Managed Care Pharmacy Benefit Services

Aetna Better Health of Texas Inc. and CaremarkPCS Health, LLC

Results in Brief

Why OIG Conducted This Audit

This audit resulted from a targeted review of pharmacy benefit manager (PBM) contracts by the Texas Medicaid and Children's Health Insurance Program (CHIP) Services Vendor Drug Program, which identified the potential for (a) non-compliance with Texas Medicaid rules and (b) practices that could result in spread pricing.

The Texas Health and Human Services Commission (HHSC) must periodically audit each PBM that contracts with a managed care organization (MCO). In 2021, seven PBMs processed $3.28 billion in prescription claims for 17 Texas Medicaid and CHIP MCOs.

Summary of Review

The audit objective was to determine whether Aetna and Caremark had processes and controls in place to ensure payments and reimbursements for managed care pharmacy benefit services (a) were based on net reimbursements to pharmacies, (b) were accurately reported to the state of Texas, and (c) complied with the Uniform Managed Care Contract and other applicable requirements.

The audit scope included Texas Medicaid and CHIP pharmacy benefit services during state fiscal years 2020 and 2021.

Conclusion

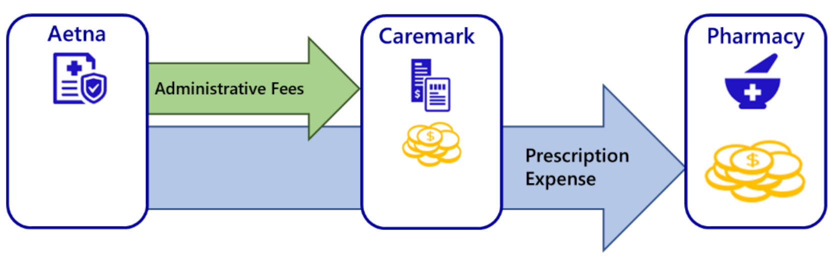
CaremarkPCS Health, LLC (Caremark) and Aetna Better Health of Texas Inc. (Aetna) employed unallowable pricing models to reduce prescription expenses, and Aetna incorrectly reported expenses on its financial statistical reports (FSRs) to the Texas Health and Human Services Commission (HHSC).

Background

HHSC requires each managed care organization (MCO) to subcontract with a pharmacy benefit manager (PBM). PBMs have a central role in program administration activities and act as intermediaries between MCOs, pharmacies, and drug manufacturers. Aetna is an MCO contracted by HHSC to provide comprehensive health care services under the Texas Medicaid and CHIP programs to its Texas Medicaid and CHIP members, including prescription drugs.

Aetna works with Caremark, a PBM, to process prescription claims and administer its prescription drug program. Aetna (a) reimbursed Caremark for the cost of prescription expenses and (b) paid Caremark PBM administrative fees, as illustrated in Figure 1.

Figure 1: Managed Care Pharmacy Benefit Payments



HHSC prohibits the practice of spread pricing. Spread pricing occurs when the amount an MCO pays its PBM for a prescription expense is greater than the amount the PBM pays the associated pharmacy for the prescription expense. HHSC prohibits spread pricing by requiring MCOs to base their reimbursements to their PBMs on the final actual amounts paid to pharmacies for dispensing fees and ingredient costs. MCOs pay PBMs administrative fees to run the prescription drug program. PBMs are prohibited from directly or indirectly charging pharmacies for any step of the claim adjudication process.

Scope Limitation

Caremark did not provide necessary access to records and systems needed for the Texas Health and Human Services (HHS) Office of Inspector General Audit and Inspections Division (OIG Audit) to fully conclude upon the audit objectives. This scope limitation relates to (a) Caremark's financial agreements and transactions with pharmacies and (b) Caremark's reporting of pharmacy expenses, rebates, transaction fees, and other financial and performance offsets.

Because Caremark limited OIG auditors' access, OIG Audit was unable to obtain sufficient, appropriate audit evidence and did not draw a conclusion on the extent to which Aetna and Caremark complied with applicable requirements relevant to the audit objectives.

Recommendations

Caremark must not engage in prohibited pricing practices, must report accurate information to Aetna, and must provide necessary access to HHSC and OIG auditors.

Aetna should increase its oversight of the PBM function to ensure its PBM does not engage in prohibited pricing practices, adheres to Texas Medicaid and CHIP requirements, and provides necessary access to HHSC and OIG auditors. Aetna must also report accurate final pharmacy benefit expenses to HHSC and not engage in prohibited pricing practices.

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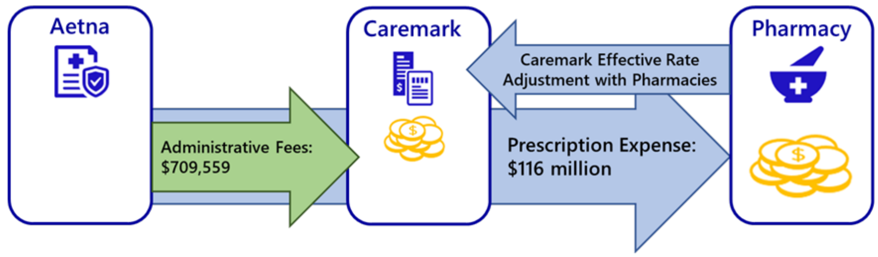
Key Results

Aetna paid Caremark a total of $116 million for prescription expense reimbursement and $709,559 to administer Aetna's prescription drug program for 2020 and 2021. During this period, Caremark used an effective rate pricing model to reduce final total payments to pharmacies. Caremark's application of a new, lower, year-end reimbursement rate, or effective rate, created lower actual prescription expenses for Caremark, as depicted in Figure 2.

Figure 2: Caremark's Effective Rate Pricing with Pharmacies



Caremark did not pass through the money returned to it by pharmacies to Aetna and caused Aetna to misrepresent its total prescription expense. Caremark's use of the effective rate pricing model resulted in the unallowable practice of spread pricing. Aetna's lack of effective oversight enabled Caremark to use an unallowable pricing model, report inaccurate prescription expenses to Aetna, and deny the Texas Health and Human Services (HHS) Office of Inspector General Audit and Inspections Division (OIG Audit) access to information needed to validate reported costs. Aetna is required to ensure that its PBM follows all pharmacy-related Texas Medicaid and CHIP requirements.

Unrelated to Caremark's pricing model that resulted in spread pricing, Aetna used an effective rate pricing model and reduced its prescription expenses by at least:

- $957,870 in 2020
- $161,984 in 2021

After the effective rate adjustments, Aetna's reimbursement to Caremark no longer represented the actual cost of prescriptions. Aetna reported this activity to HHSC in 2021 and 2022. Aetna must pay the funds it collected as effective rate adjustments to the state of Texas.

The full audit report provides details about the relationship between Aetna and Caremark, pharmacy benefit pricing models, issues of noncompliance, program background, and audit methodology.

Management Response

OIG Audit presented preliminary audit results, issues, and recommendations to Aetna and Caremark in a draft report dated June 11, 2024. Their management responses are included in the report following each recommendation.