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From: Wendy Cloe, Senior Manager, Workers Compensation Regulatory Compliance,
To: Charles Carpenter, Manager, Industrial Commission of Arizona
Re: Proposed Amendments to the 2021-2022, Pharmaceutical Fee Schedule Guidelines
Date: 8/2/2021

myMatrixx, an Express Scripts Company, appreciates the opportunity to submit comments regarding the proposed regulation changes to state workers compensation incorporating the NADAC pricing methodology into the state fee schedule. Our purpose is to highlight for your agency our objections to utilize this method as a component of the reimbursement for pharmacy that will negatively impact all payers in the workers' compensation system.

myMatrixx dba Express Scripts is one of the largest pharmacy benefit management (PBM) companies in North America, providing PBM services to thousands of client groups, including managed-care organizations, insurance carriers, employers, third-party administrators, public sector, workers' compensation, and union-sponsored benefit plans. We take a strategic approach to workers' compensation, structuring customized client solutions around best-in-class core services, supported by advanced trend-management and clinical-review programs, to ensure safety for injured workers, while aggressively controlling costs.

The National Average Drug Acquisition Cost (NADAC) has been proposed as a state solution for a pharmacy pricing solution in the state of Arizona. NADAC is the result of a survey process CMS uses to estimate pharmacy pricing for drugs acquired by retail pharmacies and dispensed to patients that State Medicaid programs can utilize this information to determine the reimbursement rates to pharmacy providers. Unfortunately, this pricing method does not show the true average cost of pharmacy today.

CMS issues a voluntary survey to 2,500 randomly selected retail community pharmacies across the country. A small group of pharmacies determines the NADAC benchmark since the typical response rate is 18-24% or 450 to 600 responding pharmacies. The majority of the respondents to the survey are independent pharmacies which set this benchmark.

Not included in the survey results are rebates and off invoice discounts pharmacies get from suppliers. Also, the submitted data is not verified and validated.

Larger retail pharmacies tend to abstain from responding to the survey. They typically are better able to leverage purchasing power with the drug wholesaler, to gain a lower drug acquisition price. Since this is not true for smaller pharmacies. If adopted, not only will independent pharmacies be getting a higher reimbursement for their drugs, so will the chain pharmacies, since their lower pricing only gives them more margin. This higher price will be invoiced to the payers or patients, and the benchmark removes incentives for pharmacies to acquire drugs at the lowest costs available stifling competition in the market. With the rising cost of health care and the drive to make prescriptions affordable, this method of pricing should be avoided.

Based on a 2019 pharmacy pricing study in Pennsylvania by the Menges Group, it was determined use of NADAC rather than Managed Care Organization contracted rates, would cause a 2.6 to 8.3 increase in pharmacy expenditures. Higher dispensing fee rates rose an alarming 500% under their calculation.

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Healthy competition in the market place is the best method to drive costs down. Allowing carriers to utilize their contracted networks will help the state keep costs lower. Managed care has been used for decades and is a proven method of health and cost management. Opening the state to direct care for all workers compensation contracts, including those with public/municipal payers, will lower costs. If this is a solution you are willing to further consider, we would be supportive.

Thank you for your consideration of our comments. If you have questions regarding our comments, please contact me for further discussion regarding our position on the proposed regulatory changes.

Sincerely,

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The Menges Group

Strategic Health Policy & Care Coordination Consulting

Pennsylvania Medicaid MCO Prescription Drug Repricing: Cost Impacts of Using NADAC Payment Structure

November 2019

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I. Introduction and Summary of Key Findings

Pennsylvania has proposed legislation (PA HB941) to reconfigure the payment rates used for Medicaid prescriptions paid by Medicaid MCOs. This document conveys findings from our efforts to reprice Pennsylvania's Medicaid MCO Q4 2018 prescription drug claims and describes the analytical methodology used.

Our key overall finding is that the NADAC pricing methodology would result in increased expenditures in Pennsylvania.

- Our tabulations indicate that NADAC pricing would lead to a **2.6% to 8.3% increase in Medicaid MCO pharmacy expenditures**, using an estimated range based on assumptions about how NADAC pricing would be used for generic drugs. In Q4 of 2018 these increased costs would range from $10.9 million to $34.4 million, with corresponding annualized added costs (multiplying the above figures by four) ranging from $43.8 million to $137.4 million.

- Across all drugs (brands and generics), NADAC's pricing schedule yielded a 7.3% savings on ingredient costs relative to the MCOs' ingredient costs. However, **the lower dispensing fees used in the MCOs' current payment methodology offers more savings** than the proposed NADAC-based ingredient costs plus higher dispensing fee. We also are unsure if the NADAC savings on generics will materialize, as discussed below, and have therefore created a range of impact estimates.

