

# Louisiana Medicaid Pharmacy Reimbursement Overview

*Presentation to the Council on  
Medicaid Pharmacy Reimbursement*

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November 9, 2022

# Myers and Stauffer, LC



## ABOUT US

We are a public accounting firm with multiple engagement teams providing diverse services to state and federal agencies managing government-sponsored health care programs.



## OUR MISSION

We are dedicated to delivering Medicare and Medicaid expertise with exceptional service.



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<https://www.myersandstauffer.com>





# Myers and Stauffer, LC's Pharmacy Practice



## **Ingredient Cost Surveys**

Myers and Stauffer pioneered the actual acquisition cost (AAC) methodology. We have been the sole contractor to the Centers for Medicare & Medicaid Services (CMS) to develop and maintain the National Average Drug Acquisition Cost (NADAC). Myers and Stauffer maintains state AAC benchmarks for the Medicaid programs of several states.

## **Cost of Dispensing Surveys**

Since 1977, Myers and Stauffer has conducted more than 100 pharmacy Cost of Dispensing (COD) survey projects in more than 30 states. We have reviewed and processed more than 40,000 pharmacy COD surveys.

# Objectives

- Review the Federal requirements with regards to State Medicaid pharmacy reimbursement.
- Provide an overview of LDH's pharmacy reimbursement methodology.
- Review the methodology and approach taken towards calculating LDH's professional dispensing fee.



# Two Components of Pharmacy Reimbursement



## **Ingredient Costs**

Intended to cover the cost a pharmacy incurs to acquire a drug from a manufacturer or wholesaler.



## **Professional Dispensing Fee**

Generally considered to be associated with covering the labor and overhead costs incurred by a pharmacy and intended to reimburse the expenses associated with the transfer of a drug from the pharmacy to a patient.



# Louisiana's Pharmacy Reimbursement Methodology

In 2012, Louisiana moved away from an methodology based on discounted Average Wholesale Price (AWP) and adopted an AAC-based based approach. Louisiana replaced the state-specific AAC approach on May 1, 2019 and adopted the NADAC, a national AAC benchmark.

## Brand Drugs

The lower of:

- NADAC, plus \$10.99 professional dispensing fee.
  - If NADAC not available, then Wholesale Acquisition Cost (WAC) + 0%, plus \$10.99 professional dispensing fee.
- Provider's usual and customary charge to the general public.

## Generic Drugs

The lower of:

- NADAC, plus \$10.99 professional dispensing fee.
  - If NADAC not available, then WAC + 0%, plus \$10.99 professional dispensing fee.
- Federal Upper Limit (FUL), plus \$10.99 professional dispensing fee.
- Provider's usual and customary charge to the general public.

# Medicaid Basics

State Medicaid programs can determine how they will reimburse their providers within specific federal rules. For pharmacy reimbursement, those rules are included in the CMS Covered Outpatient Drugs Rule (CMS-2345-FC).

- Limited to state administered benefits through a Fee-for-Service (FFS) program.
- Federal rules do not apply to benefits administered through Managed Care Organizations (MCO). *However, States can extend or create rules to determine how these plans will reimburse its providers.*

CMS has to approve each state's reimbursement methodology through a State Plan Amendment (SPA) in order for a State Medicaid program to receive federal matching funds.

- For Federal Fiscal Year 2022, Louisiana's Federal Medical Assistance Percentage (FMAP) was 74.22%.<sup>1</sup>

<sup>1</sup> Refer to "Federal Medical Assistance Percentage (FMAP) for Medicaid and Multiplier" published by KFF and available at:  
<https://www.kff.org/medicaid/state-indicator/federal-matching-rate-and-multiplier>

# CMS Covered Outpatient Drugs Final Rule

*CMS - 2345 - FC*

Federal regulations at 42 CFR § 447.512 and 42 CFR § 447.518 require state Medicaid fee-for-service programs to:

1. Base ingredient reimbursement for retail community pharmacies on actual acquisition costs (AAC), and
2. A professional dispensing fee that reflects the pharmacist's professional services and costs associated with the dispensing of drug products to Medicaid beneficiaries.

