

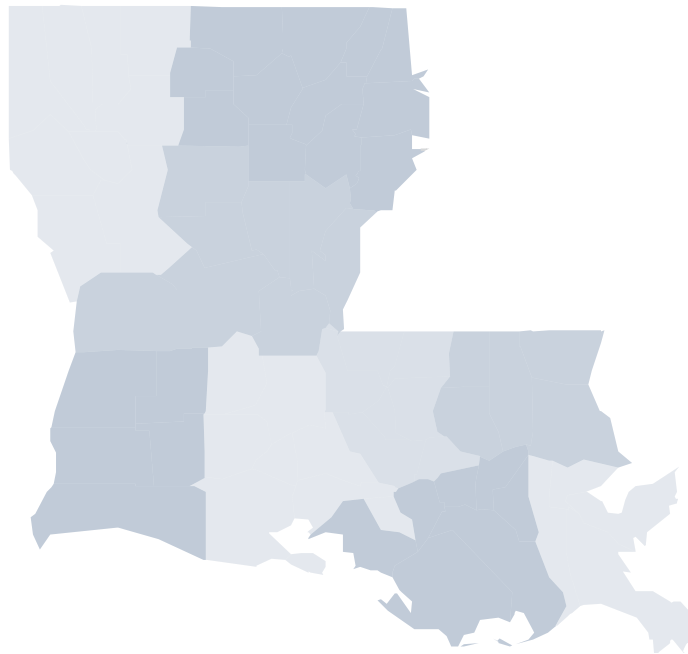


DEPARTMENT OF HEALTH
AND HOSPITALS

MODERNIZING LOUISIANA'S MEDICAID PHARMACY PROGRAM

A Prescription for Reform

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CONCEPT PAPER



JUNE 13, 2012

Our Vision: Principles for Integrated Care and Better Health

For too long, Medicaid enrollees in Louisiana were left to navigate a complex and often incomplete web of health care services. This fragmentation of care hindered access, increased costs and contributed to poor health outcomes for over 1.2 million Medicaid enrollees in our state. Over the past several years, the Department of Health and Hospitals has worked carefully to develop a comprehensive transformation of the program. That reform, called BAYOU HEALTH, was crafted by a team dedicated to the promotion of our enrollees' health, who spent years researching similar care models in more than two dozen states, working in collaboration with our stakeholder community. Our top priority throughout the development and implementation of BAYOU HEALTH has been improving health outcomes for our recipients. BAYOU HEALTH plans have the tools and the mandate to coordinate care, manage chronic conditions and diseases and encourage healthy behaviors among their members. This is an important change that will improve the health and lead to greater quality of life for more than 877,000 Louisiana residents who are enrolled in our Medicaid and LaCHIP programs.

Phase I of BAYOU HEALTH was completed on June 1 of this year, when the last geographical service area came online, bringing the program to statewide implementation. Like all of our programs, BAYOU HEALTH must be subject to continuous improvement. DHH believes that the best possible outcomes are achieved when the care of the whole patient is effectively managed. Today, pharmacy services are not included among the Medicaid-covered benefits that health plans are responsible for managing. Instead, Louisiana Medicaid manages a state-

run Pharmacy Benefits Manager with internal staff and a variety of contract partners. While the model once represented a best practice among states, it has failed to keep pace with our quickly changing health care landscape. Pharmacy services represent the second-largest line-item in the Medicaid budget, representing nearly \$950 million of the total annual spend (not including rebates). We've used a variety of tools to help manage the program, but their utility has become limited. Over the last ten years we've managed to bring the generic utilization rate up from 51 to 67 percent, but that improvement has leveled out. Health plans in other states that effectively manage their own formulary report generic utilization rates consistently over 80 percent. Our current program is weighted towards driving individuals to drugs with higher rebates, rather than the lowest cost or highest efficacy product. There is clear room for improvement, and the provider community should play a key role in that process.

