

Medicaid Reimbursement Commission Submits Report

Will there be structural changes to the payment system?

by Tom Engels, PSW Vice President of Public Affairs

In November 2005, Governor Doyle announced he was appointing a commission to study the state pharmacy Medicaid reimbursement rate and dispensing fee. The announcement came prior to the vote in the state Assembly to override the budget vetoes of the pharmacy Medicaid reimbursement rate and dispensing fee. The timing of this announcement was met with skepticism considering the Assembly was on the verge of overriding a governor's veto for the first time in over 20 years. Yet, we had to play the hand that had been dealt.

When the Governor announced the commission, he also issued a directive: "The Department of Administration (DOA) has instructed the Department of Health and Family Services (DHFS) to suspend the implementation of these changes (reduction of the pharmacy reimbursement rate and dispensing fee) while this commission reviews and considers pharmacy policy changes to achieve the same level of Medicaid expenditure reductions." The commission would have to find a savings of \$29.5 million in order to offset the Governor's veto. However, that number was later reduced to \$22.8 million due to decreased Medicaid program expenditures.

PSW submitted names of members to the Governor's office for consideration for appointment to the commission. Two of those named by the Governor came from that list. The makeup of the commission was impressive. [A complete list of commission members can be found on the PSW website www.pswi.org/government/PSW%20Commission%20Names.pdf]

THE COMMISSION'S ASSIGNMENT

The Governor's announcement indicated that the commission would meet four

times and complete its work by the end of January 2006. Its first meeting was held in November. From the first meeting, it was apparent that the commission was not going to be able to complete the task that lay ahead based on the required timetable. There were too many issues that had to be considered before any decisions could be made. To complicate matters, the commission repeatedly denied access to review the documents used by the state to develop the budget. This information would have been beneficial to the commission in developing alternatives to the Governor's vetoes.

Commission members committed significant amounts of time learning about pharmacy rates. From the beginning, commission members expressed a great deal of concern about the very real impact that the governor's vetoes would have on pharmacies and the patients they serve. Virtually every member expressed support for pharmacists and a willingness to find a solution. This was most apparent during the first commission meeting in November. When each member was asked to provide his or her concerns, a recurring theme was stated: these vetoes crossed a line that would have serious ramifications for Wisconsin health care consumers who rely on their local community pharmacy. It was also understood that the effects of the vetoes would be felt by hospital pharmacies, nursing homes and private insurers.

LOOKING FOR NEW IDEAS

Commission members did not simply want to restore the funding which was reduced as a result of the vetoes; commission members genuinely wanted to find a solution. Despite the encouraging results of the first meeting, commission members knew a very large task remained before them.

The commission heard testimony from PSW representatives, pharmacists, consultants and representatives from prescription drug wholesalers during its meetings in December and January. This testimony provided commission members with better insight into the business of pharmacy. The most telling testimony came from a panel of pharmacists that included Brian Jensen of The Medicine Shoppe, Sue Sutter of Marshland Pharmacies, Kristen Reabe of Independent Pharmacy Cooperative and Ed Heckman of PAAS National. This group outlined basic pharmacy practices and explained how current pharmacy rates are inadequate to cover costs. They also offered solutions that, if implemented, would save money for the pharmacy programs managed by the state.

In addition, David Kreling, a professor at the UW School of Pharmacy, testified on a study he conducted for DHFS on the cost of acquisition and dispensing.

CURRENT SYSTEM NEEDS FIXING

All of this testimony offered valuable insight into the ever-increasing financial burdens placed on Wisconsin pharmacies. Much of the testimony expressed an overriding concern for the policy used to set the rates for multi-sourced generic prescription drugs. The maximum allowable cost (MAC) rates established for generic drugs in Wisconsin are among the lowest in the nation. PSW reviewed MAC rates from other states and found that, on average the Wisconsin MAC rates were 70% lower than in other states. Even DHFS couldn't refute these findings – in fact, it essentially confirmed this conclusion by acknowledging that DHFS is aggressive in establishing MAC prices.

Testimony heard during the December and January commission meetings made it obvious that pharmacies are not the cause for escalating costs. Furthermore, it was clear that the current program structure simply relies too heavily on pharmacists to carry out many administrative functions, with diminishing compensation.

Another issue that received a great deal of discussion was the current prior authorization (PA) system. The requirement that pharmacists need PA approval in order for a patient to receive specific medications didn't make sense to commission

members. "Shouldn't this be the responsibility of the prescribing practitioner?" a commission member asked.

During another session, commission members developed a list of potential policy changes that could result in program savings. All of these were considered and reviewed by DHFS staff.

