AGENDA

Welcome and Introductions
Federal Reimbursement Requirements
State Medicaid Program Reimbursement Options
Alabama’s Current Reimbursement Methodology
Understanding the NADAC
Alabama Reimbursement Options
MYERS AND STAUFFER LC

ABOUT US
We are a public accounting firm with six engagement teams providing diverse services to state and federal agencies managing government-sponsored health care programs. The Alabama Medicaid Agency (ALMA) has contracted Myers and Stauffer LC (MSLC) to assist in maintaining, updating, and improving the Medicaid pharmaceutical reimbursement program since 2008.

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

WEBSITE
https://www.myersandstauffer.com
Project Team

Darold Barnes, RPh
SENIOR MANAGER
- 40 years of experience
- Former independent pharmacy owner, Long Term Care pharmacy manager
- Practice areas: Pharmaceutical pricing, specialty drugs, 340B claims review, regulation and policy review
- Project manager for state Medicaid programs and consulting for CMS Division of Pharmacy

Bobby Courtney
SENIOR MANAGER
- 20 years of experience
- Attorney specializing in public health law and policy
- Practice areas: Federal healthcare regulations and policies, Medicaid waivers, managed care, LTSS, pharmaceutical pricing
- Project manager and SME for several state and federal consulting engagements

Cyrena Knight
MANAGER
- 11 years of experience
- Practice areas: Medicaid pharmacy pricing through data and fiscal analysis, 340B policy and claims review, quality assurance reviews, and client relations
- Project manager of acquisition cost-based programs for multiple state Medicaid programs
Federal Reimbursement Requirements
State Plan Amendment (SPA) submitted for approval by CMS and implemented by April 1, 2017

Alabama’s current SPA (AL-17-0001) was approved on July 28, 2017

Ingredient cost reimbursement is required to be based on actual acquisition costs

Dispensing fee is redefined as a professional dispensing fee

New Federal Upper Limit (FUL) rates for generic drugs, implemented May 1, 2016, are now updated monthly

FULs are a mandated component of reimbursement
State Medicaid Program Reimbursement Options

Ingredient Cost Reimbursement Methodologies
Ingredient Reimbursement

- CMS defines average Actual Acquisition Cost (AAC) to be 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 AAC reimbursement include:
  1) **AAC**: Develop a state specific benchmark
  2) **NADAC** (National Average Drug Acquisition Cost): Utilize the national AAC benchmark
  3) **WAC** (Wholesale Acquisition Cost): Utilize published pricing compendia adjusted to reflect discounts and other pricing concessions in the marketplace

To date, CMS has ONLY approved WAC adjusted as a backup reimbursement option. **In effect, states only have two ingredient options: AAC and NADAC.**

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Alabama’s Current Reimbursement Methodology

*Average Acquisition Cost*
Alabama’s Average Acquisition Cost (AAC) Program

- Alabama moved to AAC in 2010
- Mandatory semi-annual provider surveys requesting invoices from the most recent month
- Weekly AL AAC rate updates based upon published pricing changes and provider inquires
- AL AAC calculated using drug groups of therapeutically equivalent products to maximize cost effectiveness
How are Alabama’s AAC Rates Updated?

Three Types of Rate Updates

**Provider Surveys (Rebase)**
- Invoices collected from a random sample of pharmacy providers
- Semi-Annually

**Changes in Published Pricing**
- Weighted updates to AAC rates to mirror changes in published pricing
- Weekly

**Provider Help Desk Inquiries**
- AAC rates are evaluated utilizing current invoice observations obtained from provider inquiries
- As Needed

All AAC rate updates are reviewed by our team of analysts, pharmacy technicians, and pharmacists.
Alabama’s AAC Provider Survey Process

- Invoice observations from a representative sample of approximately 250-350 chain and independent pharmacies located in Alabama (excluding 340B pharmacies)

- **MANDATORY** semi-annual survey requesting invoices from the most recent month:
  - Pharmacies surveyed at minimum once every two years (potential to be surveyed more often)
  - Survey letters mailed on the 1st and 15th days of the survey month

