Policy Options for Controlling Medicaid Spending on Prescription Drugs

Medicaid and CHIP Payment and Access Commission

Chris Park and Rick Van Buren
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 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
Policy Options for Controlling Medicaid Spending on Prescription Drugs

Medicaid and CHIP Payment and Access Commission

Chris Park and Rick Van Buren