A PREPAID PHARMACEUTICAL PROGRAM FOR PENNSYLVANIA

(A Review)

Prepared for

THE HEALTH AND WELFARE COMMITTEE

HOUSE OF REPRESENTATIVES

COMMONWEALTH OF PENNSYLVANIA

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MAY - 1974

A PREPAID PHARMACEUTICAL PROGRAM FOR PENNSYLVANIA
(An Introduction)

Providing prescription drugs for those participating in the Medical Assistance Program has been troublesome.

(1) The Client has problems in having the prescription filled;

(2) The pharmacy has had problems in being paid for invoices submitted . . . in some instances the time lag was more than three months;

(3) The Department of Public Welfare has had problems in

A.) processing the invoices;

B.) developing a profile on the individuals obtaining drugs;

C.) programming pharmacy utilization;

D.) determining the incompatibility of drugs;

E.) monitoring the writing of prescriptions.

Since prescription drugs are an integral part of the medical process those directly and indirectly involved with the Medical Assistance Program turned to a Prepaid Pharmaceutical Program as a method of solving these problems.

This report is an attempt to provide background information for the use of the Health and Welfare Committee of the House and others who have a direct or indirect interest in developing an effective and efficient prescription drug program for those participating in the Medical Assistance Program.

A PREPAID PHARMACEUTICAL PROGRAM FOR PENNSYLVANIA

(A Summary)

It would be operated under contract by a non-profit organization experienced in the delivery of health care with the supervision of the Dept. of Public Welfare.

It would attempt to alleviate the gross inefficiencies plaguing the present payment system known as Medical Assistance Recording System.

It was designed to provide efficient and proper medical care administration of Title XIX of the Social Security Act.

It would provide the State better cost control of Title XIX because it stabilizes the risk by having a fixed premium for the contract period.

It fixed a premium based upon a capitation formula for each aid category.

Out of 29 potential contractors, 14 attended the Preproposal Conference on April 23, 1973. Seven responded with actual proposals; of which three tabulated bids.

The organizations and bids were: Tolley International--$41.4 million , Blue Cross--$30.8 million, and Paid Prescriptions--$29.7 million.

The Evaluation Committee organized by the Dept. of Public Welfare in May 1973 analyzed the bidders and unanimously chose Paid Prescriptions.

The recommendations of the Evaluation Committee were reviewed by a Selection Committee which agreed entirely with its analysis. This evaluation was completed before July 1, 1973.

The contract which received all the necessary signatures in the D.P.W. was held up in the Governor's Office.

In January, 1974, Paid Prescriptions withdrew its bid allegedly because the non-profit organization from California did not meet the requirements of a registered non-profit organization in Pennsylvania.

According to some sources, Paid Prescriptions failed to meet the requirements of the Voluntary Non-profit Health Service Act which stated , "A non-profit health service plan

of another state would not be authorized to do any business in Pennsylvania until the organization had filed with the Insurance Commissioner and the Secretary of Health."

The D.P.W., according to the Public Welfare Code--Act 21, June 13, 1967, as amended through 1968, may contract with a non-profit corporation only if the requirements were met by law.

The D.P.W. and the Administration believe this program is extremely efficient; therefore, the procedure of implementing the prepaid drug program will be started over again and the errors will be corrected to insure complete understanding of all the requirements. Tentative date of completion is July 1, 1974.

A. Prepaid Pharmaceutical Program For Pennsylvania
(A Review)

1. Purposes

The intent of this program was to provide efficient and proper medical care administration of Title XIX. The establishment of a prepaid program would enable persons eligible for medical assistance to receive pharmaceutical benefits. The program would be operated by a non -profit organization experienced in the delivery of health care with the supervision of the Department of Public Welfare. This state agency was vested with the power and duty to administer Title XIX of the Social Security Act--Health Insurance Pharmaceutical Benefits for Pennsylvania Medical Assistance Program.

