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Jon Husted, Lt. Governor

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## Next Generation of Ohio Medicaid Managed Care

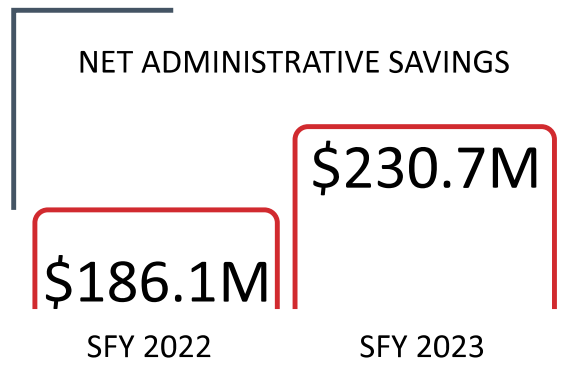
### Savings Analysis and Impact of Realigned Service Delivery

Governor DeWine’s vision for the Ohio Department of Medicaid’s (ODM) next generation of managed care was proposed in early 2019 and included in the 2020-21 executive budget discussions. The goal: securing high-quality, evidence-based health care for Ohioans. His proposal signaled the start of a multi-pronged approach to listen to stakeholders and re-examine and renovate the state’s 15-year old managed care construct, while protecting the viability of the program for future generations.

### Significant Program Efficiencies and Administrative Cost Savings

The next generation plan ensures that the Medicaid program spends less on administrative functions and targets future spending on needed health care services. It will bring an unprecedented level of transparency and accountability, including improvements in care coordination and analytic capabilities necessary to better manage chronic and costly diseases and health inequities within our health care system.

The restructured managed care program drives greater efficiencies, resulting in net program efficiencies and administrative savings to taxpayers of \$186.1 million in SFY 2022 and \$230.7 million in SFY 2023.



### Single Pharmacy Benefit Manager (SPBM) and Pharmacy Reforms

According to the Auditor of State<sup>1</sup> and a 2018 report commissioned by the state to investigate claims of PBM malfeasance,<sup>2</sup> more than \$224 million in payments made to the managed care organizations (MCO) for pharmacy benefit manager (PBM) related expenses could not be explained. As a result, in 2019 the Ohio General Assembly required ODM to select a single PBM to administer the pharmacy benefit, rather than administration by each plan individually.

Over the past biennium, ODM has made great strides in advancing transparency and accountability in the pharmacy program. The agency ended controversial “spread pricing” and required the plans and their PBMs to adopt transparent, “pass-through” pricing instead, where the prescription drug cost paid to the pharmacy must be the same amount paid to the PBM. ODM also

<sup>1</sup> [Medicaid Pharmacy Services 2018 Franklin.pdf \(ohioauditor.gov\)](#) Dave Yost, Auditor of State

<sup>2</sup> [Medicaid drug audit calls for transparency, highlights pharmacy closures - News - The Columbus Dispatch - Columbus, OH Aug. 16, 2018](#)

added contractual protections against anti-competitive PBM practices and created a public dashboard to provide unprecedented visibility into the MCO pharmacy benefit including prescription costs, ingredient and dispensing fees, utilization and more. In January 2020, after working closely with stakeholders and the General Assembly, ODM implemented a Unified Preferred Drug List (UPDL) that has resulted in annual savings of at least \$60 million.

The introduced version of the budget includes the following:

- **Single PBM:** The single PBM brings much needed accountability and price transparency for Ohio taxpayers and Ohio pharmacies, providing assurance that Ohio’s tax dollars are spent appropriately. In addition, the single PBM significantly reduces costs by eliminating duplicative MCO administrative expenses and risk margin across multiple MCOs resulting in:
  - **Savings of \$128M in SFY 2022**
  - **Savings of \$184.4M in SFY 2023<sup>3</sup>**
- **Unified PDL:** This initiative is widely hailed by consumers and providers for creating a consistent list of medications across the MCOs resulting in a **savings of \$60M annually.**

### Managed Care Procurement Cost and Savings

- **Managed care implementation:** The new managed care contracts will provide significantly greater oversight and accountability to the program and drive long-term efficiencies. The contracts will be implemented as service cost-neutral to the state. Additional administrative resources are needed to support transition costs, readiness review, contract close-out and enhanced external quality review.
- This results in additional administrative costs of:
  - **\$18.9M in SFY 2022**
  - **\$15.1M in SFY 2023**
- **Managed care profit reduction:** These costs, however, are more than offset by reduction of the MCOs’ risk margin by 0.25%, resulting in:
  - **Savings of \$50M in CY 2022**
  - **Savings of \$50M in CY 2023**

“It might not sound glamorous but for those of us who take care of patients with Medicaid as their health insurance, it is a real game-changer. When I think a patient needs to start a new medication, I have to search the insurance carrier’s preferred drug list and figure out which medication is covered. Prior to Jan. 1, there were 6 different drug lists to search and analyze. Now it will be just one list to work from.”

