



Georgetown University  
Health Policy Institute  
CENTER FOR CHILDREN  
AND FAMILIES

# Medicaid Learning Lab

A yellow lightbulb icon with a brain inside, symbolizing ideas and learning.

Session 5: Prescription Drugs

*Edwin Park*  
*06-24-2021*

## Session 5: Prescription Drugs

- How does Medicaid cover prescription drugs?
- How does the Medicaid Drug Rebate Program lower Medicaid prescription drug costs?
- How does CHIP cover prescription drugs?
- What Medicaid and CHIP prescription drug and rebate issues may be addressed by Congress and the Administration?

# Poll

- How would you rate your knowledge of the Medicaid Drug Rebate Program (MDRP)?



# **MEDICAID DRUG BENEFIT: How Does Medicaid Cover Prescription Drugs?**

# Drug Benefit Overview

- Outpatient prescription drug coverage is an optional Medicaid benefit
- Open formulary
- Nominal cost-sharing
- Delivery and provider reimbursement through fee-for-service or managed care

# Optional Benefit

- Outpatient prescription drug coverage is an optional Medicaid benefit
- But all states cover
- EPSDT guarantees drug coverage for children
- Other drugs are covered through other benefits like inpatient hospital care
- Includes drugs administered by physicians and in hospital outpatient settings if billed separately

# Open Formulary

- For drugs to be covered under Medicaid, manufacturers must participate in Medicaid Drug Rebate Program
- Medicaid Rebate Program requires nearly all FDA-approved drugs to be covered with only limited exceptions
- In contrast, Medicare Part D and private insurance generally use closed or more restrictive formularies

# State Options to Manage Drug Benefit

- States have other tools to manage their drug benefit including:
  - Preferred drug lists
  - Prior authorization
  - Clinical criteria
  - Step therapy
  - Mandatory prescribing/substitution of generics
  - Utilization review
  - Provider education
  - Quantity limits



# Prescription Drug Cost-Sharing

- Medicaid cost-sharing rules generally apply
- Special rules for prescription drugs
  - Differential cost-sharing allowed for preferred and non-preferred drugs
  - Nominal co-pays of no more than \$4 for preferred, \$8 for non-preferred drugs (adjusted annually for inflation)
  - For those with incomes  $> 150\%$  FPL, co-pays can exceed nominal limits, up to 20% co-insurance for non-preferred drugs
  - Exempt groups can be charged nominal co-pays for non-preferred drugs
  - Appeals process for non-preferred drugs required

# Delivery

- States do not purchase or provide prescription drugs directly but directly or indirectly reimburse pharmacies/other providers for dispensing drugs to beneficiaries
  - Fee-for-service
  - Managed care
  - Carveout from managed care
- States and managed care plans may use pharmacy benefit managers (PBMs) to administer drug benefit

# Pharmacy Reimbursement

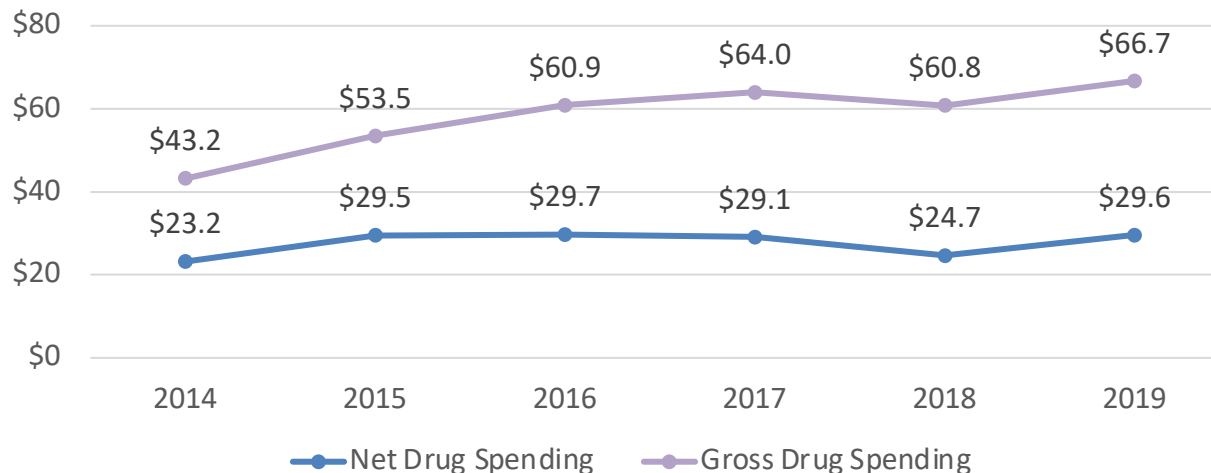
- In Medicaid fee-for-service, pharmacy reimbursement rates include two components:
  - Ingredient cost (e.g. Actual Acquisition Cost)
  - Dispensing fee
- Generic drug reimbursement rates subject to drug-specific Federal Upper Limits (FULs)



