



Iowa Department of Human Services

Terry E. Branstad
Governor

Kim Reynolds
Lt. Governor

Charles M. Palmer
Director

INFORMATIONAL LETTER NO.1201

DATE: December 21, 2012

TO: Iowa Medicaid Pharmacies

ISSUED BY: Iowa Department of Human Services, Iowa Medicaid Enterprise (IME)

RE: Reimbursement Changes for Pharmacy and Important Dates #4

EFFECTIVE: February 1, 2013

This Informational Letter provides updates on the upcoming changes to the Iowa Medicaid pharmacy reimbursement. These changes will take effect on February 1, 2013, or upon CMS approval, whichever is later.

Background:

The 84th Iowa General Assembly enacted during the 2012 Iowa Legislative session the requirement that the Department of Human Services (DHS) perform a cost of dispensing (COD) survey and implement an average actual acquisition cost (AAC) reimbursement methodology for all drugs (Senate File 2336, Section 33).

The IME has worked very closely with the Iowa Pharmacy Association (IPA) and National Association of Chain Drug Stores (NACDS) regarding two separate, but related, projects (1) the COD survey, and (2) the average AAC reimbursement. These projects will be used for the new pharmacy reimbursement methodology. Under this new methodology, drug ingredient costs will be reimbursed based on average AAC and the dispensing fee (DF) will be based upon the COD survey results. The IME must obtain approval from the Centers for Medicare and Medicaid Services (CMS) in the form of a State Plan Amendment (SPA) for both projects. These changes are anticipated to be implemented simultaneously on February 1, 2013, or upon CMS approval, whichever is later.

There is significant activity on the federal (CMS) level regarding pharmacy reimbursement. The extent to which federal reimbursement rates would be available or are appropriate for use in Iowa is unknown at this time. Therefore, Iowa Medicaid will move forward on work to redesign the pharmacy reimbursement program.

Updates:

1. Cost of Dispensing/Dispensing Fee

- a. The cost of dispensing survey resulted in an average cost of dispensing (weighted by Medicaid volume) of **\$10.02** for Iowa pharmacies. As a result, the dispensing fee will be adjusted from \$6.20 to \$10.02 on February 1, 2013, pending CMS approval of the SPA.

2. Average AAC reimbursement

- a. The new average AAC program utilizes the pharmacy acquisition cost survey with which Iowa pharmacies are accustomed. This survey process minimizes administrative burden on providers by requesting information that is readily available in the pharmacy. The average AAC rates will be based on acquisition costs taken from pharmacy invoices.
- b. Surveys requesting drug acquisition cost invoice information for the average AAC program were mailed October 1, 2012. Pharmacies selected for the survey (approximately 50% of all enrolled pharmacies) received correspondence from Myers and Stauffer outlining the simple process of submitting a month's worth of invoices by fax, mail, or electronic submission.
- c. Myers and Stauffer will be conducting these surveys for the IME on a semi-annual basis. *This increase in survey frequency will result in all pharmacies being selected for survey participation once every year. Please note your compliance regarding submission of requested information is required.*
- d. Before average AAC rates based on survey results are published, they are updated to reflect changes in drug pricing that occurred between drug purchase dates and rate publication dates. This allows for the average AAC rates to reflect changes in drug prices that occurred between survey collection and rate publication.
- e. Average AAC rates will be updated on a weekly or more frequent basis. Rates will be updated by adjustments reflecting relative changes in published drug prices, and new drug acquisition costs collected through surveys or provider-initiated inquiries.
- f. Due to the increase in the frequency of updates to the reimbursement rates, update notices that are distributed via email will no longer be sent with every update. Updates will be posted at www.mslciowa.com and update notices will be distributed via email with the semi-annual rebasing of reimbursement rates.
- g. A Frequently Asked Questions (FAQ) document related to average AAC reimbursement accompanies this letter and can be found at www.mslciowa.com/AAC.htm.

Important Information:

1. **Confidentiality:** Any dispensing fee expenses or acquisition cost information required to be submitted under this legislation that specifically identifies a pharmacy or provider's individual cost will remain confidential.
2. **Approval:** The IME must obtain approval from CMS in the form of a State Plan Amendment (SPA) for both the average AAC reimbursement methodology and the DF, based on the COD survey. These changes will be implemented simultaneously once CMS approval is obtained.

3. Important Dates

	Date
Draft Average AAC rates posted	January 1, 2013
Implementation of average AAC and new DF	February 1, 2013, or upon CMS approval, whichever is later

- 4. Updates:** Additional Informational Letters will be released as the change in reimbursement proceeds.
- 5. Pharmacy Listserv:** For additional updates on the change in reimbursement, please send your email address to pharmacy@mslc.com to request to be added to the Iowa Medicaid pharmacy listserv.

