



Medicaid & Rx Medicines

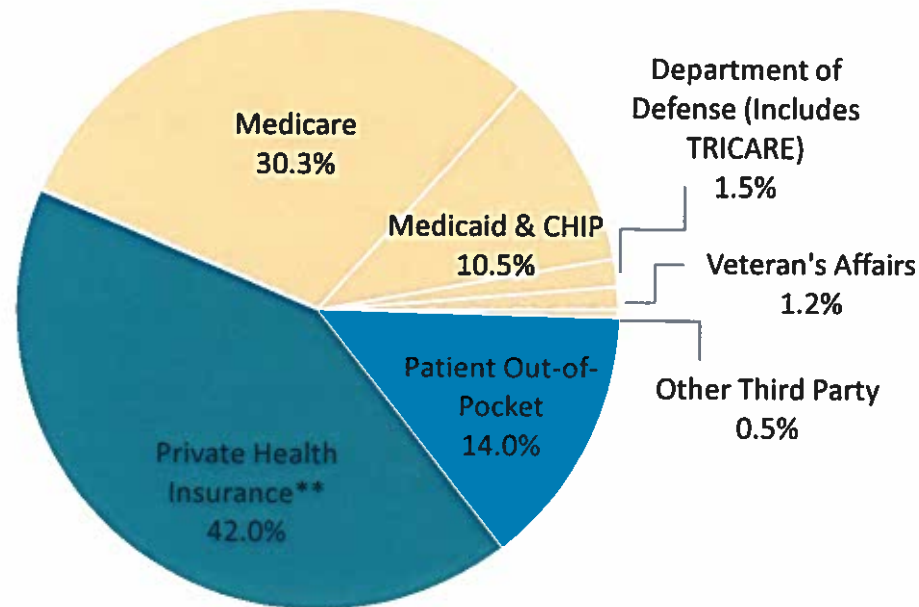
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Sources of Prescription Drug Spending in the United States

Together, Medicare and Medicaid account for approximately 41 percent of outpatient drug spending.

*US Prescription Drug Spending, 2017**



TOTAL \$333.4 BILLION

*Values may not sum to totals due to rounding.

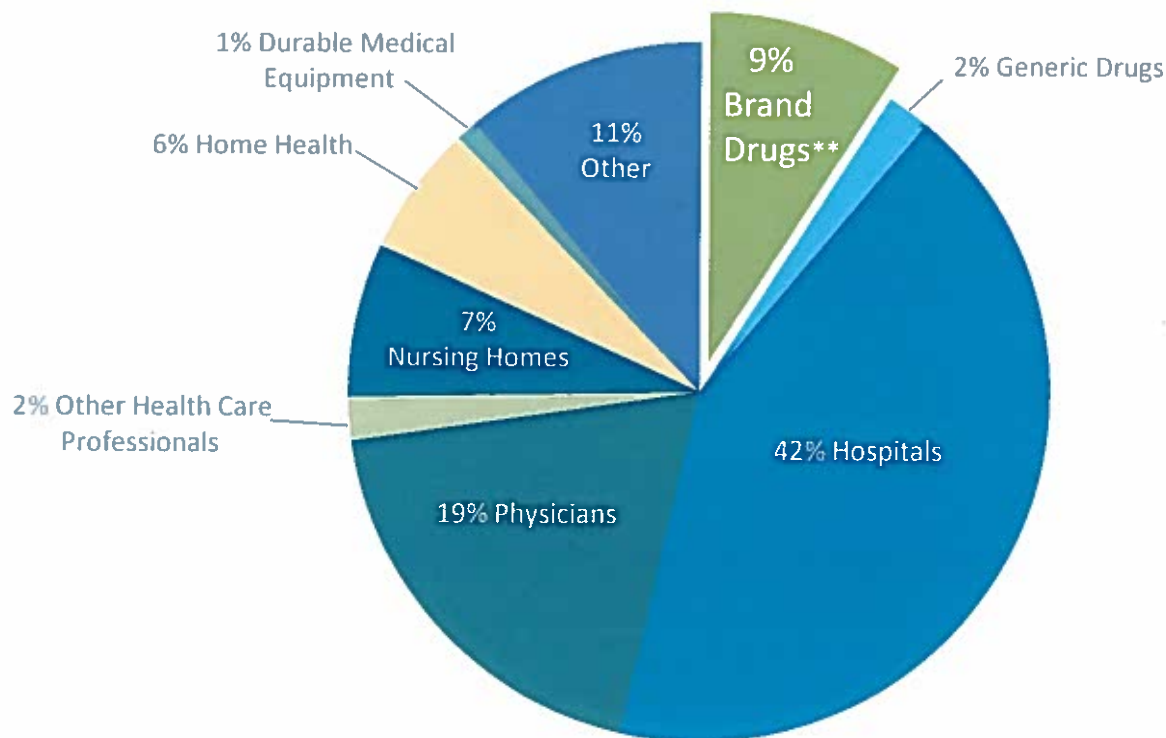
**Includes employer-sponsored health insurance, including federal, state, and local government employee health benefits, administered through private health plans.