- AAC rate calculation process: approximately 6-8 weeks

- Proposed AAC rates submitted to Alabama for final approval

- All approved AAC rates are adjusted for published pricing changes prior to implementation
Provider Help Desk Inquiries

- Provider submits an AAC rate review inquiry with invoice documentation
- Help desk technicians perform initial review:
  - Assess provider’s cost compared to range of costs used to set current rate
  - Research changes in market conditions
  - Review current acquisition cost data
  - Submit findings and proposed action to analyst for review
- Analyst performs secondary review and submits findings to pharmacist
- Pharmacist gives final review and confirmation of proposed rate update or denial
- Rate update, if applicable, is included on the next AL AAC rate file
  - Rate is backdated to provider’s date of service (typically no more than 30 days)
- Help desk technician contacts inquiring provider to inform them of the outcome
Alabama’s Ingredient Reimbursement Logic

Notwithstanding specific reimbursement described in this section, payment for covered outpatient drugs (both brand and generic) dispensed by a:

- Retail community pharmacy
- Specialty pharmacy
- Long-term care or institutional pharmacy (when not included as an inpatient stay)
- 340B eligible entities (including 340B contract pharmacies) not listed on the U.S. Department of Health and Human Services Health Resources & Service Administration (HRSA) 340B Drug Pricing Program Database
- Indian Health Service, Tribal and Urban Indian pharmacy

Shall not exceed the lowest of:

- The Alabama Average Acquisition Cost (AAC) of the drug; when no AAC is available, the Wholesale Acquisition Cost (WAC)+ 0%, plus a professional dispensing fee of $10.64,
- The Federal Upper Limit (FUL), plus a professional dispensing fee of $10.64, or
- The provider's Usual and Customary (U&C) charge to the general public regardless of program fees.

Understanding the NADAC

Background on the NADAC in relation to the AL AAC
National Average Drug Acquisition Cost

NADAC: CMS-Published National AAC Benchmark

- VOLUNTARY monthly survey requesting invoices from the most recent month
- Invoice observations from independent and chain pharmacies in all states (excluding 340B pharmacies)
- NADAC rates are updated weekly and monthly:
  - Weekly:
    - Brand drug updates from published pricing changes
    - Brand and generic drugs from provider help desk inquiries
      - Rate adjustments from help desk inquiries are not backdated to provider’s date of service
  - Monthly:
    - Brand and generic updates from the monthly cost survey process
<table>
<thead>
<tr>
<th>Policy</th>
<th>AL AAC</th>
<th>NADAC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timing for survey-based rate updates</td>
<td>Semi-Annual</td>
<td>Monthly</td>
</tr>
<tr>
<td>Frequency of rate changes in published pricing</td>
<td>Weekly for brand and generic drugs</td>
<td>Weekly for brand drugs only</td>
</tr>
<tr>
<td>Frequency of rate adjustments in response to provider inquires</td>
<td>Up to daily – can be backdated to the pharmacy’s date of service</td>
<td>Weekly – cannot be backdated</td>
</tr>
<tr>
<td>Drugs included in the rate calculations</td>
<td>All AL Medicaid covered drugs are eligible for an AAC rate; allows for flexibility to calculate AAC rates based upon Alabama-specific conditions</td>
<td>Only drugs on the Medicaid Covered Outpatient drugs file; does not consider individual states’ conditions in the NADAC calculation</td>
</tr>
<tr>
<td>Policy</td>
<td>AL AAC</td>
<td>NADAC</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Publication Basis</td>
<td>FDB’s clinical formulation ID drug group (GSN)</td>
<td>NDC</td>
</tr>
<tr>
<td>Rates for drugs with different package sizes (e.g. creams, ointments, vials)</td>
<td>Blended AAC rate for different package sizes in the drug group</td>
<td>Possible different rates for different package sizes in the drug group</td>
</tr>
<tr>
<td>Rates for brand drugs from multiple manufacturers within the same drug group (e.g. Proventil, ProAir, Ventolin)</td>
<td>Blended brand AAC rate for multiple manufacturers’ products when appropriate. Otherwise, no AAC rate is set for the drug group</td>
<td>When there are clear pricing differences, specific rates are calculated for each manufacturer’s product</td>
</tr>
<tr>
<td>Rates for drugs that have both legend and OTC products</td>
<td>Same rate for both legend and OTC products</td>
<td>Different rates for legend and OTC products</td>
</tr>
</tbody>
</table>
Alabama Reimbursement Options
Alabama’s Current Backup Reimbursement

