REQUEST FOR INFORMATION No. MED-19-030 RFI PUBLIC NOTICE

Regarding Analyzing Pharmacy Spread Pricing in Iowa’s Medicaid Managed Care Program

March 1, 2019

Issuing Officer:

Stephanie Clark

Iowa Medicaid Enterprise

Iowa Department of Human Services

100 Army Post Road

Des Moines, IA 50315

(515) 256-4646

The Iowa Department of Human Services

will receive responses to this Request For Information until

4:00 PM, March 22, 2019

**Section 1.0 Overview**

***1.1* *Purpose for the Request For Information (RFI).***

The Iowa Department of Human Services (Agency) seeks the input of interested stakeholders on analyzing the performance of Pharmacy Benefit Managers (PBMs) in their management of the pharmacy benefit plans for the Iowa Medicaid Managed Care Organizations (MCOs).

A recent Bloomberg News analysis of Medicaid plans around the country identified spread pricing on dozens of drugs, and evidence that the spreads are growing.[[1]](#footnote-1) Pharmacy spread pricing is the practice where companies mark up the difference between the amount they reimburse pharmacies for a drug and the amount they charge their clients which, in this situation, would be the MCOs. According to a recent Health Affairs article, PBMs initially lowered prices by aggregating health plan customers to form large networks that allowed them to negotiate discounts. But recently, increases in consolidation (with the three leading PBMs-CVS Caremark, Express Scripts, and OptumRx-controlling 85 percent of the market), power, and secrecy have had the opposite effect on drug prices.[[2]](#footnote-2) Pharmacy spread pricing is most prevalent with generic drugs, and has negated some of the cost savings for states’ efforts to keep drug costs under control by promoting generic drugs.

The information provided in response to this RFI may be used by the Agency to develop future competitive procurements.

Parties interested in responding to this RFI are asked to provide feedback on the proposed activities in Section 1.3, answer the questions in Section 2, and submit it to the Agency by the due date.

***1.2 Background***

The Iowa Department of Human Services is the single State entity responsible for administering the Medicaid program in Iowa. The Iowa Medicaid Program reimburses providers for delivery of services to eligible Medicaid recipients under the authority of Title XIX of the Act through enrolled providers and health plans. The Agency operates this program through its business unit, the Iowa Medicaid Enterprise (IME). The Agency is also responsible for the Children’s Health Insurance Program (CHIP – the separate CHIP program is called Healthy and Well Kids in Iowa, or Hawki).

On April 1, 2016, the IME transitioned to a managed care system, known as IA Health Link. As a result of this transition the model for service delivery and reimbursement changed from a primarily Fee-for-Service (FFS) model to a risk based Managed Care Organization (MCO) model. The majority of services are included in this statewide managed care structure, including long-term services and supports (LTSS), behavioral health, and pharmacy. Approximately 92% of all Iowa Medicaid Members are enrolled in an MCO with 8% remaining in FFS. Iowa’s Hawki population is served by the same Medicaid MCOs and included in the total MCO population.

Iowa Medicaid MCOs are contractually required to reimburse pharmacies at the fee-for-service (FFS) reimbursement methodology, including the state determined dispensing fee. FFS pharmacy reimbursement is as follows:

1. Generic and Nonprescription Drugs - For covered generic prescription drugs and for covered nonprescription drugs shall be the lowest of the following, as of the date of dispensing:

* Average actual acquisition cost (average AAC) plus the professional dispensing fee.
* The federal upper limit (FUL) plus the professional dispensing fee.
* The total submitted charge (represented by gross amount due and ingredient cost plus the professional dispensing fee).
* The provider’s usual and customary charge to the general public.

1. Brand-Name Drugs- For covered brand-name prescription drugs shall be the lowest of the following, as of the date of dispensing:

* Average AAC plus the professional dispensing fee.
* The total submitted charge (represented by gross amount due and the ingredient cost plus the professional dispensing fee).
* The provider’s usual and customary charge to the general public.

1. 340B Purchased Drugs - The submitted 340B covered entity actual acquisition cost (not to exceed the 340B ceiling price) plus the professional dispensing fee.
2. Federal Supply Schedule (FSS) Drugs - The provider’s actual acquisition cost (not to exceed the FSS price) plus the professional dispensing fee.
3. Nominal Price (NP) Drugs - The provider’s actual acquisition cost (not to exceed the NP price) plus the professional dispensing fee.
4. Indian Health Facilities - Indian health facility pharmacies are paid a special daily rate for all Medicaid-covered services rendered to American Indian or Alaskan native persons who are Medicaid-eligible. The pharmacies should bill at their usual and customary charge. Pharmacy claims will be paid at one pharmacy encounter rate payment per date of service.

