

# PHARMACY BENEFIT COSTS

PERFORMANCE AUDIT SERVICES

**Informational Report**  
**Issued September 20, 2023**

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September 20, 2023

The Honorable Patrick Page Cortez,  
President of the Senate  
The Honorable Clay Schexnayder,  
Speaker of the House of Representatives

Dear Senator Cortez and Representative Schexnayder:

This informational report provides information on the costs associated with pharmacy benefits provided by the Louisiana Department of Health (LDH), the Office of Group Benefits (OGB), and Louisiana State University (LSU). We conducted this review in response to legislative interest including House Resolution 167 of the 2023 Regular Legislative Session. This report is intended to provide timely information related to an area of interest to the legislature or based on a legislative request. I hope this report will benefit you in your legislative decision-making process.

We would like to express our appreciation to LDH, OGB, and LSU for their assistance during this review.

Respectfully submitted,



Michael J. "Mike" Waguespack, CPA  
Legislative Auditor

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PHARMACY COST INFO





# Louisiana Legislative Auditor

Michael J. "Mike" Waguespack, CPA



## Pharmacy Benefit Costs

September 2023

Audit Control # 40230009

### Introduction

This report provides information on the costs associated with pharmacy benefits provided by plan sponsors including the Louisiana Department of Health (LDH), the Office of Group Benefits (OGB), and Louisiana State University (LSU) during fiscal years 2018 through 2022. We conducted this review in response to legislative interest including House Resolution 167 of the 2023 Regular Legislative Session.<sup>1</sup> The cost to provide pharmacy benefits varies among the plan sponsors due to rebates, plan participants’ demographics and utilization, and the design of the benefit plan. As a result, the average annual costs provided in this report are for informational purposes only and should not be treated as comparisons. Exhibit 1 summarizes the pharmacy plans we reviewed and the annual average number of participants in each plan during fiscal years 2018 through 2022.

The **cost** to provide pharmacy benefits to plan participants includes the cost of each prescription plus administrative fees paid to the Pharmacy Benefit Manager, minus rebates and other credits paid back to the plan sponsor.

Exhibit 1 Summary of Pharmacy Plans Reviewed Fiscal Years 2018 through 2022			
Plan Sponsor	Plan Name(s)	Plan Description	Annual Average Number of Plan Participants
LDH	Medicaid	Provides health benefits including pharmacy for elderly, disabled, and low-income individuals	1,714,896
OGB	Magnolia Open Access, Magnolia Local, Magnolia Local Plus, and Pelican HRA1000	Provides health benefits including pharmacy for state employees, some retirees, and their dependents	162,784*
LSU	LSU First	Provides health benefits including pharmacy for employees of the LSU System, the Louisiana Legislative Branch, some retirees, and their dependents	17,793
*Excludes OGB members who are enrolled in Medicare Source: Prepared by legislative auditor’s staff using information provided by LDH, OGB, and LSU.			

<sup>1</sup> <https://legis.la.gov/Legis/ViewDocument.aspx?d=1328742>

Generally, plan sponsors deliver pharmacy benefits to participants<sup>2</sup> using a Pharmacy Benefits Manager (PBM). PBMs are private healthcare companies that provide a range of pharmacy-related services on behalf of the plan sponsors.<sup>3</sup> For example, PBMs may process pharmacy claims and reimburse pharmacies, negotiate rebates with drug manufacturers, develop formularies or lists of allowed medications, and conduct clinical management services such as reviewing and processing prior-authorization requests.<sup>4</sup> PBMs are compensated in various ways including a fee per prescription, monthly fees per participant for administrative services, and additional fees for specific services. The services provided by the PBM and the compensation for those services are defined in the PBM contract.

Specifically, OGB and LSU contract directly with PBMs. LDH delivers pharmacy benefits for most Medicaid recipients via contracts with Managed Care Organizations (MCOs) that contract with PBMs. For legacy/fee-for-service Medicaid recipients, LDH delivers pharmacy benefits via its fiscal intermediary and other vendors that provide services related to pharmacy benefits. This report also includes an overview of how each plan sponsor monitors its PBM and other vendors for compliance with contract requirements.