# **MEDICAID DRUG REBATE PROGRAM: How Does the Rebate Program Lower Medicaid Prescription Drug Costs?**

# Medicaid Drug Spending

- Outpatient prescription drug spending relatively small share of total Medicaid benefit spending
  - About 5% in 2019
- Recent trends in drug spending (\$ billions)



# Medicaid Drug Rebate Program Overview

- Manufacturers must pay rebates to state Medicaid programs for outpatient prescription drugs
- Otherwise their drugs will not be covered by Medicaid
- Rebates apply to both fee-for-service and managed care, apply to administered drugs if billed separately
- Federal government shares in the savings
- Rebate program does not apply to territories at this time

# Mechanics of Rebate

- Manufacturers report pricing data to CMS quarterly
- States report drug utilization data to CMS quarterly
- CMS calculates rebates owed by manufacturers under statutory formula
- Manufacturers pay rebates to state Medicaid programs quarterly

# Rebate Formula: Basic Rebates

- Manufacturers must pay basic rebate
- Brand-name drugs
  - Higher of 23.1% of Average Manufacturer Price (AMP) or AMP minus Best Price
- Generic Drugs
  - 13% of AMP



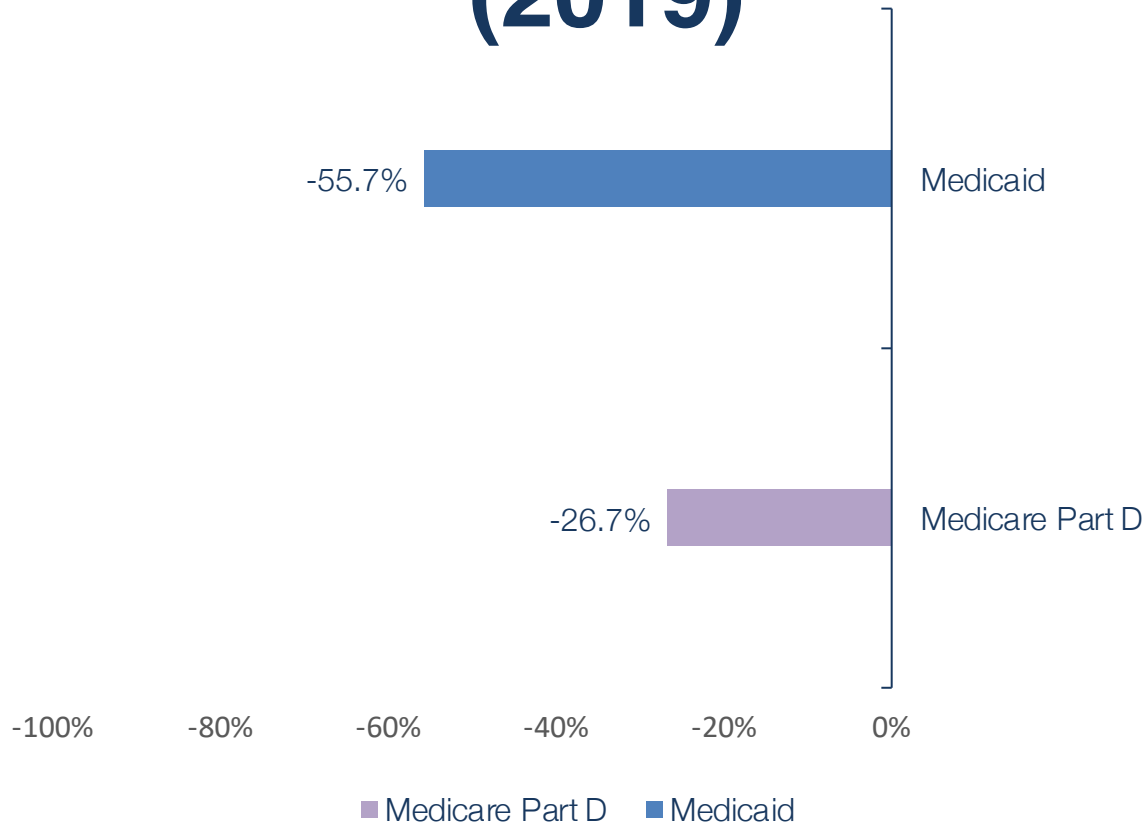
# Rebate Formula: Inflation-Related Rebates

