12. Prescribed drugs, dentures, and prosthetic devices; and eyeglasses prescribed by a physician skilled in diseases of the eye or by an optometrist

a. Prescribed Drugs

The reimbursement rate has two components:

DISPENSING FEE: The Dispensing Fee is set at **$8.68 for name brand drugs**, which represents the survey findings of a statistically valid actual cost of dispensing. **The Dispensing Fee is set at $11.68 for generic drugs, which also represents the survey findings of a statistically valid cost of dispensing.**

When and if there is a 2.32% decrease in the proportion of total claims for drugs dispensed as name brand drugs, and a corresponding 2.32% increase in the proportion of total claims for drugs dispensed as generic drugs, the dispensing fee for generic drugs will be set at $12.68, in accordance with the methodology and timeframe set forth below.

To determine whether there has been a 2.32% shift in the proportion of total claims from the dispensing of name brand drugs and to the dispensing of generic drugs, the State will monitor the dispensing claims paid for three months prior to the State Plan Amendment effective date, as reflected at the end of each month. The State will average the three-month totals for each type of claim to establish the baseline for determining whether to increase the rate for the dispensing of generic drugs from $11.68 to $12.68. The $12.68 dispensing rate will go into effect on the first day of the second month following demonstration of the required shift in the proportion of total claims from the dispensing of name brand drugs to generic drugs, as outlined above.

INGREDIENT COST: To assure quality of care and access, to assure efficiency and economy and safeguard against unnecessary utilization payment for ingredient cost for brand name drugs and all other drugs for which a specific limit has not been established is limited to the lesser of the provider's usual and customary charge or 86% of Average Wholesale Price (AWP) (AWP-14%) for brand name drugs and 80% of AWP (AWP-20%) for multi-source (generic) drugs.

PAYMENT LIMITATIONS-INGREDIENTS: Arkansas Medicaid identifies certain brand and generically available drugs and places an upper limit on these drugs. Acquisition costs on these drugs are obtained from multiple sources. Depending on the variance, either the highest acquisition cost or an average of the acquisition costs is obtained and a percentage applied to determine a state upper limit.

Those drugs identified administratively, judicially or by a federal agency as having an AWP far exceeding the actual acquisition cost, and whose average sales price is presented to the state, will be subject to a state upper limit set by reference to the average acquisition cost.

12. Prescribed drugs, dentures, and prosthetic devices; and eyeglasses prescribed by a physician skilled in diseases of the eye or by an optometrist

a. Prescribed Drugs (Continued)

The Federal Upper Limit (FUL) standard that has been adopted for certain multiple source drugs identified in the State Medicaid Manual, Part 6, is based on an aggregate payment equal to an amount that includes the ingredient cost of the drug calculated according to the formula described below.

The FUL is an amount that is equal to 150% of the published price for the least costly therapeutic equivalent (using all available national compendia). The aggregate, rather than each individual drug identified by **CMS** will be less than or equal to the **CMS** defined multiple source cost listed in 42 CFR 447.332. **The formula is subject to requirements, limitations, or both, that may be imposed by federal law.**

Reimbursement for the ingredient cost of these drugs is limited to the lesser of the state upper limit, federal upper limit or the providers usual and customary.

The State may deviate from the lesser of payment in the event that the state determines, under a **CMS** approved separate/supplemental drug rebate agreement, that in the aggregate the expenditures for these drugs agreed to in the separate/supplemental rebate agreement would be reduced.

PAYMENT LIMITATION-INGREDIENT COST AND DISPENSING FEE: The total charge cannot exceed the provider's actual usual and customary charge to the public.

Rationale for Rates **for Acquisition Cost**:

In January 2001, the Division of Medical Services (DMS) Prescription Drug Program commissioned surveys to determine the cost of dispensing prescriptions and the Agency's best estimate of the acquisition costs generally and currently paid by providers for prescription drugs in the State of Arkansas. Final reports on each survey were issued June 30, 2001. Based upon the finding of the report establishing the Agency's best estimate of the price generally and currently paid by providers in Arkansas, DMS amends the Estimated Acquisition Cost component of Medicaid reimbursement rate for prescription drugs. DMS will implement the amended rate effective March 1, 2002. Based upon the findings of the survey the dispensing fee component of the rate will not be amended. The present rate reimburses providers approximately 110% of the estimated median cost of dispensing prescription drugs and should afford access equivalent to the general population.

