Joint Meeting of the Medicaid Cost Containment Task Force and Medicaid Oversight and Advisory Committee

July 20, 2010

Elizabeth A. Johnson, Esq., Commissioner
Neville Wise, Deputy Commissioner
Department for Medicaid Service
Cabinet for Health and Family Services

COMMONWEALTH OF KENTUCKY
CABINET FOR HEALTH AND FAMILY SERVICES
DEPARTMENT FOR MEDICAID SERVICES

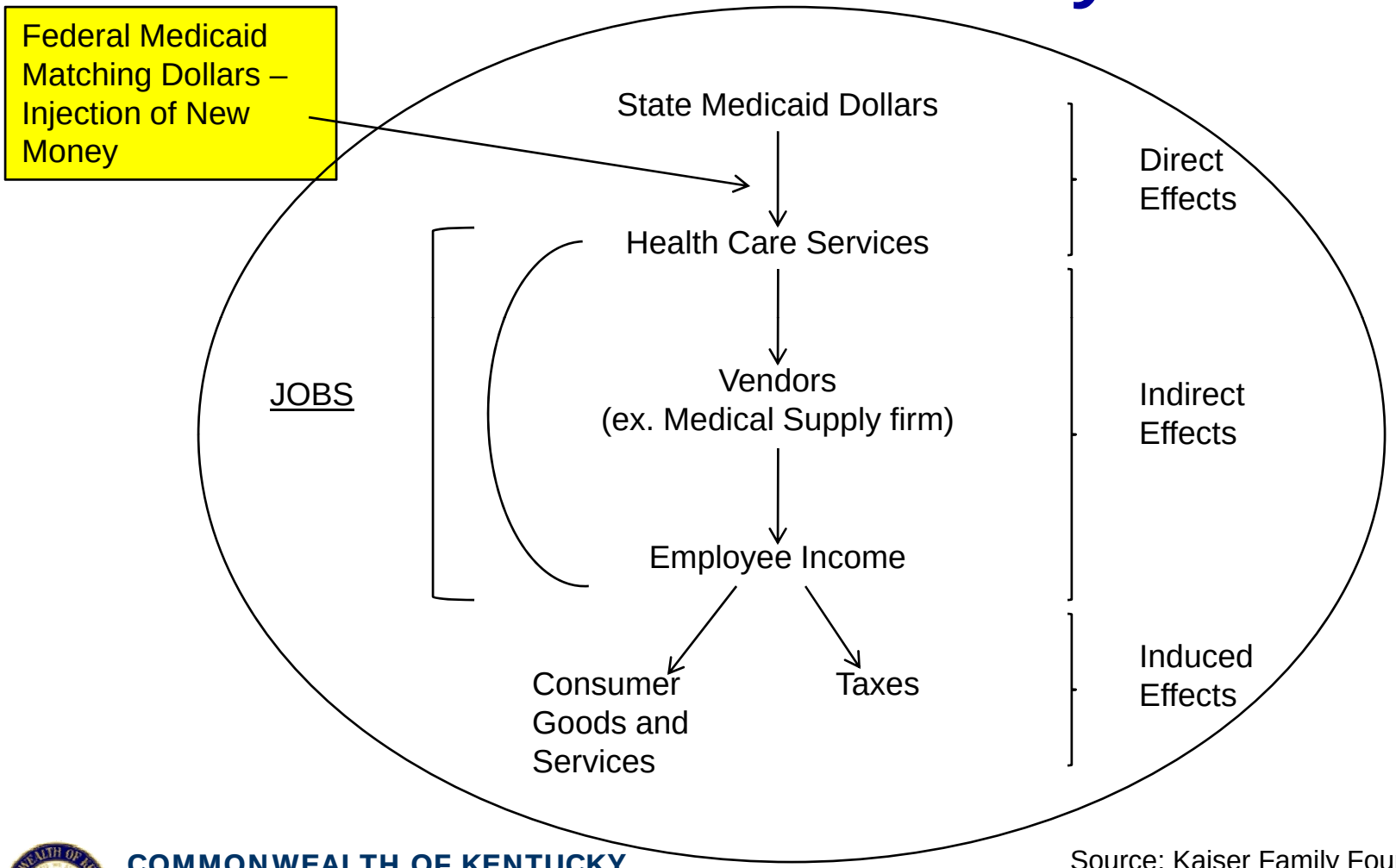
Agenda

- Overview of the Medicaid Program
- Medicaid Cost Drivers
- Medicaid Cost Containment Measures
- Medicaid Pharmacy Benefit