To conduct this review, we obtained financial information related to the cost of providing pharmacy benefits, participant counts, and pharmacy claims data from LDH, OGB, and LSU. We analyzed financial information and participant counts to calculate average annual costs per participant for fiscal years 2018 through 2022,<sup>5</sup> reviewed PBM contracts, and researched trends in pharmacy costs. We also analyzed pharmacy claims data to calculate the average prices for one brand and one generic medication. In addition, we requested monitoring information from each plan sponsor. Finally, we provided our preliminary results and methodology to agency staff and incorporated their feedback throughout the report.

The objective of this report was:

**To provide information on the costs associated with pharmacy benefits provided by LDH, OGB, and LSU during fiscal years 2018 through 2022.**

Our results are summarized on the next page and discussed in detail throughout the remainder of the report. Appendix A contains our scope and methodology.

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<sup>2</sup> For the purposes of this report, participants include individuals enrolled in Medicaid; OGB commercial members and dependents in the Magnolia Open Access, Magnolia Local, Magnolia Local Plus, and Pelican HRA1000 plans; and LSU First plan members and dependents.

<sup>3</sup> LLA issued a report in 2018 on the Louisiana Department of Insurance's oversight of PBMs: [https://app.lla.la.gov/PublicReports.nsf/0906D2723A7B8E118625828100553209/\\$FILE/00018D4E.pdf](https://app.lla.la.gov/PublicReports.nsf/0906D2723A7B8E118625828100553209/$FILE/00018D4E.pdf)

<sup>4</sup> Prior authorization is a requirement that patients receive approval for medication or services before the medication or service will be covered.

<sup>5</sup> For LDH, our analysis of costs only covers fiscal years 2018 through 2021 because the Medicaid Annual Report for fiscal year 2022 had not been published as of the issue date of this report.

**Informational reports are intended to provide more timely information than standards-based performance audits. While these informational reports do not follow *Governmental Auditing Standards*, we conduct quality assurance activities to ensure the information presented is accurate. We incorporated OGB's, LDH's, and LSU's feedback throughout this informational report.**

## Objective: To provide information on the costs associated with pharmacy benefits provided by LDH, OGB, and LSU during fiscal years 2018 through 2022.

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Overall, we found the following:

- **The cost to provide pharmacy benefits varies among the plan sponsors due to rebates, plan participants' demographics and utilization, and the design of the benefit plan.** Due to these factors, the average annual cost per participant to provide pharmacy benefits ranged from a low of \$649 for LDH to a high of \$1,622 for OGB.
- **The price that the plan sponsors pay for medications varies depending on the pricing terms defined in the PBM contract or specified by Medicaid requirements.** As a result, the average ingredient price for a commonly-dispensed generic medication ranged from a low of \$29.01 for OGB to a high of \$43.79 for LSU. For a commonly-dispensed brand-name medication, the price ranged from a low of \$877.09 for OGB to a high of \$910.52 for LSU.
- **The administrative costs that plan sponsors pay vary based on the specific services and compensation negotiated between the PBMs, other vendors, and the plan sponsor.** As a result, the administrative costs to manage the pharmacy benefit plans ranged from an average of \$23.39 for OGB to \$28.54 for LDH per plan participant per year.
- **Plan sponsors monitor PBMs and other vendors that provide pharmacy benefit services in various ways. For instance, OGB plans to implement near real-time monitoring based on an emerging practice in contract monitoring.** Real-time monitoring uses computer software to conduct electronic reviews of 100% of prescription drug claims in real time to identify all deviations from the terms of the PBM contract.

This information is discussed in detail on the pages that follow.

**The cost to provide pharmacy benefits varies among the plan sponsors due to rebates, plan participants' demographics and utilization, and the design of the benefit plan. Due to these factors, the average annual cost per participant to provide pharmacy benefits ranged from a low of \$649 for LDH to a high of \$1,622 for OGB.**

