \$96,768.

The Department would take into account five elements when determining whether to include a given drug in the pool priced using the State Maximum Allowable Cost methodology while attending to the best interests and needs of the client and the State. The following would be considered in determining whether to include a given drug in the pool priced using the State Maximum Allowable Cost methodology:

- Availability of manufacturers;
- Broad wholesale price range;
- Cost of the drugs to retailers;
- Volume of Medicaid client utilization; and
- Bioequivalence or interchangeability of potential generic substitutes for brand name drugs.

The elements consider competition between manufacturers, ability of retailers to obtain drugs and not incur significant financial losses, and ability of retailer to work collaboratively with the client.

An expansion of the State Maximum Allowable Cost methodology would provide several benefits:

- The Department would expect to see an annual reduction in expenses to its Medical Services Premiums line of \$2,114,900;
- Flexibility in the determination of reimbursements for a greater number of prescription drugs offers increased opportunity for incremental cost savings;
- Rates under Federal Upper Limit currently are based on data that is three months old. Expanding the State Maximum Allowable Cost methodology would provide the ability to adjust the rates for a greater number of drugs in a more timely manner than is possible under the current Federal Upper Limit; and,
- The Federal Upper Limit, because of its methodology, is limited in the number of drugs for which rate reimbursement can be set. Expanding the State Maximum Allowable Cost methodology would allow the Department to set rates for a larger number of drugs that have not been given a Federal Upper Limit.

**For more information about this Department and its programs, please call  
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