

**Mercer Government**  
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# Pharmacy Program Efficiency

## Case Study

Typically, pharmaceuticals represent more than 17% of health care costs and have been trending upwards at a rate of 1% to 4% annually. To assist our state fee-for-service (FFS) Medicaid clients in becoming more efficient purchasers of pharmaceuticals, we need to accomplish two tasks. First, we must determine the level of program efficiency the state desires to purchase. And second, we must identify the service areas in which opportunities exist.



As with other modes of treatment, medications can be overused or misprescribed, resulting in unnecessary costs. The Managed Pharmacy Practice of Mercer has developed a range of support services and tools to assist state clients with identifying clinical enhancement opportunities that are also cost-effective. Mercer's methodologies can be incorporated to optimize both capitated and FFS programs.

State clients wishing to enhance their managed care organization (MCO) rate setting and reimburse for an efficient pharmacy program have used Mercer's analytics to adjust their capitation rates. Results are dependent on the specific analysis, as well as on the recipients and category of aid covered under the Medicaid program.

The results range from \$0.10 to \$1.35 per member per month (PMPM) for any one analysis. States that have implemented multiple initiatives have cumulative annual savings ranging from \$1.00 to \$3.50 PMPM, which varies based on recipients covered in the program.

Mercer's broad data/analytical and actuarial capabilities, together with our clinical depth and breadth, enable us to identify potential pharmaceutical misuse, overuse, and inappropriate prescribing patterns. Mercer assists our state clients in distinguishing between efficient and inefficient MCO practices, resulting in a higher-quality program for the same or a lower price.



### Our expertise and experience include:

- Identifying inappropriate prescribing and dispensing patterns by employing a series of industry-standard utilization-management edits
- Evaluating the aggressiveness of the maximum allowable cost list used in claims reimbursement
- Reviewing pharmacy and medical claims data at the recipient level to determine if medications with high potential for abuse or misuse have a clinically appropriate matching diagnosis
- Identifying physician-administered specialty injectables processed with a J code that could have been processed through the pharmacy benefit with a National Drug Code, garnering a manufacturer rebate.
- Analyzing high-dollar drug-related Healthcare Common Procedure Coding System (HCPCS) codes administered in the physician's office that commonly have incorrect billing units
- Analyzing claims for Medicare/Medicaid dual-eligible recipients to determine if payment was made by the appropriate carrier
- Evaluating hepatitis-C historical utilization, coverage criteria, and cost information to identify opportunities for more efficient management

# Enhancing MCO Capitation Rate Setting



## Situation

Faced with rising medical trends and a shrinking state budget, the state engaged Mercer to identify and quantify inappropriate use of medications within their capitated MCO pharmacy programs.



## Challenge

Both the state, as the ultimate purchaser, and the MCOs needed confidence in the credibility of a pharmacy-specific rate-adjustment process that identified program inefficiencies. The development of an actuarially sound algorithm and analytical tool that would produce defensible results required the integration of clinical, pharmaceutical, and actuarial expertise.



## Action

Mercer's pharmacy practice, in collaboration with physicians and nurses, developed a set of utilization-management edits that were incorporated into a clinical rules-based algorithm. The algorithm reviewed one year's pharmacy encounter claims, identifying any claims that met the criteria established for the edits. Within the algorithm, each potentially inappropriate claim was counted only once and assigned to the appropriate edit based on priority rank.

Mercer worked with the client's medical and pharmacy staff to develop adjustment factors that ensured identified claims were in fact inappropriately prescribed and were correctly identified as inefficient. These adjustment factors were assigned to each edit category, customized for Medicaid utilization patterns and based upon:

- Clinical literature.
- Clinical practice guidelines.
- Claims entry and submission errors.
- Eligibility data issues.
- Common prescribing patterns.
- Off-label prescribing practices.
- Medication titration issues.
- Failure of previous therapy.
- Professional judgment.

Finally, cost offsets were estimated for each edit based on potential migration to other clinical therapies, as well as potential impact on rebates earned.



## Results

The project resulted in savings of \$9 million in Year 1, \$10 million in Year 2, and \$14 million in Year 3. Average PMPM impact in Year 3, across six capitated MCOs, was \$1.23 with an MCO-specific range of \$0.45–\$2.25 PMPM. The greatest opportunities were in the Supplemental Security Income (without Medicare) and Temporary Assistance for Needy Families populations. Mercer optimized this tool in the actuarial rate-setting process for three consecutive years to develop a pharmacy efficiency-rate adjustment according to the level of value the state desired to purchase.

## For more information

Visit our website at [www.mercer-government.mercer.com](http://www.mercer-government.mercer.com) to view our experience, services and client feedback.