Contact information for this process can be found at www.msliciowa.com. This website will be updated as new information becomes available. Additionally, staff may be contacted by email at pharmacy@mslc.com or toll-free at 800-591-1183.

Iowa Medicaid Enterprise Average Actual Acquisition Cost Reimbursement Frequently Asked Questions

What are Average Actual Acquisition Cost (AAC) rates?

Average Actual Acquisition Cost (AAC) rates are based on the premise that chemically equivalent drug products with the same strength and dosage form should be reimbursed similarly. Average AAC rates are designed to maximize the cost-effectiveness of pharmacy services by setting reimbursement amounts for pharmaceutically equivalent drug products at the same price, based on the cost of the products. Drugs with the same active ingredients, strength, dosage form, and route of administration will receive the same average AAC rate. There will be separate average AAC rates for brand and generic drugs.

How will the average AAC rates be updated? How do I report concerns about product prices or product availability?

Average AAC rates are updated based upon changes in drug acquisition costs or relative changes in published drug prices. Drug acquisition costs are obtained through surveys of Iowa Medicaid-participating pharmacies. Between these surveys, average AAC rates are adjusted relative to changes in the published drug prices, or new cost information collected through Help Desk inquiries.

Providers may request that the IME review average AAC prices for particular drugs through the Myers and Stauffer Help Desk. Providers who wish the IME to consider adjustments to average AAC rates may make such a request by contacting Myers and Stauffer by email, regular mail, fax or toll-free telephone. *It is important that the request for review be made as soon as a discrepancy in price is noted.* When making such a request, providers will be asked to provide as much information as possible to assist the IME and Myers and Stauffer in understanding the specific issue being raised and the provider's desired outcome. Helpful information should include but not be limited to drug purchase summaries, invoices, remittance advices, and other such documentation. In the absence of sufficient information to assess concerns about average AAC rates or other aspects of the average AAC program, provider requests cannot be fully considered. Providers initiating requests for review of average AAC rates or other issues may be contacted to request supporting documentation or other information. Providers will be contacted as soon as possible within 24 hours of a normal business day.

Why might Iowa Medicaid request information about my pharmacy's drug purchases?

In order to maintain an average AAC program with reimbursement that reflects current pharmaceutical market conditions, the average AAC rate schedule is based on average actual drug acquisition costs of Medicaid pharmacy providers. The calculated rates are designed to reimburse ingredient costs by considering the prices pharmacies pay in order to acquire the selected drugs.

Why should I send information about my pharmacy's drug purchases to Iowa Medicaid if requested to do so?

During the 2012 Iowa Legislative session, the 84th Iowa General Assembly enacted a requirement that the Department of Human Services implement an average actual acquisition cost reimbursement methodology (Senate File 2336, Section 33). Pharmacies that participate in the Medical Assistance program are required to submit the requested information, pursuant to that legislation. The average AAC rate schedule is based on Medicaid pharmacy providers' actual experiences purchasing selected drug products. Providers who receive requests for drug purchase information are required by the IME to provide the requested information to ensure that the established average AAC rates fully consider providers' cost experience in the marketplace.

What are the acceptable methods to transmit my drug purchase information?

For drug purchases made during the identified time period requested by the IME, providers can simply retrieve the invoices reflecting their purchases, photocopy the records and then mail the copies to Myers and Stauffer. A provider can also provide this data via email in an electronic format.

What will Iowa Medicaid do with drug purchase information it receives from me?

The IME will use drug purchase information submitted by pharmacies for the purpose of establishing, evaluating, maintaining, and updating average AAC rates. The IME has contracted with the firm of Myers and Stauffer to assist in developing and maintaining the average AAC rates. Pharmacies are encouraged to submit copies of purchase information, rather than originals as documents submitted will not be returned.

Why might my pharmacy be selected to provide drug purchase information?

All pharmacy providers enrolled in the Iowa Medicaid program are eligible for random selection to provide drug purchase information to the IME and Myers and Stauffer.

For what time period would my drug purchase information be requested?

All pharmacy providers enrolled in the Iowa Medicaid program are eligible for selection to provide drug purchase information. When a request is received for drug purchase information, the time frame of the data will be requested for the most recent complete month.

How often will I be selected to provide drug purchase information?

Myers and Stauffer will be conducting these surveys for the IME on a semi-annual basis. This survey frequency will result in all pharmacies being selected for survey participation once every year. Please note your compliance regarding submission of requested information is required.

