

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

**July 20, 2010**

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Department for Medicaid Service  
Cabinet for Health and Family Services**



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DEPARTMENT FOR MEDICAID SERVICES**

# Agenda

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

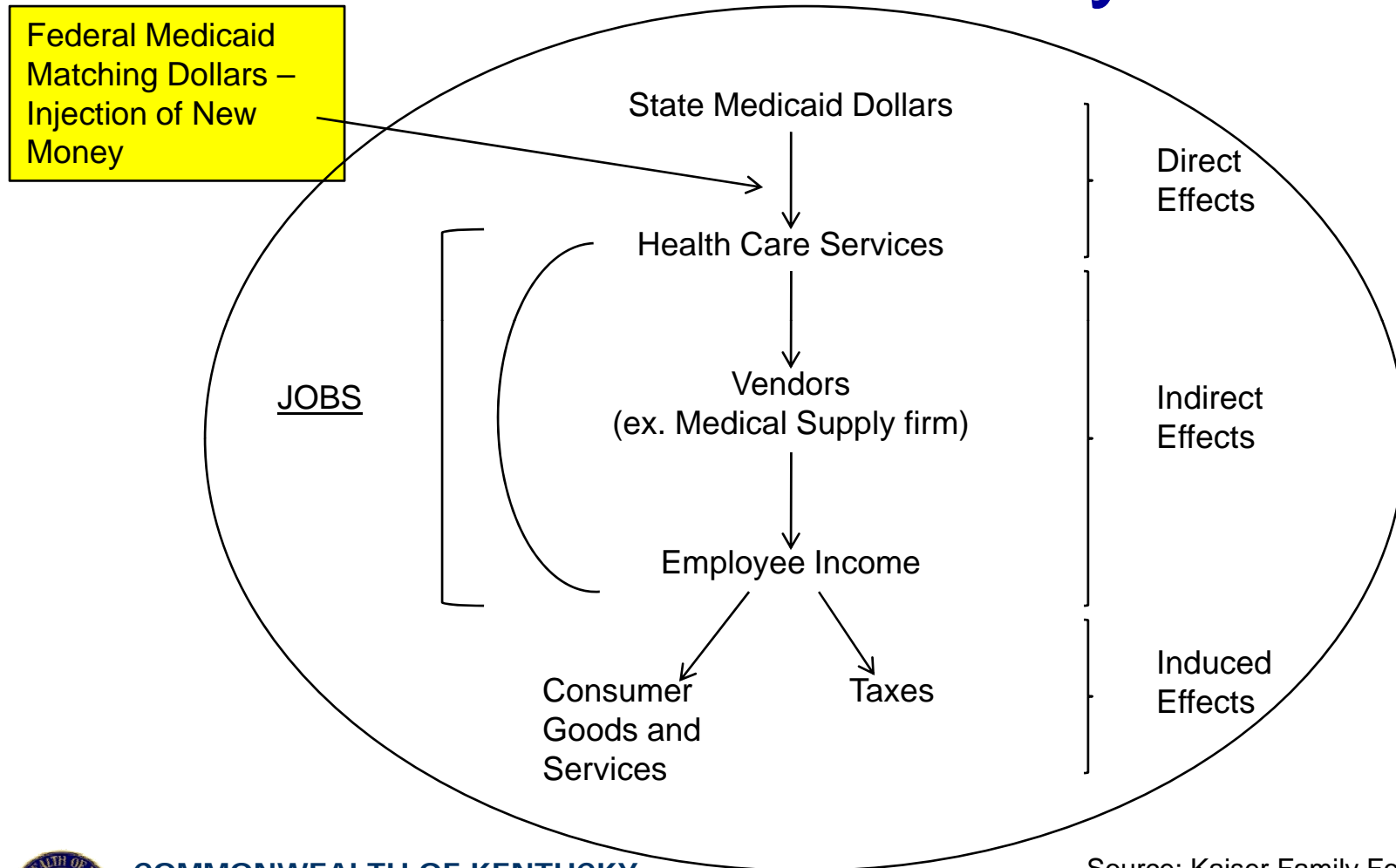


# National Perspective on Medicaid

- 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