National Perspective on Medicaid

- Medicaid:
  - is the nation's major public health program for low-income Americans
  - finances health and long-term care services for more than 50 million people
  - supports tens of thousands of health care providers throughout the country
  - Medicaid spending enables the program to make significant contributions to state economies in terms of jobs, income and overall economic activity

Flow of Medicaid Dollars Through a State Economy



Source: Kaiser Family Foundation – *The Role of Medicaid in State Economies: A look at the Research* (January 2009)

KY Medicaid Statistics

- Medicaid:
  - Provides coverage to over 798,493 of Kentucky's most vulnerable citizens
  - Provides coverage to over 59,798 children who are enrolled in the Kentucky Children's Health Insurance Program (KCHIP)
  - Covered 21,236 births in Kentucky or approximately 37% of all Kentucky births

Medicaid FFS Expenditures

Medicaid Benefits

Administrative Cost

For every dollar received, DMS spends approximately 2.2% for administrative cost (salaries, supplies, etc).

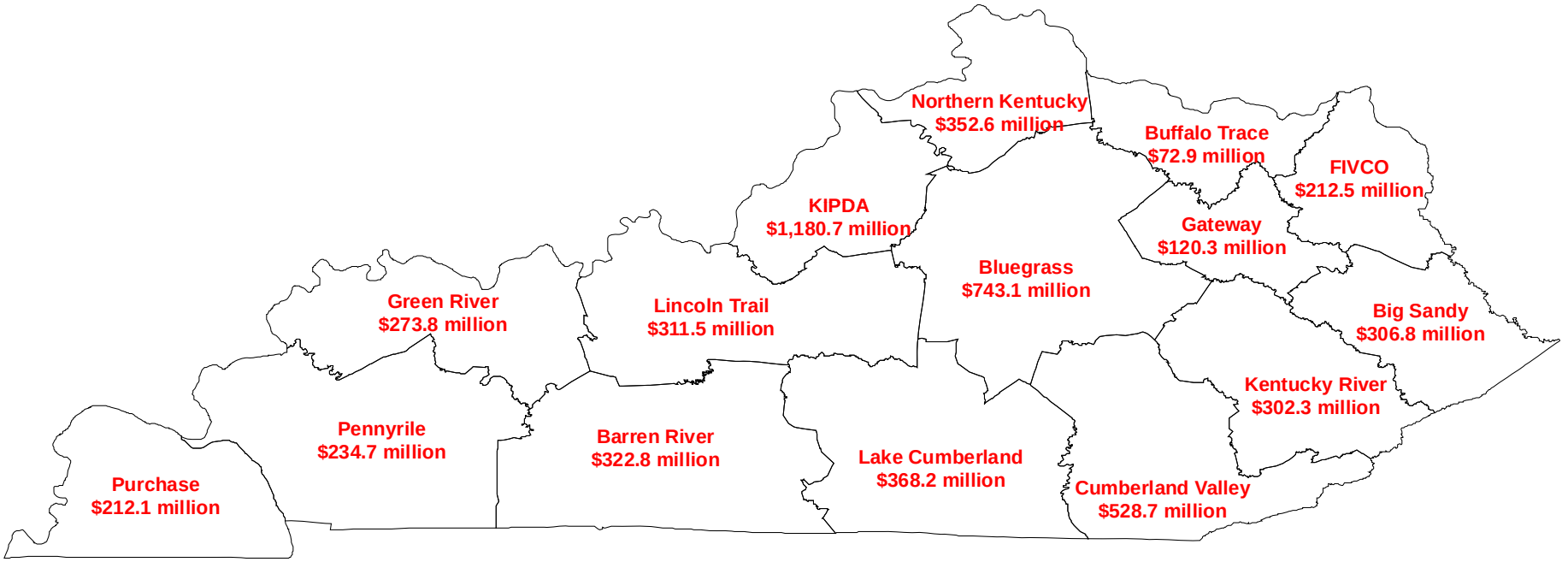
Economy

- Unprecedented growth in the number of new enrollees due to weakening economy
- During the last biennium Medicaid added, on average, over 3,000 (800 adults and 2,200 children) new recipients each month compared to just 930 per month in prior biennium