- Manufacturers of both brand-name and generic drugs must pay additional rebates if prices for their drugs rise faster than inflation
- Additional rebate equals amount by which current AMP exceeds initial AMP adjusted for general inflation (CPI-U)

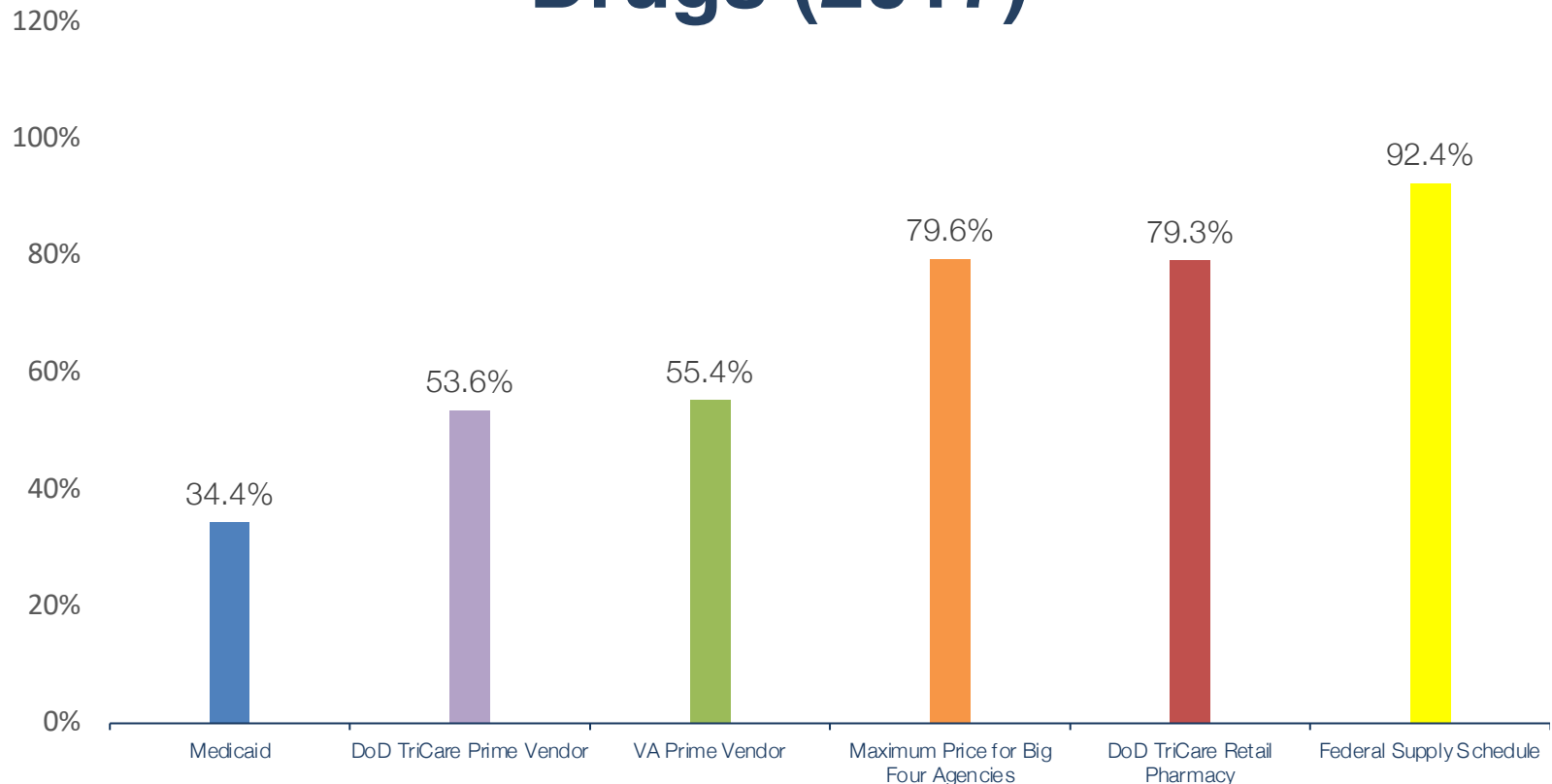
# Rebate Cap

- Currently total rebates (basic + inflation-related rebates) may not exceed 100% of AMP.
- American Rescue Plan eliminates cap as of January 1, 2024.