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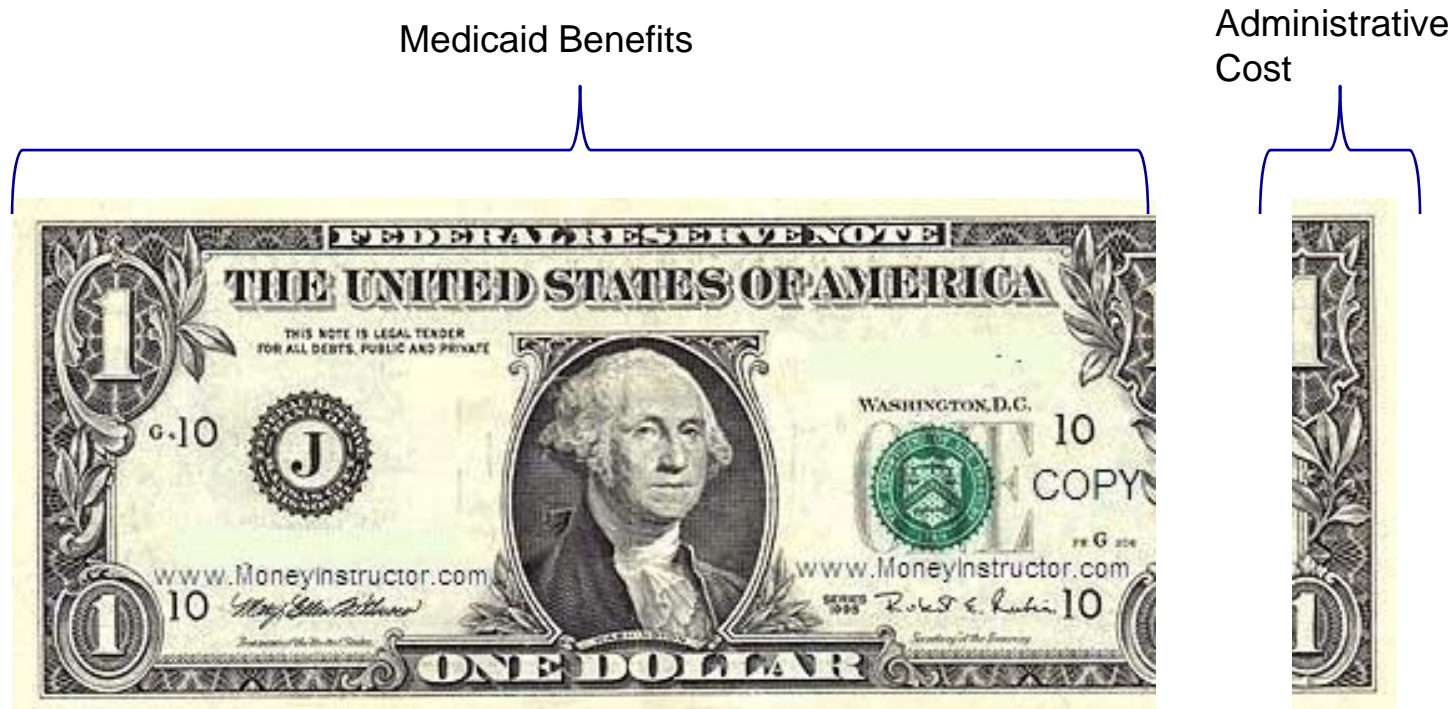
Source: Kaiser Family Foundation  
– *The Role of Medicaid in State Economies: A look at the Research* (January 2009)

# 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



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



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# 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

