

	MEDICAL ASSISTANCE BULLETIN COMMONWEALTH OF PENNSYLVANIA * DEPARTMENT OF PUBLIC WELFARE		
	ISSUE DATE: August 5, 2005	EFFECTIVE DATE: August 10, 2005	NUMBER: 09-05-06, 24-05-06, 25-05-01, 31-05-06
SUBJECT: Revisions to Payment for the Drug Cost Component of Brand Name and Generic Drugs		BY:  David S. Feinberg Deputy Secretary for Medical Assistance Programs	

PURPOSE:

The purpose of this bulletin is to advise pharmacies and dispensing providers that the Department has revised its calculation of the Estimated Acquisition Cost (EAC) for both brand name and generic drugs provided in the Fee-for-Service (FFS) delivery system. Payment rates based on the revised EACs will take effect on August 10, 2005.

SCOPE:

This bulletin applies to all pharmacies and dispensing providers enrolled in the Medical Assistance (MA) Program that provide services in the FFS delivery system.

BACKGROUND:

The Pennsylvania MA Program assures the availability of a wide array of medically necessary health care services, supplies and equipment to approximately 1.8 million indigent and disabled persons. Prescription drugs are among the healthcare services that the Commonwealth has opted to include in the MA benefit package.

Under Federal law, the drug cost component of pharmacy reimbursement is based on the EAC, which is the State Medicaid "agency's best estimate of the price generally and currently paid by providers for a drug marketed or sold by a particular manufacturer or labeler in the package size of the drug most frequently purchased by providers." 42 CFR 447.301. Since 1995, the Department has calculated the EAC for all drugs, both brand name and generic, at the average wholesale price (AWP) minus 10% and has paid the lower of the EAC or the State maximum allowable cost (MAC) for the drug. The State MAC is comprised of those multisource drugs for which the Centers for Medicare and Medicaid Services has established a Federal upper limit and several other multisource drugs that do not have Federal upper limits. For both brand name and generic drugs, the dispensing fee has also remained at \$4.00 since 1995. Yet the MA Program continues to have one of the highest payment rates for prescription drugs in the Commonwealth.

The Department could not ignore the trends occurring in other state Medicaid programs and private third-party plans or the payment rates accepted by Pennsylvania pharmacies, which show that the Department's pharmacy payment rates are higher than those of virtually any other payor in Pennsylvania and many comparable State Medicaid programs. In setting payment rates for pharmacy services in the MA Program, the Department seeks to assure that high quality pharmacy services are available to MA recipients to the same extent as to the general population in the same geographic area, at the best possible price. As a prudent buyer of quality medical care for its recipients, the Department must be able to obtain rates similar to those extended to other third-party payors and other State Medicaid agencies.

DISCUSSION:

To align its pharmacy payment methodology more closely with those of other third-party payors in the Commonwealth as well as other State Medicaid programs, and to more accurately approximate actual drug prices, as required by Federal law, the Department has established a different EAC for brand name and generic drugs. In addition, the Department will join other State Medicaid programs in basing its calculation of the EAC for both brand name and generic drugs on the wholesale

acquisition cost (WAC) when that cost is available. WAC is the cost at which wholesalers purchase drug products from manufacturers. Unlike AWP, which is widely acknowledged to be an inflated measure of drug costs, WAC is considered to be a more accurate gauge of the actual cost of drug products.

The Department also intends to revise its methodology for determining the State MAC for multisource brand name and generic drugs. In response to comments received from pharmacies regarding the need to explain the specifics of the proposed methodology for determining the State MAC, the Department has delayed implementation of a revised State MAC and published a public notice in the Pennsylvania Bulletin on July 30, 2005, which explains the details of the proposed methodology. Based on the comments received, the Department intends to promulgate regulations to revise the State MAC methodology in the near future.

Effective with prescriptions dispensed on August 10, 2005, the Department will base its payment methodologies for the drug cost component of brand name and generic drugs on a revised EAC. The Department will establish the EAC for brand name drugs as one of the following:

- i. the lowest WAC listed for the drug in available Nationally recognized pricing services, plus 7%;
- ii. if WAC data for the drug are not available from a Nationally recognized pricing service, the lowest average wholesale price (AWP) listed for the drug in available Nationally recognized pricing services, minus 14%;
- iii. if both WAC and AWP cost data are available for the drug from a Nationally recognized pricing service, the lower of the two amounts.

The Department will establish the EAC for generic drugs as one of the following:

- i. the lowest WAC listed for the drug in available Nationally recognized pricing services, plus 66%;
- ii. if WAC data for the drug are not available from a Nationally recognized pricing service, the lowest AWP listed for the drug in available Nationally recognized pricing services, minus 25%;
- iii. if both WAC and AWP cost data are available for the drug from a Nationally recognized pricing service, the lower of the two amounts.

The methodology for determining the State MAC, as set forth at 55 Pa.Code Chapter 1121.56(d), will not change on August 10, 2005, but the Department intends to revise the State MAC methodology after allowing additional opportunity for public comment.

For both brand name and generic drugs the current \$4 dispensing fee will not change.

PROCEDURE:

The Department will pay claims for legend and non-legend drugs based on the revised EACs for both brand name and generic drugs dispensed on and after August 10, 2005. The procedure for submitting claims for payment remains the same.

COMMENTS AND QUESTIONS REGARDING THIS BULLETIN SHOULD BE DIRECTED TO:

The appropriate toll-free number for your provider type

Visit the Office of Medical Assistance Programs website at www.dpw.state.pa.us/omap.