Economic Impact for KY

- Medicaid is the largest payer for long-term care services both in KY and the nation
- Medicaid has 40,345 enrolled providers (as of July, 2010)
- Medicaid is the primary payer of healthcare in Kentucky

Medicaid Payments
By Member's Area Development District
State Fiscal Year 2009
($5,543.1 million)



Payments by date of payment and by member's residence.
Figures reflect prorated distribution of "below the line" payments such as DSH payments and Medicare premiums.

Source: Department for Medicaid Services Decision Support System.

Medicaid Cost Drivers

- Extraordinary Events
- Unprecedented Eligibility Growth
- Cost and Utilization Growth

Medicaid Benefits Expenditures
Change from Fiscal Year 2008 to Fiscal Year 2009

	Dollar Change FY 2008 to FY 2009		
	($ millions)	% Change	
Overall Benefits Expenditures	619.6	12.6%	
Adjustments for Extraordinary Items			
Hospital Settlement Payments in FY 2009	81.3	1.6%	(payments for prior 3-4 years)
ARRA Payment Acceleration in FY 2009	140.0	2.8%	(requirement to receive enhanced match)
Adjusted Expenditure Growth	398.4	8.1%	
Estimated Dollar Value of Eligibility Growth	177.3	3.6%	(twice the rate of prior 3 years)
Remaining Growth	**221.1**	**4.5%**	(this figure is an approximation of utilization and cost growth)

Medical CPI Grew 1.9% during period

Medicaid Benefits Expenditures
Change from Fiscal Year 2008 to Fiscal Year 2009

Selected Categories of Service with Rates of Growth Greater Than Overall Average of 12.6%
($ millions)