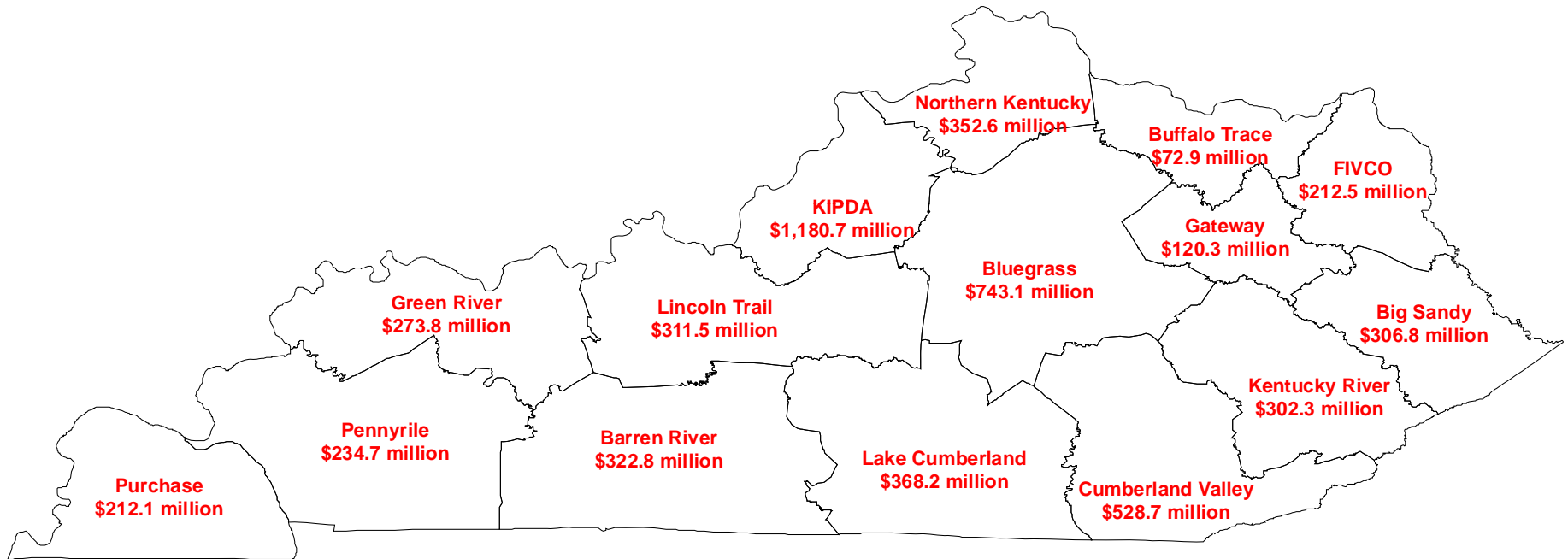


# Economic Impact for KY

- 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.



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# Medicaid Cost Drivers

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



# Medicaid Benefits Expenditures

## Change from Fiscal Year 2008 to Fiscal Year 2009

	<b>Dollar Change FY 2008 to FY 2009</b>	
	(\$ millions)	% Change
Overall Benefits Expenditures	619.6	12.6%
<b><u>Adjustments for Extraordinary Items</u></b>		
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)
<b>Remaining Growth</b>	<b>221.1</b>	<b>4.5%</b> (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)

Type of Service	FY 2008	FY 2009	<u>Change FY 2008 to FY 2009</u>		<u>12.6% Change Share</u>	
			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



