Medicaid Prescription Drug Coverage

Americans with Medicaid have access to free or low-cost prescription drugs to treat illnesses and help them maintain their health. Prescription drugs are often the front-line tools for managing chronic conditions and acute illnesses, so drug coverage is an important part of the continuum of care. Although people with Medicaid are protected from the high costs of many prescription drugs, Medicaid drug spending has increased significantly in recent years. This is due largely to the rising cost of specialty drugs.[1] Medicaid spending on prescription drugs is driven both by drug pricing dynamics that impact the whole health care system, and Medicaid-specific issues. This spending growth is a point of concern for state Medicaid programs and the federal government.

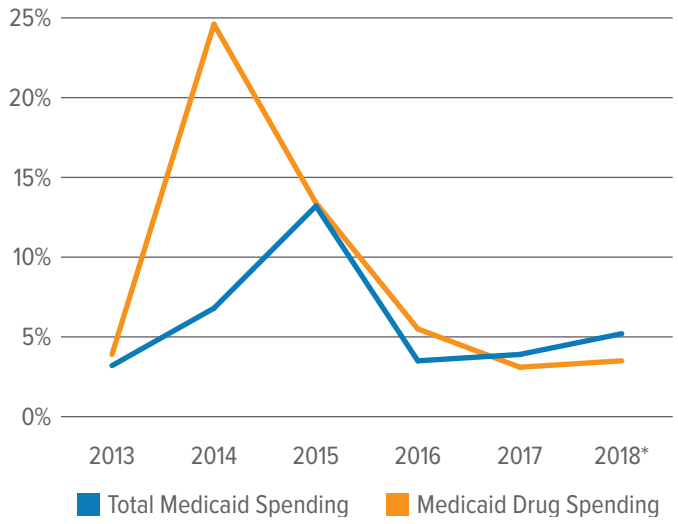
Scope of Drug Coverage

While outpatient prescription drugs are an optional benefit under federal law, it's notable that **all state Medicaid programs choose to provide drug coverage.** State Medicaid programs covering outpatient prescription drugs generally must cover any such drug approved by the Food and Drug Administration (FDA). States may then determine payment policies within federal guidelines. States also may cover "over the counter" (OTC) non-prescription drugs for enrollees, like aspirin and antacids. These are not prescription drugs, but many Medicaid programs require a provider's order for OTC drugs to qualify for coverage.

Prescription Drug Spending

Medicaid prescription drug spending has increased significantly in recent years. Spending on outpatient drugs increased 24.6 percent from $22.4 billion in 2013 to $28 billion in 2014.[2] Major factors driving the increased spending include increased Medicaid enrollment via Medicaid expansion, as well as new high cost drugs to treat certain conditions, such as the introduction of Sovaldi for hepatitis C, and increases in certain generic drug prices.[3] After 2014, growth in Medicaid drug spending decreased somewhat to 13.6 percent in 2015 and 5.5 percent in 2016.[4] Figure 1 shows the year-over-year growth trend for Medicaid drug expenditures as compared with all Medicaid expenditures from 2013 to 2018.[5]

Figure 1. Trends in Medicaid Spending YOY



1 Kaiser Family Foundation. Snapshots of Recent State Initiatives in Medicaid Prescription Drug Cost Control. February 2018.
2 MACPAC. Improving Operations of the Medicaid Drug Rebate Program. June 2018.
3 MACPAC. Medicaid Spending for Prescription Drugs. January 2016.
4 MACPAC. Improving Operations of the Medicaid Drug Rebate Program. June 2018.
5 Kaiser Family Foundation. Snapshots of Recent State Initiatives in Medicaid Prescription Drug Cost Control. February 2018.

The Role of Rebates

Net Medicaid prescription drug expenditures reflect both Medicaid payments to pharmacies and rebates Medicaid receives from drug manufacturers for their products. In 2016, total Medicaid prescription drug expenditures were about $30 billion—Medicaid programs made about $60 billion in payments, but states collected about $30 billion in rebates.[6] Rebates play an important role in financing Medicaid drug coverage. The *Medicaid Drug Rebate Program (MDRP)* ensures that Medicaid—whether using a fee-for-service system for prescription drugs or managed care organizations (MCOs) contracting with the state—pays a price that is as low or lower than the price paid by other payers for a prescription drug. This policy is called Medicaid "best price". About 600 drug companies have signed rebate agreements with the Department of Health and Human Services (HHS) to participate in the rebate program. In return, state Medicaid programs generally must cover all of the manufacturer's drugs. For most brand-name drugs, Medicaid programs receive statutory rebates of 23.1 percent of a drug's *average manufacturer price* or AMP, and 13 percent of AMP for generic drugs. Individual state and managed care plans may negotiate supplemental rebates in addition to the statutory rebates.

Prescription Drug Program Administration

Of the 40 states and territories that provide Medicaid benefits through Medicaid health plans, 36 programs include prescription drug coverage in the plans' scope of services. Health plans, in turn may contract directly with pharmacies to provide prescription drugs and services, or contract with pharmacy benefit managers (PBMs) to administer the prescription drug program. Some states contract directly with a PBM to administer the prescription drug program on a fee for service basis.

Strategies to Control Costs

Broader market forces impacting prescription drug spending—including pricing, generic competition, FDA approval, and price transparency—impact Medicaid as they do other payers. However, the requirement that Medicaid programs cover all FDA-approved drugs and rebate requirements are unique forces driving Medicaid prescription drug expenditures. States and Medicaid plans have some flexibility to use drug utilization management tools that ensure drugs prescribed for a person are necessary and medically appropriate.

- **Prior authorization (prior approval)** may be required for some drugs that have significant side effects or interactions with other drugs, or are very expensive.
- **Quantity limits,** as the name implies, are used to limit the amounts dispensed of certain drugs with high potential for misuse or addiction.
- **Step therapy** is a therapeutic approach in which a patient first receives treatment with the most appropriate and cost-effective drug for his or her condition before trying another less effective or more expensive medication.
- **Preferred drug lists (PDLs)** are used to prioritize and encourage the use of certain drugs first, where medically appropriate, before trying other drugs for a patient's medical condition. Most states delegate the development and administration of preferred drug lists (PDLs) to their Medicaid managed care plans. Medicaid plans typically structure their PDLs to emphasize the use of medically appropriate generic drugs first, before moving to more expensive drugs. States sometimes require use of a "uniform PDL" by all contracting plans. These tend to emphasize use of brand name drugs with high rebates, but research shows that emphasizing use of generic drugs instead of brand name drugs saves state Medicaid programs money in the long run.[7]

For more information on Medicaid, please refer to other briefs in AHIP's Medicaid 101 series

- Medicaid 101 — Program Overview
- Medicaid Eligibility and Enrollment
- Medicaid Managed Care
- Medicaid Administration and Financing
- Children's Health Insurance Program (CHIP)
- Long Term Services and Supports (LTSS) in Medicaid

6 MACPAC. Improving Operations of the Medicaid Drug Rebate Program. June 2018.

7 "Medicaid Prescription Drug Coverage: Carve-Ins Save Billions of Taxpayer Dollars". The Menges Group, February, 2019.