Medicaid Managed Care Reform

States must reform their Medicaid managed care prescription drug benefits to protect Medicaid beneficiaries, taxpayers, and local community pharmacy businesses. Too much control over the Medicaid drug benefit has been ceded to managed care organizations (MCOs) and their pharmacy benefit managers (PBMs), who have been found to "employ controversial utilization and management tools to generate revenue for themselves in a way that is detrimental to health plan sponsors, patients, and pharmacies."

MCOs and PBMs work for their own best interests, instead of the beneficiaries' or taxpayers' best interests. They engage in spread pricing, which "is inflating prescription drug costs that are borne by beneficiaries and by taxpayers." In Ohio and Kentucky, spread pricing allowed PBMs to pocket $224.8 million and $123.5 million respectively in one year. They create drug formularies and negotiate rebates that lead to the greatest value for themselves, instead of the state, leading New York to unnecessarily pay $605 million to its MCOs and PBMs over a four-year period. State investigations into MCO and PBM practices have led one MCO to set aside $1.1 billion to settle lawsuits alleging mismanagement of public funds paid to administer the Medicaid managed care prescription drug benefit.

The Solution: Increase PBM Transparency/Accountability and Ensure State Oversight of Medicaid Prescription Drug Benefits

1. **Carve pharmacy benefits out of the Medicaid managed care program and administer the benefits through the fee-for service program**

California, Missouri, New York, North Dakota, Tennessee, West Virginia, and Wisconsin have carved their pharmacy benefits out of the Medicaid managed care program. This move helped West Virginia save over $54.4 million and North Dakota save $17 million in one year by carving out of the managed care program. California estimates that the carveout will save at least $150 million a year. New York budgeted nearly $1 billion of savings in the first two years of its NYRx transition.

2. **Require MCOs and PBMs to reimburse at the transparent fee-for-service rates**

Fee-for-service Medicaid programs reimbursement rates are transparent and evidence-based. Recognizing the value to taxpayers of requiring transparent reimbursements in their Medicaid managed care programs, **Georgia, Iowa, Kansas, Kentucky, Louisiana, Massachusetts** (independents only), **Michigan, Mississippi, Nebraska** (independents only), **New Mexico** (independents only) **North Carolina, South Carolina, and Ohio** (dispensing fees vary based on volume) require MCOs and PBMs to reimburse pharmacies at the same rates established under the fee-for-service program. The Centers for Medicare and Medicaid Services is concerned that PBMs' use of "spread pricing is inflating prescription drug costs that are borne by beneficiaries and by taxpayers," and CBO estimates that moving to transparent pharmacy reimbursement and eliminating spread pricing will save $2 billion over 10 years.

3. **Increase regulatory oversight over PBMs in the Medicaid managed care program**

Some states have passed legislation giving Medicaid officials greater oversight over the PBM Medicaid managed care contracts.

- Single PBM: **Kentucky, Louisiana, Minnesota, Mississippi, Nevada, Ohio, and Virginia** now (or will) contract with a single PBM to administer their Medicaid managed care prescription drug benefits, allowing greater authority to oversee the administration of benefits. Kentucky saved $282.7 million in 2021-2022. Ohio saved $140 million over two years (2022-2024).

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- Single PDL: Michigan, Ohio, and South Carolina have adopted single preferred drug lists (PDL) to ensure that MCOs and their PBMs establish formularies that create the most value for taxpayers.
- Pass-through pricing models: Alaska, Arkansas, Colorado, Delaware, Florida, Iowa, Idaho, Louisiana, Michigan, Oklahoma, Pennsylvania, Vermont, Virginia, and Washington incentivize pass-through pricing models by curtailing or prohibiting spread pricing. Approximately half of states prohibit spread pricing in their Medicaid managed care programs.

States have found that an excessive amount of taxpayer dollars remain with pharmacy benefit managers (PBMs).

- Pennsylvania: Between 2013 and 2017, the amount that taxpayers paid to PBMs for Medicaid enrollees more than doubled from $1.41 billion to $2.86 billion.
- Ohio: the state Auditor found that, of the $2.5 billion that's spent annually through PBMs on Medicaid prescription drugs, PBMs pocketed $224.8 million through the spread alone during a one-year period.
- Kentucky: In response to a state report that found state PBMs keep $123.5 million in spread annually, the Attorney General has launched an investigation into allegations that the PBMs have overcharged the state and discriminated against independent pharmacies.
- Louisiana: PBMs retained $42 million that was incorrectly listed as "medical costs."
- New York: An audit found the state unnecessarily paid $605 million to Medicaid managed care organizations and their PBMs over a four-year period, because "MCOs typically work with their PBMs to conduct their own clinical reviews to identify drugs that provide the greatest value to THEM and therefore should be placed on the drug formulary."
- Michigan: Drug price manipulation allowed PBMs to overcharge Michigan Medicaid by at least $64 million.
- Virginia: A state-commissioned report on Medicaid found PBMs pocket $29 million in spread pricing alone.
- Maryland: A state Medicaid report found PBMs pocket $72 million annually in spread pricing alone.
- Florida: A report found PBMs steer patients to PBM-affiliated pharmacies, and "when it comes to dispensing brand name drugs, MCO/PBM-affiliated pharmacies are making 18x to 109x more profit over the cost of the drugs than the typical community pharmacy."
- Arkansas: A state-commissioned report found that PBMs in the Medicaid program reimbursed national chain pharmacies more (defined as greater than 5% difference) than regional chain and independent pharmacies for the same drug.[1]
- Illinois: an audit found $200 million of spread pricing in 2021-2022, revealing no monitoring of contracts, including reimbursement rates or rebates, and non-compliance with many statutory requirements.
- Oregon: a 2023 audit found insufficient transparency and compliance with highly inconsistent reimbursement, including twice as much reimbursement to PBM-owned pharmacies than to independent pharmacies for selected drugs.

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