

October 27, 2022

# Trends in Medicaid Drug Spending and Rebates

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# Overview

- Background
  - Drug payment
  - Drug rebates
- Spending trends
- Composition of drug rebates
- Next steps



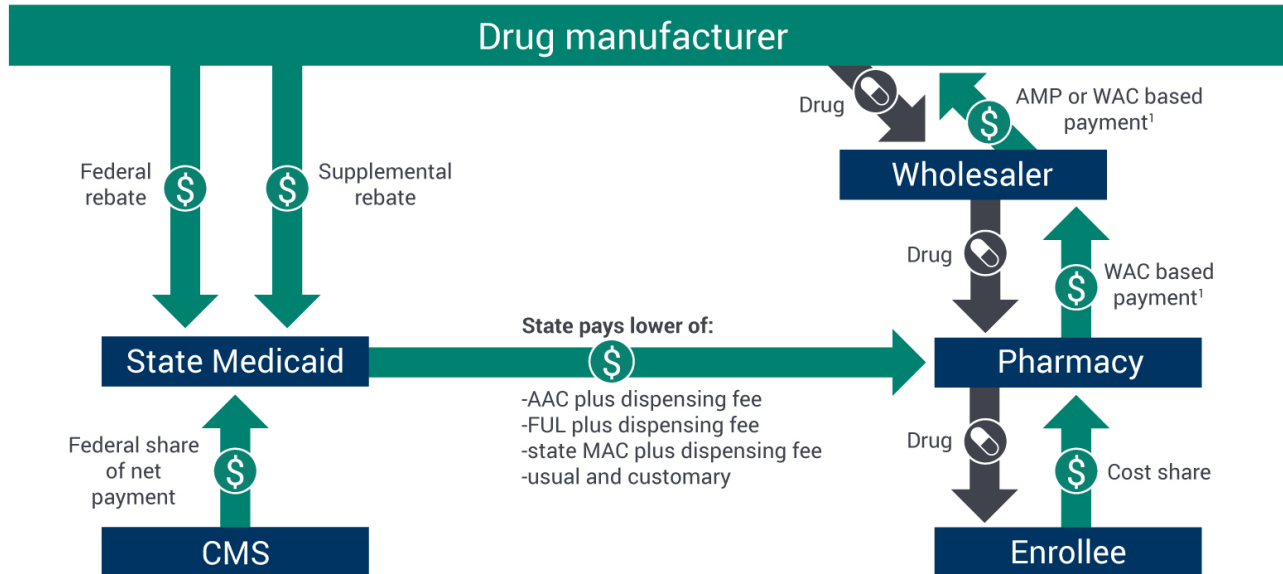
# Medicaid Outpatient Prescription Drugs

- Outpatient prescription drugs are an optional benefit that all states provide
  - Typically includes drugs that may be obtained only by prescription, dispensed by pharmacies
  - Do not include drugs provided and billed as part of other services, such as an inpatient stay
  - May include physician-administered drugs if direct payment made for drug
- Amount Medicaid spends for a particular outpatient prescription drug reflects two components
  - Payment from Medicaid to the pharmacy
  - Rebate to Medicaid from manufacturer

# Transactional Relationships

1. Drug manufacturer and pharmacy
  - Pharmacy purchases inventory of drugs from wholesaler or manufacturer
2. State/managed care organization (MCO) and pharmacy
  - State/MCO pays pharmacy for cost of acquiring drug, professional services to dispense drug
  - Beneficiary may contribute cost sharing (co-pays)
3. Drug manufacturer and state/MCO
  - Manufacturer pays state/health plan statutory and supplemental rebates
  - Health plan may also negotiate its own rebates with manufacturer
4. State/MCO and pharmacy benefit manager (PBM)
  - States and MCOs may use a PBM as intermediary to negotiate rebates and pay claims

# Medicaid Fee-for-Service Drug Payment and Rebate Flow



**Notes:** AMP is average manufacturer price. WAC is wholesale acquisition cost. EAC is estimated acquisition cost. AAC is actual acquisition cost. FUL is federal upper limit. MAC is maximum allowable cost.

<sup>1</sup> Payment may include prompt pay, volume, and other discounts.

