TO: Representative Adam Holmes
Chairman, Joint Medicaid Oversight Committee

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Executive Director, Joint Medicaid Oversight Committee

FROM: Sean Eckard, PharmD, RPh
Pharmacy Director, Ohio Department of Medicaid

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Director, Ohio Department of Medicaid

DATE: April 9, 2025

SUBJECT: SPBM Program Review/Experience Analysis

SPBM Key Findings:

- **Total administrative cost savings of $333 million over the first 2 years of SPBM operation**
- **Net savings of nearly $140 million over the first 2 years**
- **Nearly $700 million in dispensing fees paid to Ohio-contracted pharmacies**
- **Largest, most inclusive in-state pharmacy network**

The SPBM has delivered much needed accountability and price transparency for Ohio taxpayers and Ohio pharmacies, providing assurance that Ohio's tax dollars are spent appropriately. These significant reforms led by the General Assembly were necessary due to concerning Pharmacy Benefit Manager (PBM) business practices such as spread pricing, effective rate contracting, post-payment clawbacks, and network steering. Ultimately, these practices severely damaged the financial viability of Ohio pharmacies, leading to the closure of many pharmacies across the state in the late 2010s.

In late 2024, the Ohio Department of Medicaid (ODM) requested our contracted actuarial firm, Milliman, conduct a cost effectiveness analysis regarding the SPBM program, based upon the first two years of operation. The intent of this analysis was to capture an "apples-to-apples" comparison of the program versus what ODM would have paid in capitation rates for pharmacy services and prescribed drugs under the traditional Managed Care Organization (MCO) based model used in other states. As part of this update, we are pleased to share the results of this analysis in furtherance of our goals of transparency and accountability within the Ohio Medicaid Pharmacy Program.

Bottom Line: The SPBM delivers on its goals of accountability, transparency, and fairness – While doing so at a significantly lower administrative overhead cost to taxpayers.

The SPBM operates as a Prepaid Ambulatory Health Plan, a type of specialized managed care plan, to provide for pharmacy benefit administration. **Accountability** is further ensured through the engagement of the Pharmacy Pricing and Audit Consultant (PPAC), which has significant oversight and auditing functions to ensure that SPBM accurately processes prescription claims and pays pharmacies appropriately. **Transparency and fairness** are assured through the use of the Ohio Average Acquisition Cost (OAAC), a new survey-based drug pricing methodology that ensures providers receive fair, accurate reimbursement for the medications they dispense.

In addition to the above, the SPBM model also provides the following benefits for Ohio taxpayers and Medicaid beneficiaries:

Pharmacy Access. The SPBM pharmacy network is the largest, most inclusive in-state pharmacy network ever, with over 99% of Ohio pharmacies contracted as in-network providers. In addition to standard retail pharmacies, Ohio Medicaid beneficiaries also have access to specialized compounding pharmacies, mail order pharmacies, home delivery pharmacies, and specialty pharmacies. In total, over 2,600 unique pharmacy locations are contracted with Gainwell, including nearly 250 accredited specialty pharmacies.

Freedom of Choice. Members have complete freedom of choice with respect to their pharmacy selection, and are never steered to any particular pharmacy, since Gainwell does not own, operate, or maintain an ownership interest in any contracted pharmacies. Under the traditional Managed Care Organization (MCO) based pharmacy benefit, members were often steered to PBM-owned or affiliated specialty pharmacies; today, members are provided their options and are free to select the pharmacy provider that best meets their needs.

Fair Reimbursement for Pharmacies. Over the first 2 years of the program, SPBM has paid nearly $700 million in dispensing fees directly to Ohio-contracted pharmacies, with dispensing fees averaging over 9 dollars per prescription. Under the prior MCO model, pharmacies were paid an average of only 73 cents per prescription, which is significantly less than the break-even cost to dispense a medication in the state according to independent studies. The prior model made it extremely difficult to assess whether PBMs were operating in a fair and competitive market, and not steering higher reimbursement to affiliated pharmacies. In an effort to ensure a fair and competitive market, the General Assembly recognized this as a particular priority for reform and we are pleased to see the positive impact it has had on the market.

