



Arkansas Department of Human Services

Division of Medical Services

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OFFICIAL NOTICE

DMS-2001-Q-6

TO: Health Care Provider – Pharmacy

DATE:

SUBJECT: Proposed Ingredient Cost Reimbursement

On January 1, 2001, Myers and Stauffer began a study of the prescription drug dispensing cost and a study of acquisition costs. Final reports were issued to the State of Arkansas on June 30, 2001. Based upon the findings set out in the June 2001 report, the Division of Medical Services proposes to amend the present Arkansas Medicaid Title XIX State Plan. The Division of Medical Services proposes to implement the amendment effective for claims with dates of service on or after March 1, 2002. The proposed amendments are described on the attachments.

If you need this material in an alternative format, such as large print, please contact our Americans with Disabilities Act Coordinator at (501) 682-1461 (voice) or at (501) 682-6789 and 1-877-708-8191 (TDD).

If you have questions regarding this notice, please contact the EDS Provider Assistance Center at In-State WATS 1-800-457-4454, or locally and Out-of-State at (501) 376-2211.

Thank you for your participation in the Arkansas Medicaid Program.

Ray Hanley, Director

Attachments

Arkansas Medicaid provider manuals (including update transmittals), official notices and remittance advice (RA) messages are available for downloading from the Arkansas Medicaid website: www.medicaid.state.ar.us.

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES -
OTHER TYPES OF CARE

Revised: March 1, 2002

12. Prescribed drugs, dentures, and prosthetic devices; and eyeglasses prescribed by a physician skilled in diseases of the eye or by an optometrist
- a. Prescribed Drugs

The reimbursement rate has two components:

DISPENSING FEE: The Dispensing Fee is set at \$5.51, which represents the survey findings of a statistically valid actual cost of dispensing.

INGREDIENT COST: **To assure quality of care and access, to assure efficiency and economy and safeguard against unnecessary utilization payment for ingredient cost for brand name drugs and all other drugs for which a specific limit has not been established is limited to the lesser of the provider's usual and customary charge or 86% of AWP (AWP-14%) for brand name drugs and 75% of AWP (AWP-25%) for multi-source (generic) drugs.**

PAYMENT LIMITATIONS-INGREDIENTS: Arkansas Medicaid identifies certain brand and generically available drugs and places an upper limit on these drugs. Acquisition costs on these drugs are obtained from multiple sources. Depending on the variance, either the highest acquisition cost or an average of the acquisition costs is obtained and a percentage applied to determine a state upper limit.

Those drugs identified administratively, judicially or by a federal agency as having an Average Wholesale Price far exceeding the actual acquisition cost, and whose average sales price is presented to the state, will be subject to a state upper limit set by reference to the average acquisition cost.

The Federal upper limit standard that has been adopted for certain multiple source drugs identified in the State Medicaid Manual, Part 6, is based on an aggregate payment equal to an amount that includes the ingredient cost of the drug calculated according to the formula described below.

The Federal upper limit is an amount that is equal to 150% of the published price for the least costly therapeutic equivalent (using all available national compendia). The aggregate, rather than each individual drug identified by HCFA will be less than or equal to the HCFA defined multiple source cost listed in 42 CFR 447.332.

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12. Prescribed drugs, dentures, and prosthetic devices; and eyeglasses prescribed by a physician skilled in diseases of the eye or by an optometrist
- a. Prescribed Drugs (Continued)

Reimbursement for the ingredient cost of these drugs is limited to the lesser of the state upper limit, federal upper limit or the providers usual and customary.

The State may deviate from the lesser of payment in the event that the state determines, under a HCFA approved separate/supplemental drug rebate agreement, that in the aggregate the expenditures for these drugs agreed to in the separate/supplemental rebate agreement would be reduced.

PAYMENT LIMITATION-INGREDIENT COST AND DISPENSING FEE: The total charge cannot exceed the provider's actual usual and customary charge to the public.

Rationale for Rates:

In January 2001, the Division of Medical Services (DMS) Prescription Drug Program commissioned surveys to determine the cost of dispensing prescriptions and the Agency's best estimate of the acquisition costs generally and currently paid by providers for prescription drugs in the State of Arkansas. Final reports on each survey were issued June 30, 2001. Based upon the finding of the report establishing the Agency's best estimate of the price generally and currently paid by providers in Arkansas, DMS amends the Estimated Acquisition Cost component of Medicaid reimbursement rate for prescription drugs. DMS will implement the amended rate effective March 1, 2002. Based upon the findings of the survey the dispensing fee component of the rate will not be amended. The present rate reimburses providers approximately 110% of the estimated median cost of dispensing prescription drugs and should afford access equivalent to the general population.