# Payment to Pharmacy

# Fee-for-Service Payment to Pharmacies



Ingredient cost covers the pharmacy's cost of acquiring a drug

- States must pay actual acquisition cost (AAC) (42 CFR 447.518(a)(2))
- States typically pay national average drug acquisition cost (NADAC) or wholesale acquisition cost (WAC) as the basis of AAC



Dispensing fee covers costs associated with the professional services to dispense the drug



Beneficiary may pay cost sharing

# Limits on Payment

- States pay lowest of:
  - ingredient cost plus dispensing fee
  - Federal upper limit (FUL) for certain multiple source drugs (e.g., generic drugs) plus dispensing fee
    - ACA establishes the FUL as no less than 175 percent of the average manufacturer price (AMP)
    - CMS will make any FUL that is less than the actual acquisition cost from a national survey equal to the actual acquisition cost (true-up)
  - State maximum allowable cost (MAC) plus dispensing fee
  - pharmacy's usual and customary charge



# Payment under Managed Care

- MCOs typically use a similar payment structure of ingredient cost and dispensing fee
- Most MCOs use a PBM to negotiate payment terms with pharmacies
- MCOs do not have to pay AAC but must make sufficient payment to ensure adequate provider network

# Medicaid Drug Rebate Program

# Medicaid Drug Rebate Program (MDRP)

- Drug manufacturers must provide rebates in order for their products to be recognized for federal Medicaid match
- States must generally cover a participating manufacturer's products but may limit use (e.g., prior authorization, preferred drug list (PDL))
  - Generally required to cover all of a participating manufacturer's products as soon as they have been approved by the FDA and enter the market
- Rebates are separate from the state's payment to the pharmacy

# Statutory Rebates

- Statutorily-defined rebate based on AMP
- Single source and innovator, multiple source (e.g., brand drugs)
  - Basic rebate calculated as the greater of (a) 23.1 percent of AMP<sup>1</sup> or (b) AMP minus best price
  - Additional inflationary rebate
  - Line extension alternative rebate
- Non-innovator, multiple source (e.g., generic drugs)
  - Basic rebate is 13 percent of AMP
  - Additional inflationary rebate
- Until January 1, 2024, total rebate amount cannot exceed 100 percent of AMP

<sup>1</sup> 17.1 percent of AMP for certain blood clotting factor drugs or drugs that are exclusively pediatric indications

# Supplemental Rebates

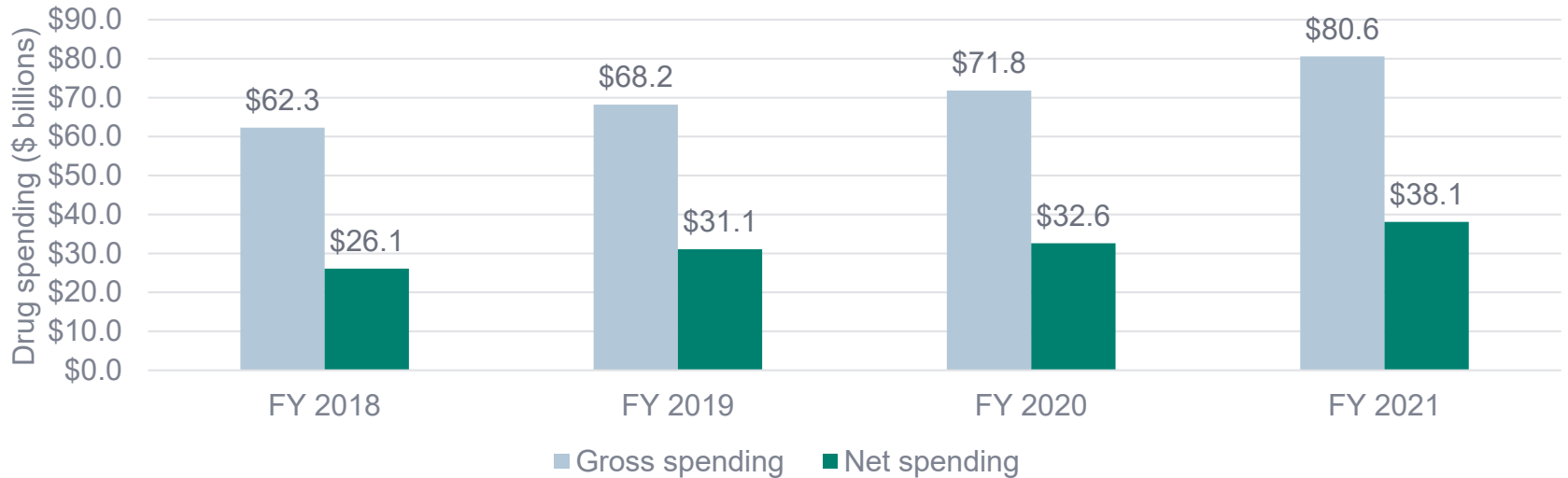
- States can negotiate supplemental rebates with drug manufacturers in addition to the federal rebates
  - States may join multi-state purchasing pools
- Manufacturers pay these rebates to ensure that their products get placed on a state's PDL or have fewer restrictions on use

