

# Medicaid Prescription Drug Coverage: Carve-Ins Save Billions of Taxpayer Dollars

States increasingly rely on Medicaid health plans to provide enrollees with access to care and services. Health plans know that Medicaid needs to work for people who rely on it – and the hardworking taxpayers who pay for it. Working with state leaders and community partners, health plans ensure that Medicaid is effective, affordable, and accountable. That’s why 38 states, the District of Columbia, and Puerto Rico choose Medicaid health plans to serve more than 50 million enrollees – about two-thirds of people eligible for Medicaid.

Most states “carve in,” or integrate, all Medicaid benefits. Integrating medical care, behavioral health services, prescription drugs, and other services ensures they work together for better health and outcomes while saving hardworking taxpayers billions of dollars. However, some states have “carved out” prescription drug benefits from Medicaid health plan coverage, opting instead to manage prescription drugs through a fee-for-service (FFS) program. While some states believe that prescription drug carve-outs save money if the state self-administers the prescription drug program, the facts tell another story.

Medicaid health plans with integrated prescription drug benefits take a more comprehensive approach to drug management, focusing on treating the whole patient and emphasizing clinically effective, evidence-based treatments. Health plans also promote the use of generic drugs to generate significant cost-savings for the state. Generic drugs are approved by the Food and Drug Administration and are proven to be safe and effective. They are identical to their brand-name counterparts, just much less expensive. If needed, more expensive brand-name drugs are still available, and MCO clinical programs help physicians and patients get the most appropriate drugs.

## Prescription Drug Carve-In Programs Save Billions Through Negotiated Rates

A detailed 2018 study compared results of Medicaid health plan carve-in and FFS carve-out prescription drug arrangements from 2011 through 2017<sup>1</sup> (see Table 1). **The results are clear: carve-in arrangements consistently and significantly reduce Medicaid costs for state and federal governments.** While the cost of prescription drugs accelerated during the 2011-2017 timeframe, integrated carve-in arrangements were more effective in helping states lower their Medicaid drug costs.

**Table 1. Health Plan Carve-In vs. FFS Carve-Out Drug Cost Comparisons – 2011 and 2017<sup>1</sup>**

Year/Method	Total Rx	Total Pre-Rebate Cost	Pre-Rebate Cost / Rx	Total Post-Rebate Cost	Post-Rebate Cost / Rx
<b>2011 Health plan</b>	117.4 million (22.4%)	\$5.3 billion	\$44.92	\$3.0 billion	\$25.92
<b>2011 FFS</b>	407.9 million (76.6%)	\$30.8 billion	\$75.61	\$16.3 billion	\$39.94
<b>2011 Total</b>	525.3 million (100%)	\$36.1 billion	\$68.75	\$19.3 billion	\$36.81
<b>2017 Health plan</b>	545.3 million (71.9%)	\$40.0 billion	\$73.28	\$20.0 billion	\$36.62
<b>2017 FFS</b>	213.4 million (28.1%)	\$23.0 billion	\$107.57	\$10.7 billion	\$50.15
<b>2017 Total</b>	758.7 million (100%)	\$63.0 billion	\$82.92	\$30.7 billion	\$40.42

**Table 2** further shows that in 2011, carve-in programs saved Medicaid \$1.6 billion, and in 2017, carve-in programs achieved \$7.4 billion in savings.<sup>2</sup>

<sup>1</sup> *Medicaid Prescription Drug Utilization and Expenditure Dynamics*, published by the Association for Community Affiliated Plans, November 2018, Exhibits 1, 2 and 3.

<sup>2</sup> Figures derived by AHIP, multiplying the differential in net costs per prescription in Table 1 by annual prescription volume across the nation’s Medicaid health plans.

