

Assessment of Louisiana Medicaid's Prescription Drug Carve-Out Option, May 2018 – Summary of Findings

Louisiana currently includes (carves-in) its drug benefit into its Medicaid MCO contract. When states include prescription drugs within health plans' capitation payments, it is commonly referred to as "carving-in" prescription drug benefits. Legislation has been proposed to carve-out Louisiana's Medicaid prescription drug benefit and cover it under the fee-for-service (FFS) program. The Menges Group was enlisted to evaluate the impacts of this policy change, drawing upon recent and extensive Medicaid prescription drug data available for Louisiana and other states who have adopted the carve-out model. The key findings from our report are listed below.

- 1. Louisiana is a very high-performing state with regard to the management of its Healthy Louisiana Medicaid prescription drug benefit.** During FFY2017, the most recent year in which full Medicaid prescription drug data are available, Louisiana had the nation's most favorable Medicaid generic dispensing rate (GDR) at 90.9% and the nation's 8th best (lowest) net costs per prescription. Both of these statistics indicate that the current Medicaid drug benefit policy has resulted in excellent management of the drug mix and lower drug spending.
- 2. Carving out the pharmacy benefit would be costly to Louisiana's Medicaid program and its taxpayers—the state would experience a cost increase of \$69.3 million in FFY2019 and \$395 million across the five-year timeframe (FFY2019 – FFY2023).** Based on our analysis, transitioning the Medicaid prescription drug benefit back to the FFS setting would represent a significant and costly step backwards for the Healthy Louisiana program. The increased costs to the state are a combination of increased Medicaid costs due to forfeiture of the successful benefits management performance described above (~\$162M over five years), and a loss of net tax revenue from Louisiana's 5.5% MCO premium tax (~\$233M over five years).
- 3. National analyses of Medicaid prescriptions demonstrate that MCOs have achieved significant savings for Medicaid drug programs under the carve-in model.** Medicaid's net cost per prescription has consistently been far lower for MCO-paid prescriptions than for those paid under the FFS program, driven primarily by the MCOs' drug mix management efforts. Nationally, MCOs' net cost per Medicaid prescription was 32.5% below FFS during FFY2017.
- 4. The programmatic advantages of the carve-in model are compelling.** Because prescription drugs play a central role in health care treatment, moving this benefit out of the MCO contract runs directly counter to the goals of achieving integrated, whole-person focused coverage and care coordination for the Medicaid population. Another misconception regarding a presumed advantage of the carve-out model is that the state gains purchasing power by bundling all Medicaid prescriptions together. The PBMs and MCOs currently supporting the Healthy Louisiana program are national organizations with far more covered lives and purchasing power than Louisiana's Medicaid population represents (even if Medicaid lives were to be combined with state employees or other Louisiana populations). Hence, Louisiana will not achieve the more favorable purchasing power, and is likely to lose the savings and excellent drug benefit performance driven by its MCOs and PBMs, as highlighted above.