# Rebates under Managed Care

- Until 2010, rebates were only available for drugs purchased by the state on a fee-for-service basis
- Patient Protection and Affordable Care Act (ACA) extended the statutory Medicaid drug rebates to prescriptions paid for by Medicaid MCOs
- MCOs can also negotiate their own rebates with manufacturers
  - Similar to state supplemental rebates

# Spending Trends

# Medicaid Drug Rebates Reduce Gross Spending by Over Half

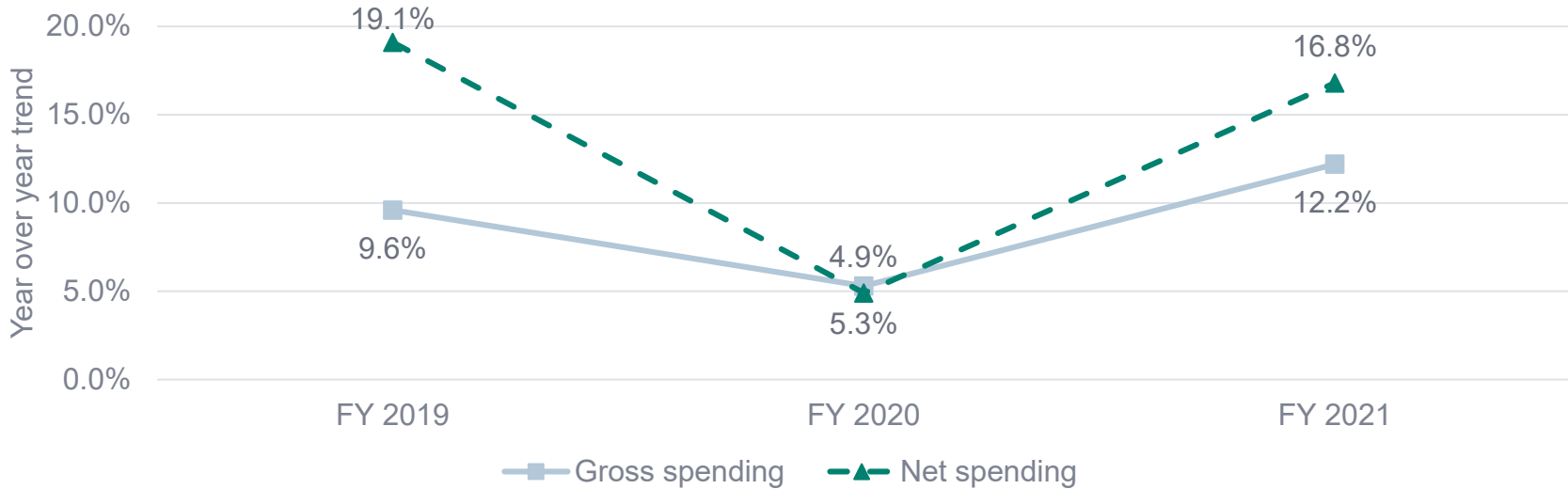


**Notes:** Includes federal and state funds. Gross expenditures are before the application of rebates. Net drug spending takes into account both statutory and state supplemental rebates but does not include any plan-negotiated rebates. Does not include Medicare Part D clawback payments.

**Sources:** MACPAC, 2022, analysis of Medicaid state drug rebate utilization data as reported by states as of September 2022 and CMS-64 Financial Management Report net expenditure data as of June 2022.