With the exception of the Hawki program claims, the MCOs and their PBMs are prohibited from obtaining manufacturer drug rebates or other form of reimbursement on the Medicaid enrollees because the Iowa Medicaid program participates in a Medicaid state supplemental drug rebate program and directly invoices for and collects all federally required and state supplemental drug rebates. The Agency does not currently require the MCOs to report Hawki drug rebate information. The Agency can request that information if needed for this analysis.

The MCO pharmacy prescription encounter data provided to the IME is required to represent the pharmacy reimbursed amount.

The tables below list pharmacy claims (including Hawki) processed by MCO for state fiscal years 2017 and 2018.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Rx CLAIMS – SFY17 | | | | | |
|  | Amerigroup (serviced by Express Scripts) | | UnitedHealthCare (serviced by OptumRx) | | TOTAL |
| # of Rx Claims – PAID | 2,588,136 | | 2,263,710 | | **4,851,846** |
| # of Rx Claims – DENIED | 965,209 | | 879,270 | | **1,844,479** |
| # of Rx Claims – TOTAL | **3,553,345** | | **3,142,980** | | 6,696,325 |
|  |  |  | |  | |
| Rx CLAIMS – SFY18 | | | | | |
|  | Amerigroup (serviced by Express Scripts) | | UnitedHealthCare (serviced by OptumRx) | | TOTAL |
| # of Rx Claims – PAID | 2,643,229 | | 3,992,306 | | **6,635,535** |
| # of Rx Claims – DENIED | 962,670 | | 1,472,183 | | **2,434,853** |
| # of Rx Claims – TOTAL | **3,605,899** | | **5,464,489** | | 9,070,388 |

Currently, the Agency contracts with an External Quality Review vendor to analyze compliance with contract terms, state and federal regulations, as well as validation of other MCO activities. The Agency also contracts with an Actuarial Services provider to develop capitation rates for the managed care program. In development of capitation rates, the actuary reprices all claims to the state fee schedules to mitigate fiscal impact to the state.

***1.3 Agency’s Expected Outcome***

The Agency is interested in increasing transparency surrounding the reimbursement of pharmacy services related to pricing models utilized by Agency-contracted Medicaid MCOs. In order to achieve this goal, the Agency is exploring the feasibility of contracting with an independent entity to calculate pharmacy spread pricing in the state’s Medicaid managed care program by performing the following proposed activities:

* Research pharmacy-related topics, review contracts and analyze relevant data.
* Interview IME policy and FFS staff and external entities, including Iowa’s current two operational MCOs, Amerigroup and UnitedHealthCare; the two PBMs, Express Scripts and OptumRx; representatives of the Iowa Pharmacy Association; and individual pharmacists.
* Calculate the amount of PBM pharmacy spread between the prices billed to the MCOs by their PBMs and the PBM amount paid to the pharmacy providers in the state’s Medicaid managed care program.
* Analyze drug claims for state fiscal years 2017 and 2018 and provide a report on the average spread pricing by quarter, by drug type (brand, generic, specialty and combined), by pharmacy provider type, by region and by the percentage of claims by drug type. It is anticipated that the report will be by program type, Medicaid or Hawki, if there is a statistically significant differential noted in the review.
* Provide pharmacy program recommendations to increase transparency, promote pharmacy sustainability, and ultimately improve the care of Iowa’s Medicaid population.

***1.4 RFI Timetable***

Below is the anticipated timeline for this RFI. These times are provided in Central Standard Time.

|  |  |  |
| --- | --- | --- |
|  | Agency releases RFI | March 1, 2019 |
| Questions Regarding the RFI due by 3:00 PM | March 8, 2019 |
|  | Agency Posts Answers to Questions | March 15, 2019 |
|  | Final written responses to RFI due to the Agency by 3:00 PM | March 22, 2019 |

**Section 2.0 Requested Feedback and Agency Questions**

***2.1 Feedback***

The Agency requests respondents provide feedback on the proposed activities listed in Section 1.3. Responses should also include:

* Items within the proposed activities that need to be clarified.
* Recommendations for inclusion of other activities in the requested analysis.
* Specific data elements necessary to conduct the requested analysis.
* Comments and/or concerns regarding the proposed activities. Please be specific.
* Suggested alternative approach(es) for Agency consideration.

***2.2 Agency Questions***

In addition to providing feedback to the proposed activities in Section 1.3, the Agency also requests that responders to this RFI answer the following general questions:

1. With Iowa’s current model, is it feasible to determine pharmacy spread?
2. With Iowa’s current model, is it feasible to evaluate if reimbursement by the PBMs are in accordance with the FFS reimbursement methodology?
3. Is there a recommended process to analyze and account for direct and indirect remuneration fees (DIR) not included in the spread calculation as additional payments back to the PBM by the pharmacies, if applicable?
4. Is there a recommended process to analyze and account for Hawki rebates and MCO/PBM distribution?
5. What is the estimated timeframe for completion of the proposed activities and final report?
6. What is the estimated cost of proposed activities if the Agency were to contract for these activities?
7. If an alternative approach or approaches were suggested by the respondent, what is the estimated cost of this approach or approaches?