Our pharmacists represent a critical part of our health care system's front-line defense, and drugs play a central role in the effective management of an individual's health condition. Our focus should be on designing a program that adds value to the process, not just friction. Our vision for Louisiana Medicaid is a health care coverage program that keeps people healthy and out of the hospital, and saves taxpayer money. Pharmacists often provide a critical face-to-face interaction between a patient and clinician. DHH is seeking to design a pharmacy program that highlights the value of that relationship, puts the tools in place to effectively drive patients toward the lowest-cost most appropriate treatment, and further integrates pharmacy into patient care management.

Inclusion of the pharmacy benefit as part of BAYOU HEALTH, and continued improvement of the state-administered pharmacy program, is part of DHH’s plan to move Louisiana out of 49th place in health outcomes. As we work collaboratively to build a package of reforms to modernize Louisiana’s Medicaid pharmacy benefit, there are six key principles that we consider as important guide posts.

1. Access to in-person pharmacy services is essential to patient care management.
2. Pharmacists’ and stakeholder involvement is important to program development and ongoing operation.
3. Effective management tools should be employed to strengthen the state-run PBM.
4. Health plans should have the flexibility to effectively manage the pharmacy benefit, including appropriate care, network and formulary management for their members.
5. Requirements for network adequacy and consideration of significant traditional Medicaid providers should be included.
6. Enrollees should have access to the robust BAYOU HEALTH protections, including the appeals and grievances process.

Mechanics of Modernization: A Comprehensive Approach to Reform

In order to strengthen our Medicaid Pharmacy Program, we must engage in two distinct strategies for improvement. The first strategy involves employing the expertise of our current Bayou Health prepaid plans and allowing them to extend the pharmacy benefit to the members of their plans. Simultaneously, DHH will work with stakeholders to modernize and strengthen our current state-run PBM model to achieve better health outcomes and lower costs and growth trends through overall better management of the pharmacy benefit.

Two Models for Change

Prior to the implementation of Bayou Health, Louisiana ran a fragmented Medicaid service delivery system that operated almost exclusively in a fee-for-service system environment that has little to no

coordination, variable quality of care, inequitable access to care and unpredictable costs. Our health care system was designed to provide episodic and acute care for heart attacks, pneumonia, appendicitis, stroke, flu, accidents and other conditions where people break, then mend. In building BAYOU HEALTH, DHH carefully studied the experiences of more than two dozen other states to identify best practices and practices to be avoided, and has consulted with experts and stakeholders across the state and the country. The Department used those “lessons learned” to develop two models of coordinated care that represent the best evidence-based practices for improving health outcomes for our population, increasing access to quality care and providing fiscal sustainability. Today, 877,000 Medicaid recipients are enrolled in one of five BAYOU HEALTH plans. Three of those Plans (Amerigroup, LaCare, and Louisiana Healthcare Connections) operate as comprehensive, full-risk Medicaid managed care plans referred to as “Prepaid Plans.” Two Plans (Community Health Solutions and United Healthcare Community Plan) are modeled as enhanced primary care case management (ePCCM) organizations that are paid a monthly management fee and share in savings generated through better coordination of care and are referred to as “Shared Savings Plans.” However, Shared Savings Plans only form networks of primary care physicians and providers still submit claims through and are paid directly by DHH’s fiscal intermediary on a fee-for-service basis.

Prepaid BAYOU HEALTH Plans as Partners to Improve Care

These are full-risk Plans paid a per-member-per-month (PMPM) capitated rate and are responsible for coordinating and paying for a majority of Medicaid covered services for their enrollees. However, these Plans have more flexibility to offer benefits and services beyond the scope of legacy Medicaid. Pharmacy services were originally carved-out of those services for which Prepaid Plans were responsible. Through the carve-in of the pharmacy benefit, the three Prepaid Plans will manage the delivery of pharmacy services in their patients’ care Plans. This integration of pharmacy into managed care will not only allow Louisiana to move further towards our

Modernizing Louisiana's Medicaid Pharmacy Program

goal of achieving better health outcomes, but will also help us achieve savings through appropriate care and formulary management.