The average annual cost to provide pharmacy benefits includes the price paid for prescriptions; fees paid to PBMs and other vendors to administer the benefit plans and for additional services; and accounts for rebates, subsidies, and other payments from the PBM to the plan sponsor.<sup>6</sup> The cost to provide pharmacy benefits are only a portion of overall healthcare costs incurred by each plan sponsor. Pharmacy benefit plans are generally based on a calendar year; however, we present our financial analysis based on state fiscal year. As a result, financial information for a specific fiscal year may span more than one PBM contract. We found that the average annual cost to provide pharmacy benefits per plan participant ranged from a low of \$649 for LDH to a high of \$1,622 for OGB, as shown in Exhibit 2.<sup>7</sup>

Exhibit 2		
Average Annual Cost to Provide Pharmacy Benefits per Plan Participant		
Fiscal Years 2018 through 2022*		
LDH	OGB	LSU
\$649	\$1,622	\$1,597
*LDH includes only fiscal years 2018 through 2021. See Appendix A for our methodology.		
<b>Note:</b> Costs provided for informational purposes only and should not be used for comparison purposes.		
<b>Source:</b> Prepared by legislative auditor's staff using information provided by LDH, OGB, and LSU.		

The cost to provide pharmacy benefits varies among the plan sponsors for various reasons, including but not limited to the examples discussed below.

**Rebates.** According to the Congressional Budget Office (CBO), a key factor in the cost to provide pharmacy benefits is the different rebate amounts received by different plan sponsors.<sup>8</sup> Rebates, which are generally negotiated by the PBM and drug manufacturer, are payments made from drug manufacturers to PBMs/plan sponsors that reduce the cost to provide pharmacy benefits. Federal law requires that drug manufacturers give the highest rebates to Medicaid. According to

<sup>6</sup> Expenditures and revenues are not always accounted for in the fiscal year in which they are incurred or earned. We calculated the average annual cost based on when expenditures and revenues were paid or received rather than when they were earned or incurred. As a result, the expenditures and revenues are not necessarily associated with the pharmacy claims during the same fiscal year.

<sup>7</sup> Based on financial information provided by OGB and LSU for fiscal years 2018 through 2022, and from LDH's Medicaid Annual Reports for fiscal years 2018 through 2021.

<sup>8</sup> CBO, Prescription Drugs: Spending, Use, and Process, 2022 (<https://www.cbo.gov/publication/57050>)

Milliman, an actuarial firm, average rebates are approximately 20% of drug costs,<sup>9</sup> while Medicaid received approximately 46.2% of drug costs back in rebates for fiscal years 2018 through 2021, according to the Medicaid Annual Reports and pharmacy rebate amounts provided by LDH. As a result, the cost to provide pharmacy benefits under Medicaid will likely be lower than for OGB and LSU.

**Population and Utilization.** Other factors that affect the cost to provide pharmacy benefits are population differences and utilization of prescription medications. For example, coverage for older plan participants costs more because that population uses more prescription medications. According to a survey conducted in 2019 by the Kaiser Family Foundation, 89% of adults age 65 and older report they are currently taking prescription medicine.<sup>10</sup> This compares to 75% of 50- to 64-year-olds, 51% of 30- to 49-year-olds, and 38% of 18- to 29-year-olds who report taking prescription drugs. Older adults are also more likely to use multiple prescription medications. LSU has the highest percentage of plan participants aged 65 and over, as shown in Exhibit 3.

<b>Plan Sponsor</b>	<b>Percent</b>
LDH	7.4%*
OGB	6.8%**
LSU	7.5%

\* Excludes Medicaid enrollees who do not receive a pharmacy benefit, and includes Medicaid enrollees for whom Medicare covers most of the pharmacy benefit.  
 \*\*Excludes OGB members who are enrolled in Medicare.  
**Source:** Prepared by legislative auditor's staff using information provided by LDH, OGB, and LSU.

**Plan Design.** The design of the pharmacy benefit plan also impacts the cost. Plan design includes the formulary, or the list of allowed medications, and establishes plan participants' cost sharing in the form of deductibles, co-pays, and co-insurance. A plan that has a high deductible and a formulary that directs plan participants to lower-cost generics would likely cost the plan sponsor less overall than a plan with a low deductible and formulary that covers higher-cost brand name medications. This report does not compare the differences in plan design across the different plan sponsors.