When states propose changes to either the ingredient cost or the professional dispensing fee, states must consider both to ensure that total reimbursement to the pharmacy provider is in accordance with requirements of section 1902(a)(30)(A) of the Social Security Act. Changes to the pharmacy reimbursement methodology should be supported by survey data.



# CMS Covered Outpatient Drugs Final Rule

## *Definition of Actual Acquisition Costs (AAC)*

- CMS defined AAC to mean the agency's determination of the pharmacy providers' actual prices paid to acquire drug products marketed or sold by specific manufacturers.
- Examples of how a state may implement an AAC reimbursement include:
  - 1) **AAC**: Develop a state-specific benchmark.
  - 2) **NADAC**: Utilize the national AAC benchmark.
  - 3) **WAC**: Utilize published pricing compendia, such as Wholesale Acquisition Cost (WAC), adjusted to reflect discounts and other pricing concessions in the marketplace.
    - To date, CMS has approved WAC-based reimbursement as a *back-up only*. It is not a primary reimbursement option.

**In effect, states have only two primary ingredient reimbursement options to choose from: state-specific AAC or NADAC**

# National Average Drug Acquisition Cost (NADAC)

## *CMS Published National AAC Benchmark*

- The National Average Drug Acquisition Cost (NADAC) represents the national average invoice price calculated from a voluntary, monthly survey of retail community pharmacies for covered outpatient drugs based on wholesaler and manufacturer invoices.
- The purpose is to create and publish a national pricing reference benchmark that State Medicaid programs may use when comparing, establishing or adopting new approaches to pharmacy reimbursement.
- It does not reflect off-invoice discounts, pre-bates, rebates or price concessions. These amounts are not readily available and typically do not tie directly to specific National Drug Codes (NDCs).