II. Overview of Approach

Our methodology involved working entirely with publicly available data sources and was confined to the timeframe of October – December 2018. We downloaded the Medicaid State Drug Utilization data files published and regularly updated by CMS, which include the number of prescriptions and the number of units (most often pills/capsules) for each National Drug Code (NDC). Using this data set, we identified average amounts paid per prescription and per unit for each NDC by Pennsylvania's Medicaid MCOs. Prescriptions paid by MCOs are reported separately from those paid in the fee-for-service setting in the CMS data files. The MCO data are aggregated across all the health plans; MCO-specific data are not visible. Expenditures reported in these data files include both the ingredient costs and the pharmacy dispensing fees, although these components are not broken out in these files.

We then accessed a separate NDC-specific file containing the National Average Drug Acquisition Cost (NADAC) pricing schedule, averaging the price for each drug during three different weeks of Q4 2018. The NADAC schedule conveys the ingredient price only – not dispensing fees.

To "re-price" the Pennsylvania data for each NDC code, we applied the following rules:

a) A $2.00 dispensing fee was assumed to be paid by the MCOs, reflecting our understanding of typical Medicaid MCO fill fees.

b) The ingredient cost paid by the MCOs in any given NDC was derived as:
(Total Expenditures) – (# prescriptions x $2.00)

c) MCO ingredient costs per unit were then derived by dividing the above figure by the number of units

d) Over the counter (OTC) medications were identified using indicators published by the FDA and those shown on the NADAC file, and we did not factor in any dispensing fees for these products. Costs per unit for OTC medications were derived by simply dividing total costs by total units.

e) Ingredient costs under NADAC for any NDC were derived by multiplying the NADAC price per unit times the number of units paid for by the MCOs.

f) Dispensing fees under NADAC were assumed to be $10 per prescription for non-OTCs (and $0 for OTCs). NADAC dispensing fees for each non-OTC NDC were therefore derived by multiplying the number of MCO prescriptions by $10.00.

g) Total costs under NADAC represent the sum of items e and f above.

h) Input from some industry experts indicates that the NADAC schedule may not be used extensively for generic prescriptions and that the MCO-paid ingredient payments for generics may be closer in line with what Pennsylvania would pay if moving to NADAC/MAC pricing for generic products. Countervailing information (including the NADAC price schedule) suggests that MCOs may be paying much more for generics than occurs under NADAC for the ingredient component. We therefore created a range of cost impact estimates for generics with one end of the range being NADAC ingredient pricing and the other end being the MCO-paid unit prices for the ingredient component.

Some NDCs needed to be removed from the analysis (e.g., where the NADAC price was not available), and for some other NDCs the cost differences were so wide as to create data validity questions. Results were tabulated for different combinations of adjustments as described in the following section.

III. Tabulation Results

Our initial tabulations identified 12,222 NDCs that had Medicaid prescription volume in Pennsylvania during Q4 2018 in the MCO paid and/or FFS-paid setting. After removing NDCs with only FFS paid volume, and NDCs for which no NADAC price was published, 11,088 NDCs remained. These unmatched codes, while representing 9.3% of all NDCs, accounted for only 1.9% of the Q4 2018 prescription volume. Repricing results across these NDCs are summarized in Exhibit 1.

These tabulations suggest that NADAC pricing would lead to a 2.7% increase in Medicaid MCO pharmacy expenditures, which represented $11.4 million in Q4 2018 and an annualized added cost of $45.7 million. The NADAC pricing is shown to achieve a small net savings (0.6%) on brand drugs, but large increased expenditures for generics. While the NADAC pricing yields much lower ingredient costs for generics (a 26.5% savings), the adverse dispensing fee differential of $8.00 (moving from $2.00 to $10.00) far more than offsets this ingredient cost savings. Across all drugs (brands and generics), NADAC's pricing schedule yielded a 7.3% savings on ingredient costs relative to the MCOs' ingredient costs. The state costs will be higher with the proposed NADAC reimbursement structure because the change in dispensing fee more than overshadows any savings from paying ingredient costs based on NADAC. Currently, MCOs and their contracted PBMs may pay a higher ingredient cost to pharmacies for generics but the savings on dispensing fees makes this strategy far more cost-effective than the proposed NADAC pricing.