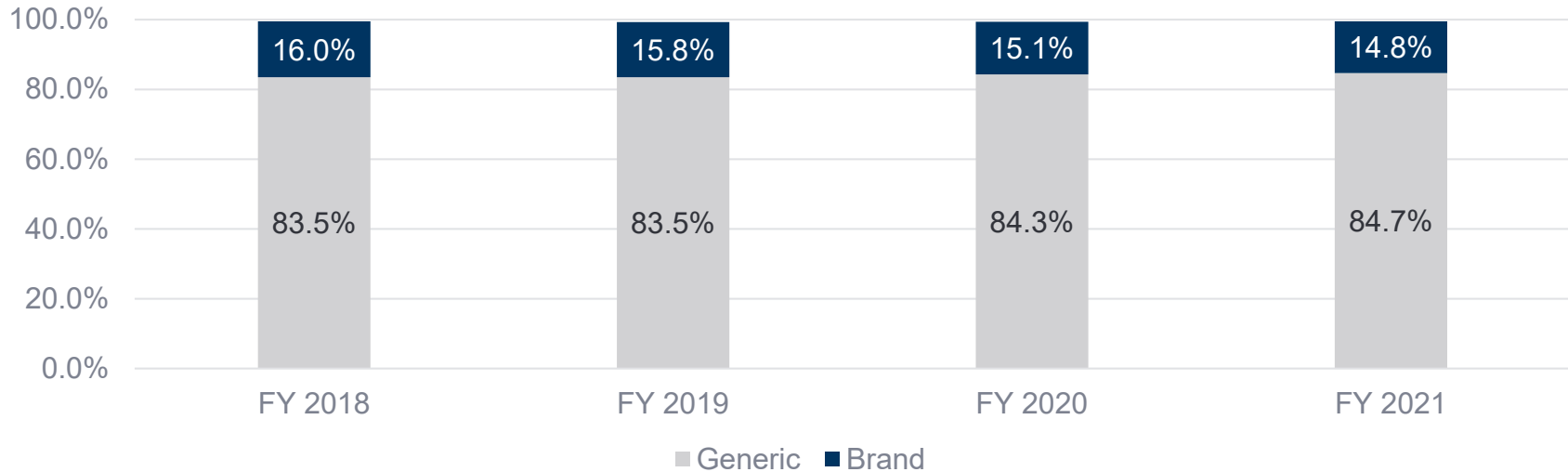
# Net Spending on Drugs Has Increased Each Year Since FY 2018



**Notes:** Includes federal and state funds. Gross expenditures are before the application of rebates. Net drug spending takes into account both statutory and state supplemental rebates but does not include any plan-negotiated rebates. Does not include Medicare Part D clawback payments.

**Sources:** MACPAC, 2022, analysis of Medicaid state drug rebate utilization data as reported by states as of September 2022 and CMS-64 Financial Management Report net expenditure data as of June 2022.

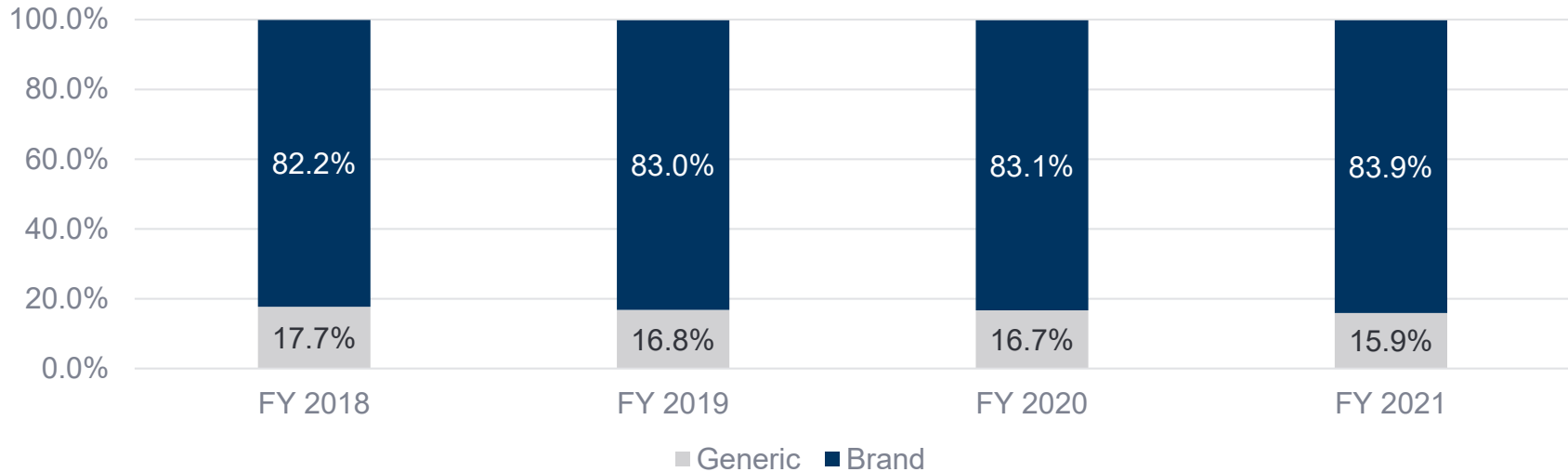
# The Mix of Drugs Is Shifting Toward Generics



**Notes:** To assign brand and generic status, we linked the state drug utilization data to the Medicaid drug product data from CMS using the National Drug Code, the universal product identifier for drugs. Total includes drugs that could not be matched to the drug product data but these unknown products are not shown in the table.

**Source:** MACPAC, 2022, analysis of Medicaid state drug rebate utilization and product data as reported by states as of September 2022.

