

States Question Costs Of Middlemen That Manage Medicaid Drug Benefits

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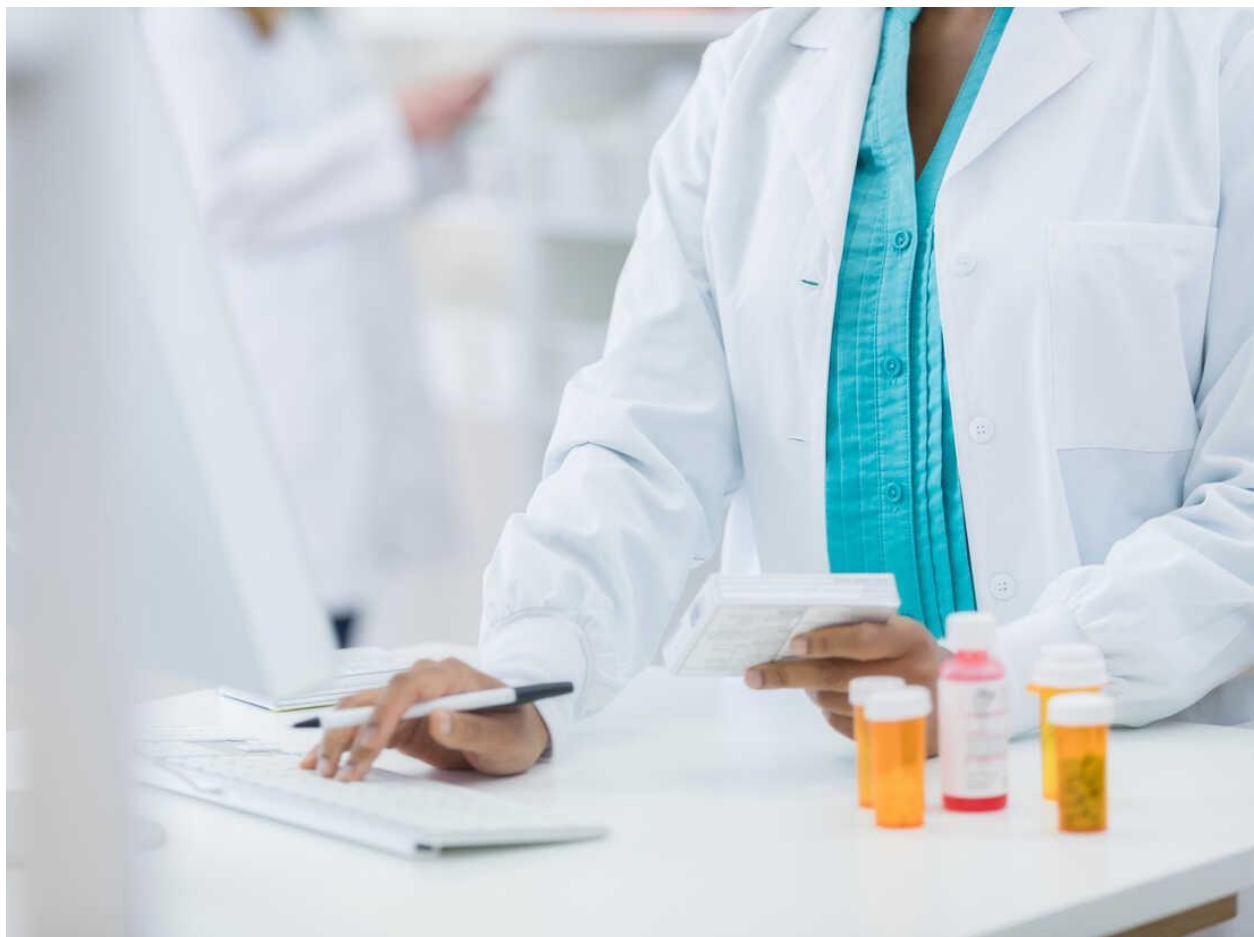
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Drug costs are the fastest growing part of state Medicaid budgets.
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Several states are questioning the cost of using pharmacy middlemen to manage their prescription drug programs in a movement that could shake up the complex system that manages how pharmaceuticals are priced and paid for.

The debate is playing out this week in an Ohio courtroom, as the state fights to [release a report](#) detailing what it paid two middlemen, CVS Health and Optum, to manage its Medicaid program's prescription drug plans.