- When there is no AAC rate, Alabama’s current backup reimbursement is WAC + 0%

- Reasons why an AAC rate might not be available:
  - Significant pricing differences within drug group
  - Insufficient acquisition cost data
  - Market availability
  - Newly available products

- Types of brand drugs without an AAC:
  - OTC insulin products (i.e., Novolin, Humulin)
  - High-dollar “specialty” drugs
  - Brand drugs with multiple manufacturers within the same drug group
  - Drugs with different package sizes with the same drug group
NADAC Equivalency Metrics

- Published on a quarterly basis by CMS\(^1\)
- Monitors relationship between NADAC rates and published pricing benchmarks
- Illustrates the aggregate mean and median discounts off of Wholesale Acquisition Cost (WAC) and Average Wholesale Price (AWP)

Alabama’s Proposed Backup Reimbursement

**WAC – 4% for Brand Drugs Only**

- Consistent with NADAC Equivalency Metrics and AAC Rebase Rates
- Seven (7) approved SPAs utilizing a “WAC – X%” backup reimbursement methodology
- Average brand claim without an AL AAC reimbursement:
  - WAC + 0%: $773.54
  - WAC – 4%: $742.60
  - $ 30.94

<table>
<thead>
<tr>
<th>State</th>
<th>Backup Reimbursement Methodology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delaware</td>
<td>WAC for brand and WAC -2% for generic</td>
</tr>
<tr>
<td>Illinois</td>
<td>WAC - 4.4% for brand and WAC - 17.5% for generic</td>
</tr>
<tr>
<td>New Jersey</td>
<td>WAC - 2%</td>
</tr>
<tr>
<td>New York</td>
<td>WAC - 3.3% for brand and WAC - 17.5% for generic</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>WAC - 3.3% for brand and WAC - 50.5% for generic</td>
</tr>
<tr>
<td>Tennessee</td>
<td>WAC - 3% for brand and WAC - 6% for generic</td>
</tr>
<tr>
<td>Texas</td>
<td>Retail: WAC - 2%; LTC: WAC - 3.4%; Specialty: WAC - 8%</td>
</tr>
</tbody>
</table>
# Top 20 Drugs\(^1\) by NDC without an AL AAC