PREPARING THE REPORT

After three meetings of the commission, it was apparent that the original proposed schedule for the commission's work was not realistic. At the conclusion of the third meeting, commission chair Mark Moody announced that a draft report would be prepared by DHFS staff and distributed to members prior to the meeting scheduled for January 24.

However, the fourth meeting was postponed until March 2 and DHFS announced the rate reductions would be delayed until at least March. Furthermore, the much anticipated draft report did not become available until late February.

When commission members did receive the draft report, it was met with a great deal of skepticism. One commission member commented that DHFS staff had used "a very liberal license" when it drafted the report. Another commissioner commented that he/she barely recognized the information in the draft compared to the discussions during meetings. A major concern expressed by commissioners centered on the recommendations contained in the draft.

One recommendation within the draft was to offset the Governor's veto through policy changes within the Medicaid pharmacy program. The commission and DHFS staff estimated these policy changes could result in savings of \$26.8 million. They included:

- 1) changes to the preferred drug list, \$12.5 million
- 2) dose consolidation, \$2.1 million
- 3) tablet splitting, \$4.3 million
- 4) quantity limits, \$1 million
- 5) 100-day supply, \$3.3 million
- 6) crossover rebates, \$1 million
- 7) medication review by pharmacists, \$1.9 million

In addition to these changes, there were three policy items recommended that did not have an estimated savings associated. They were:

- 1) To simplify the pharmaceutical care billing process.
- 2) To do disallow samples (drug samples) to qualify for PA.
- 3) To use technology to simplify and streamline the PA review process.

With these savings, the commission could consider options to address pharmacy reimbursement rates. There were five options within the draft; each option had an estimated cost breakdown associated with the proposal based on savings or additional cost. The five options were as follows:

- 1) Maintain current rates: estimated cost of \$22.8 million
- 2) Governor's veto instructions: estimated savings of \$22.8 million
- 3) Adopt commercial rates: estimated savings of \$37.1 million
- 4) Budget neutral rate change: estimated savings of \$22.8 million
- 5) Commission subgroup net rate increase proposal: estimated cost \$25.5 million

It was assumed that the commission would accept the policy changes and use the identified savings to apply to any of the five options. However, commission members were confused by some of the proposed options. For instance, options 3 and 4 had never been discussed by the commission – commissioners first learned of these options when presented with the report.

COMMISSIONERS TAKE A STAND

During a meeting on March 2, commission members requested significant changes to the draft and requested more input into drafting the document. Most notably, since program savings were a primary responsibility of the commission, commission members wanted the savings they identified to move to the front of the report rather than its location near the end. The commission also rejected all the options proposed in the draft, instead opting for a modified version of options 1 and 5. By a vote of 8 to 3, the commission passed the following recommendation proposed by pharmacist Gary Donaldson and Aurora's Kim Hodgkinson:

In an effort to provide an innovative solution to the current pharmacy reimbursement problems facing the Medicaid, SeniorCare, BadgerCare and HIRSP programs, the Wisconsin Pharmacy Reimbursement Com-

mission appointed by Governor Jim Doyle recommends that the state of Wisconsin implement the following measures:

1. *Maintain current pharmacy reimbursement rates through the end of calendar year 2006.*
2. *Implement the cost-saving policy initiatives outlined in the Pharmacy Reimbursement Commission report.*
3. *Eliminate the 5 percent SeniorCare enhancement fee effective 1/1/07*
4. *Increase the AWP discount in the pharmacy reimbursement formula for brand name drugs to 15 percent effective 1/1/07.*
5. *Maintain the current dispensing fee for brand name drugs after 1/1/07.*
6. *Maintain the current process for establishing the generic MAC rates after 1/1/07.*
7. *Increase the dispensing fee for generic drugs to \$9.88, effective 1/1/07.*
8. *Implement the recommendations of the Commission for enhancing the WMPCP.*

Fiscal estimates for each of the items outlined led to the estimate that this recommendation, in total, would be approximately budget neutral for the State of Wisconsin and would vastly improve the current programs through meaningful reform.

FISCAL IMPACT

1. \$22.8 million cost to maintain current rates through biennium
2. \$26.8 million savings from policy initiatives outlined in the draft report
3. \$4.7 million savings from SeniorCare 5 percent elimination
4. \$3.5 million savings from reducing AWP to AWP minus 15 percent
5. \$9.0 million cost to increase the generic dispensing fee to \$9.88 from 1/1/07-6/30/07

Net effect: savings of \$1 million (based on DHFS estimates)

The outcome of the commission's work at this time remains unclear, although indications from the Governor's office make it appear unlikely he will accept all of the commission's recommendations. It is widely anticipated he will use the identified savings to maintain the current Medicaid rates of AWP minus 13% and a \$4.38 dispensing fee. But as of this writing, we are in a "wait and see" mode. ●