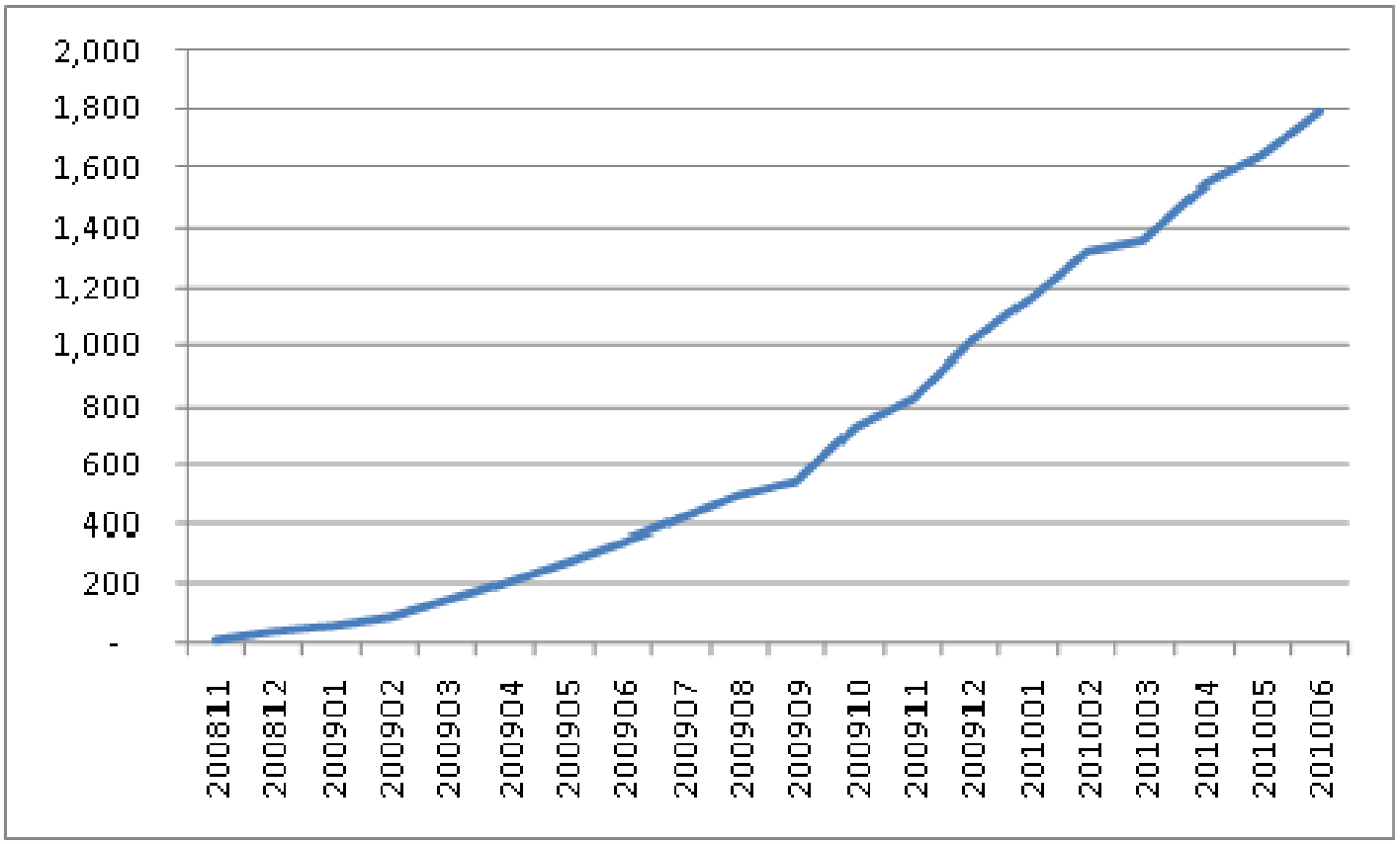
			Change FY 2008 to FY 2009		12.6% Change Share	
Type of Service	FY 2008	FY 2009	Percent	Dollars	Dollars	Over/(Under) Share
Inpatient Hospital	541.4	686.8	26.8%	145.3	68.1	77.2
Outpatient Hospital	310.8	366.1	17.8%	55.2	39.1	16.1
Primary Care (FQHC) and Rural Health	111.7	148.5	32.9%	36.8	14.1	22.7
Supports for Community Living Waiver	202.7	240.5	18.6%	37.8	25.5	12.3
Physicians	291.2	338.7	16.3%	47.5	36.6	10.9

Medicaid Cost Drivers – New Services

- Michelle P. Waiver
  - Implemented November 2008
    - 13 members at a total cost of $6,808 upon implementation
    - As of June 2010 - 1,784 members at a total cost of $3.8 million monthly and growing
- Money Follows the Person
  - Implemented October 2008
    - 5 members upon implementation
    - 88 members as of June 2010

