

# NYS MEDICAID FEE-FOR SERVICE PHARMACY

AVERAGE ACQUISITION COST (AAC)  
&  
COST OF DISPENSING (COD)

Managed Care Policy and Planning Meeting  
March 6, 2014

# Presentation Overview

- ▶ Goals
- ▶ Project Partners
- ▶ Project Milestones and Status
- ▶ Methodology & Results
  - COD
  - AAC
- ▶ Savings Estimates
- ▶ Summary/Next Steps

# GOALS

- ▶ Implement a cost based pharmacy reimbursement methodology [Average Acquisition Cost (AAC) / Cost of Dispensing (COD)] for FFS and use as a benchmark for managed care plan rate development.
- ▶ Align to federal requirement to pay drug acquisition costs and a reasonable dispensing fee.
  - ▶ Current methodology relies on benchmarks that lack transparency and dispensing fees that are less than actual costs, resulting in overpayments for drugs and underpayments for dispensing fees.
  - ▶ Develop and update pricing based on actual cost data submitted by NY state pharmacies

# PROJECT PARTNERS

## ▶ **First Data Bank:**

1. Current State pharmacy data vendor;
2. Analyzed de-identified pricing data;
3. Assisted in development of survey tools; and
4. Assisted in development of AAC.

## ▶ **Ernst & Young:**

1. Assisted in identifying pertinent business expenses;
2. Analyzed de-identified business expense data; and
3. Assisted in development of dispensing fee.

## ▶ **NYS DoH Division of Program Development and Management**

1. Oversight of survey process;
2. Provider technical assistance;
3. All project policy decisions; and
4. Data management.

## ▶ **NYS DoH Bureau of Health Informatics/ Health Care Analytics:**

1. Developed linear regression models; and
2. Identified predictors of COD.

# PROJECT MILESTONES

- ▶ March 2012 – Focus group meetings held
- ▶ September 27, 2012 – COD survey was issued.
- ▶ December 4, 2012 – AAC survey was issued. Providers were required to submit twelve months' worth of drug prices, and earned rebates, credits or discounts.
  - Drug Acquisition Costs are collected monthly from a subset of pharmacies to update pricing
- ▶ December 3, 2013, Meeting with focus groups and pharmacy associations to review draft results and methodologies and get comments prior to initiation of the regulatory process.
- ▶ January 31, 2014, draft AACs posted at:  
[http://www.health.ny.gov/health\\_care/medicaid/program/pharmacy.htm](http://www.health.ny.gov/health_care/medicaid/program/pharmacy.htm)
- ▶ February 5, 2014, the Department issued a response to all comments that were received
- ▶ February 11, 2014, reviewed draft results and methodologies with Pharmacy Advisory Committee (PAC).
- ▶ February 20, 2014, pharmacy associations' meeting with Jason Helgerson and Dr. Shah
- ▶ State Plan Amendment (SPA) and Regulations are underway
- ▶ Target Implementation Date (FFS): July 1, 2014
- ▶ Target Implementation Date to benchmark to AAC/COD (Managed Care): October 1, 2014

# COD: METHODOLOGIES AND RESULTS

## ▶ Guiding Principles (COD Components):

[http://www.health.ny.gov/health\\_care/medicaid/program/aac\\_cod/](http://www.health.ny.gov/health_care/medicaid/program/aac_cod/)

### ◦ Included

- An expense directly related to the dispensing of a Medicaid prescription

### ◦ Not Included:

- An expense resulting from a discretionary business or marketing decision
- An expense incurred to obtain a competitive advantage
- An expense that can be reimbursed, written off or recovered elsewhere
- An expense contrary to Medicaid policy, regulation, statute or standard reimbursement methodology for other Medicaid services

# COD: METHODOLOGIES AND RESULTS

- ▶ **Data Cleansing**
  - **Validation**
    - Performed basic check of data to ensure correct format, required fields are populated, etc.
  - **Verification**
    - E&Y identified specific data points for verification from a variety of outliers reports and through random selection.
    - DoH staff conducted verification
    - Data that could be verified by DoH was corrected, retained and analyzed
    - Data that could not be verified was removed from data set and analysis
- ▶ **Sample Size Developed**
  - 2,693 pharmacies, representing a confidence level of 95% with a 1.15% margin of error; exceeding the goal of 95% with a 5% margin of error

# COD METHODOLOGIES AND RESULTS

- **Statistical Analyses Included:**
  - Frequency distribution graph (histogram) to see if data followed normal distribution and to identify additional outliers
  - Hypothesis testing on sub-populations (i.e., chain/independent, population density, region, prescription type, etc.) to determine if they were significantly different
  - Generalized Linear Models used to determine which COD and pharmacy attributes influenced cost
    - “Volume of Prescriptions” was the attribute that had the most impact in the predictive model. Additional testing was done to ensure that this attribute was independent of other categories.

