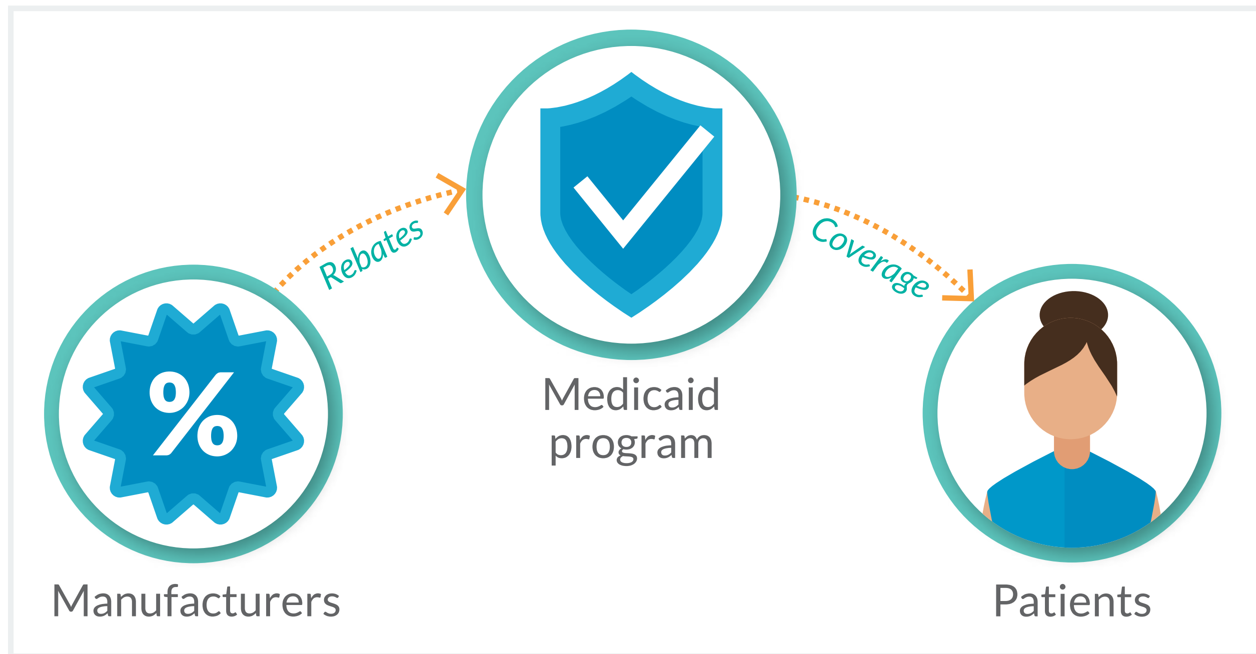
MEDICINES IN MEDICAID

Medicaid provides health insurance for 1 in 5 vulnerable Americans, including children, pregnant women, seniors, and those with serious diseases, providing them with access to needed medications with low to no cost sharing.

Medicaid Drug Rebate Program Represents a "Covenant" Between States and Manufacturers