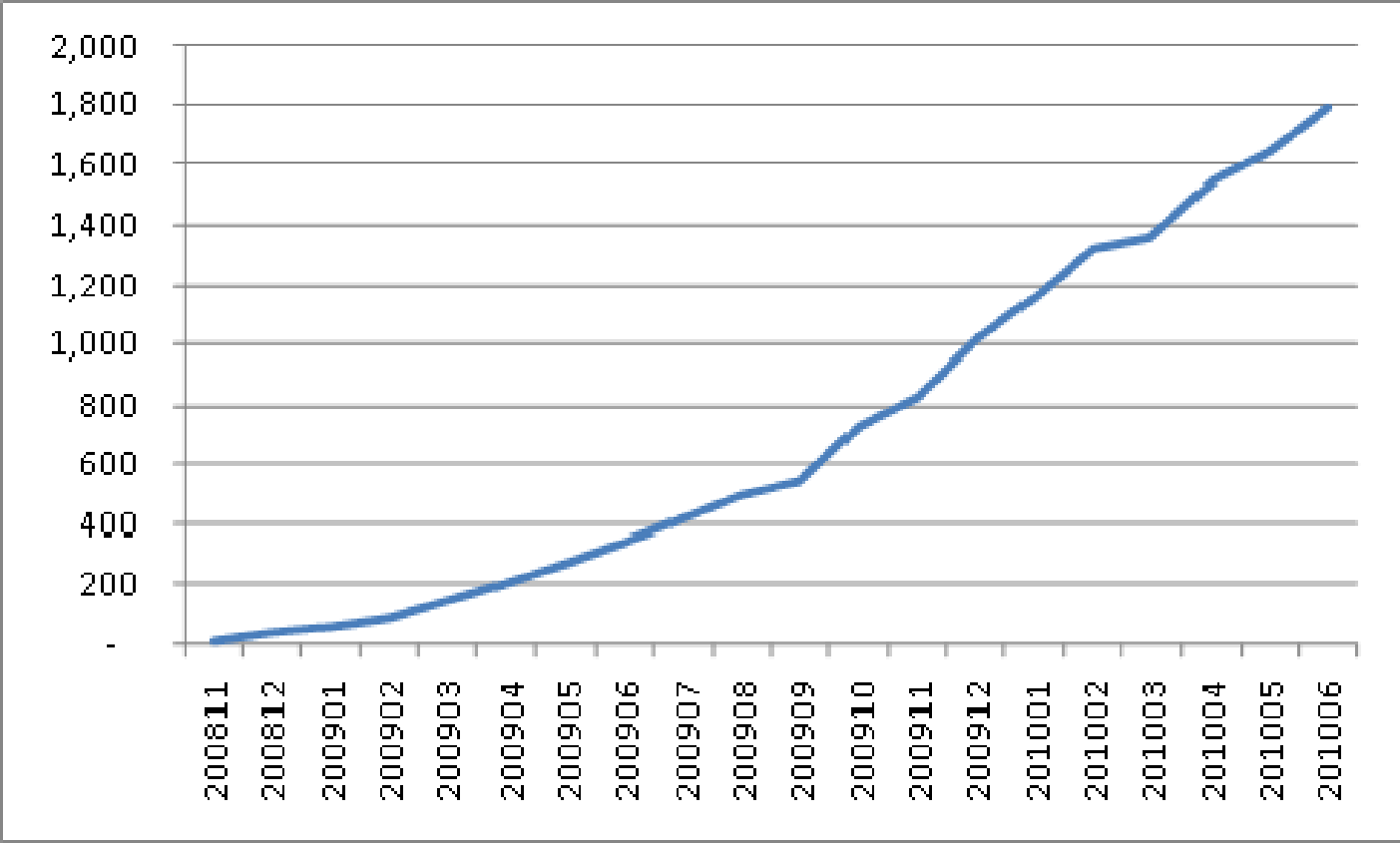
# Medicaid Cost Drivers – New Services

- 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)



