

Financial Advantages of Rx Carve-In Model in Medicaid MCO Programs

5 Slide Series

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The Menges Group

Summary of Findings

- This edition summarizes our recent report, “Comparison of Medicaid Pharmacy Costs and Usage in Carve-In Versus Carve-Out States,” sponsored by America’s Health Insurance Plans. <https://www.ahip.org/Epub/MCOPharmacyCosts/>
- The report assessed the entirety of Medicaid prescription drug volume in each state, adjusted for all rebates (statutory and supplemental). We also factored in ACA Health Insurer Fees and administrative allocations.
- Often-raised arguments that the additional rebates in a carve-out environment will yield more favorable net costs than the carve-in model do not appear to be valid. Outside the MCO setting, rebates per prescription are higher but do not come close to offsetting the initial savings MCOs achieve by successfully managing the mix of drugs and the pre-rebate cost.
- The report’s findings are compelling in favor of the pharmacy carve-in model yielding the lowest net costs. The Rx carve-in approach also best serves the programmatic objectives of implementing a well-integrated, coordinated care model.

Comparison of Costs for All Medicaid Prescriptions in Carve-In States Versus FFS States

Medicaid Pharmacy Approach (number of states in parentheses)	Generic % of All Prescriptions Filled	Percentage of Prescriptions Paid by MCOs, FFY2014	Cost Per Prescription, FFY2014			
			Initial Amount Paid to Pharmacy (pre-rebate)	Rebates	Estimated MCO Premium for Administration and ACA Insurer Fee	Net Cost (Initial Cost Less Rebate Plus MCO Premium Add-Ons)
100% FFS States (22)	77.8%	0%	\$84.50	\$41.01	\$0.00	\$43.49
Rx Carve-In States (29)	81.5%	69%	\$69.29	\$33.55	\$3.37	\$39.10
National Total	80.7%	55%	\$72.40	\$35.09	\$2.81	\$40.12

Once all the factors are assessed – initial amounts paid to the pharmacies, rebates, MCOs’ administrative costs and the Health Insurer Fee — net costs per prescription can be assessed as shown in the right-hand column. The carve-in states’ net unit cost differential relative to the FFS states is \$4.38 or 10.1%. When these statewide differences are prorated to take into consideration the proportion of overall medications the Medicaid MCOs paid for (69%), the carve-in model shows a net savings of \$6.33 per prescription during 2014 – 14.6% below the carve-out states’ post-rebate average cost. Includes the net additional administrative cost investments that MCOs will make in the carve-in setting and a risk margin.

Comparison of Statewide Cost Progression in Recent Carve-In States Versus Remaining Carve-Out States

State Grouping and Year	Cost Per Prescription			
	Initial (pre-rebate)	Rebates	Estimated MCO Premium for Administration and ACA Insurer Fee	Net Post-Rebate Cost (Initial Less Rebate Plus MCO Increased Premium Allocation)
FFY2011 Baseline Data				
Recent Carve-In States (IL, NY, OH, TX, UT, WV)	\$73.50	\$35.02	\$0.00	\$38.47
Current Carve-Out States (DE, IN, IA, MO, NE, TN, WI)	\$66.91	\$32.33	\$0.00	\$34.58
FFY2014 Data				
Recent Carve-In States (IL, NY, OH, TX, UT, WV)	\$69.21	\$33.82	\$3.43	\$38.83
Current Carve-Out States (DE, IN, IA, MO, NE, TN, WI)	\$81.23	\$39.62	\$0.00	\$41.60
Percent Change, 2011-2014				
Recent Carve-In States (IL, NY, OH, TX, UT, WV)	-6%	-3%		1%
Current Carve-Out States (DE, IN, IA, MO, NE, TN, WI)	21%	23%		20%

- If FFY2011 costs per prescription had risen by 20% in the states that switched to the carve-in as of FFY2014 (as occurred in the remaining carve-out states), net post-rebate unit costs would have been **\$7.47 higher than actually occurred**.
- In the carve-in states 71% of FFY2014 prescriptions were paid by MCOs, so the impacts of the switch to a carve-in **prorate to a net savings per prescription of \$10.56** (dividing \$7.47 by 0.71).

Methodology and Contact Information

DATA SOURCES: The Menges Group’s tabulations in this report drew upon State Data Utilization data and rebate figures made available by CMS. The data files contain Medicaid prescription volume and related pre-rebate Medicaid payments by NDC code, state, and calendar quarter, and include prescriptions paid by Medicaid agencies (and their fiscal agents) as well by Medicaid MCOs (and their contracted PBMs). Prescriptions for which Medicaid is not the primary payer (e.g., Medicaid/Medicare dual eligibles, where Medicare Part D is the primary payer) are not captured in these data files. In some states with missing quarters of data (or figures that we did not view to possibly be accurate, such as a \$1 billion cost for a generic drug in Virginia), we estimated what we believed to be reasonable values. These state and quarter-specific adjustments were minor on a national level.

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