The estimated acquisition cost survey analyzed acquisition cost data for more than 8000 drug products, representing approximately 94% of Arkansas Medicaid drug reimbursement. The survey contained the following summary of significant findings:

- 1. For the 334 pharmacies in the sample with external invoices, acquisition costs ranged from 71.2% to 87.7% of the AWP. The average acquisition cost was 82.2% of the AWP, with a standard deviation of 1.2%.**
- 2. Including pharmacies that provided invoices from an internal wholesaler, the average acquisition cost was 82.7% of the AWP, with a standard deviation of 1.4%.**

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12. Prescribed drugs, dentures, and prosthetic devices; and eyeglasses prescribed by a physician skilled in diseases of the eye or by an optometrist
- a. Prescribed Drugs (continued)
3. **Eight of the pharmacies in the sample were institutional providers that dispensed prescriptions to patients in long-term care or other institutional settings. Acquisition costs at these pharmacies for brand name drug products averaged 79.5% of the AWP, as compared to 82.2% for pharmacies that dispensed prescriptions in traditional retail settings. This difference was found to be statistically significant by the application of a t-test at the 5% level of significance.**
 4. **Of the 1,752 brand name drug products, acquisition costs for brand name drugs ranged from 33.5% to 99.3% of the AWP with an average acquisition cost of 81.0% of the AWP (based on observations from external invoices only).**
 5. **The acquisition costs for multi-source drugs exhibited much greater variation, but averaged 54.0% of the AWP for drugs without FUL prices. For multi-source drugs with FUL prices, the average acquisition cost was 17.8% of the AWP and 45.9% of the FUL.**

The survey concluded that the present ingredient reimbursement rate provides payments in excess of costs incurred by Arkansas pharmacies. The agency expends a high proportion of its drug budget on prescription for brand name drugs. The survey also suggested that the present reimbursement rate may provide an incentive to dispense higher cost drug products. DMS is setting a rate that is consistent with the survey that will safeguard against unnecessary utilization, assure payments are consistent with efficiency, economy and quality of care, and sufficient to enlist enough providers so that care and services are available at least to the extent such care and services are available to the general population.

The survey predicts to a 95% level of confidence, that the mean estimated acquisition cost for brand name drugs ranges from 82.0% to 82.3% of AWP. The average estimated acquisition cost is 82.7% of AWP (AWP- 17.3%). For multi-source drugs with no federal upper limits (FUL) the average estimated acquisition cost ranges from 10% to 85% of AWP. The average estimated acquisition costs is 67.5% of AWP (AWP-32.5%). Under the rule payment for brand name drugs and all other drugs for which a specific limit has not been established is limited to the lesser of the provider's usual and customary charge or 86% of AWP (AWP-14%) for brand name drugs and 75% of AWP (AWP-25%) for generic or multi-source drugs.

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12. Prescribed drugs, dentures, and prosthetic devices; and eyeglasses prescribed by a physician skilled in diseases of the eye or by an optometrist (Continued)
- a. Prescribed Drugs (Continued)

The survey predicts that 99.9% of pharmacies in Arkansas have an acquisition cost equal to or less than 86% of AWP for brand name drugs. The estimated acquisition cost reimbursement component of the Medicaid reimbursement rate provides an average reimbursement to cost ratio similar to the average within the pharmacy industry. A reimbursement rate providing a return similar to the return derived from the general population should assure Medicaid recipients access to services equal to the general population.

The survey concluded that there is no significant difference in estimated acquisition costs of independent and chain retail pharmacies. The survey reveals that pharmacies which purchase brand name drugs from external wholesalers have a lower average estimated acquisition cost than pharmacies purchasing brand name drugs from an internal wholesaler. Based upon these observations it is reasonable to conclude that all providers have access to similar efficiencies and economies and should be able to engage in purchasing practice at or near the statewide average.

The survey estimates that $\frac{3}{4}$ of multi-source (generic) drugs are purchased at AWP-25% or less. As is the case with brand name drugs, the survey predicts that all classifications of pharmacies have access to similar efficiencies and economies and should be able to purchase multi-source drugs at or near the statewide average.