



STATE OF IOWA

CHESTER J. CULVER, GOVERNOR
PATTY JUDGE, LT. GOVERNOR

DEPARTMENT OF HUMAN SERVICES
CHARLES J. KROGMEIER, DIRECTOR

INFORMATIONAL LETTER NO. 832

August 17, 2009

TO: Iowa Medicaid Pharmacy Providers

FROM: Iowa Department of Human Services, Iowa Medicaid Enterprise

SUBJECT: First DataBank, Medi-Span and McKesson AWP Litigation Settlements Update

EFFECTIVE: September 26, 2009

Background:

On March 30, 2009 the U.S. District Court for the District of Massachusetts entered a Final Order and Judgment approving a long-awaited class action settlement that involved two major publishers of drug pricing information, First DataBank (FDB) and **Medi-Span** (a division of Wolters Kluwer Health). The lawsuit alleged that the Average Wholesale Prices (AWP) indices were not based on a survey of wholesalers as claimed and the WAC-to-AWP spread was arbitrarily raised from 20 percent to 25 percent on more than 400 brand-name drugs starting in 2002. The suit alleged that only one wholesaler (McKesson Corporation) was surveyed. Historically, the AWP was calculated by adding 20 percent to wholesale acquisition cost or "WAC." WAC is a price set by drug manufacturers.

Settlement Provisions and Additional Changes:

- **Medi-Span** and First Databank agreed to "rollback" the WAC-to-AWP spread from 25% to 20% for all National Drug Codes (NDCs) whose AWP is set based upon a markup to WAC or Direct Price in excess of 1.20. These may include NDCs for drugs that were not part of the lawsuit. This change is tentatively scheduled to occur on September 26, 2009.
- **Medi-Span** and First Databank also agreed to cease publishing AWP data no later than two years following the date that the AWP adjustments noted above are implemented.

Impact to Iowa Medicaid Providers:

- Iowa Medicaid uses the AWP published by **Medi-Span** to calculate the Estimated Acquisition Cost (EAC) of AWP-12% for reimbursement of pharmacy claims. Effective September 26, 2009, Wolters Kluwer Health will be adjusting its reporting of **Medi-Span's** AWP for certain prescription drugs by adding 20 percent to WAC for all products that currently have a WAC-to-AWP spread in excess of 20 percent.
- Discontinuation of the AWP is planned for September 2011. Future Informational Letters from Iowa Medicaid will address the replacement for AWP.
- Since Iowa Medicaid relies on **Medi-Span's** AWP to calculate EAC, reimbursement to the pharmacy may be impacted by this reporting change.
- Pharmacies may want to check with their wholesaler on how this change in WAC-to-AWP spread will impact their purchases.

The pharmacy reimbursement rate of AWP minus 12% is set by the Legislature and the IME will move forward at AWP minus 12% when the AWP amount is revised pursuant to the lawsuit. Any change in the rate or method of reimbursement will require action by the Legislature.

If you have questions regarding Iowa Medicaid reimbursement, please call the IME Pharmacy POS Helpdesk at 515-725-1107 (local) or 1-877-463-7671. Specific questions regarding the lawsuit cannot be addressed by the IME.