

The Menges Group

Strategic Health Policy & Care Coordination Consulting

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

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EXECUTIVE SUMMARY: This report quantifies the cost-effectiveness of alternative approaches to managing Medicaid's prescription drug benefit. Tabulations were made taking into account all Medicaid prescriptions and Medicaid rebates across the three-year timeframe FFY2018 – FFY2020 in each state. The states were rolled up into five groups based on the degree to which Medicaid managed care organizations (MCOs) were responsible for the pharmacy benefit and the degree to which the MCOs are given latitude to manage the pharmacy benefit.

Note that while this report focuses on cost-effectiveness, it is but one factor that states may consider when deciding how to manage the Medicaid prescription drug benefit. Clinical outcomes, quality, and provider and beneficiary experience are also important considerations, but they are outside of the scope of this study.

The over-arching policy finding of this report is that it behooves states to take advantage of Medicaid MCOs' prescription drug cost management acumen.

- Net Medicaid costs per prescription across states that utilized MCOs extensively and allowed the MCOs to manage the benefit in their own preferred manner (within the boundaries of general regulatory oversight) were \$37.87 across the three-year timeframe assessed.
- Corresponding costs across states using the FFS setting to pay for Medicaid prescriptions were \$45.40 – 19.9% higher. States using the FFS setting may manage the benefit themselves or contract with a pharmacy benefit manager (PBM) to manage the benefit on behalf of the state.
- When we controlled for the fact that some states have not yet adopted Medicaid expansion, the FFS setting's costs per prescription were 22.8% above those in the states using MCOs and drawing on these health plans' full set of benefits management tools.

Another key finding is that allowing MCOs to manage the benefit in their preferred manner is more cost-effective than requiring that they use a uniform preferred drug list (PDL).

- We find that the MCO latitude policy approach has yielded net costs per prescription approximately 4.5% below the uniform PDL approach.
- This finding also shows that the uniform PDL approach (where MCOs are serving as the payer) is far outperforming the model of relying entirely on the FFS setting for Medicaid pharmacy benefits management.