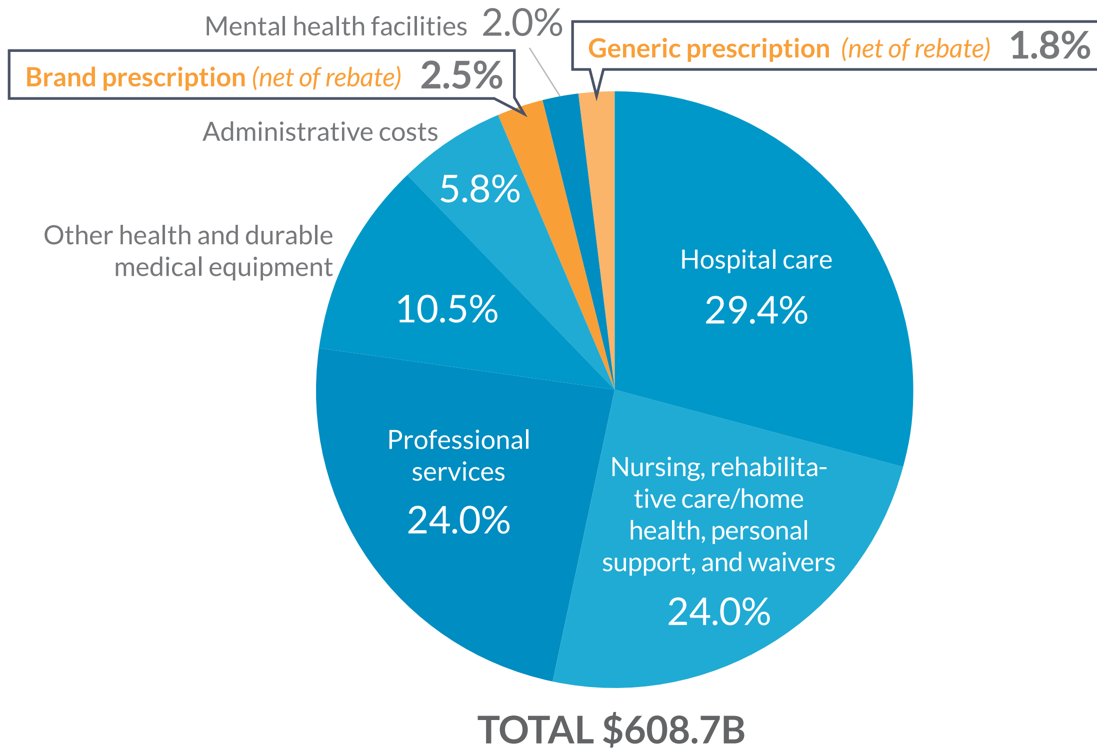
In exchange for statutory rebates, Medicaid must cover generally all "medically accepted indications" of covered outpatient drugs.



The Medicaid covenant ensures the most vulnerable populations receive the best access to life-saving prescription medicines.

Source: SSA[1]

Retail Prescription Drug Spending Represents a Small Share of Federal and State Medicaid Spending

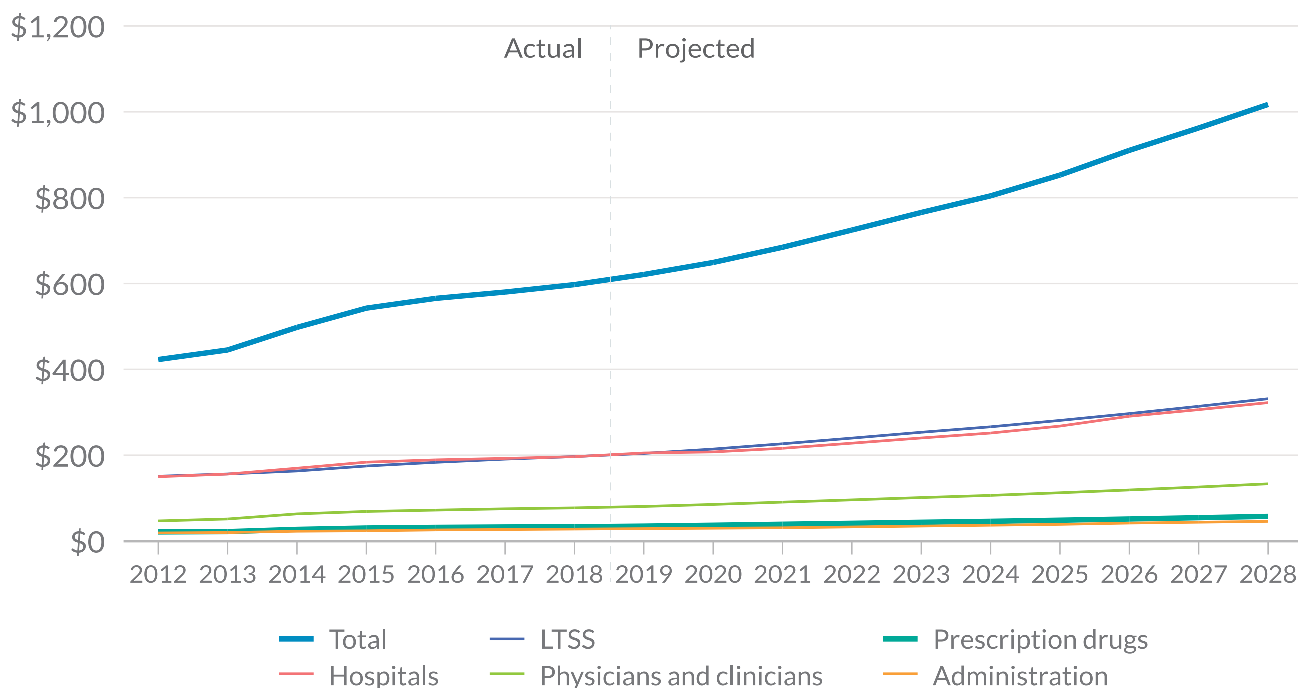


Source: The Menges Group[2]