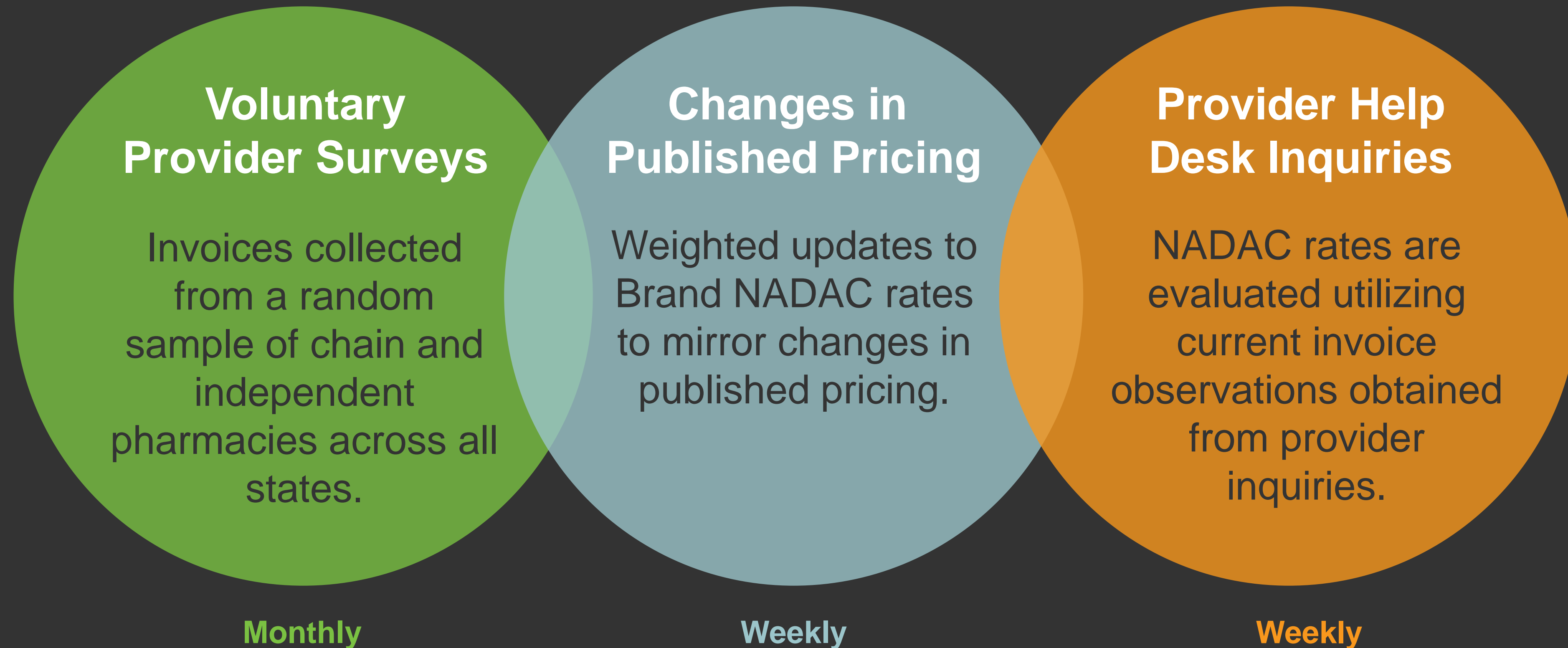
# NADAC Use in the Marketplace

- Currently utilized by over 40 state Medicaid programs for pharmacy reimbursement.
  - It is used as a primary benchmark by some and in a lesser of approach by others (U&C, WAC, State AAC, SMAC, FUL)
  - It is utilized by Medicaid Managed Care (MCO) plans based upon state requirements.
- It has been implemented by a small number of start-up Medicare Part D plans and commercial PBMs.
- It has been incorporated into the CMS FUL calculation as the rate floor.
- NADAC is used as a comparison tool for MCO MAC rate programs in other states.
- It has been, and is being, studied by multiple research and consulting firms as a measure of spread, payment efficiency and price inflation/deflation.



# How are NADAC Rates Updated?

## *Three Core Types of Updates*



All NADAC rate updates are reviewed by a team of accountants, analysts, pharmacy technicians and pharmacists.

# NADAC Help Desk

- Provider inquiries regarding NADAC rates will be investigated and evaluated based upon invoice data collected from the pharmacy initiating the review, additional pharmacies contacted by the help desk and other market factors, such as compendia price changes, drug shortages and change in number of manufacturers.
- All rate inquiries are reviewed by pharmacy technicians, program analysts and pharmacists.
- NADAC rates will be adjusted when drug pricing changes have been substantiated and those adjustments will be reflected in the NADAC rate updates published on a weekly basis.
- If a provider's invoice costs are within the range of invoice costs utilized to establish the current NADAC rate, then the current NADAC will remain unchanged.
- Providers can check the next weekly NADAC file, NADAC Week to Week Comparison or contact the NADAC Help Desk to receive a status update on their inquiry.
- The NADAC Help Desk will not address pharmacy inquiries into specific state or claim reimbursement related questions or concerns.

# NADAC & State AAC Comparison

Policy	NADAC	State AAC
Timing for survey-based rate updates	Monthly.	Varies, but usually semi-annual.
Frequency of rate changes in published pricing	Weekly for brand drugs only.	Varies, but usually weekly for both brand and generic drugs.
Frequency of rate adjustments in response to provider inquiries	Weekly, cannot be back dated.	Varies, but usually daily, can be back dated to the provider's date of service.
Rates for drugs with different package sizes (e.g. creams, ointments, vials)	Possible different rates for different package sizes in the drug group.	Varies, but usually blended AAC rate for different package sizes in the drug group.



# NADAC & State AAC Comparison (Cont.)

Policy	NADAC	State AAC
Rates for brand drugs from multiple manufacturers within the same drug group (e.g. Proventil, ProAir, and Ventolin)	When there are clear pricing differences, specific rates are calculated for each manufacturers' product.	Varies, but usually blended brand AAC rate for multiple manufacturers' products when appropriate. Otherwise, no AAC rate is set for the drug group.
Rates for drugs that have both legend and OTC products	Different rates for legend and OTC products.	Varies, but usually same rate for both legend and OTC products.
Drugs included in the rate calculations	Only drugs on the Medicaid Covered Outpatient drugs file. Does not consider individual states' PDL in the NADAC calculation.	All State Medicaid covered drugs are eligible for an AAC rate. Allows for flexibility to calculate AAC rates based upon potential State-specific PDL requirements.