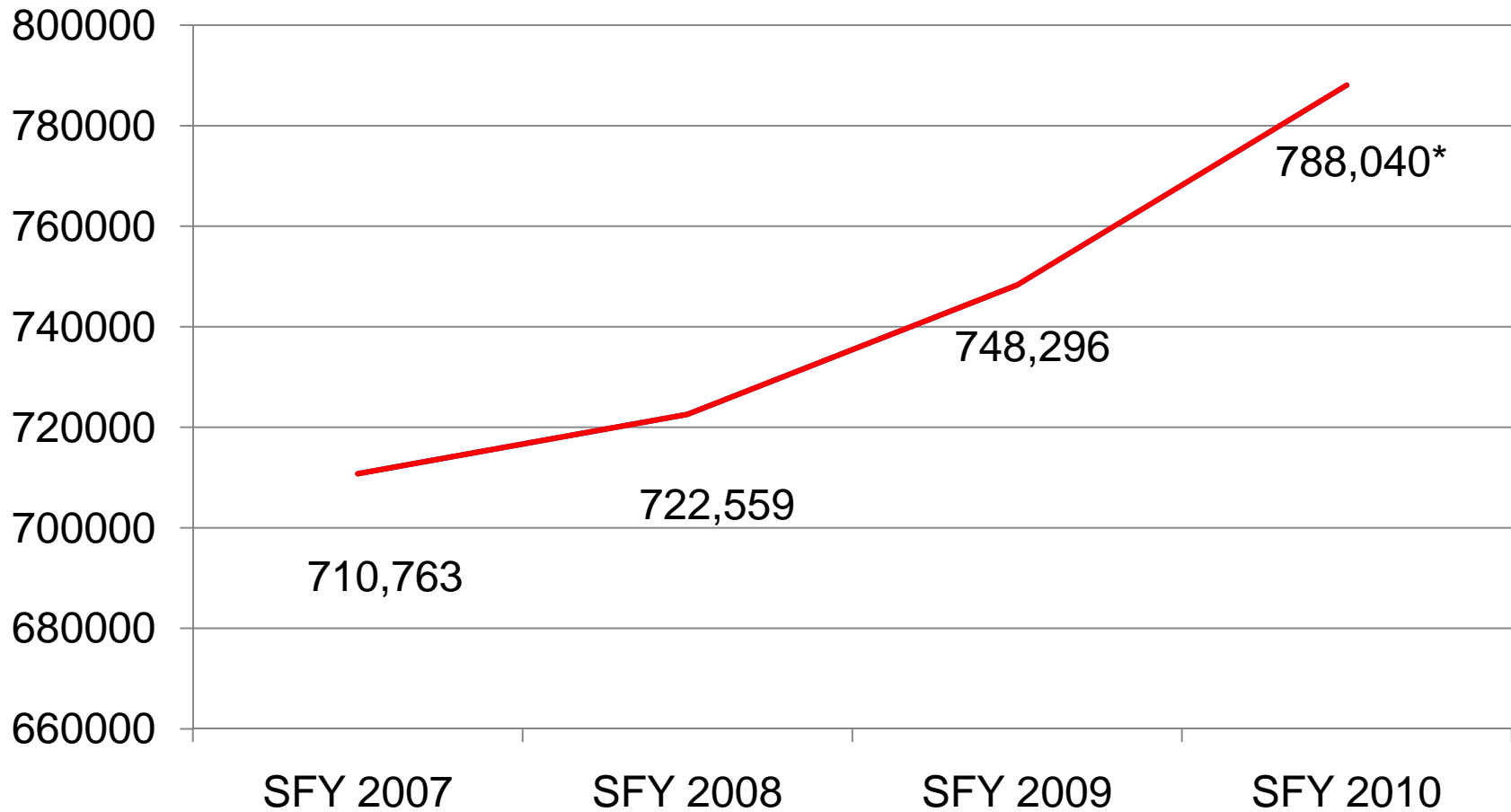
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# Medicaid Cost Drivers – New Services