<sup>9</sup> <https://www.milliman.com/en/insight/a-primer-on-prescription-drug-rebates-insights-into-why-rebates-are-a-target-for-reducing>

<sup>10</sup> <https://www.kff.org/health-reform/issue-brief/data-note-prescription-drugs-and-older-adults/>

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**The price that the plan sponsors pay for medications varies depending on the pricing terms defined in the PBM contract or specified by Medicaid requirements. As a result, the average ingredient price for a commonly-dispensed generic medication ranged from a low of \$29.01 for OGB to a high of \$43.79 for LSU. For a commonly-dispensed brand-name medication, the price ranged from a low of \$877.09 for OGB to a high of \$910.52 for LSU.**

The cost to provide pharmacy benefits includes the ingredient price of the medications dispensed. The price that a plan sponsor pays for a prescription medication varies depending on the specific medication, whether it is a brand or generic, the plan design, and other factors that are specified in the PBM contract or in Medicaid requirements. Plan sponsors generally want to pay low prices for medications in order to lower the cost of providing pharmacy benefits.

Commonly, the price for a brand medication is the Average Wholesale Price (AWP) minus a discount, or the Maximum Allowable Cost (MAC) for generic medications (*see text box at right*). For Medicaid, a common basis for pricing medications is the National Average Drug Acquisition Cost (NADAC), which is an estimate of the average price paid for prescription medications by independent and retail chain pharmacies.<sup>11</sup> Exhibit 4 provides an example of the average ingredient price paid by each plan sponsor for a commonly-dispensed generic medication and a commonly-dispensed brand-name medication, as well as the NADAC price.

**AWP** - Estimate of price for brand name prescription drugs. Similar to the sticker price of a car, AWP is used as a starting point for negotiating the price.

**MAC** - Maximum price that a PBM will pay for generic drugs and multi-source brands (brand-name drugs that have generic versions). The MAC price is set by the PBM.

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<sup>11</sup> NADAC is based on voluntarily-reported data obtained via a survey of independent and retail chain pharmacies conducted for the Centers for Medicare and Medicaid Services (CMS).

<b>Exhibit 4</b>				
<b>Example of Average Ingredient Prices*</b>				
<b>January through March 2023</b>				
<b>Medication</b>	<b>LDH</b>	<b>OGB</b>	<b>LSU</b>	<b>NADAC</b>
Generic Example	\$32.10	\$29.01	\$43.79	\$33.50
Brand Example	\$904.49	\$877.09	\$910.52	\$903.22
* The average ingredient price is the amount paid to the pharmacy for the ingredient cost of the medication. It does not include the dispensing fee, sales tax, or other fees and does not account for rebates or plan participant cost sharing. See Appendix A for our methodology. <b>Note:</b> Prices provided for informational purposes only and should not be used for comparison purposes. <b>Source:</b> Prepared by legislative auditor's staff using information provided by LDH, OGB, LSU, and CMS.				

**The administrative costs that plan sponsors pay vary based on the specific services and compensation negotiated between the PBMs, other vendors, and the plan sponsor. As a result, the administrative costs to manage the pharmacy benefit plans ranged from an average of \$23.39 for OGB to \$28.54 for LDH per plan participant per year.**

The specific administrative services provided by a PBM or other vendors and the compensation for those services are negotiated by each plan sponsor and defined in the contract with the PBM or other vendors that provide services related to pharmacy benefits. Examples of administrative services include processing pharmacy claims and prior authorizations, managing the formulary, and developing a network of pharmacy providers. Information about administrative costs is limited because this information is often considered confidential and proprietary by PBMs. This report does not compare the differences in contract terms or specific administrative services or costs across the different plan sponsors. The administrative costs to manage the pharmacy benefit plans on behalf of plan sponsors ranged from an average of \$23.39 to \$28.54 per plan participant per year as shown in Exhibit 5.

<b>Exhibit 5</b>	
<b>Average Administrative Costs</b>	
<b>Fiscal Years 2018 through 2022</b>	
<b>Plan Sponsor</b>	<b>Average per Plan Participant per Year</b>
LDH	\$28.54
OGB	\$23.39
LSU	\$28.23
<b>Note:</b> Costs provided for informational purposes only and should not be used for comparison purposes. <b>Source:</b> Prepared by legislative auditor's staff using information provided by LDH, OGB, and LSU.	