Exhibit 1. Initial Repricing Results

	Brand	Generic	Total
BASELINE TABULATIONS (prior to re-pricing)			
MCO Paid Prescriptions	672,329	4,777,904	5,450,233
MCO Paid Units	20,362,629	271,884,859	292,247,487
MCO Paid Expenditures	322,715,969	94,226,476	416,942,445
MCO Dispensing Fee Payments	$1,319,668	$8,964,680	$10,284,348
MCO Ingredient Cost Payments	$321,396,301	$85,261,796	$406,658,097
RE-PRICED COSTS USING NADAC			
NADAC Dispensing Fees (via repricing)	$6,598,340	$44,823,400	$51,421,740
NADAC Ingredient Cost Payments (via repricing)	$314,229,167	$62,707,963	$376,937,129
Count of NDC Utilized in PA 2018Q4	$983	$10,105	$11,088
NADAC Total Cost (via repricing)	$320,827,507	$107,531,363	$428,358,869
RE-PRICED COSTS AS PERCENTAGE OF BASELINE COSTS			
Overall NADAC Reprice as % of Original MCO	**99.4%**	**114.1%**	**102.7%**
NADAC Ingredient as % of Original MCO	97.8%	73.5%	92.7%
NADAC Dispensing Fee as % of Original MCO	500.0%	500.0%	500.0%

Note that the average price per generic for MCO-paid drugs was $19.72 during Q4 2018 versus $480.00 for brands. This vast differential highlights the importance of focusing on drug *mix* – and not only price dynamics – in optimally managing Medicaid prescription drug costs.

We also considered removing additional NDCs from the analysis. Exhibit 2 presents results once we removed the NDCs falling into the following two scenarios:

a) The repricing algorithm yielded a negative MCO ingredient cost for 42 NDCs, as our $2.00 dispensing fee assumption sometimes forced the MCO ingredient cost to be a negative value.
b) The NADAC cost/unit was sometimes vastly different than the average MCO cost/unit. We identified and removed 57 NDCs where the ingredient costs/unit differed by more than a factor of 10 in either direction.

As evident in comparing Exhibits 1 and 2, these adjustments had minimal impact on the repricing results. Overall, the NADAC creates additional costs of 2.6% in Exhibit 2 versus the 2.7% derived in Exhibit 1.

What does have a potentially large financial impact is the concern discussed earlier that the NADAC schedule may not be used extensively for generic prescriptions**. If the large (27%) generic ingredient savings we have modelled based on NADAC do not materialize, the added overall cost of moving to a NADAC model widens from 2.6% to 8.3%.** This range represents our best estimate of the impacts of moving to a NADAC approach.

Exhibit 2. Repricing Results After Removing Concerning NDCs

	Brand	Generic	Total
BASELINE TABULATIONS (prior to re-pricing)			
MCO Paid Prescriptions	666,989	4,755,924	5,422,913
MCO Paid Units	20,361,464	270,553,253	290,914,717
MCO Paid Expenditures	$322,052,122	$93,513,381	$415,565,503
MCO Dispensing Fee Payments	$1,308,988	$8,924,384	$10,233,372
MCO Ingredient Cost Payments	$320,743,134	$84,588,997	$405,332,131
RE-PRICED COSTS USING NADAC			
NADAC Dispensing Fees (via repricing)	$6,544,940	$44,621,920	$51,166,860
NADAC Ingredient Cost Payments (via repricing)	$314,166,416	$61,175,739	$375,342,155
NADAC Total Cost (via repricing)	$320,711,356	$105,797,659	$426,509,015
RE-PRICED COSTS AS PERCENTAGE OF BASELINE COSTS			
Overall NADAC Reprice as % of Original MCO	**99.6%**	**113.1%**	**102.6%**
NADAC Ingredient as % of Original MCO	97.9%	72.3%	92.6%
NADAC Dispensing Fee as % of Original MCO	500.0%	500.0%	500.0%
COSTS IF NADAC IS USED FOR BRAND INGREDIENT COSTS BUT NOT GENERICS			
Total Cost Using NADAC ingredient schedule for brand, MCO ingredient price for generic, and $10 dispensing fee for all drugs	$320,711,356	$129,210,917	$449,922,273
Percentage Cost Impact of Approach Described in Prior Row	**99.6%**	**138.2%**	**108.3%**

It is worth noting that if we further excluded all NDCs where the unit prices between NADAC and MCO prices varied by a factor of 3 or more (in either direction), the additional costs under NADAC worsen relative to the MCO-paid amounts. If these exclusion adjustments are made, the NADAC pricing's overall impact would be a 6.6% increase versus the amount paid by the MCOs during Q4 of 2018 (as opposed to the 2.6% increase derived in Exhibit 2).

We also assessed results if over the counter (OTC) products were removed from the repricing analysis altogether. OTCs represented 5.6% of the Pennsylvania MCOs' Medicaid prescription volume during Q4 2018. Removing these drugs had essentially no impact on the percentage difference between MCO and NADAC pricing, however.