# Medicaid Prescription Drug Benefit Management: Performance Comparison Across Different State Policy Approaches

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The Menges Group
Strategic Health Policy & Care Coordination Consulting

# Introduction

- The Anthem Public Policy Institute engaged us to assess the cost-effectiveness of different state policy approaches to managing their Medicaid prescription drug benefit.

- Our organization works extensively with a 100% sample of Medicaid's pharmacy data. The Centers for Medicare and Medicaid Services (CMS) makes National Drug Code (NDC) level data available for each state and calendar quarter, showing prescription volume and amounts paid to pharmacies. The amounts paid in this data set, while comprehensive, are pre-rebate. Large rebates -- averaging approximately 50% of pre-rebate payments -- occur in the Medicaid arena.

- Aggregate rebates are available on a statewide level by federal fiscal year in a separate CMS data file, the Financial Management Reports (FMRs).

- Working with these two data sets, we are able to derive net Medicaid pharmacy costs in each state and fiscal year as well as the percentage of prescriptions paid by Medicaid managed care organizations (MCOs). A state's net costs per prescription are an important indicator as to how effectively the Medicaid prescription drug benefit is being managed. Research further supports the value of fully integrating the management of the pharmacy benefit in a managed care model in terms of advancing clinical outcomes and optimizing service utilization, but those findings are outside the scope of this analysis.

# States Were Categorized Into Five Groups To Compare Medicaid Rx Management Performance

| State Group Name | Medicaid Pharmacy Benefits Characteristics of This Group | States in This Group |
|---|---|---|
| **Group A, MCO Latitude (12 states)** | MCOs have wide latitude to manage the pharmacy benefit. | Hawaii, Illinois, Indiana, Kentucky, New Hampshire, New Jersey, New Mexico, New York, Ohio, Oregon, Pennsylvania, Rhode Island |
| **Group B Uniform PDL (8 states)** | Medicaid MCOs must all use the same preferred drug list (PDL) as established by the State Medicaid agency. | Arkansas, Delaware, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Texas |
| **Group C Uniform PDL, Some Classes (6 states)** | These states are like those in Group B, except that the Uniform PDL approach is required only for a few selected drug classes. | Arizona, Florida, Nebraska, South Carolina, Virginia, Washington |
| **Group D All (or most) Prescriptions Paid via FFS (17 states)** | Medicaid prescriptions are paid entirely (or overwhelmingly) in the FFS setting due to absence of an MCO contracting program, or due to the prescription drug benefit being largely or entirely "carved out" of the MCOs' capitated benefits package. | Alabama, Alaska, Colorado, Connecticut, Idaho, Maine, Missouri, Montana, North Carolina, North Dakota, Oklahoma, South Dakota, Tennessee, Vermont, West Virginia, Wisconsin, Wyoming |
| **Group E Blended Model (7 states + DC)** | A blend of the above approaches is used, such that the state does not fit neatly into any one of the above categories. Appendix C describes the dynamics of each state in this category. | California, District of Columbia, Georgia, Maryland, Massachusetts, Michigan, Nevada, Utah |

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# The Five State Groups Offer A Massive Statistical Data Set to Support Comparisons

- Each of the five state groupings had more than 250 million Medicaid prescriptions across the FFY2018 - FFY2020 timeframe assessed.

| | Total Medicaid Prescriptions | | | | Share of Nationwide Medicaid Prescriptions | | | |
|---|---|---|---|---|---|---|---|---|
| State Group | FFY2018 | FFY2019 | FFY2020 | 3 Year Total | FFY2018 | FFY2019 | FFY2020 | 3 Year Total |
| Group A: MCO Latitude | 268,827,348 | 264,999,738 | 255,808,512 | 789,635,598 | 36.0% | 36.4% | 35.8% | 36.1% |
| Group B: Uniform PDL | 92,536,284 | 89,795,087 | 84,993,866 | 267,325,236 | 12.4% | 12.3% | 11.9% | 12.2% |
| Group C: Uniform PDL Some Classes | 83,349,980 | 82,043,682 | 88,322,495 | 253,716,157 | 11.2% | 11.3% | 12.4% | 11.6% |
| Group D: All (or vast majority of) Prescriptions Paid via FFS | 107,795,051 | 106,024,489 | 104,595,642 | 318,415,182 | 14.4% | 14.6% | 14.6% | 14.5% |
| Group E: Blended Model | 194,453,976 | 185,699,845 | 180,699,951 | 560,853,772 | 26.0% | 25.5% | 25.3% | 25.6% |
| **Total** | **746,962,639** | **728,562,840** | **714,420,467** | **2,189,945,946** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