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**Plan sponsors monitor PBMs and other vendors that provide pharmacy benefit services in various ways. For instance, OGB plans to implement near real-time monitoring based on an emerging practice in contract monitoring.**

Monitoring vendor performance is essential for plan sponsors to ensure that PBMs and other vendors comply with contract requirements. According to state law,<sup>12</sup> an agency has full responsibility for diligent administration and monitoring of a contract, and the Office of State Procurement requires that every state contract include a monitoring plan. In addition, Milliman states that a best practice related to contracting with PBMs includes contract language allowing the plan sponsor the right to hire an independent auditor to validate the PBM's contractual performance.<sup>13</sup> LDH, OGB, and LSU monitor their PBMs and other vendors in various ways.

LDH does not contract directly with a PBM, but delivers pharmacy benefits for most Medicaid recipients via contracts with Managed Care Organizations (MCOs) that contract with PBMs. For legacy/fee-for-service (FFS) Medicaid recipients LDH provides pharmacy benefits via its fiscal intermediary and other vendors that provide services related to pharmacy benefits. According to LDH, to monitor its MCOs, staff review a variety of monthly and quarterly reports that include financial, utilization, and clinical data. LDH staff also conduct weekly meetings with the MCO pharmacy directors, review compliance reports provided by the Department's rebate vendor, and address all pharmacy complaints. For FFS, staff test the specifications for claims processing and meet frequently with vendors to discuss and address any issues.

LSU and OGB stated that their monitoring includes weekly meetings with their PBMs to discuss current issues and action items such as customer service-related problems. LSU and OGB also meet with their PBMs in person quarterly to discuss plan performance. In addition to these meetings, LSU and OGB contract with vendors to perform audits of the PBMs to ensure compliance with contract terms.

An emerging practice in PBM monitoring called "real-time" monitoring uses computer software to conduct real-time, electronic reviews of 100% of prescription drug claims to identify all deviations from the terms of the PBM contract. New Jersey and Minnesota have both implemented real-time monitoring for the PBMs that provided pharmacy benefits to state workers in 2017 and 2022, respectively.

OGB intends to implement near real-time monitoring of PBM services so it can achieve cost-savings, thereby optimizing the benefits that it provides to its plan

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<sup>12</sup> Louisiana Revised Statutes 39:1569.1

<sup>13</sup> <https://us.milliman.com/-/media/milliman/pdfs/articles/pbm-best-practices-effective-pbm-contracting.ashx>

participants. According to OGB, it believes that near real-time monitoring will allow OGB and its PBM to identify potential issues with pharmacy claims payments, minimize unintentional overpayments, and simplify annual audits of PBM services. To this end, OGB published an Emergency Request for Proposals for near real-time monitoring on June 15, 2023. After the evaluation process, a Notice of Intent to Award the Contract was issued on August 10, 2023. A Protest to the Award was filed on August 17, 2023, and remains pending as of September 1, 2023.

## APPENDIX A: SCOPE AND METHODOLOGY

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This report provides information based on our review of costs to provide pharmacy benefits by plan sponsors including the Louisiana Department of Health (LDH), the Office of Group Benefits (OGB), and Louisiana State University (LSU). We conducted this review in response to legislative interest. Our objective was:

**To provide information on the costs associated with pharmacy benefits provided by LDH, OGB, and LSU during fiscal years 2018 through 2022.**

Informational reports are intended to provide more timely information than standards-based performance audits. While these informational reports do not follow *Government Auditing Standards*, we conduct quality assurance activities to ensure the information presented is accurate.

To answer our objective, we performed the following steps:

- Met with management and staff of LDH, OGB, and LSU to obtain an understanding of the costs associated with providing pharmacy benefits including pharmacy claims, administrative fees, rebates, subsidies, and other payments from the Pharmacy Benefit Manager (PBM) to the plan sponsor. Each agency also provided input related to reasons why the cost to provide pharmacy benefits will differ for different plan sponsors.
- Researched the costs associated with providing pharmacy benefits including the impact of rebates, population, utilization, plan design, prescription medication pricing, and administrative fees.
- Obtained and analyzed PBM contracts to understand drug pricing, rebate requirements, and administrative fees.
- Obtained the percent of plan participants aged 65 or over as of January 1, 2023, from each plan sponsor. For LDH, the percent excludes Medicaid enrollees who do not receive a pharmacy benefit, and for OGB the percent excludes Medicare enrollees.
- Researched best practices and emerging practices related to monitoring PBMs for compliance with contract terms and obtained information from each plan sponsor regarding how they monitor their PBM(s) and/or other vendors that provide services related to pharmacy benefits.
- PBMs as of August 2023 are CVS Caremark, PerformRx, Gainwell Technologies, and OptumRx for LDH; CVS Caremark for OGB; and MedImpact for LSU.