# Proportion of Spending on Brand Drugs Has Increased Even though Fewer Brand Drugs Are Used



**Notes:** To assign brand and generic status, we linked the state drug utilization data to the Medicaid drug product data from CMS using the National Drug Code, the universal product identifier for drugs. Total includes drugs that could not be matched to the drug product data but these unknown products are not shown in the table.

**Source:** MACPAC, 2022, analysis of Medicaid state drug rebate utilization and product data as reported by states as of September 2022.

# Average Spending per Brand Drug Claim Has Increased Substantially

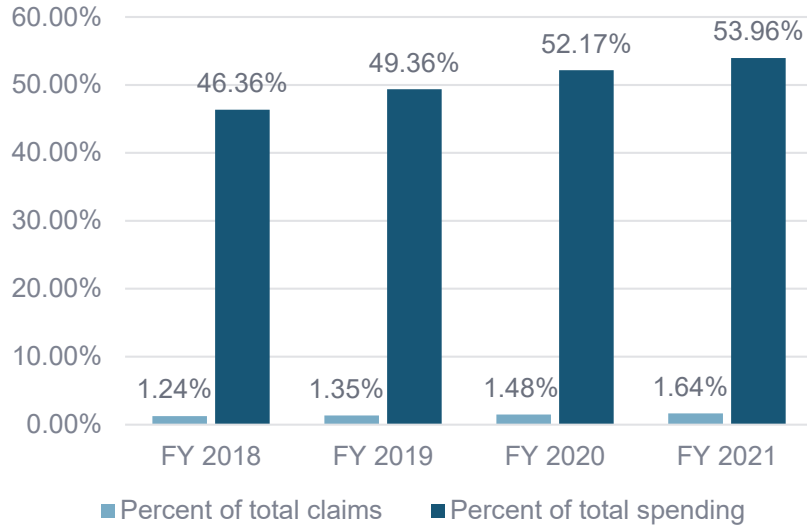
Fiscal year	Gross brand drug spending per claim	Gross generic drug spending per claim	Gross total drug spending per claim
2018	\$430.51	\$17.77	\$83.76
2019	486.71	18.68	92.88
2020	553.38	19.91	100.75
2021	631.16	20.82	111.10

**Notes:** Includes federal and state funds. Gross expenditures are before the application of rebates. Does not include Medicare Part D clawback payments. To assign brand and generic status, we linked the state drug utilization data to the Medicaid drug product data from CMS using the National Drug Code, the universal product identifier for drugs.

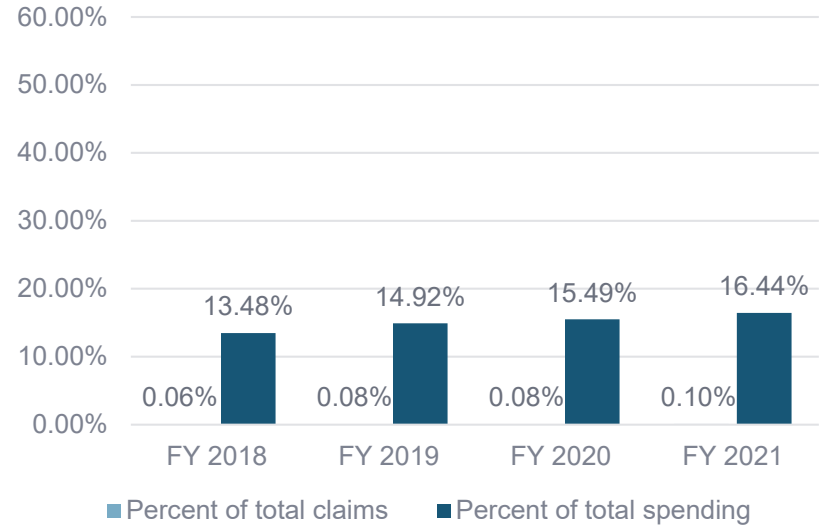
**Source:** MACPAC, 2022, analysis of Medicaid state drug rebate utilization and product data as reported by states as of September 2022.