- 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



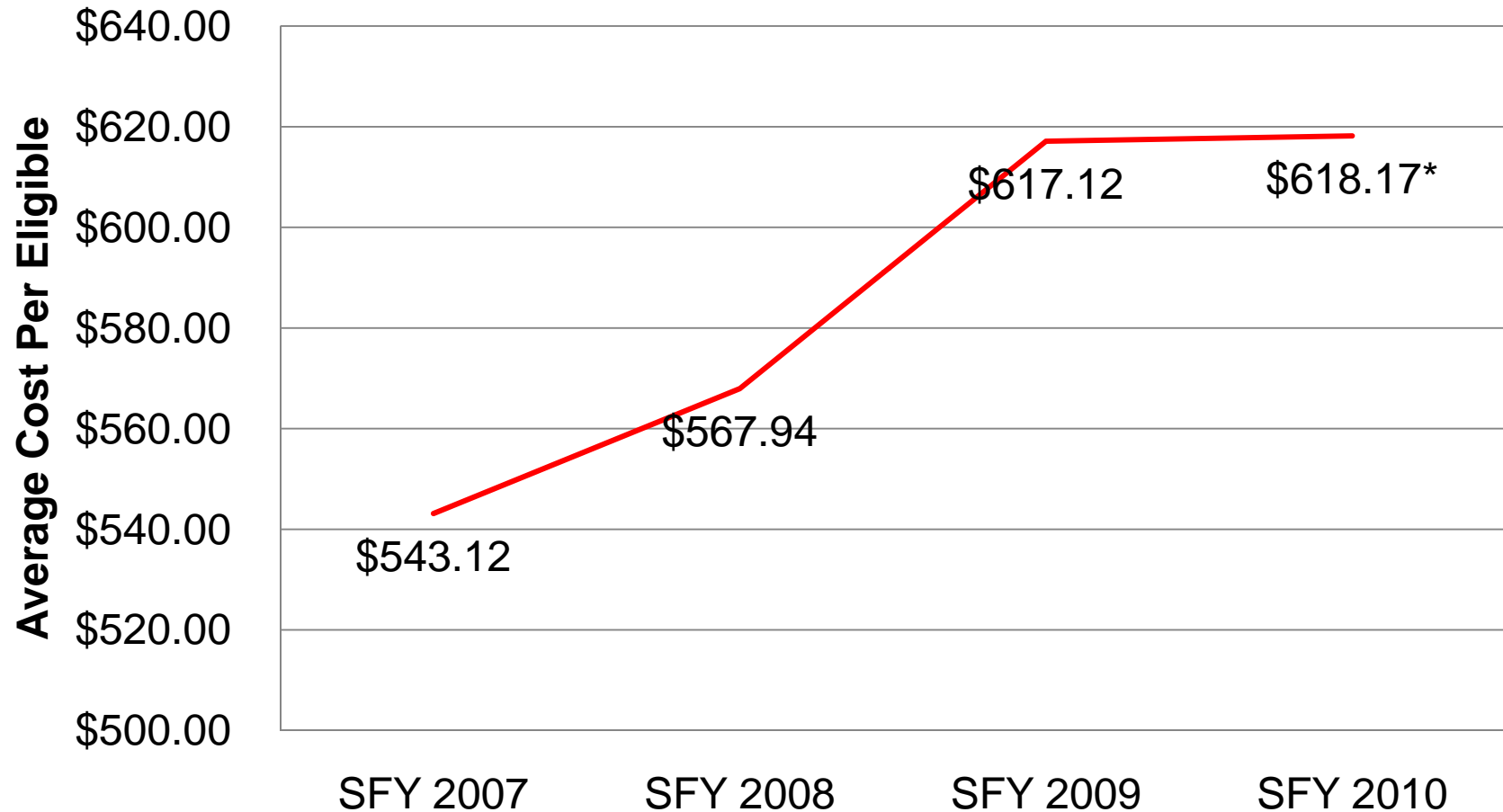
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\*Preliminary

# Medicaid Benefit Expenditures

## Average Cost Per Eligible Per Month

### FY 2007-2010



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\*Preliminary

# Medicaid Cost Containment Actions FY 2011 Effective July 1, 2010



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# 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



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# 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



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# Rebates

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