Prescription Drugs to Be a Small Share of Medicaid Spending Through 2028

In 2018, net Medicaid retail drug spending,* including brands and generics, was $33.4 billion, while total Medicaid spending was $597.4 billion. Medicaid retail drug spending is projected to be $57.6 billion in 2028.

Total Medicaid Spending and Spending by Selected Services, 2012-2028 (in Billions)†



*Medicaid retail drug spending figures are net of rebates.
†Long-Term Care Services and Support (LTSS) includes nursing and continuing care facility expenditures; home health care expenditures; and other health, residential, and personal expenditures. Prescription drug spending includes brand and generic ingredients and pharmacy and distribution costs. All other spending, which is made up of dental services, durable medical equipment, and other professional, are excluded from this chart.

Sources: CMS[3]

The Government Sets Medicaid Prices via Statutory Rebates

Federal law defines rebate amounts, which cap prices for prescription drugs in the Medicaid program.[4,5]

The base rebate for most brand medicines is the greater of 23.1% of the average manufacturer price (AMP) or the difference between AMP and a manufacturer's best price for the drug.*

An **additional rebate** is paid by brand manufacturers if their AMP increases more than inflation.

Additional state supplemental rebates are also often negotiated on brand medicines.

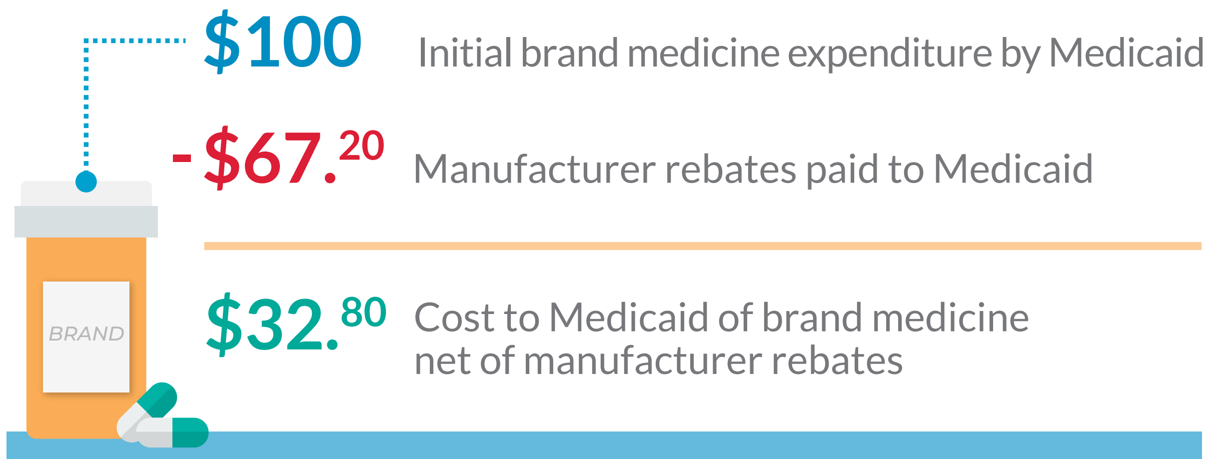
Generic manufacturers also pay a statutory rebate of 13.0% of AMP.

In FFY 2019, manufacturers paid Medicaid rebates totaling $36.1 billion.[6]

*Best price is defined as generally the lowest price available to any wholesaler, retailer, or provider, excluding prices paid by certain government programs, such as the US Department of Veterans Affairs and discounts negotiated under Medicare Part D.