How often will the average AAC rates on the Myers and Stauffer Iowa Pharmacy website (www.mslciowa.com) be updated?

The average AAC rates will be updated weekly, or as necessary based on changes in overall acquisition costs of providers

How will changes in average AAC rates be communicated?

Updates to the average AAC rates will be posted on the Myers and Stauffer Iowa Pharmacy website (www.mslciowa.com).

How will drug reimbursement change as a result of the average AAC program?

Iowa Medicaid pharmacy drug reimbursement will be based upon the average actual acquisition cost (AAC) of the drug, as opposed to reimbursement based upon published drug prices. The average AAC rate is determined using the acquisition cost data collected from Iowa Medicaid-participating pharmacies. Drugs with the same active ingredients, strength, dosage form, and route of administration will receive the same average AAC rate. There will be separate average AAC rates for brand and generic drugs.

For brand drugs, reimbursement will be the lower of the average AAC rate plus dispensing fee or the submitted charge. For generic drugs, reimbursement will be the lower of the average AAC rate plus dispensing fee, the FULs plus dispensing fee, or the submitted charge.

How will pharmacy claims be processed if there is no average AAC rate?

Average AAC rates will be established and maintained for the majority of drugs highly utilized by Iowa Medicaid-participating pharmacies. However, there will be cases where an average AAC rate has not yet been established for a drug. In such cases, the drug claim will default to establish reimbursement using the Wholesale Acquisition Cost (WAC) rate.

In cases when an NDC does not have an average AAC rate or a WAC rate, the pharmacy will be notified that no reimbursement rate is on file and will be prompted to contact the Myers and Stauffer Help Desk for assistance.

What activity is there on the federal (CMS) level regarding pharmacy reimbursement?

CMS is developing a new national price benchmark that is more reflective of the prices that pharmacies pay to acquire prescription and over-the-counter drugs called the National Average Drug Acquisition Cost (NADAC). A monthly nationwide survey of licensed retail community pharmacies, which will include independent pharmacies and chain pharmacies in the United States, will be performed to collect drug acquisition cost information. The survey data will provide information which CMS expects to use to assure compliance with Federal requirements. To ensure that NADACs are accurate, timely, and robust, the NADACs will be reviewed and updated on a weekly basis. The NADAC will be available for consideration by the States to assist with their individual pharmacy reimbursement policies. CMS has

contracted with Myers and Stauffer LC, a national certified public accounting firm, to conduct the surveys of drug ingredient costs from pharmacy entities, such as independent pharmacies and chain pharmacies in the United States, and to develop and maintain the NADAC pricing benchmark.

Iowa pharmacies may receive requests for pharmacy invoice information from both the IME and from CMS. These are not the same survey and must be responded to separately.

Why can Iowa Medicaid not just use the NADAC rates rather than survey Iowa Medicaid pharmacies?

The National Average Drug Acquisition Cost (NADAC) file is still in draft form. CMS is currently refining the program and soliciting comments from the public on the NADAC. As this rate file becomes final through CMS, Iowa Medicaid will monitor the appropriateness of utilizing this rate file. A comparative analysis will be performed on the NADAC versus the Iowa Medicaid average AAC for rates, number of drugs, update frequency and other data points.

Whom may I contact with questions regarding this initiative?

We welcome providers' questions, comments, and input regarding the average AAC program and average AAC rate schedule. To share general comments or to request information regarding the average AAC rate schedule, you may contact the Myers and Stauffer Pharmacy Unit.

Providers are encouraged to contact the Myers and Stauffer Pharmacy Unit to discuss:

- Changes in acquisition cost of a drug
- Changes in product availability
- Questions regarding average AAC rates
- Questions concerning drugs on the average AAC rate list
- How to obtain a copy of the average AAC rate list

Contact Myers and Stauffer by Telephone, Fax, Mail, or E-mail

Parties who wish to comment or discuss questions, comments, or concerns about the average AAC program may contact Myers and Stauffer weekdays between 8:00 A.M. and 5:00 P.M. (Central Time) as follows:

**Myers and Stauffer LC
Pharmacy Unit**
9265 Counselors Row, Suite 200
Indianapolis, IN 46240
Phone: 800-591-1183
Fax: 317-571-8481
Email: pharmacy@mslc.com

Contact Myers and Stauffer Online

Comments or questions may be forwarded to Myers and Stauffer via the Internet at any time by visiting www.msliciowa.com. This Internet site has been developed exclusively to support the Iowa Medicaid average AAC program. On this site providers will find the average AAC rate schedule and updates, news and information, and online forms to send questions and comments to Myers and Stauffer.