Revitalization of Pharmacy. Since the start of the SPBM program, pharmacy openings in Ohio are at their highest level in nearly five years, due in part to the significantly greater stability and predictability of SPBM reimbursement. This positive change is most evident among independent retail pharmacy providers, who have added the most locations in a single year since at least 2012, according to Board of Pharmacy data[1]. SPBM has also helped stabilize small

[1] Ohio Board of Pharmacy. Ohio Pharmacy Access Dashboard. Available at: https://data.ohio.gov/wps/portal/gov/data/view/ohio-pharmacy-assessment-?visualize=true. Accessed 30 March 2025.

chain retail pharmacies, reversing a nearly ten-year decline in such locations across the state. While Ohio has seen a net loss in pharmacy locations, the losses have been concentrated among large chain pharmacies, with the majority of closures due to a single corporate bankruptcy. While SPBM cannot address the multitude of challenges across all payer types in the healthcare system, it has provided needed stability in the Medicaid market.

Reduced Administrative Expenses. SPBM significantly reduces costs by eliminating duplicative MCO administrative expenses and risk margin across multiple MCOs. Reductions in administrative cost have resulted in savings of $333 million over the first two years of the program. Current pharmacy administrative expenses are only 1 percent of net pharmacy spend, significantly below the national average[2].

Overall Cost Effectiveness.

The Department of Medicaid projects a nearly $140 million savings over the first two years of operation of the Single PBM.

Pharmacy costs are rising across the country due to newly approved drugs and increased utilization. A recent study by KFF[3] examining trends in state Medicaid pharmacy spend found that net spending (spending after rebates) on Medicaid prescription drugs increased by 72 percent, from $30 billion in FY 2017 to $51 billion in FY 2023, despite only small increases in the number of prescriptions dispensed per year. Most notably, gross Medicaid pharmacy expenditures increased by approximately 14 percent from 2022 to 2023, while net increases were even higher at approximately 18 percent. These national trends aligned closely with Ohio's experience under SPBM.

The enclosed Milliman report identifies net savings as nearly $140 million over the first two years of the SPBM, when compared to capitation rates that would have been paid under the traditional MCO-based pharmacy benefit. When conducting this modeling, Milliman used observations and trends from other state Medicaid programs to help guide their analysis.

In conclusion, we are optimistic that the enclosed analysis will be an informative look into the experience of the SPBM program over the first two years of operation. Through enhanced pharmacy access and freedom of choice, Ohio Medicaid beneficiaries have more access to life-saving medications than ever before. By providing fair and predictable reimbursement rates, Ohio pharmacies have a viable business model for years to come. Lastly, by aggressively managing administrative and benefit expenses, SPBM can continue to be a model for reform

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[2] Medicaid and CHIP Payment and Access Commission. Exhibit 16: Medicaid Spending by State, Category, and Source of Funds. December 2024. Available at: https://www.macpac.gov/publication/medicaid-spending-by-state-category-and-source-of-funds/. Accessed 30 March 2025.

[3] KFF. Recent Trends in Medicaid Outpatient Prescription Drugs and Spending. Available at: https://www.kff.org/medicaid/issue-brief/recent-trends-in-medicaid-outpatient-prescription-drugs-and-spending/. Accessed 30 March 2025.

for state Medicaid programs well into the future and a model that other states should consider for cost savings and market reform.

Enclosure: Milliman Ohio Single Pharmacy Benefit Manager Experience Analysis; October 1, 2022 through September 30, 2024.

Single Pharmacy Benefit Manager

The Single Pharmacy Benefit Manager (SPBM) provides pharmacy services across all Ohio Medicaid managed care plans and members. It is the largest Medicaid in-state pharmacy network, with over 99% of Ohio pharmacies contracted. By consolidating pharmacy benefits under one manager, SPBM aims to enhance cost efficiency, improve medication adherence, and provide more coordinated care for members.