12. Prescribed drugs, dentures, and prosthetic devices; and eyeglasses prescribed by a physician skilled in diseases of the eye or by an optometrist

a. Prescribed Drugs (continued)

The estimated acquisition cost survey analyzed acquisition cost data for more than 8000 drug products, representing approximately 94% of Arkansas Medicaid drug reimbursement. The survey contained the following summary of significant findings:

1. For the 334 pharmacies in the sample with external invoices, acquisition costs ranged from 71.2% to 87.7% of the AWP. The average acquisition cost was 82.2% of the AWP, with a standard deviation of 1.2%.

2. Including pharmacies that provided invoices from an internal wholesaler, the average acquisition cost was 82.7% of the AWP, with a standard deviation of 1.4%.

3. Eight of the pharmacies in the sample were institutional providers that dispensed prescriptions to patients in long-term care or other institutional settings. Acquisition costs at these pharmacies for brand name drug products averaged 79.5% of the AWP, as compared to 82.2% for pharmacies that dispensed prescriptions in traditional retail settings. This difference was found to be statistically significant by the application of a t-test at the 5% level of significance.

4. Of the 1,752 brand name drug products, acquisition costs for brand name drugs ranged from 33.5% to 99.3% of the AWP with an average acquisition cost of 81.0% of the AWP (based on observations from external invoices only).

5. The acquisition costs for multi-source drugs exhibited much greater variation, but averaged 54.0% of the AWP for drugs without FUL prices. For multi-source drugs with FUL prices, the average acquisition cost was 17.8% of the AWP and 45.9% of the FUL.

The survey concluded that the present ingredient reimbursement rate provides payments in excess of costs incurred by Arkansas pharmacies. The agency expends a high proportion of its drug budget on prescription for brand name drugs. The survey also suggested that the present reimbursement rate may provide an incentive to dispense higher cost drug products. DMS is setting a rate that is consistent with the survey that will safeguard against unnecessary utilization, assure payments are consistent with efficiency, economy and quality of care, and sufficient to enlist enough providers so that care and services are available at least to the extent such care and services are available to the general population.

12. Prescribed drugs, dentures, and prosthetic devices; and eyeglasses prescribed by a physician skilled in diseases of the eye or by an optometrist (Continued)

a. Prescribed Drugs (Continued)

The survey predicts to a 95% level of confidence, that the mean estimated acquisition cost for brand name drugs ranges from 82.0% to 82.3% of AWP. The average estimated acquisition cost is 82.7% of AWP (AWP– 17.3%). For multi-source drugs with no FUL the average estimated acquisition cost ranges from 10% to 85% of AWP. The average estimated acquisition cost is 67.5% of AWP (AWP-32.5%). Under the rule payment for brand name drugs and all other drugs for which a specific limit has not been established is limited to the lesser of the provider's usual and customary charge or 86% of AWP (AWP-14%) for brand name drugs and 80% of AWP (AWP-20%) for generic or multi-source drugs.

The survey predicts that 99.9% of pharmacies in Arkansas have an acquisition cost equal to or 1ess than 86% of AWP for brand name drugs. The estimated acquisition cost reimbursement component of the Medicaid reimbursement rate provides an average reimbursement to cost ratio similar to the average within the pharmacy industry. A reimbursement rate providing a return similar to the return derived from the general population should assure Medicaid recipients access to services equal to the general population.

The survey concluded that there is no significant difference in estimated acquisition costs of independent and chain retail pharmacies. The survey reveals that pharmacies which purchase brand name drugs from external wholesalers have a lower average estimated acquisition cost than pharmacies purchasing brand name drugs from an internal wholesaler. Based upon these observations it is reasonable to conclude that all providers have access to similar efficiencies and economies and should be able to engage in purchasing practice at or near the statewide average.

The survey estimates that ¾ of multi-source (generic) drugs are purchased at AWP-25% or less. As is the case with brand name drugs, the survey predicts that all classifications of pharmacies have access to similar efficiencies and economies and should be able to purchase multi-source drugs at or near the statewide average.

Rationale for Rates **Dispensing Fee**:

A survey was commissioned to determine the cost of dispensing prescriptions. The final report of the survey was issued on February 2, 2007. Based upon the findings of the survey, the proposed rate for name brand drugs, $8.68, represents an average dispensing cost for all pharmacies that is in the 40th (fortieth) percentile of the survey findings. Based upon the findings of the survey, the proposed rate for generic drugs, $11.68, represents an average dispensing cost for all pharmacies that is in approximately the 80th (eightieth) percentile. Across all 205 pharmacies that responded to the survey, the range for the average cost to dispense a prescription was $7.45 to $11.89. Thus, both rates fall within the survey findings of a statistically valid actual cost of dispensing.