The present payment system is known as Medical Assistance Reporting System (MARS) which is plagued with many inefficiencies. This System lacks a sophisticated computer program to print out profiles on the patient, pharmacy, and physician. The proposed prepayment system would attempt to correct some of the inadequacies that Pennsylvania now experiences. There also should be an improvement in the identification system of eligible recipients. The ID cards should include the name and ages of eligible dependents and the recipient's signature which can be compared with the signatures on the authorization card and on the pharmacy invoice.

With the advent of a prepaid drug program, the contractor through analytical control reports would be able to identify the dishonest elements of the present system. The first six to nine months the contractor might and probably would incur a loss until the cheats were weeded out and inefficiencies were corrected.

II. Background

The prepaid program, a new and unique approach presently is in operation in North Carolina, Arkansas, and California with proposed plans being discussed in other states as well as on the national level. In the Commonwealth of Pennsylvania, the prepaid program represented the first step in accomplishing a comprehensive health program for Medicaid recipients.

The Request For Proposal (RFP) called for the development of a prepaid insurance contract in which the nonprofit organization (contractor) provided eligible recipients pharmaceutical services at a fixed premium to the Department based on a capitation formula varying for each category. The aid categories were: O.A.A.-Old Age Assistance, A.B.-Aid to Blind, A.P.T.D.- Aid to Permanently and Totally Disabled, A.F.D.C.- Aid to Families with Dependent Children, G.A.- General Assistance, and State A.B.- State Blind Pension. The needs of each category were different and therefore, the rates were different.

The contract would contain a detailed explanation of the rights, responsibilities, and duties of the Dept. of Public Welfare, the Contractor, and the Providers (Doctors and Pharmacies). The program was unique because it provided for an "underwriting risk of a publicly funded program for a nonprofit corporation" according to the RFP. The Contractor was required to develop and test a system that would process and pay all valid claims for pharmaceutical benefits. This system would enable simplification of the forms which must be filled out by the pharmacists and provide the Office of Medical Programs with pertinent information which it required in order to perform sound professional management, administrative, and fiscal controls.

III. Duties of the State Agency according to the contract

The Dept. of Public Welfare would:

1. furnish the Contractor with an administrative framework in order to fulfill his duties.

2. provide the Contractor on a continuing basis by clerical or electronic means complete current and accurate records as to the eligibility of recipients entitled to medical care.

3. establish and certify the eligibility of recipients who are entitled to care.

4. advise recipients to identify themselves to the Providers.

5. provide all pertinent information to the Contractor regarding which Providers' services have been terminated and which administrative regulations are applicable.

6. inform the Contractor who is authorized to act for the State Agency.

7. provide recipient with ID cards and an awareness of such subjects as proper entry into the system.

IV. Some of the Duties of the Contractor according to the contract

The Contractor would:

1. audit claims, pay valid claims, reject all claims not payable under the contract, notify the Providers of the reasons for their rejection and answer routine complaints.

2. forward the claim to the Peer Review if they are questionable.

3. construct a manual of procedures for eligible Providers.

4. construct a manual governing their operations.

5. furnish all qualified personnel, facilities, materials, and other services and in consultation with the State Agency provide high quality pharmaceutical services.

6. construct management reports and profiles on Providers and recipients.

7. advise and assist the Program Office in carrying out the plan.

8. provide to the Department on a monthly basis complete information from billing documents that can be utilized in establishing and keeping an index of all patients and providers.

9. utilize safeguards to control corruption or abuse by recipients, Providers, etc.

10. implement a comprehensive computer program to detect misutilization of prescribed drugs to recipients.

V. Advantages of the Program

The prepaid program stabilized the risk by having a fixed premium for the contract period because it provided the State better cost control of Title XIX. The new program showed economy in savings of 4 to 6 % and was able to pay the vendors in 30 days. The Contractor must insure that all important information was accumulated in order to establish a completely sophisticated data base for the purpose of processing prescription claims for payment on a monthly basis. According to the contract "the program also provided for interdisciplinary drug utilization planning, review, analysis, and follow up to insure rational therapeutic prescribing patterns, prompt payment of claims, meaningful professional controls and a local communication network responsive to the needs of patients, physicians, and the pharmacists--as well as the state."