Cost Efficiency

- Total savings of $140 million in first 2 years of program
- Administrative cost savings of $333 million in first 2 years of program

ACCOUNTABILITY, PRICE TRANSPARENCY & FAIRNESS

GOALS

- No spread pricing, network steering, effective rate contracting or clawbacks
- Providers are paid a survey-based price for drugs, the Ohio Average Acquisition Cost
- Dispensing fee methodology is public and providers have full transparency
- Access to specialized compounding pharmacies, mail order pharmacies, home delivery pharmacies, and specialty pharmacies
- Complete freedom of choice for members

Dispensing Fees Paid Directly to Ohio Pharmacies

- Over 2 years, SPBM paid more than $625 million in dispensing fees to more than 2300 pharmacies
- Average dispensing fee over $9 per prescription, compared to an average of only 73 cents under the prior MCO model

* SPBM mandated by H.B. 166 of the 133rd General Assembly

Ohio Department of Medicaid

MILLIMAN REPORT

Ohio Single Pharmacy Benefit Manager Experience Analysis

Based on Single Pharmacy Benefit Manager (SPBM) Claims Experience through September 30, 2024

March 28, 2025

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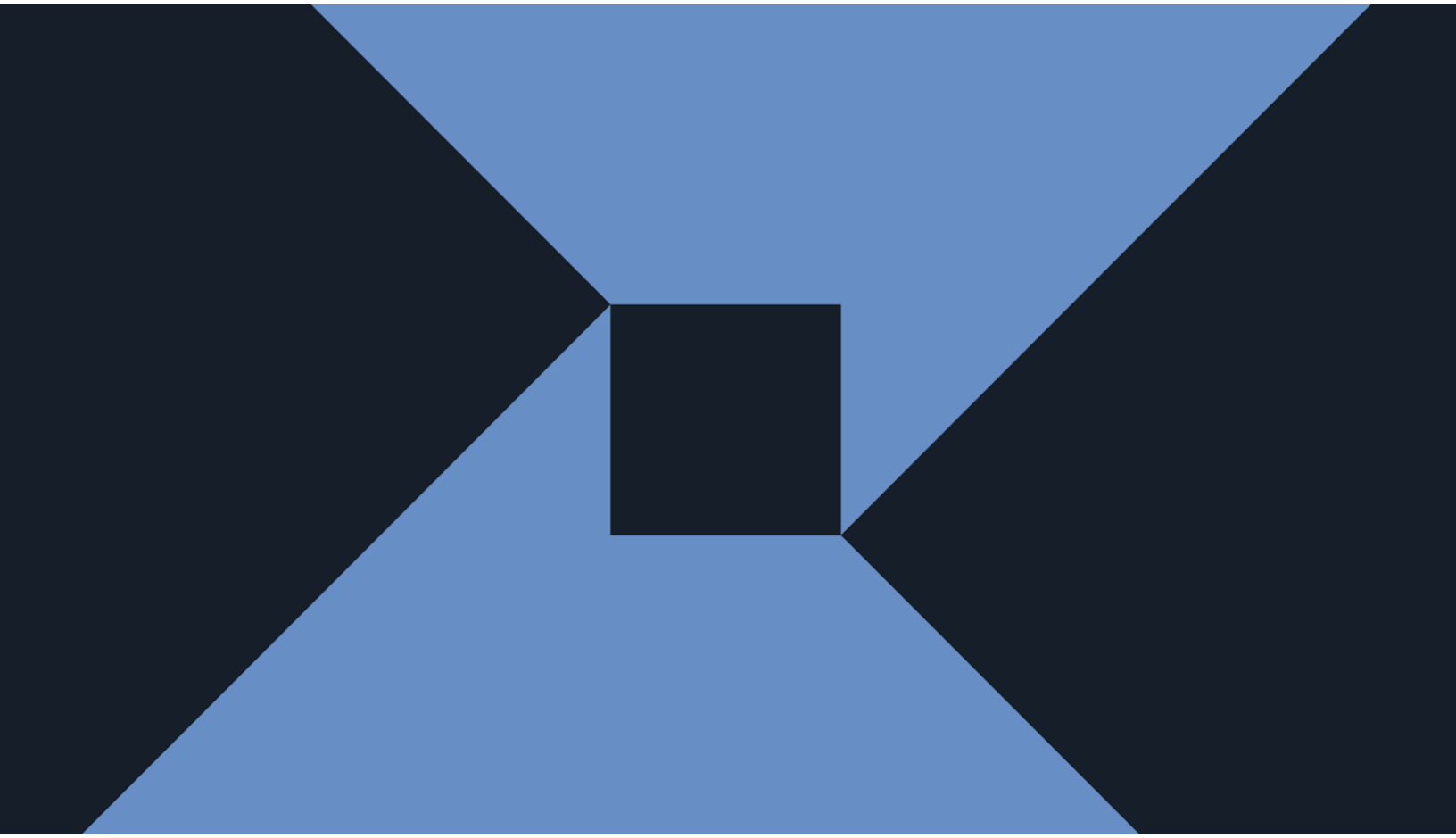