There are several important benefits of a carve-in approach. By carving pharmacy into BAYOU HEALTH, Health Plans will be able to improve care coordination for their enrollees by managing a broader and more complete spectrum of health care services. It provides increased opportunity for more seamless and real-time management of health services. Currently, BAYOU HEALTH Plans can only access pharmacy claims data in batches, and must then manipulate that data into a format that is useful to their organizations. Once pharmacy is carved in, Health Plans will have the capability to integrate pharmacy and medical claims, allowing plans to more closely monitor drug utilization patterns and impacts to overall patient care. A carve-in also simplifies the experience for enrollees, who will no longer have to carry two separate cards for their medical and pharmacy benefits.

DHH also intends to ensure that each Health Plan offers an adequate pharmacy network. Each of the prepaid plan companies currently has an existing relationship with a Pharmacy Benefits Manager (PBM) who has existing pharmacy networks in Louisiana. These networks will serve only as a base, with additional requirements on the Health Plans to meet network adequacy standards and consider significant traditional Medicaid providers in their network establishments. Currently, Amerigroup uses Caremark, Louisiana Healthcare Connections uses US Script, and LaCare uses PerformRx. In order to effectively manage their networks, DHH believes that Health Plans should have the necessary flexibility in contracting and rate setting with pharmacy providers.

Additionally, to maximize their capacity to provide proper care management and drive down unnecessary costs, DHH believes that Health Plans should have the ability to manage their own formularies. However, policies that minimize formulary disruption for both providers and recipients should be considered. DHH is seeking input on promising policy practices regarding formulary management, including potential limits on the

number of times the formulary can change in a year, or requiring a certain amount of time for notification before drugs can be removed.

When BAYOU HEALTH was designed, certain protections were built into the rule and contracts for patients, providers and the state. Many of these safeguards will carry forward to the pharmacy benefit, including, but not limited to:

- ▶ Network adequacy requirements
- ▶ Requirements to make good faith effort to contract with significant traditional providers from legacy Medicaid
- ▶ Robust appeals and grievances processes
- ▶ Prompt pay standards for clean claims
- ▶ Medical loss ratio (in BAYOU HEALTH, Plans must spend at least 85 percent of all available funding on direct patient care. If MLR is less than this, the difference must be refunded to the State.)
- ▶ Outcomes and performance reporting
- ▶ Financial transparency requirements
- ▶ Monthly/quarterly/annual reporting
- ▶ Transition of care requirements
- ▶ Standards for timely submission of encounter data

DHH is also considering additional patient protections that are more specific to the pharmacy benefit including, but not limited to:

- ▶ Emergency refill requirements
 - We understand the importance of providing for time-limited supplies of prescriptions in emergency situations.
- ▶ A clear exception process
 - The plans will follow the federal regulations that allow for a medical necessity review of requests for drugs not covered on their formularies.
- ▶ Disaster preparedness requirements
 - The plans are required to maintain disaster preparedness plans, and specific provisions for pharmacy services will be added to those plans.
- ▶ Provisions for lost or stolen prescriptions
 - The plans will all include provisions to account for these scenarios.

There are many additional considerations that we are evaluating as we begin this integration into managed care. Our stringent BAYOU HEALTH transparency requirements will apply to the newly added PBM structure of the plans. We will account for any shift in supplemental rebates that occurs from the movement of this benefit into managed care. We will be requiring clean, complete and timely encounter data to ensure that our federal rebates are sustained. We are analyzing growth trends and considering the best approach to manage specialty drugs, such as behavioral health, hemophilia, anti-retrovirals, etc. DHH is actively soliciting stakeholder feedback in these considerations.

