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March 20, 2012

TO: All House Members

FROM: Kurt A. Masser

RE: DPW Price Update

Recently the Department of Public Welfare initiated final omit regulations that will slash pharmacy dispensing fees by 50% (from \$4 to \$2 for generic drugs and from \$5 to \$3 for brand name drugs) for many Medicaid prescriptions. In addition, the reimbursement formula would change for both brand name and generic drugs, also further reducing fees to pharmacies.

In Secretary Alexander's testimony before the Appropriations Committee and his Deputy Secretary's appearance before the Health Committee, both said that DPW is "just trying to align their payment structure with that of the Medicaid Managed Care Organizations (MCOs) in Pennsylvania." However, this is comparing apples to oranges as it fails to take into account two important disparities inherent in the fee-for-service Medicaid pricing structure that don't exist in those of the MCOs and other private payors: price updates and timely payment of claims.

While many Medicaid MCOs and other private third party payers update their drug pricing databases daily or weekly, PA fee-for-service Medicaid only updates their pricing sources once a month. Because of this, when drug pricing changes occur, pricing data may already be significantly outdated, resulting in pharmacies being paid less than the cost to acquire and dispense the drug to Medicaid beneficiaries. A 2009 study of 23 state Medicaid programs showed all 23 states updated prices on a weekly basis. Last year these lack of timely updates cost pharmacies in Pennsylvania nearly \$5.5 million dollars.

Similarly, the MCOs and most private payors pay pharmacy claims on a weekly basis, while Medicaid fee-for-service pays claims as late as 30 days after drugs are dispensed. This creates another disparity for pharmacies by creating cash flow issues that don't exist under other health plans.

My legislation would simply require DPW to update their drug pricing databases and remit payment to pharmacies for claims on a weekly basis. Fixing these disparities would then bring PA Medicaid in line with the MCOs and other third-party private payors.

This legislation has the support of the PA Association of Chain Drug Stores and the PA Pharmacists Association.

Should you wish to cosponsor this legislation, please contact Cindy Abbott in my office at [cabbott@pahousegop.com](mailto:cabbott@pahousegop.com).