# Increases in Average Spending per Brand Drug Claim Reflects Spending for High-cost Drugs

Drugs over \$1,000 per claim



Drugs over \$10,000 per claim

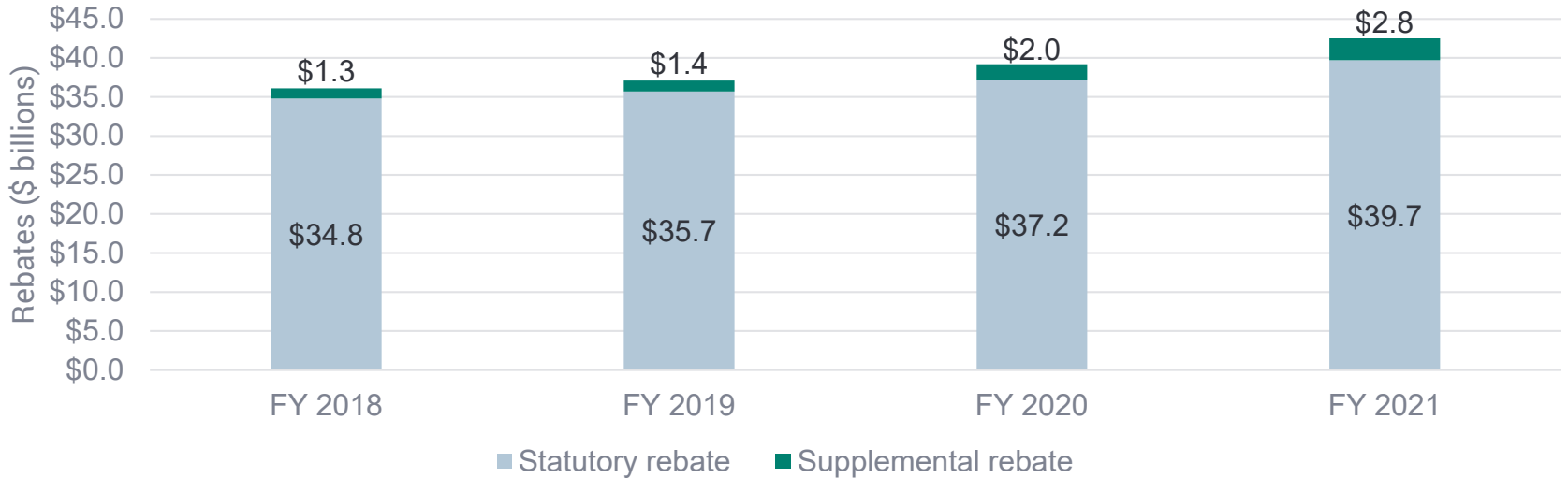


**Notes:** Includes federal and state funds. Gross expenditures are before the application of rebates. Does not include Medicare Part D clawback payments. To assign brand and generic status, we linked the state drug utilization data to the Medicaid drug product data from CMS using the National Drug Code, the universal product identifier for drugs.

**Source:** MACPAC, 2022, analysis of Medicaid state drug rebate utilization and product data as reported by states as of September 2022.

# Composition of Drug Rebates

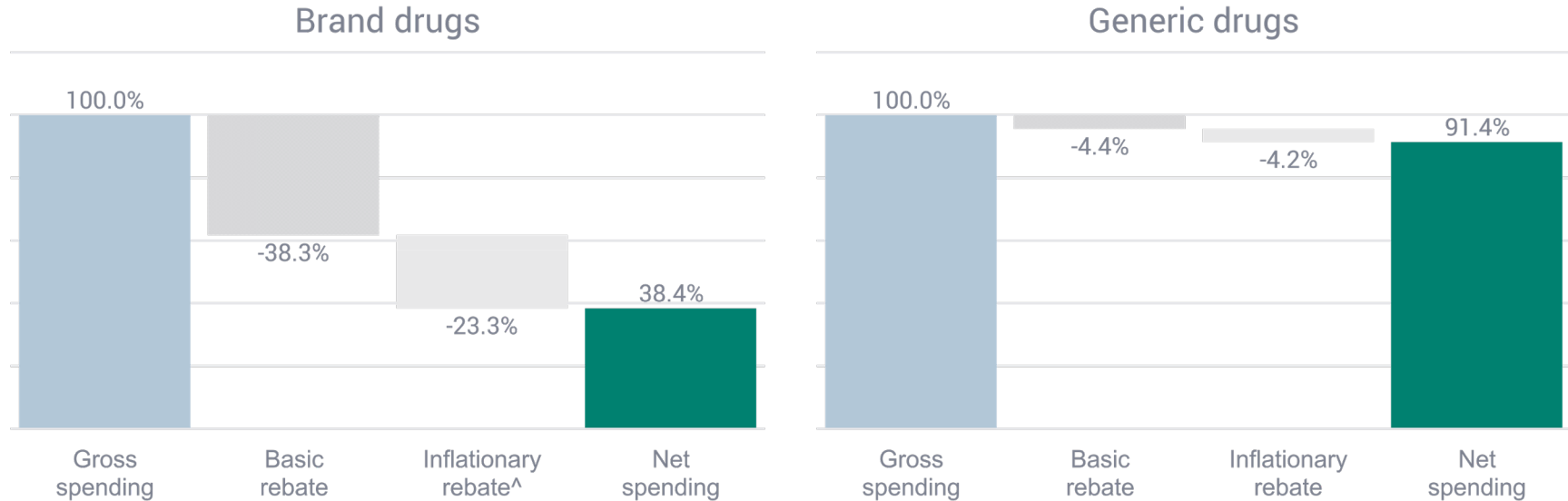
# The Vast Majority of Drug Rebates are Attributable to The Statutory Rebates



**Notes:** Includes federal and state funds. Drug rebates are typically reported as negative spending amounts. For purposes of this exhibit, we display rebates as a positive amount.