# CMS Covered Outpatient Drugs Final Rule

## *Definition of Professional Dispensing Fee*

**“Professional dispensing fee means the fee which —**

- (1) Is incurred at the point of sale or service and pays for costs in excess of the ingredient cost of a covered outpatient drug each time a covered outpatient drug is dispensed;**
- (2) Includes only pharmacy costs associated with ensuring that possession of the appropriate covered outpatient drug is transferred to a Medicaid recipient. Pharmacy costs include, but are not limited to, reasonable costs associated with a pharmacist’s time in checking the computer for information about an individual’s coverage, performing drug utilization review and preferred drug list review activities, measurement or mixing of the covered outpatient drug, filling the container, beneficiary counseling, physically providing the completed prescription to the Medicaid beneficiary, delivery, special packaging, and overhead associated with maintaining the facility and equipment necessary to operate the pharmacy; and**
- (3) Does not include administrative costs incurred by the State in the operation of the covered outpatient drug benefit including systems costs for interfacing with pharmacies.”**

*Refer to “Medicaid Program; Covered Outpatient Drugs.” (CMS-2345-FC) Federal Register, 81: 20 (1 February 2016) p 5349.*

# Louisiana Medicaid Cost of Dispensing Study

- Federal regulations require States to have supporting data for proposed changes to their professional dispensing fees, typically the results of a state or national cost of dispensing survey.
- Louisiana has generally performed cost of dispensing surveys every three to four years; the most recent study concluded in 2022.
- The purpose of Louisiana's cost of dispensing study was to determine the cost of dispensing prescriptions to Louisiana Medicaid participants in order to properly evaluate an appropriate professional dispensing fee(s).
- Myers and Stauffer has performed over 100 cost of dispensing surveys nationally, including four previous surveys for LDH (1999, 2007, 2011, and 2015).



# Cost of Dispensing Study

## *Survey Process Overview*

### Survey

- Survey tool is designed following collaboration with LDH and Louisiana Medicaid pharmacy stakeholders.
- Survey tool is distributed to all Louisiana Medicaid enrolled pharmacy providers who are given one to two months to return the survey.

### Analysis

- Desk reviews are performed on returned surveys to ensure completeness and accuracy.
- Additional review procedures are performed on a sample of pharmacies using supporting documentation to verify information reported on the survey.
- Survey data is analyzed to calculate the cost of dispensing at each pharmacy.

### Results

- Statistical summaries are compiled with the measures of average cost of dispensing for all pharmacies surveyed.
- The methodology and findings are presented in a report to LDH.
- Stakeholders meeting is given to summarize the findings for Louisiana Medicaid pharmacy stakeholders.

# 2021/2022 LDH Cost of Dispensing Study

- Survey forms were distributed on August 24, 2021 to all pharmacies enrolled in the Louisiana Medicaid pharmacy program (1,378 pharmacies).
- Reminder letters and emails were sent to providers to encourage survey participation. An extension was allowed due to Hurricane Ida.
- Approximately 84% of pharmacies submitted completed surveys.
- Results were shared with LDH and finalized in May 2022. A separate webinar was held on June 1, 2022 to share the results with the pharmacy stakeholders.

# Results from 2021/2022 LDH Cost of Dispensing Study

Myers and Stauffer calculated several measurements of central tendency of the cost of dispensing (i.e., means, medians, etc.).

Louisiana Medicaid Pharmacies	
Pharmacies Included in Analysis	1,061
Mean (Average) Weighted by Total Volume	\$11.00
Mean (Average) Weighted by Medicaid Volume	\$10.25
Median Weighted by Total Volume	\$8.97
Median Weighted by Medicaid Volume	\$8.63

*Excludes pharmacies that dispense clotting factor and out-of-state pharmacies for which the majority of prescriptions are delivered by mail.  
Data collected was inflated to common point of June 30, 2021 (midpoint of year ending December 31, 2021).*

The current professional dispensing fee for Louisiana Medicaid is \$10.99. The results from the 2021/2022 cost of dispensing survey indicate that the current professional dispensing fee is not significantly different from the cost of dispensing measured by the previous survey (2019) and the amount of the current professional dispensing fee.





*Q&A*



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