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# Alabama Medicaid Pharmacy Study Commission Meeting

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**Optumas**

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# Discussion Outline



- Purpose of Commission
- Previous Meetings
- Reform Proposals
- Economic Impacts
- Considerations
- Attachments

# Purpose of Commission



- Review Medicaid's current Pharmacy delivery and reimbursement system
- Compare Alabama's program with other States' operations
- Evaluate options for reform that could maintain quality and save money
- Estimate savings and economic impact for each potential option

# Previous Meetings



- Status of current Alabama Medicaid Pharmacy program
- Comparisons to other States
- APCI, PBM, and Preferred Pharmacy Network proposals
- Optumas input on proposals

# Reform Proposals



- APCI – Purchasing Cooperative and Network Manager
- PBM – Managed Pharmacy Contractor
- Preferred Pharmacy Network – Closed Network

## *Potential Additional Considerations*

- Most Favored Nation (MFN) Rate
  - Georgia has realized savings of 2%-5% by using MFN versus previous AWP reimbursement
- Increase Provider Tax
  - Increase to \$9M tax may not be feasible in short term

# Economic Impacts



## Potential State Savings - Proposals

APCI	PBM	Preferred Rx Network
➤ \$9M – \$18M State Dollars	➤ \$13M – \$35M State Dollars	➤ \$19M – \$30M State Dollars

# Economic Impacts



## Potential State Savings – Additional Considerations

Most Favored Nation	Increased Provider Tax
➤ \$3M – \$9M State Dollars	➤ Increase TBD above current \$9M

# Economic Impacts

## Pharmacy Implications



- How will reforming the Medicaid Pharmacy program impact Pharmacies in the State?
  - ❑ Volume of Medicaid scripts by Pharmacy in US and Alabama
  - ❑ Sense for how many Pharmacies in US close per year (Churn)
  - ❑ Sense for average margin per Pharmacy
  - ❑ Estimate change in margin and increase in churn rate with a change in AL system

# Economic Impacts

## Pharmacy Implications



- Multiple sources used for analyses
- National Community Pharmacists Association (NCPA)
  - Dataset on independent Pharmacy financial experience
- National Health Expenditure Data
  - Dataset from CMS Office of the Actuary

# Economic Impacts

## Pharmacy Implications



- Approximately 60,000 Pharmacies in US
- Approximately 21,000 Independent Pharmacies
- Approximately 90% of Pharmacy Revenues for Independent Pharmacies are prescription based
- Prescriptions break into four categories
  - Medicaid
  - Medicare Part D
  - Other Third Party
  - Cash

# Economic Impacts

## Pharmacy Implications



### Current Independent Pharmacy Picture

	% Scripts	% Revenue	Avg Gross Margin	Components of Margin	% of Margin
Medicaid	13%	10%	20%	2%	8%
Medicare Part D	30%	28%	18%	5%	21%
Other Third Party	45%	40%	20%	8%	34%
Cash	12%	22%	40%	9%	37%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>24%</b>	<b>24%</b>	<b>100%</b>

# Economic Impacts



## Pharmacy Implications

- Study of Medicare Part D impact suggests one unintended consequence was a decrease in margin that resulted in closure of independent rural Pharmacies
  - Shift from Other Payors to Medicare Part D average margins
  
- Minimal anticipated economic margin and churn impact with a change in AL system
  - Shift in average margin not as significant as Part D implementation
  - Overall market share not significant enough to impact overall Pharmacy margin

# Economic Impacts



## Pharmacy Implications

- National closure rate is approximately 150 independent Pharmacies per month (does not address the net impact due to adds in any given month)
  
- Modeling a ten percent drop (20% to 18%) in Medicaid margin:
  - An additional 36 - 132 Pharmacies nationally annually are expected to close due to a 10% reduction in Medicaid margin
  - An additional 1 – 4 Alabama Pharmacies closing annually
  
- Difficult to estimate the net impact due to mergers, acquisitions, and secular trends

# Pharmacy Commission



## Preliminary Findings

- Alabama Medicaid Pharmacy Program Structure is Considered Leading Edge and Spend is Reasonable and in Lowest 5 States Across Country
- There are Additional Changes that Could be Implemented to Continually Improve Program's Effectiveness
- Reductions in Medicaid Margin appear to have minimal impact on pharmacy closure rate
- If State changes delivery system, an RFP process is needed in order to know true savings

# Questions