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Table of Contents

I. EXECUTIVE SUMMARY 1
II. SPBM IMPACT ANALYSIS 2
EXPENDITURES INCURRED UNDER SPBM 2
ESTIMATED EXPENDITURES UNDER MANAGED CARE 2
EXPENDITURE CHANGE 3
III. LIMITATIONS AND DATA RELIANCE 5

I. Executive Summary

Milliman, Inc. (Milliman) has been retained by the Ohio Department of Medicaid (ODM) to provide actuarial and consulting services related to the implementation of the Next Generation of Managed Care, which includes the Single Pharmacy Benefit Manager (SPBM). This correspondence is in response to a request from ODM to provide an analysis of observed pharmacy experience for Medicaid Managed Care (MMC) members during the first two years of the SPBM. The information in this correspondence has been prepared for ODM. It is our understanding that this report may be used in legislative discussions. To the extent that the information contained in this report is provided to third parties, the report should be distributed in its entirety. Any user of the data must possess a certain level of expertise in actuarial science and pharmacy services so as not to misinterpret the data presented.

Effective October 1, 2022, pharmacy services[1] for MMC program members that were previously covered by the Managed Care Organizations (MCOs) began to be covered under the SPBM. The transition to the SPBM represented a material shift in the landscape for expenditures attributable to the Ohio Medicaid pharmacy program, due to differences in utilization, the ingredient cost and dispensing fees put forth in the State's new pharmacy reimbursement methodology for MMC program claims, and the nature and magnitude of administrative expenses incurred by the state.

About Milliman

- Founded in 1947, **an independent firm** with offices in major cities around the globe
- Over 30 years of national leadership in **consulting to state Medicaid agencies**
- Certifies capitation rates for **19 states**; provides actuarial review and subject matter expertise to many others.

The objective of our analysis was to estimate the change in expenditures related to Ohio Medicaid pharmacy under the first two years of the SPBM spanning October 1, 2022, through September 30, 2024 ("SPBM period"). To complete this analysis, we developed an alternative estimate of the SPBM period benefit and non-benefit expense by summarizing pharmacy expenditures incurred in the year prior to the SPBM period and performed modeling under a set of assumptions intended to reflect the amount of funding that may have been included in the capitation rates had pharmacy services remained covered by MCOs in the MMC program. The change in expenditures was determined by comparing actual SPBM experience to this alternative estimated pharmacy experience. Based on our analysis, **ODM pharmacy expenditures under the SPBM were not materially different than what may have been incurred under the MMC program,** with modeled scenarios falling within a margin of error typical for analyses of this nature. This report summarizes the results of this analysis.

It should be noted that when assessing the SPBM, there are many potential impacts of this policy change outside of the direct fiscal impact. These impacts were outside of the scope of our analysis but should be considered when evaluating the SPBM. The key qualitative stakeholder impacts, described in Figure 1, align with ODM's reported pharmacy program goals.