**Table 2. Medicaid Carve-In Cost Savings – 2011 and 2017<sup>3</sup>**

2011 Performance	Health plan	In 2011, health plans covered 22.4 percent of all Medicaid prescriptions at an <b>average cost of \$25.92 per prescription</b> , net of rebates.
	FFS	FFS carve-out drug programs covered 77.6 percent of prescription drugs at an <b>average cost of \$39.93 per prescription</b> , net of rebates.
	Savings	If all Medicaid prescription drugs in 2011 had been paid by FFS carve-out arrangements instead of integrated carve-in arrangements, <b>Medicaid program costs would have increased by \$1.6 billion dollars.</b>
2017 Performance	Health plan	In 2017, health plans covered 71.9 percent of total Medicaid prescriptions at an <b>average cost of \$36.62 per prescription</b> , net of rebates.
	FFS	FFS carve-out drug programs covered 28.1 percent of prescription drugs at an <b>average cost of \$50.15 per prescription</b> , net of rebates.
	Savings	If all Medicaid prescription drugs in 2017 had been paid by FFS carve-out arrangements instead of integrated carve-in arrangements, <b>Medicaid program costs would have increased by \$7.4 billion dollars.</b>

## Carve-Ins Save Dramatically More by Prioritizing Generic Drugs

A 2015 Menges Group study<sup>3</sup> found that generic drugs made up 82.8 percent of all Medicaid health plan prescriptions, compared to 78.0 percent of all FFS prescriptions. The study also found that carve-in programs slowed the growth of Medicaid drug expenditures.

- Six states (IL, NY, OH, TX, UT, WV) that switched to carve-in programs from 2011 to 2014 saw only a 1 percent increase in net costs per prescription.
- In contrast, seven states (DE, IA, IN, MO, NE, TN, WI) using carve-out prescription programs during the same timeframe experienced a *20 percent increase* in net costs per prescription.
- The collective 2014 “missed” savings opportunity for the seven carve-out states was estimated at \$307 million.

Data in **Table 3** show that carve-ins result in lower prices than FFS carve-out programs for both generic and brand-name drugs.<sup>4</sup> Medicaid health plans achieved lower net costs per prescription for brand name drugs, generic drugs, and overall in Federal Fiscal Year (FFY) 2017.

**Table 3. FFY 2017 Net Costs per Prescription by Drug Type<sup>5</sup>**

	Health plan	FFS	Total
<b>Brand Name Drugs</b>	\$160.81	\$183.80	\$168.69
<b>Generic Drugs</b>	\$17.99	\$21.96	\$19.07
<b>Overall</b>	\$73.28	\$107.57	\$38.47

## Carve-Ins Help Improve Care

While cost savings are important to state budgets, integrating prescription drug coverage has clinical benefits as well. When Medicaid health plans manage all a person’s medical, behavioral health, and pharmacy benefits, they have better insight into all the care elements that impact the person’s health. This is especially important in monitoring medication adherence and possible drug interactions. Carving out prescription drugs to be administered by state agencies impairs health plans’ ability to integrate and manage their members’ whole health care. This impairs effective communications and coordination with providers and complicates efforts to reduce unnecessary hospitalizations and emergency room use, jeopardizing the overall quality of care.

## Conclusion

Healthy states need healthy people. Medicaid health plans are committed to working with states to maintain and improve the health of millions of Medicaid enrollees. Health plans can best serve their Medicaid enrollees and the public interest by managing and coordinating the full range of care and services for their members, including prescription drugs. The long-term viability and outlook for Medicaid depends on this balance of effective care, improved outcomes, and fiscal responsibility.

<sup>3</sup> See 2015 study by the Menges Group, at: <https://www.ahip.org/wp-content/uploads/2015/11/Medicaid-Pharmacy-Carve-In-Final-Paper-The-Menges-Group-April-2015.pdf>

<sup>4</sup> *Ibid.*

<sup>5</sup> Data taken from *Prescription Drug Costs and Utilization in Medicaid: FFS and MCO Comparisons*, slide presentation by The Menges Group at the AHIP National Conference on Medicare, Medicaid, and Duals, October 17, 2018.