**Source:** MACPAC, 2022, analysis of CMS-64 Financial Management Report net expenditure data as of June 2022.

# Statutory Rebates Reduced Gross Spending on Brand Drugs Much More Than on Generic Drugs in FY 2020



**Notes:** Rebate amounts shown here apply the unit rebate amounts to each drug based on the number of units reported by states in the drug rebate utilization data.  
<sup>^</sup> For drugs that reach the rebate cap, the full amount of the basic rebate was applied before calculating the inflationary rebate as the total rebate minus the basic rebate. As a result, the amount shown here is less than what would be calculated from taking the inflationary unit rebate amount multiplied by the number of units.

**Source:** MACPAC, 2022, analysis of Medicaid state drug rebate utilization data and unit rebate amounts provided by CMS as of December 2021.



# Most Brand Drug Rebates Are Based on Best Price Calculations Instead of The Minimum Basic Rebate in FY 2020

Best price rebate	Percent of Brand Drugs			Rebate as a Percent of Gross Drug Spending for Brand Drugs		
	Percent of NDCs	Percent of claims	Percent of gross spending	Basic rebate	Inflationary rebate <sup>1</sup>	Total rebate
Yes	48.9%	67.2%	51.5%	51.9%	24.7%	76.7%
No	51.1	32.8	48.5	23.8	21.7	45.5
Total	100.0	100.0	100.0	38.3	23.3	61.6

**Notes:** NDC is national drug code. Rebate amounts shown here apply the unit rebate amounts to each drug based on the number of units reported by states in the drug rebate utilization data.

<sup>1</sup> For drugs that reach the rebate cap, the full amount of the basic rebate was applied before calculating the inflationary rebate as the total rebate minus the basic rebate. As a result, the amount shown here is less than what would be calculated from taking the inflationary unit rebate amount multiplied by the number of units.

**Source:** MACPAC, 2022, analysis of Medicaid state drug rebate utilization data and unit rebate amounts provided by CMS as of December 2021.

# Most Brand Drugs Also Received an Inflationary Rebate Versus a Quarter of Generic Drugs in FY 2020

Inflation rebate	Percent of Brand Drugs			Percent of Generic Drugs		
	Percent of NDCs	Percent of claims	Percent of gross spending	Percent of NDCs	Percent of claims	Percent of gross spending
Yes	50.4%	62.2%	76.3%	27.7%	25.5%	26.6%
No	49.6	37.8	23.7	72.3	74.5	73.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

**Notes:** NDC is national drug code.

**Source:** MACPAC, 2022, analysis of Medicaid state drug rebate utilization data and unit rebate amounts provided by CMS as of December 2021.

# Inflation Rebates Significantly Increased Total Rebates for Both Brand and Generic Drugs in FY 2020

Best price rebate	Rebate as a Percent of Gross Drug Spending for Brand Drugs			Rebate as a Percent of Gross Drug Spending for Generic Drugs		
	Basic rebate	Inflationary rebate <sup>1</sup>	Total rebate	Basic rebate	Inflationary rebate <sup>1</sup>	Total rebate
Yes	41.9%	30.4%	72.3%	5.4%	15.9%	21.3%
No	26.9	0.0	26.9	4.0	0.0	4.0
Total	38.3	23.3	61.6	4.4	4.2	8.6

**Notes:** NDC is national drug code. Rebate amounts shown here apply the unit rebate amounts to each drug based on the number of units reported by states in the drug rebate utilization data.

<sup>1</sup> For drugs that reach the rebate cap, the full amount of the basic rebate was applied before calculating the inflationary rebate as the total rebate minus the basic rebate. As a result, the amount shown here is less than what would be calculated from taking the inflationary unit rebate amount multiplied by the number of units.

**Source:** MACPAC, 2022, analysis of Medicaid state drug rebate utilization data and unit rebate amounts provided by CMS as of December 2021.

