



Department of Medicaid

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Barbara R. Sears, Director

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Dear Plan CEOs and Presidents:

This letter confirms that Ohio Medicaid is requiring its five managed care plans to terminate contracts with pharmacy benefit managers (PBMs) based on “spread” pricing, adopt new practices based on a transparent “pass-through” pricing model and enter into new contracts with vendors who can provide services based on that model. Managed care plans are required to make this change effective January 1, 2019 (the pricing models are described in the attachment).

Eight years ago, the Kasich Administration inherited an unsustainable cost trajectory in Medicaid spending and only succeeded in bringing it under control through the implementation of a wide range of innovations including managed care. Such innovations have allowed Ohioans in need to get quality medical care while providing taxpayers the value they deserve. With the sustainability of these innovations have been successfully proven over time—overall growth in Medicaid has been kept to just two percent—time is ripe to pursue new innovations. This includes efforts to improve the management of pharmacy services—the strongest upward pressure on costs. To that end, Ohio Medicaid contracted with HealthPlan Data Solutions (HDS) to [analyze PBMs](#), their cost and pricing models, and make recommendations.

Recommendation

Based on a comprehensive review of Medicaid managed care pharmacy benefit data, HDS recommended that Ohio Medicaid should move to a pass-through pricing model for Medicaid in place of the traditional PBM contract with spread pricing. One of the most significant benefits of this model is its transparency. A pass-through model allows Ohio Medicaid, Ohioans and all market participants to see exactly what is paid out for all pharmacy transactions. While the pass-through option will require the plans to pay administrative fees to the PBM (the administrative fee is not separated out in the current spread option), HDS estimates the additional costs can be offset in other areas. Ohio Medicaid’s intent is to ensure that the change to a pass-through model is cost-neutral to Ohio taxpayers. Another benefit of

the pass-through model is that guaranteed discount rates are the same for the managed care plan and pharmacy providers.

Next Steps

Ohio Medicaid will move to a pass-through pricing model effective January 1, 2019. I originally [requested input](#) from your plans not later than September 30, and appreciate that each of you responded to me earlier. Ohio Medicaid and the plans will now:

- Design the new pass-through pricing program ahead of the annual Medicaid managed care rate setting process in November;
- Conduct the actuarial analyses necessary to achieve budget neutrality;
- Complete Ohio Medicaid's annual survey of pharmacy dispensing costs as required by Ohio Revised Code 5164.752; and
- Update PBM contracts as needed and provide sufficient time for contract negotiations.

Ohio Medicaid looks forward to continuing our work together to serve Ohioans. While I understand this is a large undertaking in a short period of time, I am confident that Ohio's Medicaid managed care plans will meet the challenge and implement these changes efficiently and successfully.

Sincerely,



Barbara R. Sears
Director

Deliveries via email addresses



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Attachment A. Traditional Pharmacy Benefit Manager (PBM) Spread Pricing Compared to Pass-Through Pricing.

	Current "Spread" Pricing Option	Proposed "Pass Through" Pricing Option
Summary	<i>The PBM charges the plan an agreed upon unit price for prescriptions which may be different from what it pays the pharmacy and what the pharmacy charges its clients</i>	<i>The PBM charges the managed care plan exactly what it pays the pharmacy for the prescription drug and dispensing fee, along with an explicit administrative fee</i>
Transparency	<ul style="list-style-type: none"> Typically plans don't have the details of this pricing structure PBM profit from transactions and rebates is unknown Contracts can be written to be transparent, but this is not common 	<ul style="list-style-type: none"> Pricing structure is fully disclosed and transparent The plan pays what the PBM pays the pharmacy plus an administrative fee for the PBM over pharmacy spend
Rebates	<ul style="list-style-type: none"> PBM may retain some portion of the rebates 	<ul style="list-style-type: none"> PBM passes all rebates and discounts back to the plan
Admin. Fees	<ul style="list-style-type: none"> PBM typically does not charge an admin fee (there is no administrative fee in Ohio's current spread pricing) 	<ul style="list-style-type: none"> PBM charges an administrative fee (HDS estimates pass-through fees in the range of \$0.95 to \$1.90 per prescription)
Prescription Costs	<ul style="list-style-type: none"> PBM charges the plan an agreed upon price per prescription that may differ from the price the PBM pays the pharmacy Mail and specialty pharmacies are often utilized 	<ul style="list-style-type: none"> PBM charges the plan exactly what it pays the pharmacy The actual point of sale discount that a PBM may receive from the pharmacy is disclosed and reflected in the price a plan pays
Generics	<ul style="list-style-type: none"> PBM has an incentive to push generic prescriptions because the pricing spread tends to be higher 	<ul style="list-style-type: none"> PBM has less incentive to push generic substitution and is financially indifferent to generic dispensing rates
Contract Guarantees	<ul style="list-style-type: none"> Some contracts incorporate guarantees that limit spread Guarantees may include a minimum discount level or market checks at certain dates within the contract 	<ul style="list-style-type: none"> Contract includes the ability to review contracts between the PBM and their pharmacies to ensure correct pricing has been applied