What Drives Use and Spending on Medicaid Drug Benefits?

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Medicaid is...

• Largest source of health and long-term care financing in the United States
  – Roughly 72 million covered lives in Medicaid and CHIP (June 2015)
  – 19% of state general funds (2013)
  – 51% of all federal funds to states (2014)
...a major contributor to the health care economy

- 16% of all personal health care expenditures
  - 18% of spending on hospital care
  - 8% of spending for physician and clinical services
  - 7% of spending for prescribed drugs
  - 31% of spending on nursing homes and continuing care retirement communities
  - 37% of spending on home health care.
How State Medicaid Programs Pay for Prescription Drugs
Current federal standard

• Payment to pharmacy is lessor of:

  1. “estimated acquisition cost” (EAC) + a “reasonable” dispensing fee
    OR
  2. pharmacy’s “usual and customary charge” to the public (U&C)
What is EAC?

- Left up to states to define, although CMS must approve
- Traditionally based on published prices from commercial pricing compendia
  - Average wholesale price (AWP)
  - Wholesale acquisition cost (WAC)
- A few states now use estimates of “actual” acquisition cost
I thought AWP was dead?!?

- Concerns about accuracy date back to 1990s
- Publishers of major compendia sued by payers (including states) alleging inflated AWPs
  - Settlements announced in 2009
  - One stopped publishing AWP in 2011; others continue to provide it
- Led to a broad push to identify new metrics
CMS proposed rule
(issued February 2012; not yet finalized)

• Payment to pharmacy is lessor of:

1. “actual acquisition cost” (AAC) + a “professional” dispensing fee
   OR

2. pharmacy’s “usual and customary charge” to the public (U&C)
National Average Drug Acquisition Costs (NADAC)

- Provided by CMS on a public website
- Based on invoices collected from retail pharmacies
  - May not reflect off-invoice discounts
  - Necessary collection & processing delays mean it does not reflect the most recent price changes (up or down)
Pricing Metric Per Unit Comparison for Top 25 Brands by Number of Prescriptions

$9.78

Weighted Avg Unit AWP $8.14
Weighted Avg Unit WAC $8.03
Weighted Avg Unit NADAC $8.33
Wgt Avg Ttl Amt Paid Per Unit

$7.96

Weighted Avg Unit AWP $6.62
Weighted Avg Unit WAC $6.50
Weighted Avg Unit NADAC $6.88
Wgt Avg Ttl Amt Paid Per Unit

Top 25 Single Source Brands

Top 25 Multiple Source Brands

How are dispensing fees determined?

- States set them based on...
  - Comparisons with other states
  - Comparisons with commercial payers
  - Studies of pharmacies’ costs of operation*

* Cost-based dispensing fees generally only used where states base EAC on some measure intended to represent pharmacies actual acquisition costs for drug products
Medicaid Drug Rebate Program

• Manufacturers required to pay federal rebates since 1990
  – Dollars paid directly to states; not reflected in payments to retail pharmacies
  – Significantly reduces total drug costs for Medicaid programs

• Minimum federal rebates increased by the Affordable Care Act
Approaches used by states to manage use and spending

- Preferred drug lists
- Prior authorization
- Step therapy / fail first policies
- Quantity limits
- Patient cost sharing (generally limited)
- Drug utilization review
- Supplemental rebates negotiated with manufacturers
Trends in Drug Spending and Utilization
Utilization and Spending for Brand and Generic Drugs, 2010-2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Rx</th>
<th>Medicaid Amount Reimbursed</th>
<th>Brand</th>
<th>Generic</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>461.6 Million</td>
<td>$31.6 Billion</td>
<td>20%</td>
<td>74%</td>
</tr>
<tr>
<td>2011</td>
<td>531.9 Million</td>
<td>$37.0 Billion</td>
<td>21%</td>
<td>79%</td>
</tr>
<tr>
<td>2012</td>
<td>520.0 Million</td>
<td>$35.5 Billion</td>
<td>20%</td>
<td>76%</td>
</tr>
</tbody>
</table>

NOTE: Does not include drug rebates.
Generics as a Share of Total Medicaid Amount Reimbursed on Prescription Drugs, 2012

Generic Share Rate

- 10-19% (10 states)
- 20-24% (19 states, including DC)
- 25-29% (14 states)
- 30-42% (8 states)

Note: Does not include drug rebates.
Medicaid Drug Utilization by Class, 2012

Total 2012 Utilization = 520.0 Million Rx

NOTE: “Other Classes” includes drugs whose classes were unknown.
<table>
<thead>
<tr>
<th>Class</th>
<th>Percentage</th>
<th>Subcategory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respiratory Tract Agents</td>
<td>8%</td>
<td>(frequently used for asthma &amp; cough suppressants)</td>
</tr>
<tr>
<td>Gastrointestinal Drugs</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>Antineoplastic Agents</td>
<td>4%</td>
<td>(used for chemotherapy)</td>
</tr>
<tr>
<td>Cardiovascular Drugs</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous Therapeutic Agents</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Blood Formation, Coagulation &amp;</td>
<td>6%</td>
<td>Thrombosis (freq. used for preventing blood clots &amp; coronary artery disease)</td>
</tr>
<tr>
<td>Autonomic Drugs</td>
<td>6%</td>
<td>(frequently used for asthma &amp; muscle spasms)</td>
</tr>
<tr>
<td>Hormones &amp; Synthetic Substitutes</td>
<td>13%</td>
<td>(freq. used for diabetes &amp; birth control)</td>
</tr>
<tr>
<td>Anti-infective Agents</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>Central Nervous System Agents</td>
<td>34%</td>
<td></td>
</tr>
<tr>
<td>Other Classes</td>
<td>8%</td>
<td></td>
</tr>
</tbody>
</table>

**Total 2012 Spending = $35.5 billion**

*NOTE: “Other Classes” includes drugs whose classes were unknown. Does not include drug rebates.*

Medicaid Central Nervous System Agents Utilization by Subclass, 2012

- Analgesics and Antipyretics: 35%
- Psychotherapeutic Agents: 25%
- Anxiolytics, Sedatives, and Hypnotics: 14%
- Anticonvulsants: 14%
- Other Agents: 4%
- Anorexigenic Agents and Respiratory and CNS Stimulants: 8%

2012 Utilization = 184.5 Million Rx


Specialty Drug Use and Spending as a Share of Total Medicaid Drug Spending and Utilization, 2010-2012

NOTE: Does not include drug rebates.
Specialty Drug Share of Total Medicaid Amount Reimbursed on Prescription Drugs, 2012

Specialty Drug Spending Share Rate
- 16-20% (9 states)
- 21-25% (17 states)
- 26-30% (11 states)
- 31-40% (11 states, including DC)

Note: Does not include drug rebates.
Source: CMS Drug Utilization Data, 2012; 2008-2012 Specialty Drug Lists from assorted managed health care, health insurance, PBM, and drug retailing companies. Due to data quality issues, specialty drug shares for New Mexico, Rhode Island, and Texas are not shown.
“Opening” Thoughts

• Pharmacy reimbursement and manufacturer rebates should be tied to the same metric.
• The long-delayed Medicaid pharmacy payment rule reflects the reality that there is no ideal measure of acquisition cost.
• The majority of costs – and most of the recent growth in costs – are for brand-name drugs without generic equivalents and for “specialty” medications.