<table>
<thead>
<tr>
<th>Ranking</th>
<th>NDC</th>
<th>Drug Name</th>
<th>WAC (as of 7/1/2019)</th>
<th>WAC - 4% (as of 7/1/2019)</th>
<th>Per Unit Difference</th>
<th>Average Impact Per Claim</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>39310057922</td>
<td>PROAIR HFA 90 MCG INHALER</td>
<td>7.63882</td>
<td>7.33327</td>
<td>(0.30555)</td>
<td>($2.99)</td>
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<tr>
<td>2</td>
<td>0008821905</td>
<td>LANTUS SOLOSTAR 100 UNIT/ML</td>
<td>28.35400</td>
<td>27.21984</td>
<td>(1.13416)</td>
<td>($19.84)</td>
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<tr>
<td>3</td>
<td>64011030103</td>
<td>MAKENA 275 MG/1.1 ML AUTOINJCT</td>
<td>730.00000</td>
<td>700.80000</td>
<td>(29.20000)</td>
<td>($128.42)</td>
</tr>
<tr>
<td>4</td>
<td>50242004052</td>
<td>XOLAIR 150 MG VIAL</td>
<td>1,106.36000</td>
<td>1,062.10560</td>
<td>(44.25440)</td>
<td>($138.79)</td>
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<tr>
<td>5</td>
<td>00078065615</td>
<td>JADENU 360 MG TABLET</td>
<td>168.90666</td>
<td>162.15039</td>
<td>(6.75627)</td>
<td>($59.77)</td>
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<tr>
<td>6</td>
<td>64011024702</td>
<td>MAKENA 250 MG/ML VIAL</td>
<td>803.00000</td>
<td>770.88000</td>
<td>(32.12000)</td>
<td>($127.57)</td>
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<tr>
<td>7</td>
<td>64011024301</td>
<td>MAKENA 1,250 MG/5 ML VIAL</td>
<td>803.00000</td>
<td>770.88000</td>
<td>(32.12000)</td>
<td>($157.77)</td>
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<tr>
<td>8</td>
<td>00169770521</td>
<td>NORDITROPIN FLEXPROM 10 MG/1.5</td>
<td>831.53333</td>
<td>798.27200</td>
<td>(33.26133)</td>
<td>($168.16)</td>
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<tr>
<td>9</td>
<td>00074969403</td>
<td>LUPRON DEPOT-PED 30 MG 3MO KIT</td>
<td>9,384.13000</td>
<td>9,008.76480</td>
<td>(375.36520)</td>
<td>($358.28)</td>
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<tr>
<td>10</td>
<td>50242007401</td>
<td>NUTROPIN AQ NUSPIN 10 INJECTOR</td>
<td>628.67500</td>
<td>603.52800</td>
<td>(25.14700)</td>
<td>($194.41)</td>
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<tr>
<td>11</td>
<td>00169770821</td>
<td>NORDITROPIN FLEXPROM 15 MG/1.5</td>
<td>1,247.30000</td>
<td>1,197.40800</td>
<td>(49.89200)</td>
<td>($228.85)</td>
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<tr>
<td>12</td>
<td>00069018921</td>
<td>IBRANCE 125 MG CAPSULE</td>
<td>564.59714</td>
<td>542.01325</td>
<td>(22.58389)</td>
<td>($457.32)</td>
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<tr>
<td>13</td>
<td>51167066101</td>
<td>SYMDEKO 100/150 MG-150 MG TABS</td>
<td>400.00000</td>
<td>384.00000</td>
<td>(16.00000)</td>
<td>($896.00)</td>
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<tr>
<td>14</td>
<td>70370108001</td>
<td>INGREZZA 80 MG CAPSULE</td>
<td>215.80000</td>
<td>207.16800</td>
<td>(8.63200)</td>
<td>($252.25)</td>
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<tr>
<td>15</td>
<td>57894006103</td>
<td>STELARA 90 MG/ML SYRINGE</td>
<td>22,004.61000</td>
<td>21,124.42560</td>
<td>(880.18440)</td>
<td>($836.35)</td>
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<tr>
<td>16</td>
<td>00002871501</td>
<td>HUMULIN 70-30 VIAL</td>
<td>14.87000</td>
<td>14.75200</td>
<td>(0.11800)</td>
<td>($18.54)</td>
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<tr>
<td>17</td>
<td>58468021002</td>
<td>AUBAGIO 14 MG TABLET</td>
<td>245.43685</td>
<td>235.69554</td>
<td>(9.73731)</td>
<td>($264.46)</td>
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<tr>
<td>18</td>
<td>6440600602</td>
<td>TECFIDERA DR 240 MG CAPSULE</td>
<td>130.12416</td>
<td>124.91919</td>
<td>(5.20497)</td>
<td>($298.96)</td>
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<tr>
<td>19</td>
<td>00074024302</td>
<td>HUMIRA(CF) 40 MG/0.4 ML SYRING</td>
<td>2,587.04500</td>
<td>2,483.56320</td>
<td>(103.48180)</td>
<td>($241.10)</td>
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<tr>
<td>20</td>
<td>63004871001</td>
<td>HP ACTHAR GEL 80 UNIT/ML VIAL</td>
<td>7,778.40000</td>
<td>7,467.26400</td>
<td>(311.13600)</td>
<td>($2,968.31)</td>
</tr>
</tbody>
</table>

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\(^1\) Analysis based upon final, paid claims with a date of service between April 1, 2018, and March 31, 2019, and with no Alabama AAC on the date of service. Top 20 NDCs are identified by a combination of drug spend and utilization.
Feedback & Questions

Please submit comments to both:
  Kelli Littlejohn Newman  
  (Kelli.Littlejohn@Medicaid.Alabama.gov)
  Heather Vega  
  (Heather.Vega@Medicaid.Alabama.gov)

Comments are due by Noon CST on Friday, October 11, 2019