MANAGING MANAGED CARE

Best Practices for Medicaid Pharmacy

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Managed care as a Medicaid delivery system has grown significantly over the past several years. According to data provided by the Kaiser Family Foundation, more than half of Medicaid enrollees (nationally) receive most or all of their care from risk-based managed care organizations (MCOs) that contract with state Medicaid programs.

In many states, the capitation rates paid to the MCOs are developed to include the cost of the prescription drug benefit and the MCOs are at risk for the cost of drugs. This is referred to as a managed care pharmacy carve-in arrangement.

While a pharmacy carve-in arrangement may provide a financial predictability benefit to states or a coordination of care benefit to enrollees, there are multiple challenges associated with a pharmacy carve-in including – but not limited to – challenges around payment transparency, data transmission, management of high cost drugs, clinical and financial efficiency, operations oversight, misaligned incentives and provider reimbursement. To overcome these challenges, states must implement a strong managed care pharmacy oversight program. For over fifteen years, Mercer consultants with expertise in Medicaid managed care pharmacy have supported numerous states with managed care pharmacy oversight efforts. Through our collective experience, we have identified and refined best practices for administering the pharmacy benefit within a managed care delivery system.

There are three foundational elements of effective managed care pharmacy oversight:

- Organization and Contract Management Oversight
- Performance Review
- Financial Review

Successful implementation and ongoing efforts across each of the three foundational elements will help the state ensure an effective and efficient managed care pharmacy program.

ORGANIZATION AND CONTRACT MANAGEMENT OVERSIGHT

Best practice for organization and contract management oversight is to implement a four step process:

- The first step is to define the functions and roles of the MCO and the Pharmacy Benefit Manager (PBM): which entity is responsible for each required function? The division of roles and responsibilities may vary across different MCO-PBM relationships (even within the same Medicaid program). Such variation isn't necessarily an issue as long as the functions and roles are well defined and state staff know where to go and with whom to speak at each MCO for any given contract provision.

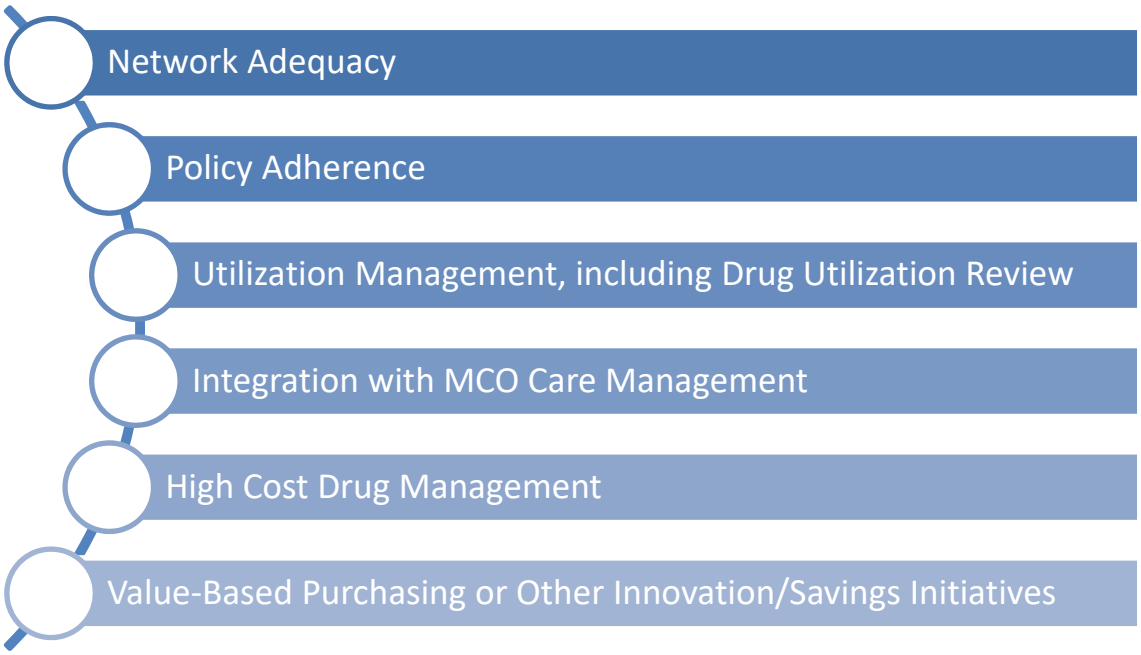
- The second step is to document the decision making authority within the contractors and subcontractors. Determine the role and individual(s) within each organization who are making decisions and resolve any conflicts of interest that might be present.