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# MCOs Pay for More than 70% of Medicaid Prescriptions in the US

- Group D, which includes 17 states that overwhelmingly use the fee-for-service (FFS) setting to manage and pay for Medicaid prescriptions, provides a strong point of comparison with states extensively relying on MCOs to pay for Medicaid prescriptions.

| State Group | MCO % of Prescriptions | | | |
|---|---|---|---|---|
| | FFY2018 | FFY2019 | FFY2020 | 3 Year Average |
| Group A: MCO Latitude | 89.7% | 89.8% | 90.8% | 90.1% |
| Group B: Uniform PDL | 88.4% | 89.0% | 89.5% | 88.9% |
| Group C: Uniform PDL Some Classes | 92.7% | 94.0% | 95.6% | 94.1% |
| Group D: All (or Most) Prescriptions Paid via FFS | 1.6% | 1.4% | 2.2% | 1.7% |
| Group E: Blended Model | 68.7% | 68.1% | 68.4% | 68.4% |
| **Total** | **71.7%** | **71.8%** | **72.6%** | **72.0%** |

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# Key Medicaid Prescription Drug Cost Performance Metrics by State Group Across FFY2018-FFY2020

| Statistical Measure | MCO Latitude Approach (Group A States) | Uniform PDL Approach (Group B States) | Uniform PDL Approach, Some Drug Classes (Group C States) | FFS Management Group D States | FFS Setting's % Above MCO Latitude Setting (Group D vs. Group A) |
|---|---|---|---|---|---|
| Initial Costs Per Prescription (pre-rebate) | $82.49 | $90.52 | $93.45 | $112.06 | 35.9% |
| Rebates Per Prescription | $44.62 | $51.87 | $54.83 | $66.67 | 49.4% |
| Net Costs Per Prescription | $37.87 | $38.66 | $38.61 | $45.40 | 19.9% |
| Net Costs Per Prescription, Adjusted for Medicaid Expansion | $35.97 | $37.69 | $37.51 | $44.18 | 22.8% |
| Generics as % of All Medicaid Prescriptions | 89.3% | 87.4% | 86.7% | 83.3% | -6.7% |

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# The MCO Latitude Model Yields the Most Cost-Effective Outcomes

- The most important comparisons are between Group A (where MCOs pay for 90% of Medicaid prescriptions and have wide latitude exists) and Group D (where prescriptions are paid for in the FFS setting).
  - The Group A states' collective pre-rebate costs per prescription were nearly $30 and 36% below Group D. Medicaid MCOs manage the front-end mix of medications effectively, including much greater steerage of volume towards generics than occurs in the FFS setting.
  - The FFS setting, in relying more on brand medications, receives far larger rebates per prescription than in the Group A states. Rebates across the Group D states per prescription were $22 and nearly 50% above those in Group A.
  - The rebate differential did not close the full pre-rebate gap, however. The MCO Latitude states outperformed the FFS-dominant states by over $8 per prescription, a differential of 19.9%. This differential increased to 22.8% when we adjusted all states to normalize for the impacts of their Medicaid expansion decisions.

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# The MCO Latitude Model Has Also Outperformed the Uniform PDL Approach

- Smaller differences were apparent in comparing the MCO Latitude states (Group A) with the Uniform PDL states (Groups B and C). After normalizing for Medicaid expansion, Group A states' net costs per prescription were $1.72 (4.6%) below Group B and $1.54 (4.1%) below Group C across the FFY2018-FFY2020 timeframe.
    - These seemingly modest differentials nonetheless translate to large fiscal savings, given the large Medicaid prescription volume that occurs in most states. Medicaid paid for more than 700 million prescriptions during FFY2020, creating an annual average of nearly 15 million prescriptions per state.

- The Uniform PDL model is, however, also far outperforming the FFS setting. Group B and Group C net costs per prescription were 14.7% and 15.1% below Group D, respectively, across the three-year timeframe assessed.

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# Policy Implications of Our Findings

- The key policy implication of our findings is that it is far preferable to utilize MCOs to manage the prescription drug benefit than for states to "carve out" this benefit and manage it in the FFS setting.  Approximately a 20% net cost differential exists between the MCO-managed and FFS-managed settings.
- A secondary policy implication is that it also behooves states to allow Medicaid MCOs to use their drug mix management tools, rather than for the state to impose a uniform PDL that all the MCOs must adhere to.

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