Michele P Waiver Growth

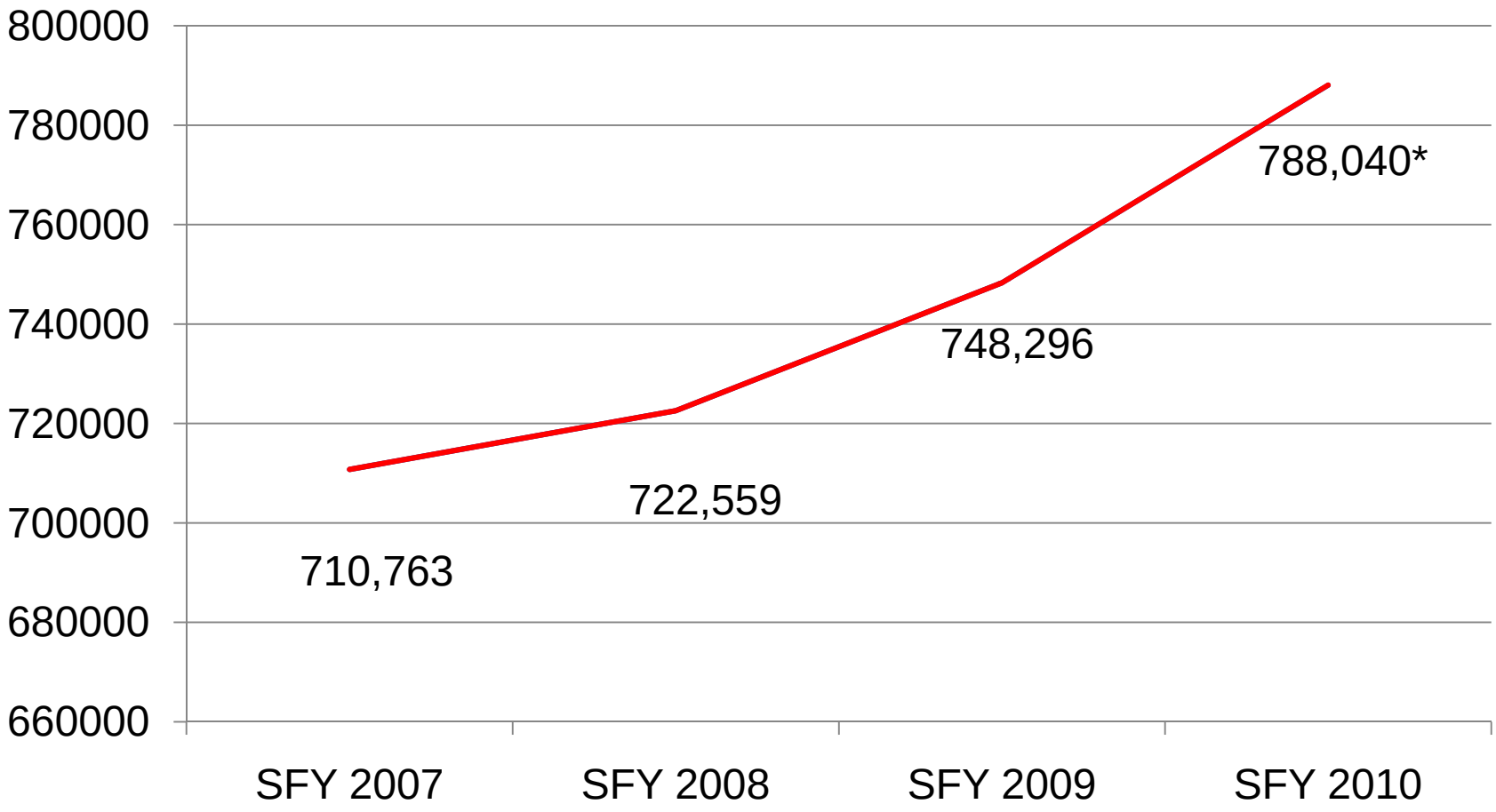
(Monthly Recipients by Paid Claims Date)



Medicaid Cost Drivers – New Services

- ABI Long Term Care Waiver
  - Implemented November 2008
    - Three members at a total cost of $958
    - As of June 2010 - 124 members at a cost of $797,000
- Increased KCHIP Enrollment from 53,186 to 59,798 in (October 2008 – May 2010)