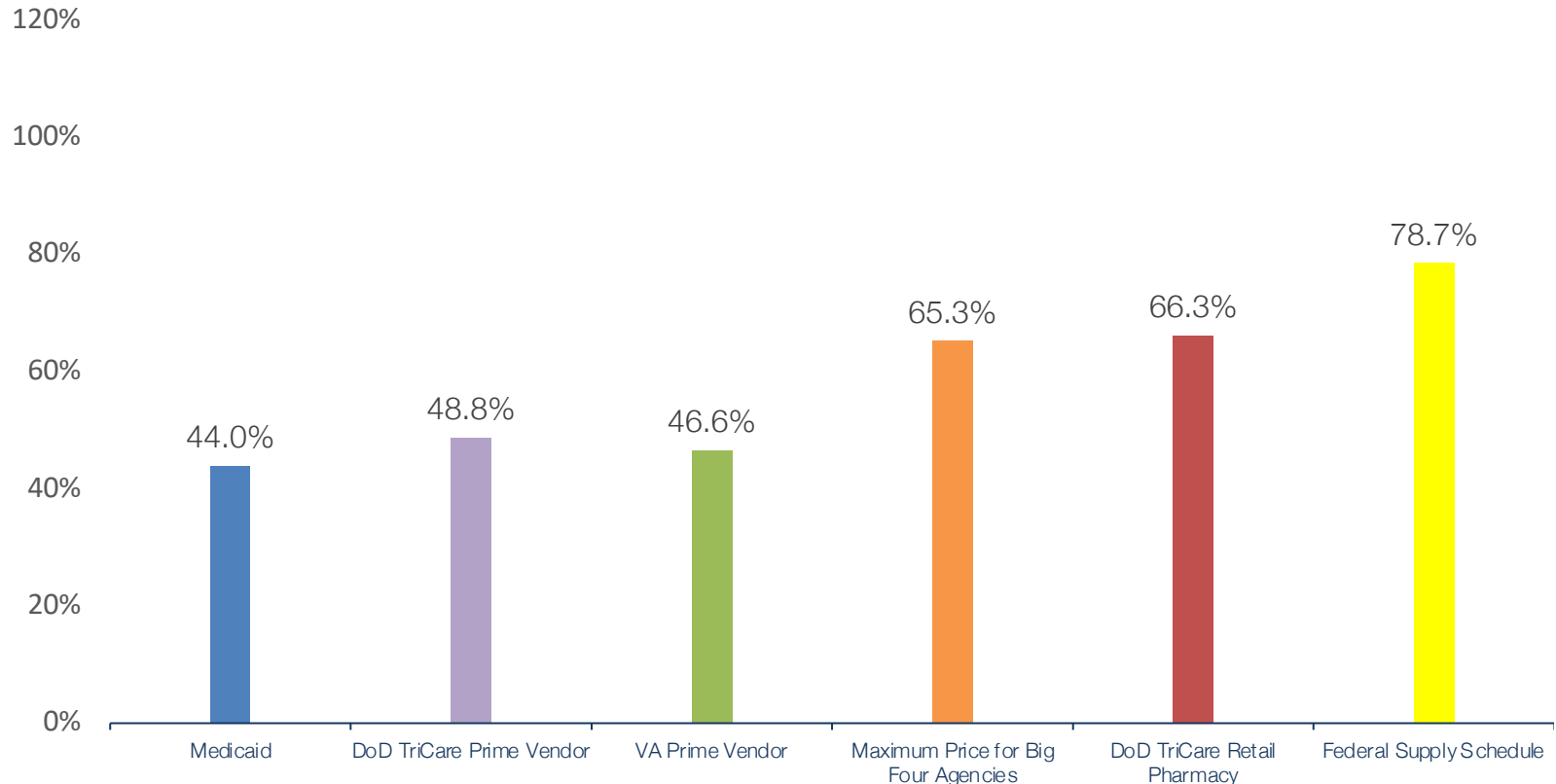
# Medicaid and Medicare Rebates as Reduction in Total Gross Drug Spending (2019)