-Dr. Michelle Nemer

*Columbus Dispatch*  
Letter to Editor, Jan.11, 2020

<sup>3</sup> As a result of the savings driven by the S-PBM there would be a loss of ODI tax revenue under ORC 5725.18 of an estimated \$18.6M in SFY 2022 and \$36.4M in SFY 2023

## Other Administrative Simplification

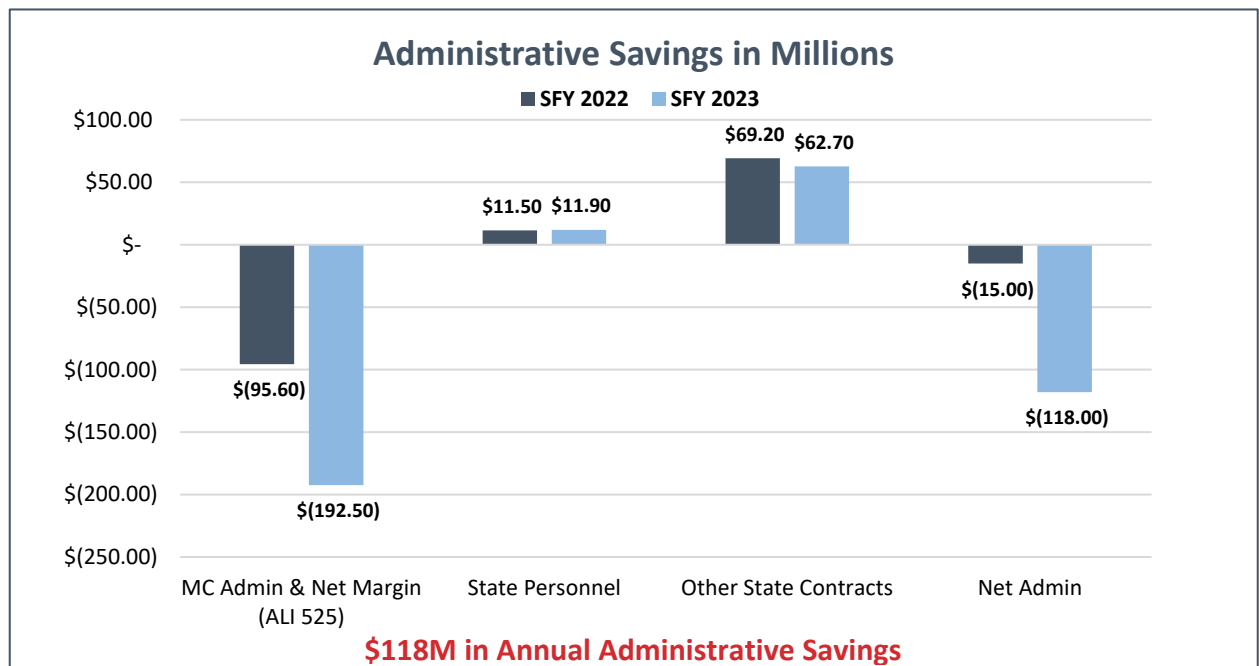
- Every large health insurance program operates multiple large IT systems that periodically need to be updated and replaced. ODM is currently building and implementing the Ohio Medicaid Enterprise System which will replace the current decade-old system, MITS. Among its new functions **the Ohio Medicaid Enterprise System will include the provider credentialing and fiscal intermediary modules** and other key administrative functions currently performed by the MCOs. By making this change, Ohio will be paying only once for these administrative functions that are currently being paid for five or six times. Universally applauded by providers for reducing provider cost and burden, centralized credentialing eliminates multiple, duplicative, time consuming credentialing processes.
- Similarly, the fiscal intermediary creates significant transparency and accountability with a single front door for medical claims; easing provider burden and cost, including:
  - **Savings of \$4.8M in SFY 2022**
  - **Savings of \$3.9M in SFY 2023**

## Administrative Cost of OhioRISE for Multi-System Youth (MSY)

- **OhioRISE Procurement:** Currently, the administration and delivery of care for the MSY population is spread across every MCO and multiple state and local entities, leading to administrative inefficiencies and uncoordinated care delivery. The implementation of OhioRISE, a specialty managed care plan that will provide intensive, specialized behavioral health services for MSY, will help prevent many cases in which parents must relinquish custody of their children in order to access needed services and help ensure compliance with the federally mandated changes of the Family First Prevention Services Act (FFPSA). Details on the cost of additional services provided to youth and families under OhioRISE is discussed in more detail in the OhioRISE white paper. The administrative costs of implementing OhioRISE are:
  - **\$37.9M in SFY 2022**
  - **\$52.5M in SFY 2023**

## Additional Administrative Cost to ODM

Thus far in this briefing, we have been discussing total program efficiencies and administrative savings associated with the various components of the next generation of managed care. We now turn to focus on a subset of the savings discussed above. For example, the savings from the Unified Preferred Drug List are due to increased supplemental manufacturer rebates. Savings from increased rebates are considered administrative savings. However, it may be helpful to isolate a certain subset of administrative funding components such as changes in state personnel costs, state vendor contracts, and the corresponding savings from payments made to MCOs for the equivalent functions; which is the focus of this final section. The changes in MCO and state administrative costs will result in a net administrative savings of over \$133 million for the biennium – and over \$100 million annually moving forward – reducing MCO reimbursement by \$288 million and increasing ODM administrative spending by \$145.3 million for the biennium. See the figure on the following page.



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ODM’s administrative spending is less than 5%, which is below the national average for state Medicaid programs and below the average for CMS’s Midwest region<sup>4</sup>. There are other dynamics at play with the overall administrative spending of the Medicaid program in H.B.110, but they are not related to procurement and therefore outside the scope of this analysis.

**Conclusion**

The total savings resulting from program restructuring and administrative changes is \$186.1M and \$230.7M in SFY 2022 and 2023 respectively.

Some budgetary factors such as caseload and federal requirements are beyond the state’s ability to control in the short term, making it more important than ever to realize these operational efficiencies and administrative savings. With a constituency of nearly three million Ohioans and a managed care program of roughly \$20 billion annually, it is vital that we have better data, transparency, public accountability and other tools to manage for the future.

The next generation plan will result in an unprecedented level of transparency and accountability, with significant improvements in the quality and cost effectiveness of care; including improvements in care coordination, community engagement and analytic capabilities necessary to better manage chronic and costly diseases and health inequities of our health care system.

<sup>4</sup> Calculated from CMS-64 report.