Sources: CBO[4,5]; The Menges Group analysis of CMS data[6]

Medicaid Drug Costs Are Lower When Accounting for Rebates



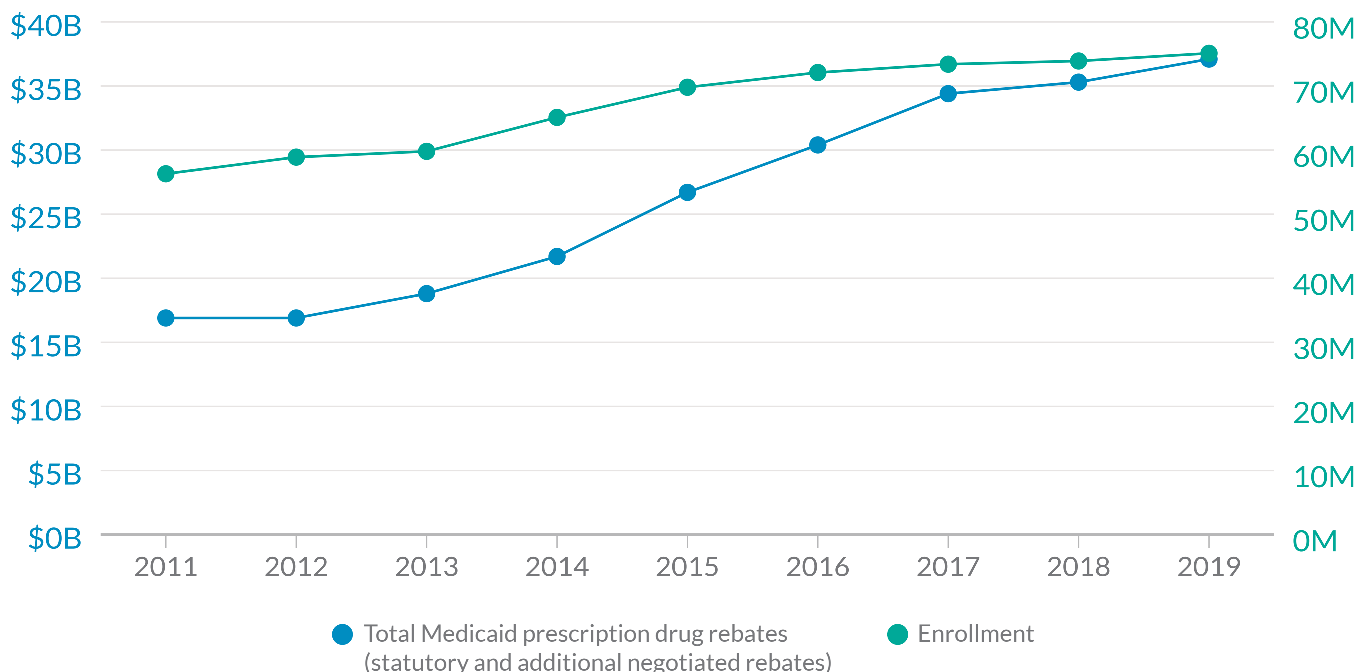
An example of how rebates dramatically lower costs for states: Rebates from manufacturers repay Medicaid for just over two-thirds of initial brand medicine expenditures.* In addition to the rebate amount required by law, states and managed care organizations (MCOs) often negotiate for additional rebates. Manufacturers may pay these negotiated rebates to obtain favorable placement for their medicines on preferred drug lists or managed care formularies.

*Includes statutory rebates and supplemental rebates negotiated by states and Medicaid MCOs or their pharmacy benefits managers

Source: The Menges Group analysis of FFY19 Medicaid data[7]

The Number of Medicaid Enrollees Benefiting From Medicaid Drug Coverage Is Growing

As Medicaid enrollment grows, rebates increase to help offset the costs to states of providing access to prescription drugs.



Source: MACPAC[8]; The Menges Group tabulations using CMS reports[9]

Removal of the AMP Cap Could Mean That for Some Drugs, Manufacturers Will Pay States More in Rebates Than What State Medicaid Programs Pay for Their Drugs

In 2010, the Affordable Care Act (ACA) capped the statutory Medicaid rebate on a drug at 100% of a drug's average manufacturer price (AMP), as part of Congress' expansion of manufacturer Medicaid rebate liability under the ACA. However, a provision in the American Rescue Plan Act of 2021 lifts the AMP cap starting in 2024.

PRE-AMERICAN RESCUE PLAN ACT OF 2021

The total Medicaid rebate is capped at 100% of AMP.

Manufacturer rebates are less than or equal to AMP.