**Section 3.0 RFI Responses**

***3.1 Response Content***

Please submit concise responses with enough detail to facilitate clear understanding. Respondents may address each question at their discretion. Respondents are not obligated to address each section or question. Interested parties may submit more than one response as long as all are received by the submission deadline. Subsequent responses should include only new information and not repeat previous submissions.

***3.2 Questions About the RFI Process***

This RFI contains a question and answer process to address questions from interested parties related to either clarifying the information the Agency is seeking in the RFI or regarding the process of responding to this RFI. Note that the Agency is using this process to seek feedback to assist with making future decisions and cannot address questions related to future plans at this time. Any clarifying or procedural questions related to responding to this RFI must be received by the date provided in the RFI timetable. Questions should be submitted in an electronic word processing document that is compatible with Microsoft Word software and sent as an attachment to an email directed to the issuing officer. Parties submitting questions are encouraged to request a confirmation of the issuing officer’s receipt in their email. If interested parties do not have access to email, contact the issuing officer to arrange submission of questions by the deadline noted in the RFI timetable.

Responses to the questions will be posted with the previously-posted RFI at the State of Iowa’s website for bid opportunities: <http://bidopportunities.iowa.gov/>by the end of business on the date noted in the RFI timetable.

**3.3 Response Submission**

Parties responding to this RFI do not need to return this entire document; rather, please submit an electronic word document **as an email attachment** to the issuing officer at:

Stephanie Clark

100 Army Post Road

Des Moines, IA 50315

[sclark2@dhs.state.ia.us](mailto:sclark2@dhs.state.ia.us)

The electronic word document must be in a format that is compatible with Microsoft Word software. Respondents are encouraged to request a confirmation from the issuing officer of receipt of the emailed response. Responses will be accepted via email until the due date and time in the RFI timetable. If respondents do not have access to email, please contact the issuing officer to make other arrangements for submission.

All responses are required to include respondent name, address, e-mail address, and telephone number. If respondent is a vendor, include the name, address, e-mail address, and telephone number of your representative to contact regarding all matters concerning this RFI.

For clarity and consistency, all materials should reference RFI MED-19-030.

**Section 4.0 GENERAL TERMS AND CONDITIONS**

**4.1 General Terms**

**4.1.1** Information is being requested solely to identify possible methods, approaches, and solutions associated with expected outcome.

**4.1.2** The State of Iowa and the Agency will not enter into a contract with any respondent based on the responses provided to this RFI.

**4.1.3** A respondent’s submission of a response to this RFI will not be a factor in any subsequent competitive selection process. The Agency will provide public notice of any subsequent bidding opportunity following notice requirements associated with the respective competitive procurement(s).

**4.1.5** Information submitted in response to this RFI will become the property of the Agency.

**4.1.6** The Agency will neither pay for any information herein requested nor will it be liable for any other costs incurred by the respondent.

**4.1.7** The Agency reserves the right to modify or delete any and all sections of this RFI at any time.

**4.2 Clarification of Responses**

The Agency reserves the right to contact a respondent for the purpose of clarifying a response to ensure mutual understanding.

**4.3 Copyrights**

By submitting a response, the respondent agrees that (1) the Agency may copy and distribute the response for purposes of reviewing the response or to respond to requests for public records, and (2) that such copying does not violate the rights of any third party. The Agency shall have the right to use ideas or adaptations of ideas that are presented in the responses.

**4.4 All Responses Are Treated as Public Information**

With the submission of a response, each respondent agrees that information submitted in response to this RFI will be treated as public information and that no part of the response will be treated as confidential. The Agency’s release of information is governed by Iowa Code chapter 22. The Agency will copy or share public records as required to comply with public records laws.

**4.5 Release of Claims**

With the submission of a response each respondent agrees that it will not bring any claim or have any cause of action against the Agency or the State of Iowa based on any misunderstanding concerning the information provided herein or concerning the Agency’s failure, negligent or otherwise, to provide the respondent with pertinent information as intended by this RFI.

**4.6 Choice of Law and Forum**

This RFI is governed by the laws of the State of Iowa without giving effect to the conflicts of law provisions thereof. Respondents are responsible for ascertaining pertinent legal requirements and restrictions. Any and all litigation or actions commenced in connection with this RFI shall be brought and maintained in the appropriate Iowa forum.

1. <https://www.bloomberg.com/graphics/2018-drug-spread-pricing/> [↑](#footnote-ref-1)
2. <https://www.healthaffairs.org/do/10.1377/hblog20180823.383881/full/> [↑](#footnote-ref-2)