

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

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**The Menges Group**

Strategic Health Policy & Care Coordination Consulting

# Introduction

- The Anthem Public Policy Institute engaged our team to assess the effectiveness of each state's Medicaid prescription drug benefit management.
  - We grouped states into five categories depending on the degree to which MCOs paid for Medicaid prescriptions and amount of flexibility MCOs have to manage their enrollees' prescription drug benefit.
- We used a 100% sample of Medicaid's pharmacy data. The Centers for Medicare and Medicaid Services (CMS) makes National Drug Code (NDC) level data available for each state and calendar quarter, showing prescription volume and amounts paid to pharmacies. The amounts paid in this data set, while comprehensive, are pre-rebate. Large rebates -- averaging more than 50% of pre-rebate payments -- occur in the Medicaid arena.
- Aggregate rebates are available on a statewide level by federal fiscal year in a separate CMS data file, the Financial Management Reports (FMRs).

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# States Were Categorized Into Five Groups To Compare Medicaid Rx Management Performance

State Group Name	Medicaid Pharmacy Benefits Characteristics of This Group	States in This Group
<b>Group A, MCO Latitude (12 states)</b>	MCOs have wide latitude to manage the pharmacy benefit.	Hawaii, Illinois, Indiana, Kentucky, New Hampshire, New Jersey, New Mexico, New York, Ohio, Oregon, Pennsylvania, Rhode Island
<b>Group B Uniform PDL (8 states)</b>	Medicaid MCOs must all use the same preferred drug list (PDL) as established by the State Medicaid agency.	Arkansas, Delaware, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Texas
<b>Group C Uniform PDL, Some Classes (6 states)</b>	These states are like those in Group B, except that the Uniform PDL approach is required only for a few selected drug classes.	Arizona, Florida, Nebraska, South Carolina, Virginia, Washington
<b>Group D All (or most) Prescriptions Paid via FFS (17 states)</b>	Medicaid prescriptions are paid entirely (or overwhelmingly) in the FFS setting due to absence of an MCO contracting program, or due to the prescription drug benefit being largely or entirely “carved out” of the MCOs’ capitated benefits package.	Alabama, Alaska, Colorado, Connecticut, Idaho, Maine, Missouri, Montana, North Carolina, North Dakota, Oklahoma, South Dakota, Tennessee, Vermont, West Virginia, Wisconsin, Wyoming
<b>Group E Blended Model (7 states + DC)</b>	A blend of the above approaches is used, such that the state does not fit neatly into any one of the above categories. Appendix C describes the dynamics of each state in this category.	California, District of Columbia, Georgia, Maryland, Massachusetts, Michigan, Nevada, Utah

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# The Five State Groups Offer A Massive Statistical Data Set to Support Comparisons

- Each of the five state groupings had more than 250 million Medicaid prescriptions across the FFY2018 - FFY2020 timeframe assessed.

State Group	Total Medicaid Prescriptions				Share of Nationwide Medicaid Prescriptions			
	FFY2018	FFY2019	FFY2020	3 Year Total	FFY2018	FFY2019	FFY2020	3 Year Total
Group A: MCO Latitude	268,827,348	264,999,738	255,808,512	789,635,598	36.0%	36.4%	35.8%	36.1%
Group B: Uniform PDL	92,536,284	89,795,087	84,993,866	267,325,236	12.4%	12.3%	11.9%	12.2%
Group C: Uniform PDL Some Classes	83,349,980	82,043,682	88,322,495	253,716,157	11.2%	11.3%	12.4%	11.6%
Group D: All (or vast majority of) Prescriptions Paid via FFS	107,795,051	106,024,489	104,595,642	318,415,182	14.4%	14.6%	14.6%	14.5%
Group E: Blended Model	194,453,976	185,699,845	180,699,951	560,853,772	26.0%	25.5%	25.3%	25.6%
<b>Total</b>	<b>746,962,639</b>	<b>728,562,840</b>	<b>714,420,467</b>	<b>2,189,945,946</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>



# MCOs Pay for More than 70% of Medicaid Prescriptions in the US

- Group D, which includes 17 states that overwhelmingly use the fee-for-service (FFS) setting to manage and pay for Medicaid prescriptions, provides a strong point of comparison with states extensively relying on MCOs to pay for Medicaid prescriptions.

State Group	MCO % of Prescriptions			
	FFY2018	FFY2019	FFY2020	3 Year Average
Group A: MCO Latitude	89.7%	89.8%	90.8%	90.1%
Group B: Uniform PDL	88.4%	89.0%	89.5%	88.9%
Group C: Uniform PDL Some Classes	92.7%	94.0%	95.6%	94.1%
Group D: All (or Most) Prescriptions Paid via FFS	1.6%	1.4%	2.2%	1.7%
Group E: Blended Model	68.7%	68.1%	68.4%	68.4%
<b>Total</b>	<b>71.7%</b>	<b>71.8%</b>	<b>72.6%</b>	<b>72.0%</b>

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# The MCO Latitude Model Yields the Most Cost-Effective Outcomes

- The most important comparisons are between Group A (where MCOs pay for 90% of Medicaid prescriptions and have wide latitude) and Group D (where prescriptions are paid for in the FFS setting).
  - The Group A states' collective pre-rebate costs per prescription were nearly \$30 and 36% below Group D's. Medicaid MCOs manage the front-end mix of medications effectively, including much greater steering of volume towards generics than occurs in the FFS setting.
  - The FFS setting, in relying more on brand medications, receives far larger rebates per prescription than in the Group A states. Rebates across the Group D states per prescription were \$22 and nearly 50% above those in Group A.
  - The rebate differential did not close the full pre-rebate gap, however. **The MCO Latitude states outperformed the FFS-dominant states by over \$8 per prescription, a differential of 19.9%. This differential increased to 22.8% when we adjusted all states to normalize for the impacts of their Medicaid expansion decisions.**

# Key Medicaid Prescription Drug Cost Performance Metrics by State Group Across FFY2018-FFY2020

Statistical Measure	MCO Latitude Approach (Group A States)	Uniform PDL Approach (Group B States)	Uniform PDL Approach, Some Drug Classes (Group C States)	FFS Management Group D States	FFS Setting's % Above MCO Latitude Setting (Group D vs. Group A)
Initial Costs Per Prescription (pre-rebate)	\$82.49	\$90.52	\$93.45	\$112.06	35.9%
Rebates Per Prescription	\$44.62	\$51.87	\$54.83	\$66.67	49.4%
Net Costs Per Prescription	\$37.87	\$38.66	\$38.61	\$45.40	19.9%
Net Costs Per Prescription, Adjusted for Medicaid Expansion	\$35.97	\$37.69	\$37.51	\$44.18	22.8%
Generics as % of All Medicaid Prescriptions	89.3%	87.4%	86.7%	83.3%	-6.7%

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# Policy Implications of Our Findings

- Our research shows MCOs do better at managing the prescription drug benefit than states that “carve out” this benefit and manage it in the FFS setting.
  - Approximately a 20% net cost differential exists between the MCO-managed and FFS-managed settings.
- A secondary policy implication is that it also behooves states to allow Medicaid MCOs to use their drug mix management tools, rather than for the state to impose a uniform PDL that all the MCOs must adhere to.



# 5 Slide Series Overview

Our 5 Slide Series is typically a monthly publication whereby we briefly discuss/address a selected topic outside the confines of our client engagements. The Menges Group has developed a variety of datasets that we use to support our 5 Slide Series and client projects.

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Address: 4001 9th Street N., Suite 227, Arlington, VA 22203

Website: [www.themengesgroup.com](http://www.themengesgroup.com)

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