



State Health Watch

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The Newsletter on State Health Care Reform

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Pennsylvania's AmeriHealth Mercy decides to look inward and cuts its Medicaid drug costs

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Because drug costs are a major concern for Medicaid HMOs and state Medicaid programs, AmeriHealth Mercy created PerformRx to assist other plans to develop the capability to manage drug utilization and product and service costs.

Tom Lyman, AmeriHealth Mercy senior vice president for marketing, tells *State Health Watch* that for 13 years, Mercy Health Plan served a population that was 95% Temporary Assistance for Needy Families (TANF) beneficiaries and, with the help of traditional pharmacy benefit managers (PBMs), was able to hold drug costs to below \$10 per member per month.

In 1997, however, Keystone Mercy took on Pennsylvania's mandatory Medicaid managed care business, receiving disabled and dual eligible members, and drug use skyrocketed because of patients with hemophilia, sickle cell anemia, and comorbidities.

"Our mission is to serve the poor," Mr. Lyman says, "and our networks are built to serve all our members. But we couldn't get the data [on drug use] so we could meet the needs of our new members."

He says the plan went through several PBMs at that point, trying to get access to data so they could identify high utilizers, but kept running into roadblocks. Also, the PBMs had restricted pharmacy lists, weren't providing good service to prescribers, didn't share drug rebate information, and had differential pricing arrangements that weren't transparent to plan executives.

Pharmacy management

"We decided to look inward and take it on ourselves," Mr. Lyman says. "And in the first couple of years, we saved about \$22 million in Pennsylvania."

He reports Keystone Mercy took its drug expenditure trend rate from 22% to less than 9% and down to 4% to 5% in the current year.

"All of our issues [that Keystone Mercy had with the PBMs] have been reversed," according to Mr. Lyman. "We negotiate directly with the drug manufacturers. We subcontract with Argus, a best-in-class company, for claims management. And we have the information tools to get at the data we need."

The result, says Mr. Lyman, is that payments to pharmacists and physician networks have increased, while costs to the plan have been dropping overall.

To give a sense of what Keystone

Fiscal Fitness: How States Cope



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Mercy has been able to accomplish once it got access to data on its members, Mr. Lyman reports that in its first year of mandatory managed care, the plan had 50 members with hemophilia, more than half of the states in the United States each have in their total Medicaid program. The cost of those 50 members to Keystone Mercy was \$10 million a year.

Once the plan had identified the patients, it assigned case managers to each family and made connections with advocates and providers. Mr. Lyman says that although the number of hemophiliac members has increased, the total cost has dropped to \$8 million, a 20% decrease.

"A major reason why we're so successful," Mr. Lyman tells *State Health Watch*, "is that we think like a health plan, not like a PBM. We take data to the providers so they can put together a program for their patients. Once the data are available, case management and disease management programs become very important to our success."

Keystone Mercy is able to customize programs for various discrete populations because it integrates pharmacy with physical health, Mr. Lyman says. He also points out that PBMs generally don't do much with utilization review, while Keystone Mercy looks closely at potential overuse of drugs and develops protocols for use of specific drugs. He says the three priorities the plan follows in drug protocols are safety, efficacy, and cost, in that order.

"We've found that we usually can get to a win-win-win situation," he says.

While providers initially were cautious about how Keystone Mercy would be in managing drug utilization and costs, Mr. Lyman

says they have been won over through the plan's physician education efforts and strong dependence on local physicians in plan areas serving on pharmacy and therapeutic committees.

"We know the drug companies lobby physicians," he says, "and we have to lay out our case as well. There's never been a time when the industry has made a better case than us."

Sell product to other plans

With the success that Keystone Mercy achieved, two years ago, it decided to expand beyond the affiliate health plans that are part of the parent company, AmeriHealth Mercy. They have targeted all Medicaid managed care plans and also are approaching states agencies for their fee-for-service and other programs.

According to Mr. Lyman, AmeriHealth Mercy has succeeded with PerformRx because it runs an open, transparent system.

"We think like our clients because we think like a health plan," he explains. "We are totally open with our provider networks." He says it also is important that they can use the data they have to create special programs such as specialty injectables.

PerformRx's approach has resonated with Mike Jernigan, CEO of Select Health, an AmeriHealth Mercy Medicaid-only health plan in South Carolina.

Before going with PerformRx, he tells *State Health Watch*, Select Health used a third-party vendor that provided PBM services to some Medicaid programs but was decreasing that part of the company's business.

"They didn't seem to have the long-term commitment to the type of program we wanted," he says.

“We’re getting into more complex case management.”

Mr. Jernigan says that Select Health went with PerformRx in December 2001, and they have seen a significant improvement in utilization of generic drugs.

“We couldn’t get generic utilization up to 50% before,” he says, “and with PerformRx we’re pushing 60%. That’s been a real plus for us.”

They also see a lower trend in their overall drug cost for Medicaid patients than other plans in the industry, although they recognize that it continues to be a significant challenge to manage pharmacy benefits in such a way that members get the drugs they need at a reasonable cost and with high value.

PerformRx has helped Select Health identify cases that are suitable for enhanced case management and then the plan handles the actual case management responsibility.

AmeriHealth Mercy says that PerformRx can provide knowledge and experience; administrative and clinical tools; access to drug product purchasing consortiums; point-of-service claims systems and sophisticated reporting; turnkey clinical programs and administrative processes that can be purchased as a packaged or customized to meet a plan’s needs; start-up staff to help a plan design and manage its program while recruiting and training employees; and transition to self-management or an ongoing administrative contract.

Specific services provided include contracting and rebate management through drug product consortiums, prospective and retrospective drug utilization management, extensive management reporting and profiling, retail pharmacy network contracting and oversight, point-of-service claims processing, specialty-drug contract-

ing, mail order service, telephone call center, and member and provider outreach and education.

[For more information, go on-line to: www.amerhealthmercy.com. Contact AmeriHealth Mercy through its corporate communications director, Rick Buck, at (215) 863-5102.] ■