FIGURE 1 – SPBM QUALITATIVE IMPACT CONSIDERATIONS

Qualitative Consideration	Description
Direct more ODM expenditures to pharmacy providers	A portion of ODM expenditures were shifted from MCO administrative overhead functions to pharmacy providers through SPBM reimbursement policies.
Uniform and transparent pharmacy provider reimbursement	SPBM pharmacy reimbursement is based on actual pharmacy costs collected through surveys, in contrast to discounts applied to pricing benchmarks and proprietary maximum allowable cost (MAC) rates along with marginal dispensing fees that varied by MCO.
Streamlined and uniform pharmacy benefit	Prescribers and pharmacies are likely to benefit from reduced administrative burden when compared to interfacing and billing with separate MCOs.
Comprehensive, robust, and uniform pharmacy network	Under the SPBM, over 99% of Ohio pharmacies are contracted with ODM as compared to the prior networks which may be limited and vary by MCO. This presumably results in freedom of choice with respect to member access to pharmacies.
Pharmacy Utilization Changes	We observed increased pharmacy utilization by Medicaid members, which may imply better access to medications or alternatively could imply differences in pharmacy management.

[1] Pharmacy services include pharmacy claims processing, pharmacy provider payment and network management, audit functions, prior authorization (PA) administration and other related functions provide by the MCOs and their contracted PBMs.

II. SPBM Impact Analysis

To complete this analysis, we developed an estimate of ODM expenditures under a set of assumptions intended to reflect what may have occurred had pharmacy services remained covered by the MCOs and funded in MMC program capitation rates. Expenditures changes were developed by comparing actual SPBM experience to this alternative estimate of ODM pharmacy experience.

EXPENDITURES INCURRED UNDER SPBM

To summarize expenditures incurred in the SPBM period, we relied on data and information provided by ODM, including:

- Detail-level paid claim amounts from ODM's fiscal intermediary enterprise data warehouse;
- Summarized rebate collections by incurred quarter;
- Administrative amounts paid to vendors for rebate collection, reimbursement rate development, pricing and auditing; and,
- Expenditures associated with additional ODM staff needed to support the SPBM.

Figure 2 below summarizes the observed experience.

FIGURE 2 – EXPENDITURES INCURRED UNDER SPBM (OCT 22 – SEP 24)

	EXPENDITURES ($ MILLIONS)
SPBM Period Total Claims Expense	**$ 10,402.5**
ODM Rebates Collected	$ 5,196.7
SPBM Period Net Benefit Expense	**$ 5,205.8**
SPBM Period Non-Benefit Expenses	**$ 55.0**
SPBM Period Total Expenditures	**$ 5,260.8**

Notes:
1. Values have been rounded.

ESTIMATED EXPENDITURES UNDER MANAGED CARE

To estimate pharmacy benefit expense that may have occurred during the SPBM period had pharmacy experience remained covered by MCOs in the MMC program, we began by summarizing pharmacy expenditures incurred in the year prior to the SPBM period, October 1, 2021, through September 30, 2022 ("pre-SPBM period"). We then adjusted pre-SPBM period experience to account for drivers of cost differences we expect may have occurred in the SPBM period had the pharmacy benefit remained in managed care. Items we considered when projecting this alternative scenario of SPBM period experience included:

- Differences in enrollment mix among populations (e.g., aged blind and disabled (ABD), Medicaid Expansion, Modified Adjusted Gross Income (MAGI) and regions);
- Changes in population acuity due to the public health emergency (PHE) and subsequent unwinding,
- COVID-19 vaccine and administration cost;
- ODM's quality withhold initiatives for continuous glucose monitors;
- Pharmacy unit cost trend, including ingredient cost and dispensing fees; and,
- Utilization trend, including both in total and due to shifts in the distribution of utilization among agents (such as generic and brand drugs).

We assumed Medicaid rebates equal to 55% and 45% of gross pharmacy benefit expense for the first and second year of the SPBM period, respectively, based on rebate information provided by ODM.

Our analysis resulted in three scenarios for estimating benefit expense that would have occurred had the pharmacy benefit remained in managed care. The three scenarios include *Baseline, Higher Managed Care*, and *Lower Managed Care*. The *Baseline* scenario was developed upon a review of projected pharmacy utilization, cost, and generic/brand trend assumptions utilized in other state managed care programs over the time periods encompassed by the pre-SPBM and SPBM periods. The *Higher* and *Lower Managed Care* scenarios include sensitivity tested assumptions that would have resulted in higher and lower estimated managed care benefit expense, respectively. The results of this analysis by scenario are outlined further in Figure 3.