The prepaid pharmaceutical program would attempt to satisfy the following requirements:

1. process claims rapidly; the pharmacists would be paid for a valid claim within a month.
2. pay claims accurately
3. monitor drug usage
4. utilize drug review
5. flexibility of system components
6. peer review; a committee composed of professional druggist who review any claims that are questionable.
7. reports production
8. improve eligibility verification techniques.

VI. Procedure

Fourteen potential contractors attended the preproposal conference on April 23, 1973. The purpose of this gathering was to allow the attenders to ask questions about the prepaid

program. In order to be considered for the contract the bidders had to complete and submit a response to the RFP. Seven organizations responded with actual proposals; of which three tabulated bids. The organizations were Tolley International, Blue Cross, and Paid Prescriptions. The bids had to include the cost of drug ingredients, dispensing fees, administration, overhead, utilization, peer reviews, eligibility verifications, claims processing and reporting operations, EDP/ADP operating expenses, management reports and utilization reports. The potential contractor utilized these elements and calculated a per capita premium. As already stated the 830,645 eligible recipients are divided into aid categories with A.F.D.C. comprising 638,799; G.A.- 95,678; O.A.A.- 42,727; A.P.T.D.- 40,464; State A.B.- 6,939; and A.B.-6,038.

On May 1973, the Department of Public Welfare organized an Evaluation Committee to review the programs outlined by the three bidders. This committee of nine had representatives from the Bureau of Medical Assistance, Office of Medical Programs, Division of Procurement, Data Processing, Governor's Office of Administration, Office of Management Services, Legal, and Professional (pharmacists).

The grading system for the evaluation was based on 100 points. The potential proposals were graded by each individual member. This procedure took about two weeks. Then the nine members got together and discussed why they evaluated the bidders the way they did. The Evaluation Committee analyzed the bidders soundness of approach (20 points), understanding of the program (15 points), personnel qualifications (10 points), contractors qualifications (10 points), management approach (20 points), program control (7points), facilities used (3 points), and unit cost (15 points). The bidder's program and qualifications were reviewed and then the cost of implementing the prepaid program was evaluated. In this way the members would not be influenced by the bid but would be more concerned with an efficient approach to the program.

The recommendations of the Evaluation Committee were reviewed by the Selection

Committee. This committee included e.g. Director of Medical Programs, Deputy Secretary of Medical Programs, Legal, and Commissioner Medical Programs. The Selection Committee completed its work and agreed with the Evaluation Committee's analysis before July 1, 1973. The prepaid program then moved through the Department of Public Welfare and received the appropriate signatures. It went then to the Governor's Office where it was delayed for one reason or another.

VII. Bidders

Tolley International, a proprietary organization in Philadelphia, has had experience in running drug programs for unions but lacks knowledge in dealing with welfare and working with the state. Their bid was $41.4 million which was approximately $11 million more than the other bidders. The reason for such a difference between the bids was attributed to an inaccurate assumption. Tolley assumed the average age of A.F.D.C. was 39 years old. Aid for Families with Dependent Children is normally composed of young adults and children. The drug usage of this category is substantially less than O.A.A. and A.P.T.D. because the elderly and disabled are the main users of drugs. The older a person becomes, the more drugs one is expected to use. Because Tolley estimated the average age to be much higher than it actually is, its price in this category was higher than the other bids. Eighty Percent of the bid was contained in A.F.D.C., and Tolley International made the price per person about twice as high as the other bidders which explained why their bid is 40% higher. The difference in this category amounted to about $11 million. The evaluation of Tolley was not too impressive because of this inaccurate assumption, lack of working experience with the state, and weak computerization.