# A Small Proportion of Drugs Reached the Rebate Cap in FY 2020

Best price rebate	Percent of Drugs			Rebate as a Percent of Gross Drug Spending			
	Percent of NDCs	Percent of claims	Percent of gross spending	Basic rebate	Inflationary rebate <sup>1</sup>	Total rebate	Amount over the cap
Yes	4.7%	4.9%	18.2%	71.4%	33.1%	104.5% <sup>2</sup>	30.8%
No	95.3	95.1	81.8	24.0	17.2	41.2	0.0
Total	100.0	100.0	100.0	32.6	20.1	52.7	5.6

**Notes:** NDC is national drug code. Rebate amounts shown here apply the unit rebate amounts to each drug based on the number of units reported by states in the drug rebate utilization data.

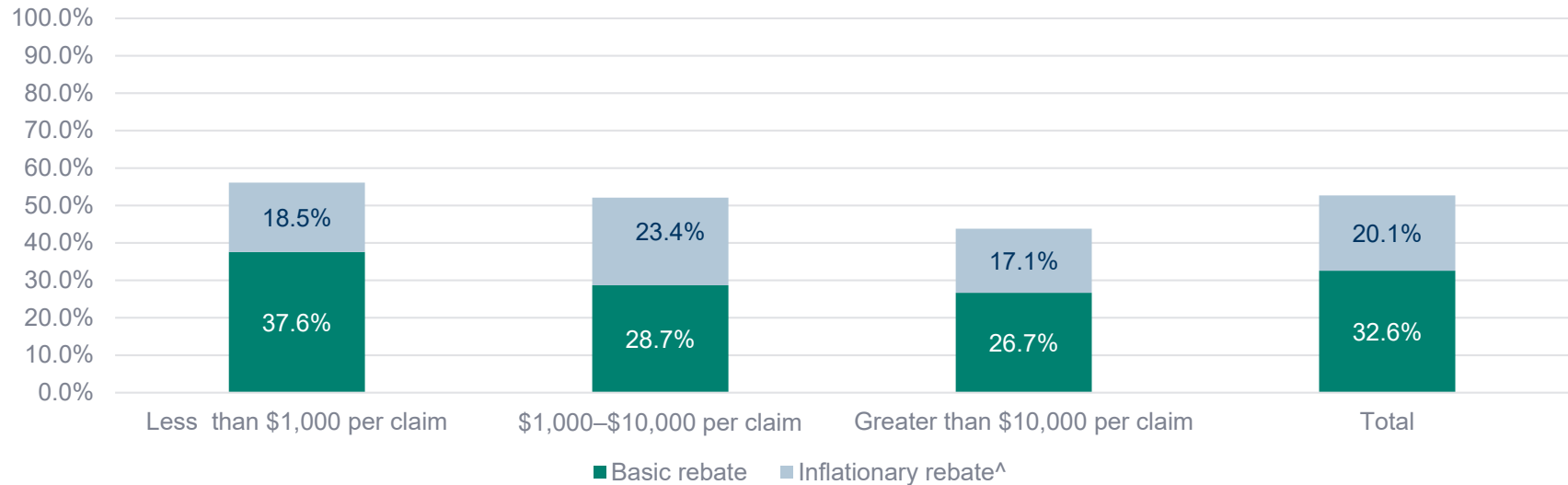
<sup>1</sup> For drugs that reach the rebate cap, the full amount of the basic rebate was applied before calculating the inflationary rebate as the total rebate minus the basic rebate. As a result, the amount shown here is less than what would be calculated from taking the inflationary unit rebate amount multiplied by the number of units.

<sup>2</sup> Total rebates may exceed 100 percent of gross drug spending because the amount states and managed care plans pay to pharmacies may be less than AMP once beneficiary cost sharing or third-party liability has been removed.

**Source:** MACPAC, 2022, analysis of Medicaid state drug rebate utilization data and unit rebate amounts provided by CMS as of December 2021.

# High-cost Drugs Tended to Have Lower Rebate Percentages Than Other Drugs in FY 2020

Rebate as a Percent of Gross Drug Spending



**Notes:** NDC is national drug code. Rebate amounts shown here apply the unit rebate amounts to each drug based on the number of units reported by states in the drug rebate utilization data.

<sup>^</sup> For drugs that reach the rebate cap, the full amount of the basic rebate was applied before calculating the inflationary rebate as the total rebate minus the basic rebate. As a result, the amount shown here is less than what would be calculated from taking the inflationary unit rebate amount multiplied by the number of units.

**Source:** MACPAC, 2022, analysis of Medicaid state drug rebate utilization data and unit rebate amounts provided by CMS as of December 2021.

# Next Steps

- Update existing fact sheet
- Feedback on these analyses
- Any additional information you would like to see

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