Akron Beacon Journal/Ohio.com

Reports shows pharmacy middlemen making big money in other states

By Marty Schladen
The Columbus Dispatch
Posted at 6:01 AM

It's not just Ohio.

Pharmacy middlemen are making big money in at least two other Midwestern states' Medicaid programs, according to two new analyses.

The state-federal health insurance programs for the poor in Illinois and Kentucky appear to be even more profitable for pharmacy benefit managers than they were in Ohio, the research found.

A study in the Buckeye State — one that was prompted in part by an earlier analysis by The Dispatch — found that in 2017, middlemen CVS Caremark and OptumRx charged taxpayers $224 million more for Medicaid drugs than they paid pharmacists, for a margin of 8.8 percent. The analyst who wrote the report said those charges were at least triple the going rate.

An analysis released Wednesday by the Illinois Pharmacists Association shows that just as that state rolled out its Medicaid managed-care system in the second quarter of 2018, pharmacy benefit managers, also known as PBMs, were charging taxpayers 23 percent more for generic drugs than they were paying pharmacists for those drugs.

"It's in the first quarter of implementation," said Antonio Ciaccia, a co-founder and researcher with 3 Axis Advisors, which did the report. He also is a lobbyist for the Ohio Pharmacists Association.

Ciaccia said that Illinois's high "spread" between what PBMs are charging for generic drugs and what they're paying could be a harbinger of the future. "The data we're tracking shows that this is a growing problem."

Greg Lopes, a spokesman for the PBM industry group the Pharmaceutical Care Management Association, noted the Illinois study used data from 21 percent of generic drug transactions to come to its conclusions.

"These types of studies are biased toward one group — independent drugstores — and give an incomplete and inaccurate picture of prescription drug costs in Medicaid," he said in an email.

CVS, which also operates the nation's largest drugstore chain, is PBM to most of Ohio's Medicaid managed-care plans, as it is in Illinois and Kentucky. In its role as a pharmacy benefit manager, it negotiates rebates with manufacturers, determines which drugs are covered by insurance and to what extent.

CVS's PBM also determines how much retail pharmacies are reimbursed for drugs — a glaring conflict, critics say, since CVS's retail stores directly compete with the stores for which CVS Caremark determines drug reimbursements. Some groups, including the American Medical Association, are concerned that the marketplace will become even less competitive if CVS's merger with insurance giant Aetna is allowed to be consummated.

In Kentucky, state officials have been concerned with the amounts PBMs might be making from their Medicaid system. The legislature there passed a bill last year requiring PBMs to provide the state with financial information relating to their contracts with managed-care organizations and the pharmacies they reimburse.

Last month, the Kentucky Cabinet for Health and Family Services released a report showing that in calendar year 2018, PBMs charged taxpayers $124 million more for drugs than they reimbursed pharmacies — a spread of almost 13 percent. A year earlier, the spread was $87 million, or 9.4 percent, the report said.

"These are taxpayer dollars that we can't identify what is the service they are being used for," Jessin Joseph, director of pharmacy for Kentucky's Department for Medicaid Services, told Bloomberg.

Also of interest in the report is that the spread PBMs received on transactions with companies owning 11 or more pharmacies jumped from 11.5 percent in 2017 to 21.6 percent in 2018. That seems to comport with data The Dispatch obtained from the Ohio report indicating that CVS would have to reimburse retail giants Walmart and Sam's Club 45 percent more to bring them on par with the amounts given to its own pharmacies.

In Ohio, Gov. Mike DeWine has vowed to revamp the method by which PBMs handle taxpayer money, while Attorney General Dave Yost says he is eyeing legal action against the companies.

In Illinois, pharmacists held a press conference Wednesday in the state Capitol after the 3 Axis Advisors report found that managed care hasn't saved money, it's just flipped income from pharmacies to PBMs.

"These findings have huge implications for [Illinois] taxpayers who are being ripped off by the built-in-complexities and backroom deals that PBMs use to make themselves look like they are saving the state money," Monique Whitney, executive director of Pharmacists United for Truth and Transparency, said in a written statement.

Meanwhile, in West Virginia, where pharmacy services were carved out of Medicaid managed care, a new actuarial analysis found that the state saved $54 million — mostly on administrative costs — of $570 million in drug spending for the year ending June 30, 2018.

PCMA spokesman Lopes took issue with that study as well.

"The West Virginia report does not include the amount the state saves in dispensing fees under the managed-care model, and is riddled with mathematical flaws that render the methodology highly suspect, and the results inaccurate," he said.

In Kentucky, lawmakers are promising better oversight of the companies.

"We have to solve this problem," Republican Sen. Jimmy Higdon said, according to the Louisville Courier Journal. "We cannot make our independent pharmacists in Kentucky extinct."