In addition, we estimated the total amount of non-benefit expense that would have otherwise occurred if the pharmacy benefit remained in managed care. Non-benefit expense estimates were based primarily on assumptions utilized in recent capitation rate certifications for periods when pharmacy services were covered under the MMC program. Non-benefit expenses we considered included:

- PBM administration fees incurred by MCOs, assumed at $3 per script (based on historical capitation rate development assumptions in the MMC program);
- MCO capitation rate risk margin; assumed to equal 1.5% of the sum of pharmacy benefit expense and PBM administration fees; and,
- ODM administrative expenditures to facilitate rebate collection.

We estimated non-benefit expense for each of the three scenarios based on the applicable projected total utilization and benefit expense.

Figure 3 below illustrates the results of this analysis for each of the scenarios.

FIGURE 3 – ESTIMATED EXPENDITURES UNDER MANAGED CARE IN SPBM PERIOD (OCT 22 – SEP 24)

	BASELINE	HIGHER MANAGED CARE	LOWER MANAGED CARE
Pre-SPBM Benefit Expense PMPM	$ 130.12	$ 130.12	$ 130.12
Adjustment Factor from Pre-SPBM to SPBM Period	1.14	1.17	1.11
Adjusted Managed Care SPBM Period PMPM	**$ 148.32**	**$ 151.74**	**$ 144.96**
SPBM Period Member Months (Two Years)	65,900,000	65,900,000	65,900,000
Adjusted Managed Care Total Claims Expenditures	$ 9,774.1	$ 9,999.5	$ 9,553.0
Estimated ODM Rebates Collected	4,882.4	4,993.6	4,773.2
Estimated Managed Care Benefit Expense	**$ 4,891.7**	**$ 5,005.9**	**$ 4,779.8**
PBM Administrative Fees	$ 227.1	$ 230.1	$ 224.2
ODM Payments to Rebate Vendor	8.6	8.6	8.6
Risk Margin	152.3	155.8	148.9
Estimated Managed Care Non-Benefit Expense	**$ 388.0**	**$ 394.5**	**$ 381.6**
Total Estimated Managed Care Expenditures	**$ 5,279.7**	**$ 5,400.3**	**$ 5,161.4**

Notes:
1. Values have been rounded.
2. Expenditure values included above are illustrated in millions of dollars.
3. PMPM is an abbreviation for the phrase 'Per Member, Per Month'.

EXPENDITURE CHANGE

We calculated the change in expenditures related to Ohio Medicaid pharmacy under the first two years of the SPBM by comparing estimated expenditures that may have occurred under managed care to the observed experience under the SPBM. Figure 4 illustrates the results of this comparison, by scenario.

FIGURE 4 – SUMMARY OF EXPENDITURE CHANGE

	BASELINE	HIGHER MANAGED CARE	LOWER MANAGED CARE
Total Estimated Managed Care Expenditures	$ 5,279.7	$ 5,400.3	$ 5,161.4
SPBM Period Total Expenditures	$ 5,260.8	$ 5,260.8	$ 5,260.8
Expenditure Change	**$ 19.0**	**$ 139.5**	**($ 99.4)**
Expenditure Change; Percentage of Total Managed Care	**0.4%**	**2.6%**	**(1.9%)**

Notes:
1. Values have been rounded.
2. Expenditure values included above are illustrated in millions of dollars.
3. Positive values denote expenditure reductions (i.e., savings) to ODM, whereas negative values denote higher program expenditures (i.e., costs).

The *Baseline, Higher Managed Care* and *Lower Managed Care* scenarios indicate an ODM expenditure savings / (cost) of $19.0 million, $139.5 million, and ($99.4) million, respectively. The expenditure changes indicated under each scenario are largely driven by the assumption for claim expense increases that would have occurred under managed care. The 'Adjustment Factor' row of Figure 3 indicates the estimated benefit expense increase from the pre-SPBM period of October 1, 2021 through September 30, 2022 (midpoint of April 1, 2022) to the two-year composite SPBM period of October 1, 2022 through September 30, 2024 (midpoint of October 1, 2023) under the hypothetical managed care environment. To help contextualize these adjustment factors, Figure 5 illustrates the resulting implied *annualized* PMPM cost trend under each scenario, net of an assumption for the impact of population acuity changes.