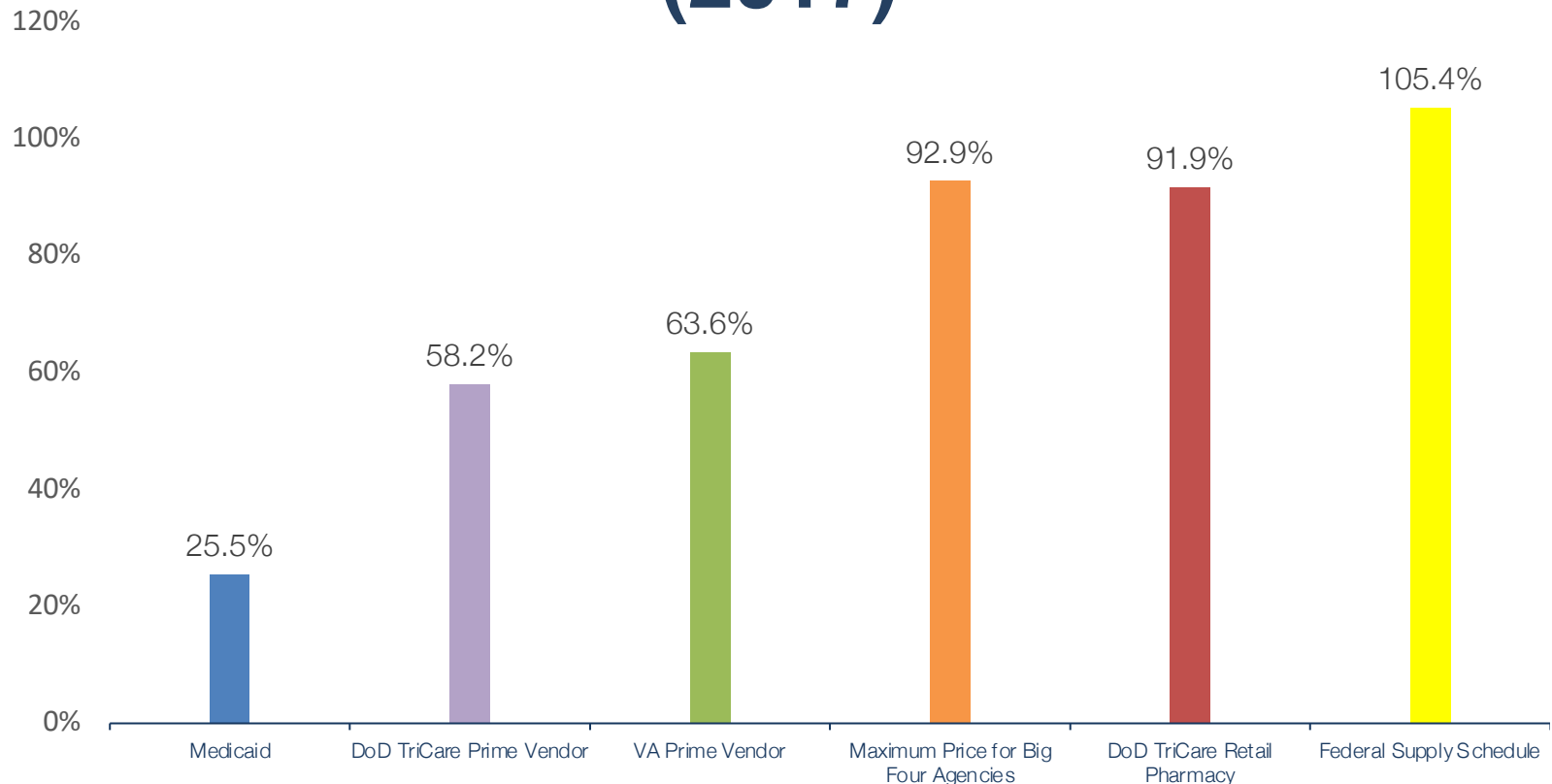
# Net Prices as Percentage of Net Medicare Part D Prices: Top-Selling Brand-Name Drugs (2017)