The report shows that the companies charged the state 8.8 percent more than they paid to pharmacies to fill prescriptions. The companies kept the more than \$224 million difference between what they charged the state and paid for the drugs.

"I would love to tell you that 8.8 percent is too high, too low, or normal, but I'm really unqualified to say that because our state Medicaid program is the first state in the country to really get this level of transparency into how this works," says Antonio Ciaccia, the director of government affairs for the Ohio Pharmacists Association.

But he added, "I think 8.8 percent is insane."

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Ohio's Medicaid program is run almost completely through private managed care insurance companies. Those companies in turn contract with CVS Health and Optum to manage the prescription drug portion of recipients' coverage. The companies — known as pharmacy benefit managers, or PBMs — negotiate discounts from drugmakers and work hard to keep the prices they actually pay secret.

Ciaccia says that independent pharmacists became alarmed because their reimbursements from the two companies plummeted in recent years. He and a partner started a company, [46 Brooklyn](#), specifically to analyze drug prices and found that pharmacists were being paid sometimes only a fraction of what the middlemen were charging states.

For example, Ohio [paid the PBM \\$273.50](#) per unit for the generic version of Gleevec, a drug that treats leukemia and other cancers, while pharmacies reported the wholesale price of the drug was \$83.69. In other words, the PBM charged the state more than the three times the price of the drug.

Ohio's Department of Medicaid commissioned its own analysis of its prescription drug program costs after the [Columbus Dispatch](#) newspaper reported the program was spending far more for prescription drugs than the pharmacies that filled those prescriptions were receiving.

Last month the state released a summary that revealed the two companies were keeping 8.8 percent of the pharmacy budget. But when the state said it planned to release the entire report, CVS sued to stop it. Optum joined the suit this week and at a hearing Tuesday a judge told the companies to identify any trade secrets they want redacted by next month.

Ohio Medicaid spokesman Tom Betti said in a statement that the state is committed to releasing the findings.

"Transparency is not only the duty of government to its owners—the people of Ohio—but it's also essential for the market to function properly. We believe this deeply and will continue to pursue it," the statement said.

If the analysis is released, it will offer an unprecedented look into the opaque world of pharmacy benefit managers and the mechanics of drug pricing.

The findings in the analysis have angered state officials and Attorney General Mike DeWine has threatened to sue.

"It is clear that the conduct by PBMs in these areas remains a major concern, and we anticipate that our investigation will result in major litigation against PBMs," he said in a statement.

CVS Health spokeswoman Christine Cramer pointed out that Ohio's report concluded that the company saved the state about \$145 million compared to an alternative system where the state pays a fee for each prescription filled.

And she said releasing the report would hurt the company's ability to negotiate low prices.

"When it comes to the proprietary rates and formulas we use to negotiate for lower drug prices or cost-effective dispensing within our pharmacy network, making those figures public only hurts our ability to negotiate the lowest rates and fees in a highly competitive market, which would ultimately cost the state and the taxpayers more," she said in a written statement.

Optum did not respond to calls and emails for comment.

"I think that Ohio is going to have an uphill battle when it comes to releasing this information," says Stacie Dusetzina, a professor of health policy at Vanderbilt University School of Medicine. "It's going to be fought very hard by CVS because they think it would set a standard for transparency and providing the public with this information."

She adds that efforts in other states to reveal drug pricing secrets have failed.

Ohio isn't alone in questioning the value of using middlemen to manage their prescription drug plans.

States spend more than \$33 billion a year on prescription drugs through their Medicaid programs and for many, that's the fastest growing part of the Medicaid budget. So efforts to control those costs are front and center in many state budget debates.

West Virginia last year stopped using pharmacy benefit managers altogether. And Kentucky is also doing an analysis of its costs while lawmakers consider [legislation that would require](#) pharmacy benefit managers that contract with Medicaid to report details of their costs to the state and ensure they pay independent pharmacies a fair price.

And In Iowa, State Representative John Forbes — who's also a pharmacist — launched his own investigation into a county government health plan a few months ago after hearing complaints from pharmacists.

"We went through the records for this county over about a three-month period and found that, in many cases, the pharmacies were being paid \$5 to \$10 for prescriptions, but the county entity was being billed over \$100 for those same prescription medications," Forbes said in an interview.

He says the oversight committee in Iowa's legislature now plans to investigate the PBM's practices.