FIGURE 5 – IMPLIED ANNUALIZED TREND BY SCENARIO

	BASELINE	HIGHER MANAGED CARE	LOWER MANAGED CARE
PMPM Cost Trend: Pre-SPBM to SPBM Period	14.0%	16.6%	11.4%
Assumed Impact of Population Acuity	3.0%	3.0%	3.0%
PMPM Cost Trend, Net of Population Acuity	10.7%	13.2%	8.2%
Annualized PMPM Cost Trend, Net of Population Acuity	**7.0%**	**8.6%**	**5.4%**

Notes:
1. Population acuity is comprised of differences in member mix and the impact of the PHE unwinding.

Milliman's Pharmacy Experience

- Develops pharmacy trends for Medicaid capitation rates in **over 15 states**
- Projects the fiscal impact of **pharmacy program changes**
- Evaluates **high-cost drugs**, including reimbursement strategy and development
- Conducts comprehensive drug rebate program reviews to identify **rebate maximization opportunities**

Based on our experience supporting multiple state Medicaid managed care programs, pharmacy trends in recent years have often materialized higher than historical periods. There are instances where state Medicaid managed care program pharmacy trends observed over the course of Ohio's two-year SPBM period have aligned with the implied annualized PMPM cost trends demonstrated in each of the Figure 5 scenarios. While labeled as the high scenario in this analysis, it should be emphasized that the "Higher Managed Care" annualized PMPM pharmacy trend of 8.6% remains well within observed MCO trend rates in other state Medicaid programs.

We also observed lower pharmacy claims trend for Ohio MMC members moving from year one of the SPBM to year two than from pre-SPBM to year one. Emerging experience incurred through December 2024 suggests that year-over-year trends have continued to emerge lower than the observed trends from the pre-SPBM period to the SPBM period.

III. Limitations and Data Reliance

The information contained in this report has been prepared for the Ohio Department of Medicaid (ODM) to provide documentation of our analysis related to the state's Single Pharmacy Benefit Manager (SPBM). The data and information presented may not be appropriate for any other purpose.

The information contained in this report, including the enclosures, has been prepared for ODM and their consultants and advisors. It is our understanding that this report may be used in legislative discussions within the state of Ohio. These results may not be distributed to any other party without the prior consent of Milliman. To the extent that the information contained in this report is provided to third parties, the report should be distributed in its entirety. Any user of the data must possess a certain level of expertise in actuarial science and pharmacy services to not misinterpret the data presented.

Milliman makes no representations or warranties regarding the contents of this correspondence to third parties. Likewise, third parties are instructed that they are to place no reliance upon this correspondence prepared for ODM by Milliman that would result in the creation of any duty or liability under any theory of law by Milliman or its employees to third parties. Other parties receiving this letter must rely upon their own experts in drawing conclusions about the assumptions contained in this report.

Milliman has developed certain models to estimate the values included in this report. We reviewed the models, including their inputs, calculations, and outputs for consistency, reasonableness, and appropriateness to the intended purpose and in compliance with generally accepted actuarial practice and relevant actuarial standards of practice (ASOP). The models rely on data and information as input to the models. We relied upon certain data and information provided by ODM and its contracted managed care entities for this purpose and accepted it without audit. To the extent that the data and information provided is not accurate, or is not complete, the values provided in this report may likewise be inaccurate or incomplete. The models, including all input, calculations, and output may not be appropriate for any other purpose.

It should be emphasized that the estimates included in this report are based on a set of assumptions. Differences between our estimates and actual amounts depend on the extent to which experience conformed to the assumptions made for this analysis. It is certain that actual experience did not conform exactly to the assumptions used in this analysis. Actual amounts will differ from estimated amounts to the extent that actual experience deviates from estimated experience.

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. The authors of this report are members of the American Academy of Actuaries and meet the qualification standards for performing the analyses contained herein.

Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in life insurance and financial services, property & casualty insurance, healthcare, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

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