Arnold Ventures

Medicaid Health Policy Brief

The Issue: The Medicaid program provides prescription drug coverage to low-income adults, children, pregnant women, and individuals with disabilities. Manufacturers are required to pay a base rebate to Medicaid as well as an additional rebate that accounts for price increases greater than inflation.[1] The rebate requirements in Medicaid have been very successful at lowering drug spending and generated rebates over 3 times greater on average than those produced by private sector pharmacy benefit managers (PBMs) in Medicare Part D.[2] However, states do not have as many tools as the private sector to manage the Medicaid drug benefit, which gives them limited ability to rein in costs for new high-cost specialty drugs, which comprise a growing share of the drug pipeline.[3]

The Evidence: In total, the federal government and states spent about $30 billion on Medicaid drugs in 2019 net of rebates.[4] Over the 2009 – 2018 period, Medicaid's average net price for a brand name prescription increased by about 50 percent, from $147 to $218.[5] Medicaid drug spending trends are increasingly being driven by new, high-cost specialty drugs.[6] Although brand name specialty drugs accounted for just 1 percent of prescriptions, these prescriptions comprised about a third of net drug spending in Medicaid in 2015.[7] The average net price per specialty prescription in Medicaid rose from $700 in 2010 to $1,220 in 2015, an average annual increase of 11.7 percent.[8]

The Solutions: Despite the success of the Medicaid drug rebate program, it is clear that more needs to be done to lower the prices states pay for drugs.

- **Provide States with Formulary Flexibilities.** Congress should give states the flexibility to exclude certain drugs from coverage, while maintaining access to the statutory rebate. This legislative change would ensure that states like Arizona, Massachusetts, Oregon and Tennessee could develop and test the more flexible benefit designs they proposed to CMS.[9,10] This policy would be accompanied by beneficiary protections that could include requiring coverage of a minimum number of drugs per class, a well-designed appeals process, and access to off-formulary drugs when clinically indicated.
- **Increase Medicaid Rebates on Accelerated Approval Drugs**. State Medicaid officials have expressed significant concern about paying high prices for accelerated approval drugs – those drugs approved with a reasonable likelihood to predict a clinical benefit, but has yet to be confirmed. Annual net spending on drugs with accelerated approval increased from 6.4 percent to 9.1 percent ($27.6 billion to $34.6 billion) between 2015 and 2019.[11] Congress should increase the Medicaid rebates on accelerated approval drugs until the clinical benefit has been verified.[12] Once the FDA grants traditional approval, the rebate would revert back to the amount as applicable under the Medicaid Drug Rebate Program.

IN TOTAL, THE FEDERAL GOVERNMENT AND STATES SPENT ABOUT $30 BILLION ON MEDICAID DRUGS IN 2019 NET OF REBATES.

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- **Prohibit PBM Spread Pricing**. Spread pricing occurs when a pharmacy benefit manager (PBM) reimburses the pharmacy at an amount lower than the payment received from the state or Managed Care Organization (MCO), and pockets the difference. Congress should require PBMs to pass through actual pharmacy costs to managed care plans or the state, charge only the actual cost of the drug plus a dispensing fee, and be provided only a reasonable administrative fee. Several states have eliminated the practice of spread pricing, but federal action would make this policy uniform nationally.
- **Protect States from High Priced Authorized Generic Drugs.** Congress should require that the inflation rebate of an authorized generic (AG) drug be the higher of the brand equivalent's inflation rebate or the AG drug's inflation rebate. This can be constructed in a similar manner to the Medicaid line extension rebate formula that passed in the Bipartisan Budget Act of 2018.

Endnotes

1 https://www.medicaid.gov/medicaid/prescription-drugs/medicaid-drug-rebate-program/index.html
2 https://www.cbo.gov/system/files/2022-01/57050-Rx-Spending.pdf
3 https://www.cbo.gov/sites/default/files/presentation/44366academyhealthpresentation-cook0.pdf
4 https://www.macpac.gov/wp-content/uploads/2021/06/Chapter-1-Addressing-High-Cost-Specialty-Drugs.pdf
5 https://www.cbo.gov/system/files/2022-01/57050-Rx-Spending.pdf
6 https://www.macpac.gov/wp-content/uploads/2021/06/Chapter-1-Addressing-High-Cost-Specialty-Drugs.pdf
7 *Ibid.*
8 *Ibid.*
9 https://www.mass.gov/files/documents/2018/04/26/masshealth-1115-waiver-hearing-slides.pdf
10 https://www.azahcccs.gov/shared/Downloads/News/FlexibilitiesLetterFinal_11172017.pdf
11 https://jamanetwork.com/journals/jama-health-forum/fullarticle/2784982
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