Total Medicaid Rebate ≤ AMP

REMOVING THE AMP CAP

The total Medicaid rebate will be allowed to exceed AMP. Manufacturers could pay Medicaid every time a patient takes a drug.*

For some drugs, manufacturer rebates could be greater than or equal to AMP.

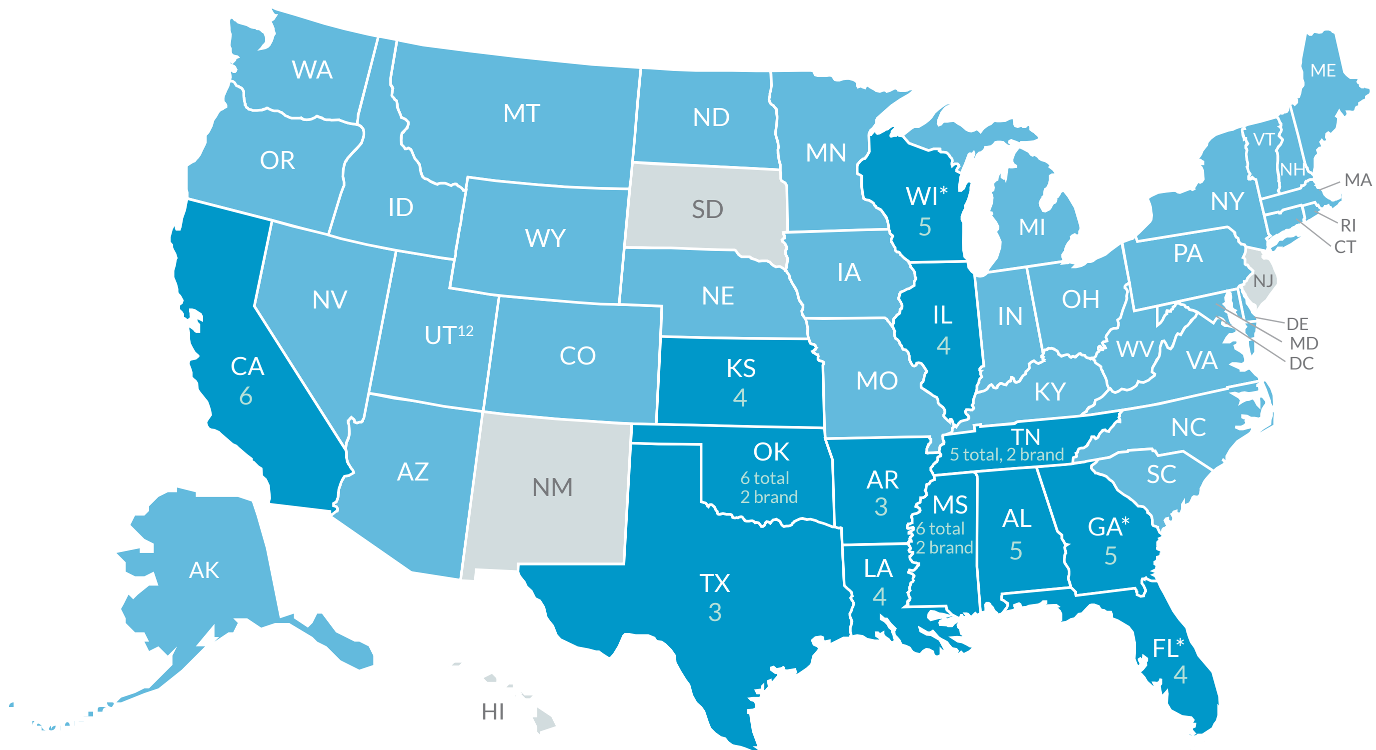
Total Medicaid Rebate ≥ AMP

*Not all drugs would exceed AMP, because most drug rebates would be below AMP.

Source: Sidley[10]

Despite the "Covenant," States Limit Access to Brand Prescription Medicines in Medicaid

Nearly all states and DC use preferred drug lists (PDLs), and 13 states limit the number of prescriptions that beneficiaries can fill each month.



PDL | PDL and monthly limit on number of prescriptions | No PDL and no monthly limit on prescriptions

Note: States can define a list of Medicaid-preferred medicines (ie, PDLs) with Centers for Medicare & Medicaid Services approval. For states using prescription limits, each has exceptions, depending on therapy and patient population.