Blue Cross is a non-profit organization, registered in Pennsylvania. Their bid was $30.8 million. Blue Cross is divided into five different divisions in the state. The divisions are: Western, Northeastern, Capital, Philadelphia, and Lehigh Valley. Each

would handle the program in their area with some coordination between the five divisions. This method of operation tended to lead to disorganization because the divisions do not report to each other. The system would contain a coordinator who was supposed to obtain all pertinent information from the five divisions; however, most of the information does not reach the coordinator. Instead, the drug program in each division reported to their own President where the information stops. Blue Cross was experienced in handling welfare and working with the state but lacked knowledge in implementing a drug program.

Paid Prescriptions, a non-profit organization based in California, has been involved in pharmaceutical programs since 1964. Their bid was $29.7 million. Paid Prescriptions provided services for insurance companies, union trusts, employers, Blue Shield and Blue Cross. It administered the Title XIX Drug Program in California, North Carolina, Arkansas, and Massachusetts. As far as experience goes none of the other bidders were able to match Paid Prescriptions. This organization mapped out a very comprehensive and efficient system of operating the program. Simply the eligible recipients receive a member identification card which permitted them to receive prescription drugs from a participating pharmacy. The pharmacy then submitted a claim form and was reimbursed based upon the agreed upon cost. Paid Prescriptions' computer pricing program is very sophisticated because it automatically corrected for over-billing on submitted claims and allowed the proper price to be paid. Paid Prescriptions' computer program constructed a drug utilization profile on each eligible recipient. Therefore, drug abuse can be easily detected.

VIII. Conclusion

The recommendation of the Evaluation Committee that Paid Prescriptions receive the contract was approved by the Selection Committee. Without a doubt, Paid Prescriptions presented the most competent method of handling the prepaid drug program. Their rating was superior compared to the other bidders in all categories. Therefore,

one may become confused when for some reason Paid Prescription withdrew their bid in January, 1974.

As already stated, the prepaid drug program moved through the Department of Public Welfare and then became held up in the Governor's Office. The alleged reason for the delay and then the withdrawal of Paid Prescriptions' bid was that the non-profit organization from California did not meet the requirements of a registered non-profit organization in Pennsylvania.

According to the Voluntary Non-Profit Health Service Act, a non-profit health service plan of another state would not be authorized to do any business in Pennsylvania until the organization had filed with the Insurance Commissioner and the Secretary of Health. The Justice Department maintained that Paid Prescriptions failed to meet this requirement. Therefore, the Department of Public Welfare, according to the Public Welfare Code- Act 21 (June 13, 1967, as amended through 1968), may contract with a non-profit corporation only if the requirements were met by law. In this instance Paid Prescriptions realized their organization was at fault and withdrew their bid.

The reasons why Paid Prescriptions did not file were not specifically known. Why the importance of filing was not made known to the bidders was also mysterious.

The Department of Public Welfare and the Administration believe the prepaid program is of vast importance and would greatly enhance the efficiency of a drug program, and therefore still want to implement this project. Therefore, the prepaid pharmaceutical program will be started over again and the errors will be corrected to insure complete understanding of all the requirements. Hopefully, this will be accomplished by July 1, 1974.

Sources of Information

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Dept. of Human Resources
Division of Social Services
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Mr. Benny Rideout
Pharmacy Consultant
Medical Services Section

Paid Prescriptions Inc.
"Service Drug Program"
Ms. Jean Messing
Account Executive

Commonwealth of Pennsylvania
Department of Public Welfare
"Request for Proposal for Prepaid Pharmaceutical Benefits"

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"Voluntary Non-Profit Health Service Act of 1972"
Purdens 40 Section 1551

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Act 21, June 13, 1967, as amended through 1968

Interviews

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He was a member of the Evaluation Committee
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Mr. Richard Canright, Executive Director of Pennsylvania
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He was Chairman of Evaluation Committee
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Mr. Ashok Shuka
He was a member of Evaluation Committee
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Mr. Jack Jones, Deputy Secretary for Management Services
Dept. of Public Welfare
Interview by phone and referred me to Glenn Johnson and William Shoemaker

Mr. Sitinsky
Dept. of Justice
Interview by phone

Dr. Leonard Bachman, M.D., Governor's Health Services Director
Referred me to William Shoemaker.