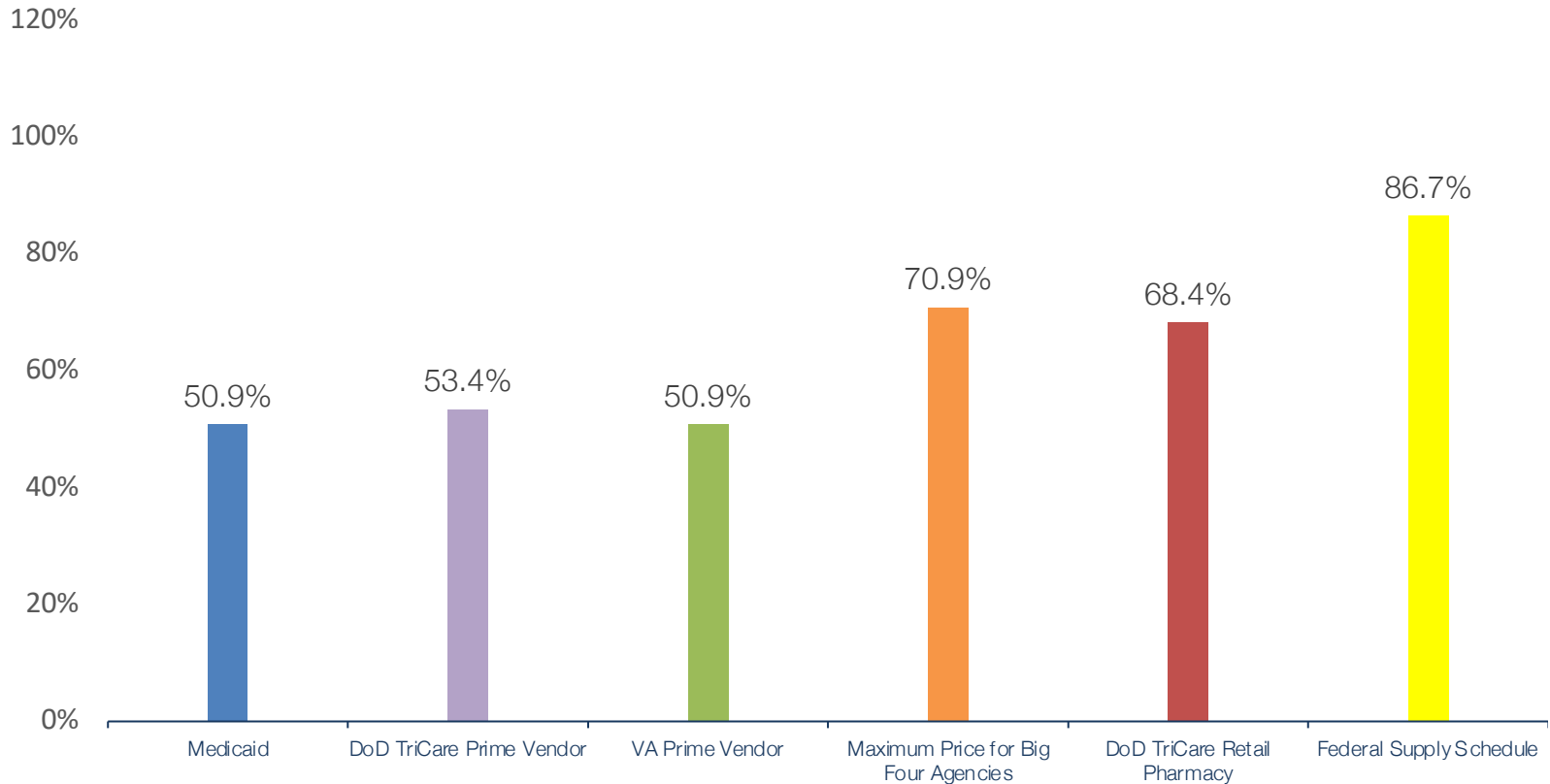
# Net Prices as Percentage of Net Medicare Part D Prices: Specialty Drugs (2017)