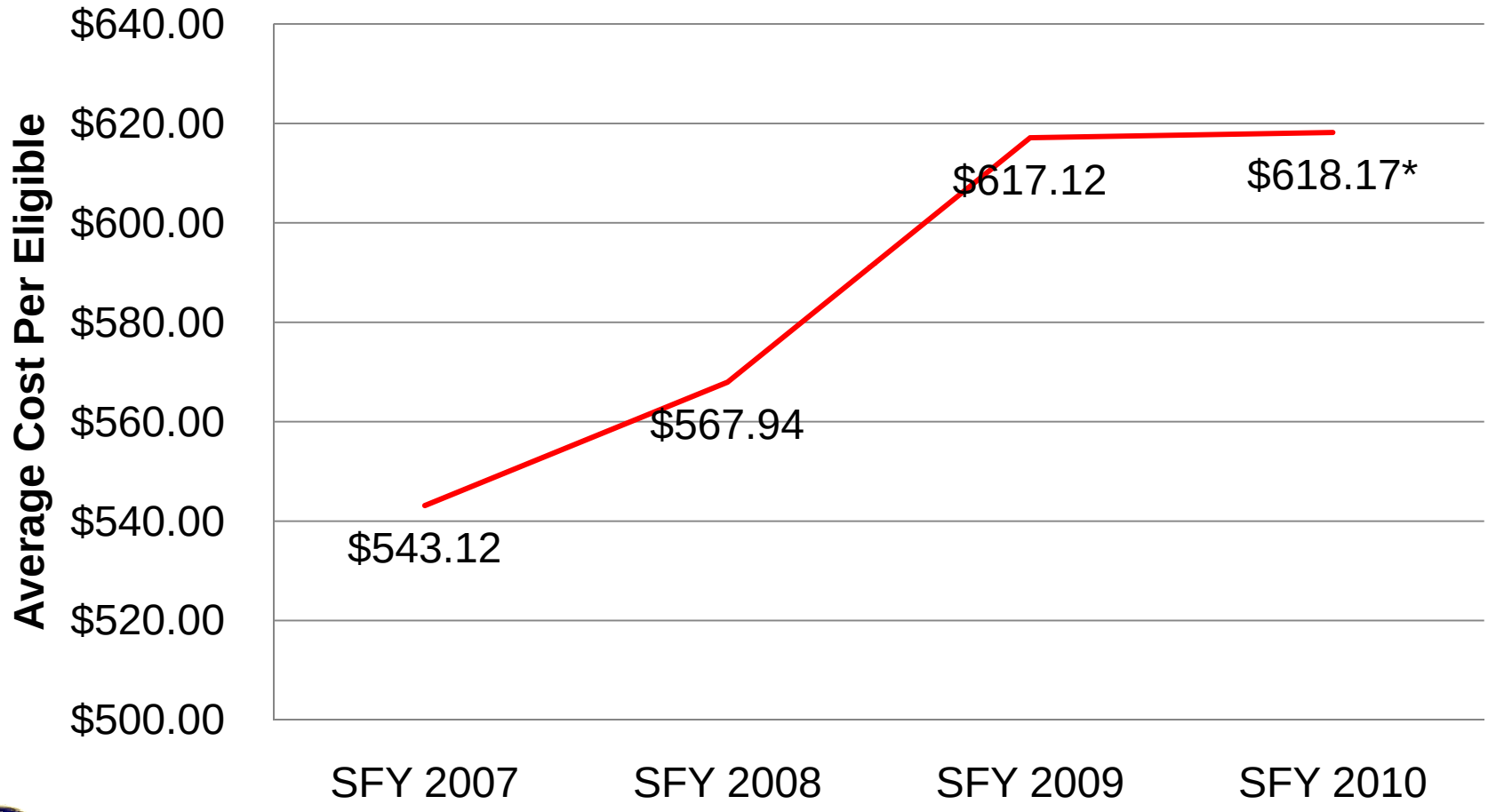
Medicaid Eligibility Growth



COMMONWEALTH OF KENTUCKY
CABINET FOR HEALTH AND FAMILY SERVICES
DEPARTMENT FOR MEDICAID SERVICES

*Preliminary

Medicaid Benefit Expenditures
Average Cost Per Eligible Per Month
FY 2007-2010



*Preliminary

Medicaid Cost Containment Actions
FY 2011
Effective July 1, 2010

Medicaid Efficiencies

- Post Payment Pharmacy Audits estimated to save $0.6 million per year ($0.1 million GF)
  - First Quarter 2010 audit resulted in over $500,000
- Prior Authorization for Suboxone and Zanaflex
  - Estimated savings of $3.0 million ($0.6 Million GF)

Medicaid Efficiencies

- Early refill
  - Changing the Administrative Regulation and State Plan to reflect that at least 90% of medication must be used before refill
  - Requiring pharmacy or prescriber to call or fax for a prior authorization before 90% is used.
    - Estimated savings - $2.7 million ($0.5 million GF)

Medicaid Efficiencies

- Only allow prescriptions to be filled when prescribed by a Medicaid enrolled provider
  - Estimated savings - $11.2 million ($2.2 million GF)
- Modify coverage of over-the-counter (OTC) medications
  - Limit OTC to generic drugs on preferred drug list
    - Estimated savings - $4.5 million ($0.9 million GF)