# COD METHODOLOGIES AND RESULTS

## ▶ Proposed dispensing fees\*

Annual Prescription Volume	Dispensing Fee	% of Enrolled Pharmacies
0 –29,999	\$14.11	24%
30,000– 79,999	\$8.33	54%
80,000 and greater	\$6.77	22%

Pharmacies that do not comply with annual COD survey requirements will receive a dispensing fee of \$3.50, unless exempted by DOH prior to the end of the survey period.

\* Subject to approval by CMS.

# AAC METHODOLOGIES AND RESULTS

- ▶ Surveys Conducted:
  - Initial comprehensive survey in November 2012
  - 12 months of data including the value of rebates and discounts
  - Successive monthly surveys from January 2013 through present
- ▶ Data Cleansed and Analyzed .
  - All submissions are checked for “catastrophic” errors and common submission problems
  - Outliers removed (NADAC, AMP or ASP values will be used as a standard of reasonableness to identify extreme outliers)
  - Invalid or incorrect NDC information is removed from calculation

# AAC METHODOLOGIES AND RESULTS

- ▶ Survey period outliers are identified using a table of pharmacies selected to participate in the current month. Outliers are removed from calculation.
- ▶ All submissions are checked for catastrophic errors and common submission problems.
- ▶ Invalid or incorrect NDC information is removed from calculation.
- ▶ NADAC, AMP or ASP values will be used as a standard of reasonableness to identify extreme outliers
- ▶ Data is normalized by applying a Median Absolute Deviation analysis, a method that evaluates variance median and is therefore less subject to influence by outliers.
- ▶ Invoice line items within  $\pm 2.5$  times the median absolute deviation from the median are used in calculating the final average AAC for an NDC; those above or below that range are ignored.

# AAC METHODOLOGIES AND RESULTS

- ▶ Average unit cost for each formulation is calculated from cleansed data
- ▶ Quantities are converted to NDC billing units
- ▶ Costs are adjusted at the NPI level by the pharmacy's discount rate, based on reported rebates and discounts
- ▶ Average Unit Costs are calculated using FDB clinical formulation class that groups like drugs based on active ingredients and strengths, routes of administration, and dosage forms (aka GCN Sequence Number).
- ▶ Brand and generic identification is made using current NYS method for determining that status.

# AAC METHODOLOGIES AND RESULTS

- ▶ AAC will be updated based on monthly surveys of a stratified and randomly selected sample of ~380 enrolled NPIs.
  - There will be one AAC for all generic products within a GCN
  - Brand AAC will be calculated for each brand NDC-9
  - If no pricing data for a drug is reported, AAC will be developed using an average of the previous 2 months.
  - If a 3-month survey period produces no cost data for a drug, the last reported AAC will continue to be reported until DOH determines that an adjustment of that price is necessary.
  - If there is no established AAC, reimbursement will revert to the current “lower of” methodology with a dispensing fee of \$3.50.
  - An invoice-based appeal process will be implemented and other available pricing (e.g. NADAC, AMP, WAC) will be monitored to determine if a cost adjustment is warranted.
  - Clotting factor will not be part of this initiative and will continue to be reimbursed as it currently is, with current dispensing fee.

# Estimated Savings

Proposal	2014-15 Impact		2015-16 Impact	
	Gross	State	Gross	State
AAC and COD (FFS)*	(\$21.40)	(\$10.70)	(\$21.40)	(\$10.70)
AAC and COD (MCO) **	(\$60.60)	(\$30.30)	(\$121.20)	(\$60.60)
<b>TOTAL</b>	<b>(\$82.00)</b>	<b>(\$41.00)</b>	<b>(\$142.60)</b>	<b>(\$71.30)</b>

\*Assumes 4/1/14 implementation date

\*\*Assumes 10/1/14 effective date

# Summary/Next Steps

- ▶ Respond to pharmacy association concerns raised at the February 20<sup>th</sup> meeting
- ▶ Obtain CMS approval
- ▶ Complete regulatory process
- ▶ Draft AACs and additional information can be found at  
[http://www.health.ny.gov/health\\_care/medicaid/program/pharmacy.htm](http://www.health.ny.gov/health_care/medicaid/program/pharmacy.htm)