*In GA, FL, and WI, drug limits are for narcotics, controlled substances, and opioid prescriptions only.

Source: KFF[11]; Utah Department of Health[12]

Access Restrictions on Hepatitis C Medicines Ignore Cost Savings Due to Treatment

Direct-acting antivirals (DAAs) lower hepatitis C (HCV) treatment costs by effectively curing this disease. These medicines not only improve patients' qualify of life, but lower overall medical costs. Restricting DAAs in Medicaid can harm patients and increase Medicaid costs.

Projected health care cost savings*

$52.7B

Projected HCV DAA* treatment costs

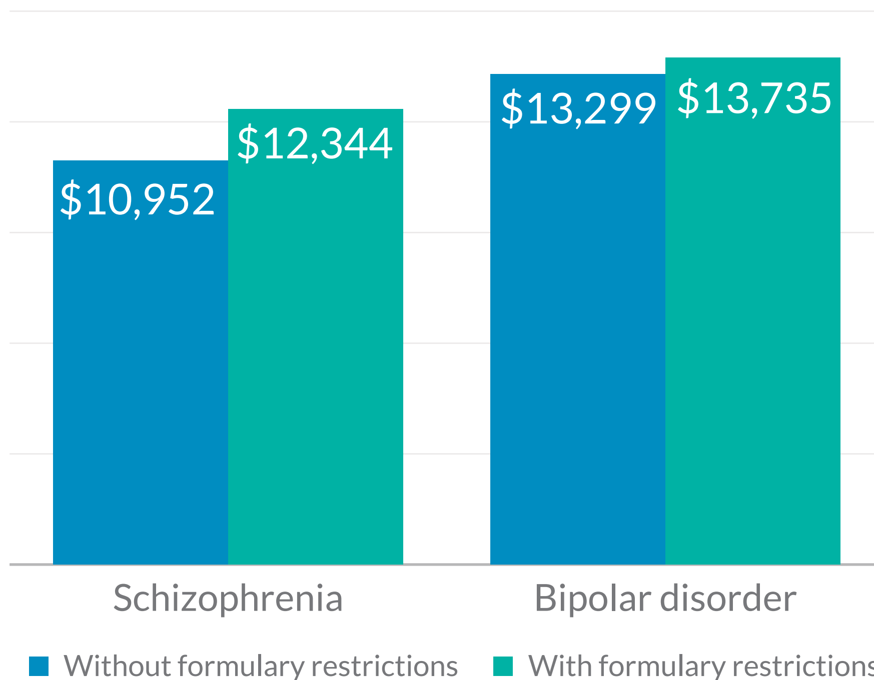
*Net of treatment costs

Source: PHAR LLC[13]

Patients Facing Access Restrictions to Their Medicines Incur Greater Medical Spending

For example, nonelderly Medicaid patients facing formulary restrictions* for antipsychotic medications were 7% to 13% more likely to be hospitalized and had higher medical costs than patients in states without formulary restrictions.

Medicaid Total Annual Medical Expenditures per Patient (2008)