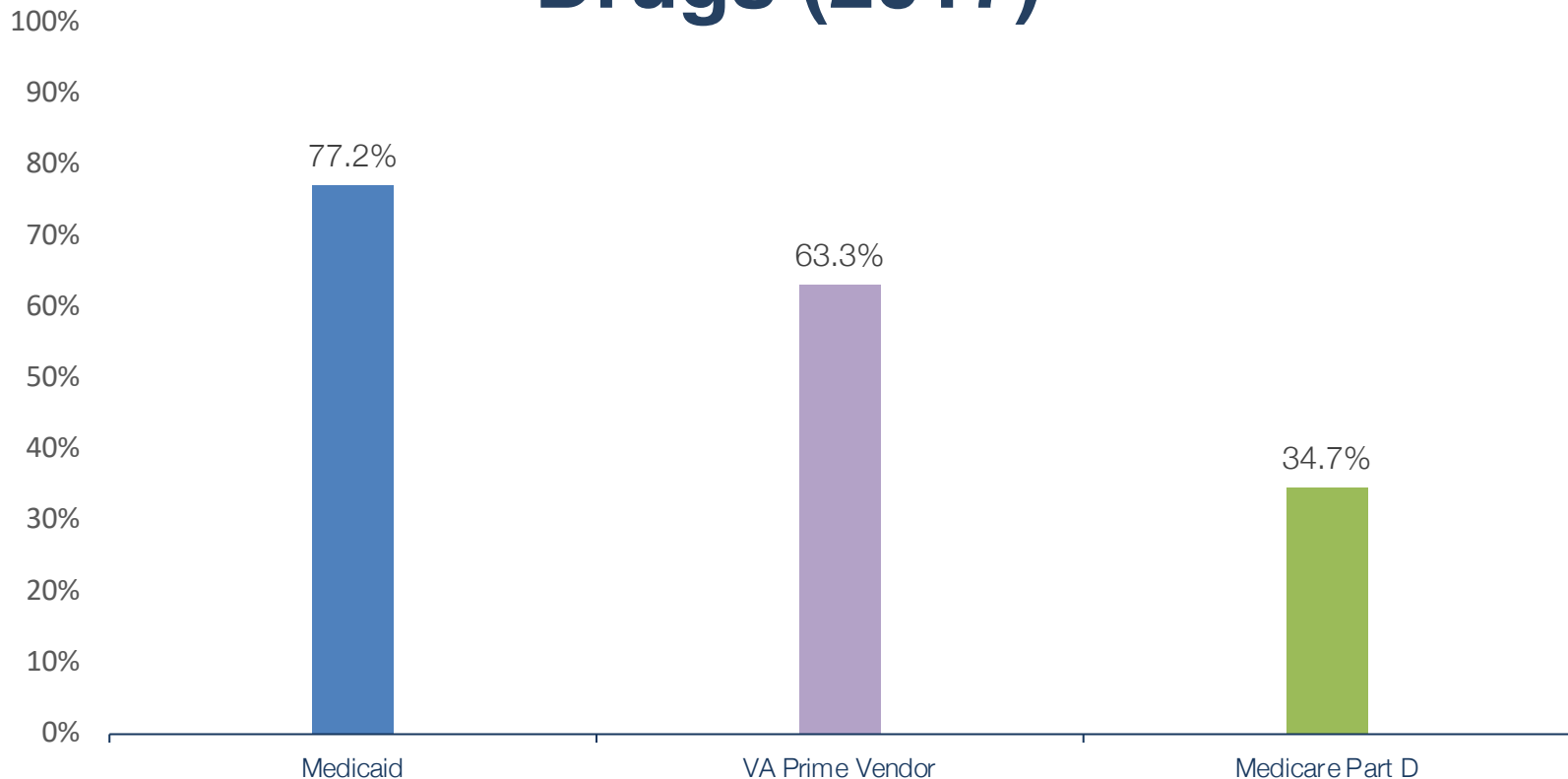
# Net Prices as Percentage of Net Medicare Part D Prices: Non-Specialty Drugs (2017)



