



Department of Medicaid

John R. Kasich, Governor
Barbara R. Sears, Director

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Dear CEOs:

Pharmaceutical manufacturers go to extreme lengths to keep drug prices secret from the public. This secrecy is passed down through the value chain, creating mistrust among payers, insurers, pharmacy benefit managers (PBMs), pharmacists and patients. All are forced to speculate whether the price they pay for drugs is fair.

The Ohio Pharmacists Association (OPA) has alleged that PBMs working for Medicaid managed care plans take advantage of the lack of transparency in manufacturer drug prices to engage in anti-competitive behavior that harms pharmacies. Specifically, OPA alleges that the difference between the amount PBMs bill your plans and the amount they pay pharmacies is excessive.

In April 2018, Ohio Medicaid contracted with HealthPlan Data Solutions (HDS) to investigate Medicaid health plan PBM performance and look for any signs of anti-competitive behavior. HDS submitted its report to Ohio Medicaid on June 15, 2018 (executive summary attached). Based on an analysis of one year of actual pharmacy claims, HDS identified the following:

- the spread between what was billed to plans and paid to pharmacies is 8.8 percent,
- independent pharmacies were reimbursed 3.6 percent more for brand drugs and 3.4 percent more for generic drugs compared to CVS pharmacies, and
- Medicaid health plan PBM pricing saves Ohio taxpayers at least \$145 million annually compared to fee-for-service pricing (savings increase to at least \$245 million annually when revenue generated from managed care pharmacy benefit fees is included).

Based on the HDS analysis, there is no evidence of anti-competitive behavior by PBMs that would justify regulatory intervention by the state. However, there is always room to improve. As far as we know, the attached report provides greater transparency into Medicaid health plan PBM pricing than any other state has achieved. We will use that information to drive further innovation in pharmacy benefit administration. Specifically, Ohio Medicaid will:

1. Require each managed care plan to review the HDS report and ongoing data collection not later than September 30, 2018 notify me of any changes you plan to make related to pharmacy administration;
2. Use the HDS report and ongoing data collection to inform the state's process of Medicaid managed care rate setting, which will occur in November 2018 for calendar year 2019 rates;
3. Monitor PBM pricing on a quarterly basis and share the information your plan needs to pressure your PBM to demonstrate value or risk being replaced; and
4. If at any point the quarterly review raises an alarm, notify the Joint Medicaid Oversight Committee and initiate a process to consider additional reforms.

The purpose of these actions is to ensure the continued transparency of pricing information as a safeguard against the possibility of future anti-competitive behavior and to provide the information necessary for market competition to drive further innovation in pharmacy benefit administration. The goal for the state is to stay focused on making sure Ohioans have access to the pharmacy benefits they need while also holding down costs for taxpayers.

Ohio Medicaid looks forward to continuing our work together to serve nearly three million Ohioans. I am confident we will continue to improve this process in a way that protects consumers, results in a fair marketplace, and drives innovation and quality care.

Sincerely,


Barbara R. Sears
Director

Attachment

Deliveries via email addresses