- Calculated the average annual cost per plan participant to provide pharmacy benefits for each plan sponsor.
  - Obtained and analyzed financial data related to pharmacy benefits from LDH, OGB, and LSU for fiscal years 2018 through 2022. We did not validate the financial data provided by each agency, which generally included payments for prescriptions and administrative fees, and receipts for rebates and subsidies. See below for specific details for the financial information for each plan sponsor.
    - **LDH/Medicaid** pharmacy cost information for pharmacy claims was obtained from the Medicaid Annual Reports for fiscal years 2018 through 2021.
      - LDH provided pharmacy-only rebate amounts because, according to LDH, the rebates in the Medicaid Annual Reports include rebates for physician-administered medications.
      - LDH provided the costs for administrative fees. Administrative fees for the Managed Care Organizations (MCOs) are based on the Federal Reporting Requirements (FRR) reports submitted by MCOs. LDH's Administrative fees also include entities other than PBMs that provide administration for the legacy/fee-for-service program as well as oversight of the MCO pharmacy program. Entities include LDH Pharmacy Staff, LDH Fiscal Intermediary, the University of New Orleans, Magellan, and the University of Louisiana at Monroe.
      - The average annual cost for LDH/Medicaid includes Part D clawbacks which are payments for Medicare Part D for individuals who are eligible for both Medicaid and Medicare (Full Benefit Duals).
    - **OGB** pharmacy cost information was provided by OGB and includes commercial members and their dependents in the following plans: Magnolia Open Access, Magnolia Local, Magnolia Local Plus, and Pelican HRA1000 for which OGB contracts directly with a PBM. OGB's financial data also includes financial guarantee penalty payments and other payments received from a PBM.
    - **LSU** pharmacy cost information was provided by LSU and includes the LSU First Health Plan. The financial

information includes Retiree Drug Subsidies, rebates, and any network guarantee payments received from a PBM.

- Obtained a count of plan participants from OGB and LSU, and used Medicaid enrollment data from the LDH website for fiscal years 2018 through 2022 to calculate an average number of plan participants per fiscal year.
- Our calculation of the average annual cost to provide pharmacy benefits is the annual financial information divided by the average plan participants for each fiscal year, then averaged over four years (for average annual cost) or five years (for administrative costs) for LDH, and over five years for OGB and LSU.
- Pharmacy benefit plans are generally based on a calendar year; however, we present our financial analysis based on state fiscal year. As a result, financial information for a specific fiscal year may span more than one PBM contract.
- Expenditures and revenues are not always accounted for in the fiscal year in which they are incurred or earned. We calculated the average annual cost based on when expenditures and revenues were paid or received rather than when they were earned or incurred. As a result, the expenditures and revenues are not necessarily associated with the pharmacy claims during the same fiscal year.
- Identified commonly-prescribed medications and calculated the average ingredient price.
  - Obtained pharmacy claims records from LDH, OGB, and LSU for approved claims for prescriptions filled and paid during January through March 2023. We did not validate the pharmacy claims data provided by each agency. According to OGB, large variances in its claims data suggest the possibility of errors and OGB is not able to verify this data without completing an audit of each filled claim.
  - Used data analytics software to identify commonly-dispensed generic and brand-name medications based on drug name, National Drug Code, and the number of claims/prescriptions filled. Then used quantity dispensed to identify claims for the same quantity of the same medication and calculated the average ingredient price, excluding claims with \$0.00 value.
  - Used the National Average Drug Acquisition Cost (NADAC) data from Centers for Medicare and Medicaid Services to calculate an average NADAC price.