Medicaid Efficiencies

- Enhanced Lock-In Program
  - Recipients, who have certain utilization characteristics, will be “locked-in” to a primary care provider, pharmacy, a narcotic prescriber and one hospital for non-emergent care
    - Estimated savings - $5.1 million ($1.0 million GF)

Medicaid Efficiencies

- Hospital Acquired Conditions and Never Events
  - Discontinues payment for Hospital Acquired Conditions and Never Events
  - Examples would include:
    - Staph infection acquired in the hospital
    - Operating on the wrong knee
  - Estimated savings - $0.3 million ($0.1 million GF)

Medicaid Efficiencies

- Diabetic Supplies to be purchased through pharmacy instead of Durable Medical Equipment (DME)
  - Purchasing diabetics supplies at a pharmacy rather than a DME provider allows Medicaid to collect manufacturer rebates
    - Estimated Savings - $2.2 million ($0.4 million GF)

Medicaid Efficiencies

- New Program Integrity Support Vendor
- Request For Proposal (RFP) has been released
- New vendor will work on a contingency fee basis meaning they will be reimbursed based on actual recoveries
- Estimated savings - $27.0 million ($5.3 million GF)

Medicaid Efficiencies

- Implement recoupment from providers billing in excess of coverage limits
  - Some Providers billed for visits above coverage limits
    - Estimated savings - $0.5 million ($0.1 million GF)
- Revenue Intercepts
  - Partner with Department of Revenue
    - Estimated savings - $1.0 million ($0.2 million GF)

Medicaid Efficiencies

- Health Insurance Premium Payments
  - If Medicaid recipient is eligible for group health insurance, Medicaid will pay group premium (if cost effective)
  - Medicaid will be secondary payer
  - Medicaid will provide “wrap-around” coverage
    - Estimated savings - $7.0 million ($1.3 million GF)

KY Medicaid Pharmacy Benefit Program

Medicaid Pharmacy Benefit

- Pharmacy is an optional service under the federal Medicaid rules
- Largest optional service before accounting for rebates
- $508 million for SFY 2009
- 9% of the total Medicaid dollars

Drug Ingredient Cost

- Providers are paid at the **LESSER** of:
  - Average Wholesale Price minus 14% plus dispensing fee for Generics; or
  - (Average Wholesale Price) minus 15% plus dispensing fee for Brands; or
  - FUL (Federal Upper Limit – as determined by CMS) plus dispensing fee; or
  - MAC (Maximum allowable Cost – as determined by Magellan analysis of market prices) plus dispensing fee; or
  - Usual and Customary: Providers are required to submit the cash price that they would charge any patient if there were no third party involved; or
  - Gross Amount Due: This is generally the amount left after the claim has been processed by another Third Party (TPL Claim).

Pharmacy Cost

- Dispensing Fees
  - $5.00 Generic
  - $4.50 Brand name drugs

Pharmacy and Therapeutics Advisory Committee

- Requirements set forth in KRS 205.564 and 907 KAR 1:019
- Fifteen members
  - Thirteen voting members (Ten physicians enrolled with Medicaid and Three licensed pharmacists)
  - Two nonvoting members (Medicaid's Medical Director and Medicaid pharmacy staff)

Drug Management Review Advisory Board

- Requirements set forth in KRS 205.5638
- Fifteen members
  - Thirteen voting members (Five physicians, five pharmacists, one physician assistant, and two ARNPs)
  - Two nonvoting members

Effective Generic Fill Rate

Quarter	Rate*
First Quarter 2008	71.80%
First Quarter 2009	73.60%
First Quarter 2010	74.85%

*Effective Generic Fill rate:

1. Generic Utilization Rate (when a therapeutically equivalent drug is available and dispensed) as required by statute **Plus**
2. Brand name drugs where the manufacturer's rebates would lower the cost of the brand name drug below the cost of a generic drug

Rebates

- Medicaid receives rebates from manufacturer's that have contracted with CMS and
- States can negotiate supplemental rebates