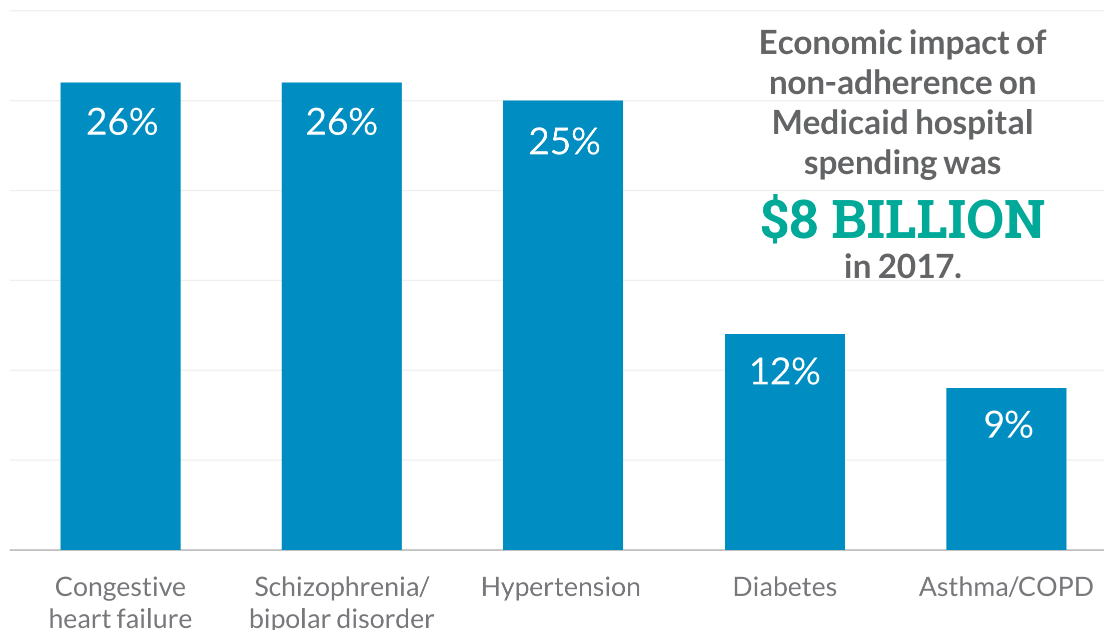


*Restrictions examined: prior authorization, step therapy, and quantity limits

Source: Seabury SA et al[14]

Better Medication Adherence Generates Savings in Medicaid

Optimal adherence to medicines for a range of chronic conditions leads to reductions in hospitalizations for many patients enrolled in Medicaid.

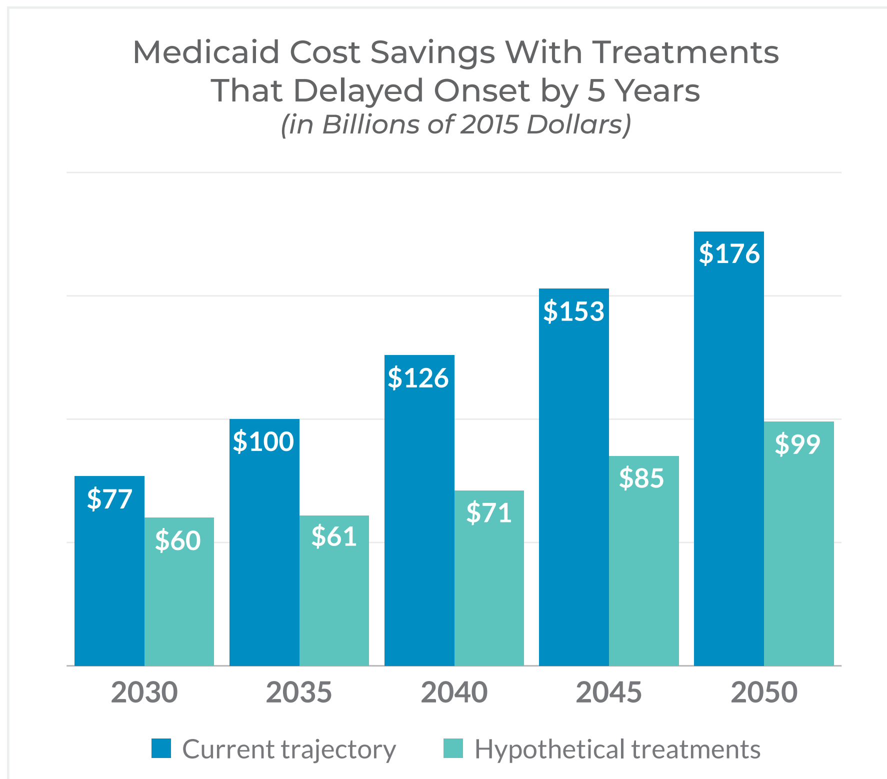


*Results apply to Medicaid populations that are not blind or disabled.

Source: Roebuck MC et al[15]

Alzheimer's Disease Treatments Could Generate Meaningful Savings for Medicaid

Effective Alzheimer's treatments that become available for broad use in 2025 could mean that in 2050, 5.7 million fewer Americans would be living with Alzheimer's, resulting in less strain on caregivers and decreased Medicaid spending on long-term care services and supports.



BY 2050:

Medicaid could save **$77 billion** in 2050 alone.

Medicaid spending on patients with Alzheimer's disease could be **44% less.**

Taxpayers could save a cumulative total of **$3.1 trillion.**

Source: Alzheimer's Association[16]

Notes and Sources

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