Policy Options for Controlling Medicaid Spending on Prescription Drugs

Medicaid and CHIP Payment and Access Commission

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Overview

- Background on Medicaid payment and rebates for prescription drugs
- Factors that increase drug prices for all payers
- Factors specific to Medicaid drug spending
- Potential policy responses

Background

- Growth in Medicaid spending on prescription drugs is a concern to states
- In FY 2015, Medicaid spent approximately $29 billion on prescription drugs
  - $53 billion in payments to pharmacy
  - $24 billion in rebates
- Medicaid prescription drug spending reflects trends affecting all payers and factors unique to Medicaid

Medicaid Drug Rebate Program (MDRP)

- Optional benefit that is provided by all states
- Drug manufacturers must enter into a rebate agreement with Medicaid in order to have their products recognized for federal Medicaid match
- As part of rebate agreement, states generally must cover all of a drug manufacturer's drugs

Components of Medicaid Drug Spending

- Outpatient drug spending reflects the state's payment to the pharmacy and manufacturer's rebate
- Pharmacies are paid based on drug cost plus a dispensing fee
- Statutorily-defined rebates are paid by manufacturers to states and the federal government
  - Basic (23.1 percent of Average Manufacturer Price (AMP) or best price for brand drugs; 13 percent of AMP for generic drugs)
  - Inflationary
- State supplemental rebates

Market Forces Contributing to Drug Prices

- The market price of a drug affects all payers
- Market exclusivity and competition dynamic
  - Strategies to delay generic competition (e.g., pay to delay, sample product delay, authorized generic)
  - Orphan drug designation
  - Small market monopoly
- Food and Drug Administration approval
- Price transparency
- Price regulation

Drivers of Medicaid Drug Expenditures

- Medicaid's coverage and rebate requirements create unique dynamics
- Cost containment approaches used by private insurance have limited applicability in Medicaid
  - Medicaid limits on cost sharing
  - Mandatory coverage of covered outpatient drugs

Strategies to Reduce Rebate Obligations

- Manufacturers seek to reduce rebate obligations
  - Blended AMP
  - Line extension
  - Improperly categorized products
- Policy Options:
  - Exclude authorized generic from brand drug AMP calculation
  - Fix drafting error in current law calculation of alternative rebate for line extension drugs
  - Increase frequency of audits
  - Increase penalties for non-compliance
  - Allow CMS to reclassify drugs or terminate participation of individual drugs

Rebate Incentives

- Design features of rebate program, including inflationary rebate, may lead to higher launch prices
- Best price can hinder value-based purchasing
- Policy options:
  - Uncap the rebate amount
  - Escalate inflationary rebate
  - Tie rebate percentage to launch price
  - Eliminate best price

Medicaid Purchasing and Contracting

- States may not be leveraging their full purchasing power to get the largest supplemental rebates
- Technical challenges with value-based purchasing
- Policy options:
  - National purchasing pool
  - Clarify allowable value-based purchasing arrangements and interactions with best price

Controlling Volume

- Medicaid has limited tools to control beneficiary utilization of drugs
- Policy options:
  – CMS could provide guidance on how states can best use the existing utilization management tools
  – Encourage medication adherence

Rebate Program Modification

- The requirement that states must cover all drugs can create significant pressure on state budgets
- Key components of the rebate program could be restructured to give states additional flexibility
- Policy options:
  - Allow exclusionary drug formularies
  - All drugs not automatically included in MDRP
  - State opt out of MDRP
  - Special rules for unexpected costs

Next Steps

- Commissioner feedback on options that merit further research and analysis
- Commissioner feedback on goals in this subject area

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