Spread Pricing 101

Spread pricing is the PBM practice of charging payers like Medicaid more than they pay the pharmacy for a medication and then the PBM keeps the "spread" or difference as profit.

The problem:

Medicaid drug costs are increasing, pharmacy reimbursements are decreasing. Something isn't adding up.

As pharmacy reimbursement rates are ratcheted down, pharmacy providers are frequently reimbursed at rates that leave them "underwater" on the medications they dispense. Eventually, this leads to drastic negative effects on pharmacy providers as well as the vulnerable Medicaid beneficiaries who they serve. Meanwhile, Medicaid budgets are soaring.

States have found under their Medicaid program that as a result of PBM “spread pricing” the program was being billed for more than the total price paid to pharmacies for actual claims.

The Cause:

PBMs are pocketing millions of dollars by using opaque business practices, such as spread pricing.

States have found that an excessive amount of taxpayer dollars remain with pharmacy benefit managers (PBMs).

- The Congressional Budget Office (CBO) determined that banning spread pricing in state Medicaid managed care programs would save federal taxpayers $1 billion over 10 years.
- The Centers for Medicare and Medicaid Services is concerned that PBMs' use of "spread pricing is inflating prescription drug costs that are borne by beneficiaries and by taxpayers," and CBO estimates that moving to transparent pharmacy reimbursements will save $1 billion over 10 years.

- Pennsylvania: Between 2013 and 2017, the amount that taxpayers paid to PBMs for Medicaid enrollees more than doubled from $1.41 billion to $2.86 billion.
- Ohio: the state Auditor found that, of the $2.5 billion that's spent annually through PBMs on Medicaid prescription drugs, PBMs pocketed $224.8 million through the spread alone during a one-year period.
- Kentucky: In response to a state report that found state PBMs keep $123.5 million in spread annually, the Attorney General has launched an investigation into allegations that the PBMs have overcharged the state and discriminated against independent pharmacies.
- Louisiana: PBMs retained $42 million that was incorrectly listed as "medical costs."
- New York: An audit found the state unnecessarily paid $605 million to Medicaid managed care organizations and their PBMs over a four year period, because "MCOs typically work with their PBMs to conduct their own clinical reviews to identify drugs that provide the greatest value to THEM and therefore should be placed on the drug formulary."
- Michigan: Drug price manipulation allowed PBMs to overcharge Michigan Medicaid by at least $64 million.
- Virginia: A state-commissioned report on Medicaid found PBMs pocket $29 million in spread pricing alone.
- Maryland: A state Medicaid report found PBMs pocket $72 million annually in spread pricing alone.
- Florida: A report found PBMs steer patients to PBM-affliated pharmacies, and "when it comes to dispensing brand name drugs, MCO/PBM-affiliated pharmacies are making 18x to 109x more profit over the cost of the drugs than the typical community pharmacy."1F
- Arkansas: A state-commissioned report found that PBMs in the Medicaid program reimbursed national chain pharmacies more (defined as greater than 5% difference) than regional chain and independent pharmacies for the same drug.

The Solution:

The National Community Pharmacists Association is using social media, digital advertising, and a grassroots effort to push congressional budget makers to include a provision eliminating

pharmacy benefit manager spread pricing under the Medicaid program and reimburse pharmacies in a fairer and more transparent manner.

- Press Release

Increase PBM Transparency/Accountability and Ensure State Oversight of Medicaid Managed Care Programs

Carve pharmacy benefits out of the Medicaid managed care program and administer the benefits through the fee-for-service program

- West Virginia saved over $54.4 million in one year by carving its Medicaid pharmacy benefits out of the managed care program. California estimates that its planned carve out will save at least $150 million a year. North Dakota has streamlined benefits for the expansion population by carving pharmacy benefits out of managed care for those beneficiaries, saving over $17 million in the process. In Texas, a state-commissioned study has shown that carving pharmacy benefits out of the Medicaid managed care program could save the state up to $90.3 million a year. Louisiana State enacted legislation authorizing the Department of Health to remove pharmacy services from the Medicaid managed care program in its efforts to control costs.

Avoid PBM spread by adopting a pass-through pricing model

- CMS has issued guidance that places limits on spread pricing abuses in Medicaid managed care, and states can further increase transparency by requiring pass-through pricing models. Under a pass-through pricing model, PBMs are paid an administrative fee, which is the only source of revenue under the contract, thus avoiding any costly PBM spread. Arkansas, Kentucky, Louisiana, Maryland, New Hampshire, New York, Pennsylvania, and Virginia have implemented a pass-through pricing model for their Medicaid managed care programs, and Ohio made the same decision after a state-commissioned report showed the move could save the state over $16 million, and pharmacy reimbursements increased by over $38 million in the first quarter after the state moved to pass-through contracts. Realizing the move would improve access to pharmacists' care, Georgia's Medicaid managed care organizations will be switching to a pass-through pricing model.[1]

Require PBMs in the Medicaid managed care program to reimburse pharmacies at fee-for-service rates

- As shown by Iowa, Kansas, Louisiana, Mississippi, Michigan, Arkansas, and North Carolina, state Medicaid programs have the authority to ensure reasonable contract terms between MCOs/PBMs and community pharmacies - for example, competitive reimbursement rates.
- These states know how their tax dollars are being spent because they establish the reimbursement rates for pharmacy services in their Medicaid managed care programs. In those states, PBMs must reimburse pharmacies at the same rates established under the fee-for-service program.[2]

Increasing regulatory oversight over PBMs in the Medicaid managed care program

- Some states have passed legislation giving Medicaid officials greater oversight over the PBM Medicaid managed care contracts. In Kentucky, Medicaid officials now have greater oversight over PBM contracts and use of tax dollars in the Medicaid managed care program. This oversight allowed the Kentucky Department for Medicaid Services to analyze the use of spread pricing in the state, leading the Legislature to enact additional transparency measures that eliminate spread pricing and allow the Department to establish reimbursement amounts. Additionally, Georgia has passed legislation requiring disclosure of the PBM spread in their Medicaid programs. [3]