# Net Prices as Percentage of Net Medicare Part D Prices: High Cost Drugs (2017)



# Rebates/Discounts as Percentage of Retail Prices: Top-Selling Brand-Name Drugs (2017)

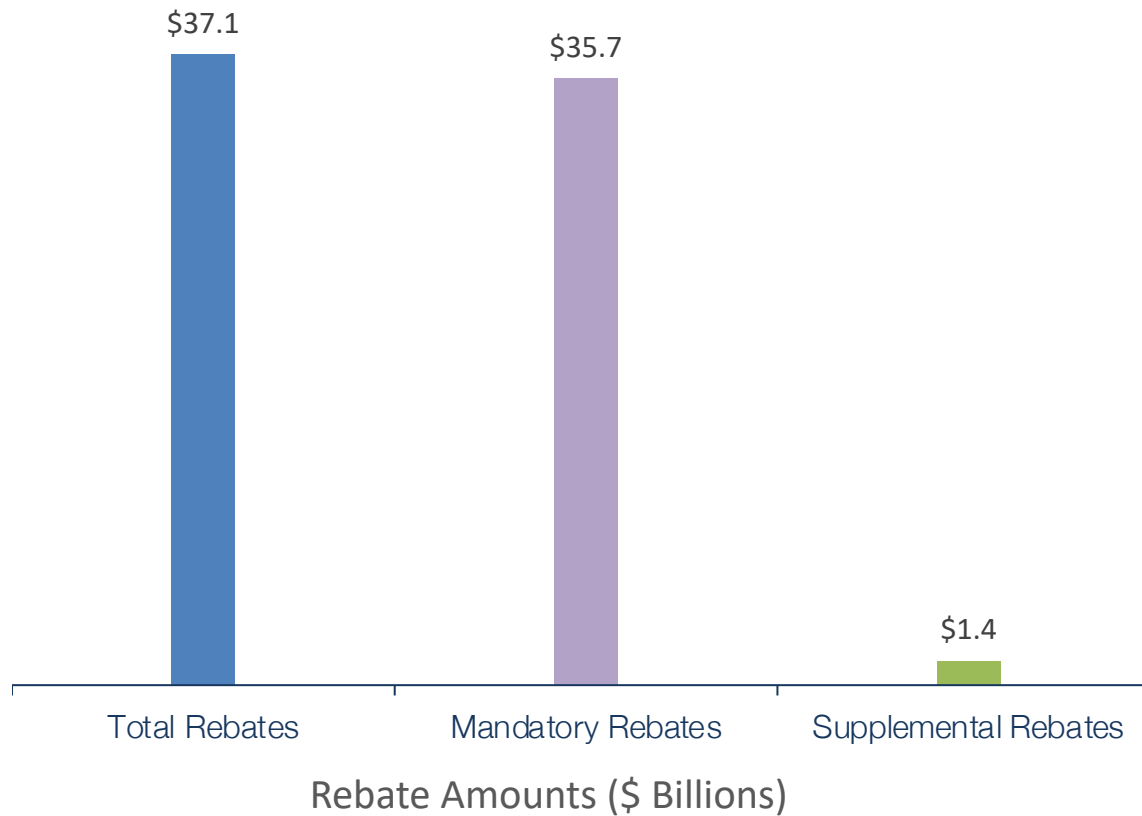




# Supplemental Rebates

- States can also negotiate additional rebates with federal approval
- All but 4 states use supplemental rebates
- Federal government shares in savings as under rebate program
- Typically tied to placement on preferred drug lists/prior authorization
- May apply to fee-for-service, managed care or both
- States may participate in multi-state purchasing pools to negotiate supplemental rebates
- Managed care plans may negotiate own supplemental rebates

# Comparison of State Supplemental Rebate Amounts to Mandatory Rebates (2019)





# **CHIP DRUG BENEFIT: How Does CHIP Cover Prescription Drugs?**

# CHIP Drug Benefit

- CHIP-funded Medicaid expansions provide Medicaid drug benefit, are subject to rebate program
- Separate state CHIP programs
  - Drug benefit not mandatory but all states provide
  - Can have more restrictive formularies than Medicaid but EPSDT protections for children may apply (if EPSDT services are provided)
  - May charge cost-sharing up to 5% of family income
  - Not subject to rebate program



# **CURRENT MEDICAID AND CHIP PRESCRIPTION DRUG BENEFIT AND REBATE ISSUES**

# Prescription Drug and Rebate Issues to Watch

- Closed formularies
- Changes to best price
- Treatment of “accelerated approval” drugs
- Higher rebates and other approaches to account for new high-cost drugs
- Impact of other federal drug pricing proposals on Medicaid
- Better enforcement/audits of rebate program
- Spread pricing

# Future Learning Lab Sessions

- July and August 2021: break for the Summer
- Back in September 2021, with upcoming topics to be announced

# For More Information

Center for Children and Families website

- [ccf.georgetown.edu](http://ccf.georgetown.edu)

Kaiser Family Foundation

- <https://www.kff.org/>

Medicaid and CHIP Payment and Access Commission

- <https://www.macpac.gov/>

Congressional Budget Office

- <https://www.cbo.gov/>

The Commonwealth Fund

- <https://www.commonwealthfund.org/>