Strengthening the State's Pharmacy Program: A Collaborative Approach

It is important to note that even with this transition toward coordinated care, more than half of Medicaid enrollees will remain in a fee-for-service (FFS) pharmacy environment with traditional DHH management. This includes the members of the two BAYOU HEALTH Shared Savings Plans, and Medicaid enrollees who are not part of BAYOU HEALTH and remain in legacy Medicaid. While moving to carve pharmacy services into the prepaid Plans, we intend to strengthen and modernize the current state-run PBM to achieve better health outcomes while lowering costs and growth trends through overall better management of the pharmacy benefit.

Our first strategy to modernize the state-managed pharmacy benefit involves providing for a revised reimbursement methodology. DHH currently provides pharmacy reimbursement on the basis of a discounted Average Wholesale Price (AWP) and a fixed dispensing fee. AWP-based payments have recently fallen under scrutiny because of litigation alleging the rates were artificially inflated. As a result, the rate compendia used by most states is no longer published, and states have begun moving away from AWP as a reimbursement model. After working closely with pharmacy stakeholders and conducting a detailed cost survey, DHH announced in its FY 2013 executive budget the intention to move to a marked-up Average

Acquisition Cost with a new dispensing fee. Based on final passage of the state's FY 2013 budget and pending approval from the federal Centers for Medicare and Medicaid Services, DHH will shift from an AWP methodology to AAC-based reimbursement with a fixed dispensing fee. The change in reimbursement is a policy decision independent of the carve-in.

In addition to a change in the reimbursement methodology, DHH intends to develop a more meaningful prior authorization process, with a focus on increasing generic drug utilization and enhancing and building upon our current point-of-sale clinical drug edits. We are seeking to strengthen the state preferred drug list to ensure a minimal gradient between the fee-for-service program and prepaid health plans. Our goal is to design a program that is easy to navigate, does not produce unnecessary hassle for doctors or physicians, but derives the highest value for our investment. DHH is actively seeking feedback as to what current policies may be working well and what best practices from other states and markets could be adopted to strengthen this program.

We are also exploring ways to better define and structure the role of our pharmacy support partners, such as Molina, CNSI, Magellan (Provider Synergies), Myers & Stauffer, University of Louisiana at Monroe and the University of New Orleans. Additionally, while the shared savings Plans will not have responsibility for managing the pharmacy benefit, DHH believes that close coordination is important to better manage the overall pharmacy benefit of this member population. We are exploring possible tools to facilitate this relationship.

Moving Forward: Steps and Deliverables

This concept paper represents a first step in the discussion of how Louisiana can strengthen the Medicaid pharmacy benefit. With a target timeframe for implementation this fall, there are still many important steps ahead of as we move to implement these changes to improve the model of delivering

pharmacy services to our Medicaid population. Some of these steps include:

- ▶ Publishing an Emergency Rule (this concept paper and stakeholder feedback will provide framework)
- ▶ Submitting a State Plan Amendment to CMS
- ▶ Developing actuarial rates for the prepaid Plans
- ▶ Amending the BAYOU HEALTH contracts
- ▶ Conducting system programming changes
 - Including Fiscal Intermediary, eligibility system, rebate management system, managed care systems, provider systems
- ▶ Informing enrollees of change
- ▶ Informing providers of change
- ▶ Performing provider education
- ▶ Conducting ongoing stakeholders' communication and discussion
- ▶ Testing data files and submission of encounter data for rebate collections and rate setting
- ▶ Assessing implications of Fiscal Intermediary transition as the state upgrades its Medicaid Management Information System

Process for Feedback: An Open Discussion

DHH is publishing this concept paper as a catalyst for public comment and discussion. Pertinent materials related to the pharmacy transition will be posted to MakingMedicaidBetter.com. There, individuals will also be able to submit feedback directly to DHH. Additionally, questions, comments and other feedback can be submitted by email to BayouHealth@la.gov.

DHH will hold public forums in different regions of the state to present the tenants of this concept for pharmacy modernization and engage in a meaningful dialogue to answer questions and accept public comment. That schedule of forums is available on MakingMedicaidBetter.com.

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*For additional information, please visit
MakingMedicaidBetter.com*

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