12. Prescribed drugs, dentures, and prosthetic devices; and eyeglasses prescribed by a physician skilled in diseases of the eye or by an optometrist (Continued)

a. Prescribed Drugs (Continued)

Due to the increasing number of drugs included in the Federal upper limit standard, when there is a single source brand drug in a class in which there also are therapeutically equivalent generics, it is more cost effective for the State to reimburse the therapeutically equivalent generics. In an effort to promote generic dispensing across all generic drugs, we propose to remove the differential dispensing fee that currently applies to non-maximum-allowable-cost generics and apply a higher dispensing fee for all generic drugs. The State anticipates that, in light of the Deficit Reduction Act's increase in the number of generic drugs with maximum allowable costs, the increase in the dispensing rate for generic drugs will shift use from name brand drugs to generic drugs and create savings for the State. The amendment will promote efficiency and economy, safeguard against unnecessary utilization of more expensive name brand drugs by increasing the use of less costly, therapeutically equivalent generic drugs, and ensure quality of care and access.

The increase to $12.68 for the dispensing of a generic drug is a pay for performance mechanism. If the higher dispensing rate paid for generic drugs results in a 2.32% decrease in the proportion of total claims for drugs dispensed as name brand drugs and a corresponding 2.32% increase in the proportion of total claims for drugs dispensed as generic drugs, the rate paid for generic drugs will increase to $12.68. If the required shift in utilization is not achieved, the dispensing fee for generic drugs will remain at $11.68. The 2.32% shift in the dispensing of name brand drugs to generic drugs is projected to create sufficient savings to the Medicaid program to pay for the differential dispensing fee for generic drugs over name brand drugs.

ARKANSAS DEPARTMENT OF HUMAN SERVICES

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TO: **Arkansas Medicaid Health Care Providers–Pharmacy**

DATE: **April 1, 2008**

SUBJECT: **Provider Manual Update Transmittal No. 121**

REMOVE		**INSERT**	
Section	**Date**	**Section**	**Date**
251.000	4-1-07	251.000	4-1-08

Explanation of Updates

Section 251.000 is revised to increase the dispensing fee for brand name drugs to $ 8.68 and generic drugs to $11.68. This increase represents survey finding of a statistically valid cost of dispensing.

In an effort to promote generic dispensing the differential dispensing fee that applies to non-maximum allowable-cost generics is removed and a higher dispensing fee to all generic drugs is applied. If the higher dispensing rate paid for generic drugs results in a 2.32% decrease in the proportion of total claims for drugs dispensed as name brand drugs and a corresponding 2.32% increase in the proportion of total claims for drugs dispensed as generic drugs the rate paid for generic drugs will increase from $11.68 to $12.68.

Paper versions of this update transmittal have updated pages attached to file in your provider manual. See Section I for instructions on updating the paper version of the manual. For electronic versions, these changes have already been incorporated.

If you need this material in an alternative format, such as large print, please contact our Americans with Disabilities Act Coordinator at (501) 682-8323 or (501) 682-6789 (TDD).

If you have questions regarding this transmittal, please contact the EDS Provider Assistance Center at 1-800-457-4454 (Toll-Free) within Arkansas or locally and Out-of-State at (501) 376-2211.

Arkansas Medicaid provider manuals (including update transmittals), official notices and remittance advice (RA) messages are available for downloading from the Arkansas Medicaid website: www.medicaid.state.ar.us.

Thank you for your participation in the Arkansas Medicaid Program.

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Roy Jeffus, Director

TOC not required

250.000 REIMBURSEMENT

251.000 Method of Reimbursement 4-1-08

Medicaid payments are made according to federal regulations. For each prescription, reimbursement is based on one (1) of the following: The dispensing fee for a brand name drug is set at $ 8.68. The dispensing fee for a generic drug is set at $ 11.68.

A. The State/Federal Generic Upper Limit (GUL) plus the dispensing fee. **or**

B. The lowest of the pharmacy's usual and customary charge to the general public or the Estimated Acquisition Cost (EAC) plus dispensing fee, where EAC is defined as:

1. The Estimated Acquisition Cost (EAC) of the brand name drug dispensed equals Average Wholesale Price [AWP] minus 14%.

and

2. The Estimated Acquisition Cost (EAC) of the generic drug dispensed equals Average Wholesale Price [AWP] minus 20%.

When and if there is a 2.32% decrease in the proportion of total claims for drugs dispensed as name brand drugs, and a corresponding 2.32% increase in the proportion of total claims for drugs dispensed as generic drugs, the dispensing fee for generic drugs will be set at $12.68.If the required shift in utilization is not achieved, the dispensing fee for generic drugs will remain at $11.68.

Drug pricing files are updated weekly.