- The third step is a policy and procedure review. This review is an opportunity to document the current state how the MCO is organized and how decisions are made.

- Finally, ongoing oversight in the form of performance audits and onsite reviews are necessary to ensure that the documented policies and procedures are being followed consistently by MCO and PBM staff. It is imperative that the state design contracts that ensure their staff have access to the necessary data and information needed to effectively conduct ongoing performance and financial reviews.

PERFORMANCE REVIEW

There are six primary focus areas in a Medicaid Pharmacy performance review. Depending on the program and the MCO-PBM combinations participating, each of the focus areas could be a high level review or a detailed evaluation. A best practice is to complete a high level review of each of the six areas to determine whether or not a deeper dive into any specific issue is warranted. The six primary focus areas for performance review include:

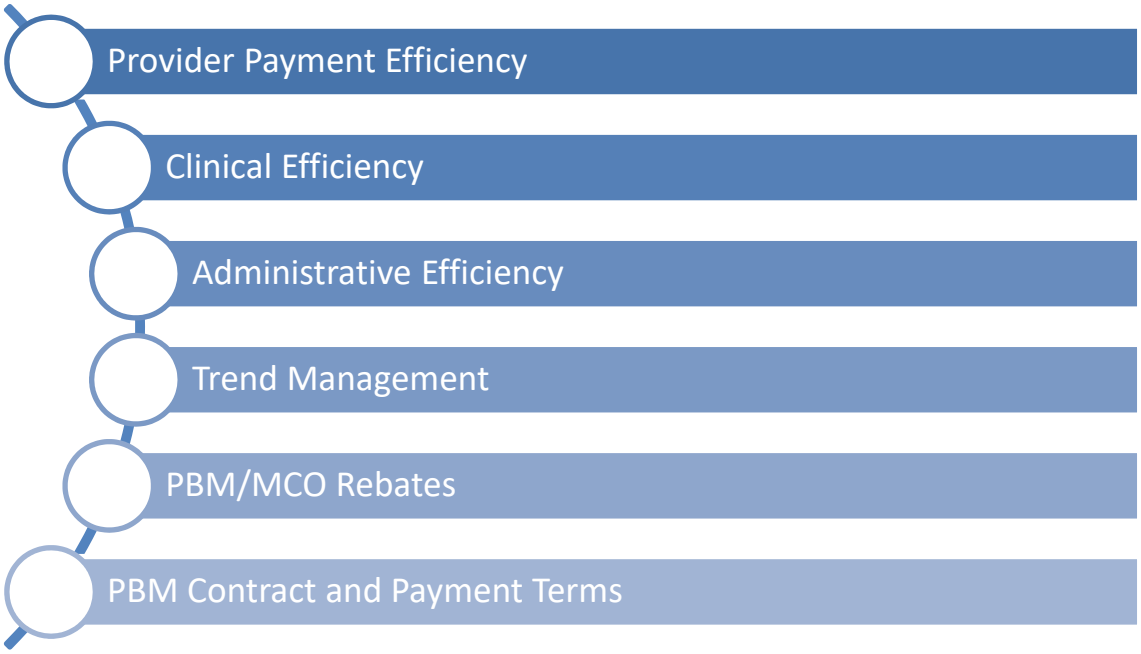


Some states use onsite visits (following desk review) to assess the performance of the MCOs in a real world environment. Following review of encounter claim data and clinical determinations, an onsite review can provide valuable insight into how policies are applied on a real-time basis. In addition, an onsite review can validate how patient data is collected, validated, stored and used in various functions.

FINANCIAL REVIEW

There are also six primary focus areas in a Medicaid Pharmacy financial review. As with the performance review, a best practice for a comprehensive financial review is to perform at least a high level assessment in each of the six focus areas. Based on the initial findings, a more targeted deep dive may be warranted as a next step.

The six primary focus areas for financial review include:



Financial review is essential for efficient and accurate capitation rate development. If encounter data is being used as base data for rate development, it is essential to ensure that the encounter claims are efficient both from a clinical and a financial standpoint. Many states perform detailed reimbursement and clinical efficiency analyses that result in the removal of inefficient spend from the pharmacy claims encounter base.

HOW CAN MERCER HELP

Effective managed care pharmacy contract oversight is a broad, challenging topic that requires time, effort, attention to detail and significant ongoing commitment by state program staff. Generally, states do not have the bandwidth nor funding to implement all of the recommended best practices at once. States may prioritize their initial or next steps based on the top concerns of their Medicaid program, stakeholders or policy makers — Mercer can assist with prioritization, development and/or implementation of managed care pharmacy oversight efforts. For more information, email us at mercer.government@mercer.com.