1. Centers for Medicare & Medicaid Services. National health expenditures table 19: National Health Expenditures by Type of Expenditure and Program, calendar year 2017. <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsHistorical.html>. Updated December 2018. Accessed March 2019.

Federal Spending on Health Care

Over the next decade, total sales of brand medicines are projected to be 9% of federal spending in Medicare, Medicaid, VA, and TRICARE.

Estimated Distribution of Federal Spending on Health Care, 2015-2024¹*



TOTAL \$13.7 TRILLION

*Values may not sum to totals due to rounding.

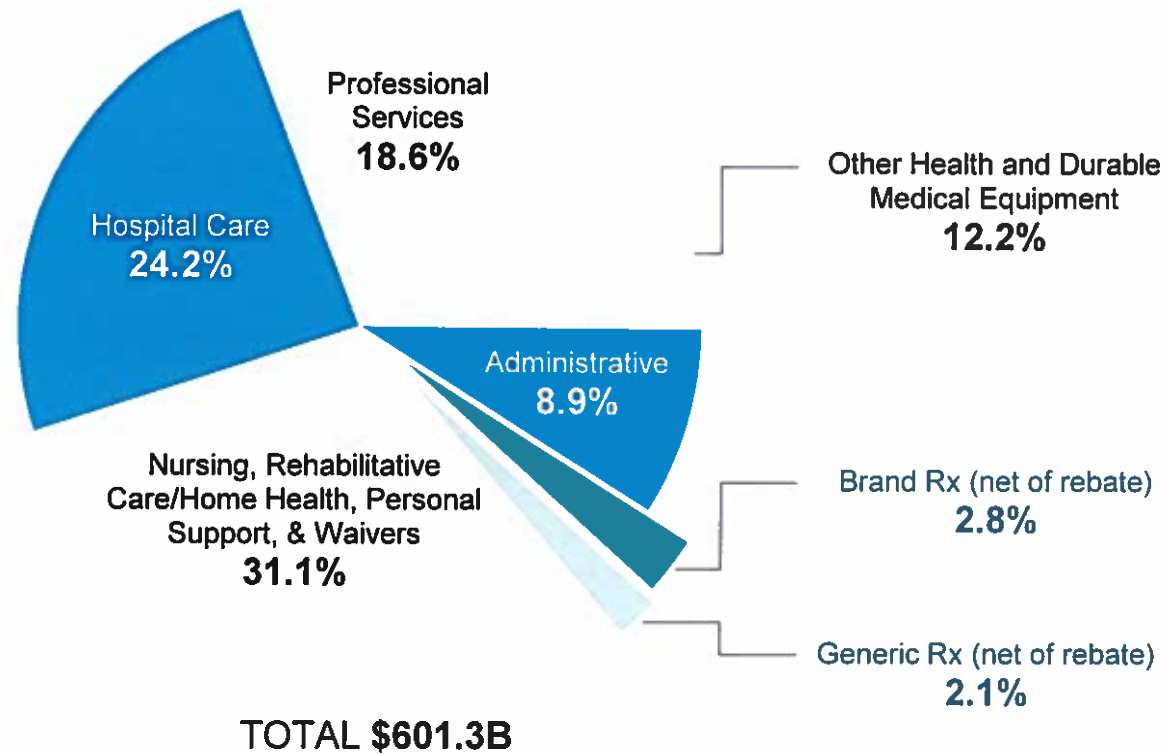
**Excludes administration and distribution costs

1. These figures do not include prescription drugs used during inpatient hospital stays or drugs provided through Medicaid managed care plans. The Medicaid figure does not include the state share of Medicaid drug spending but does contain a portion of physician-administered medical benefit drugs. The Medicare Part B estimate does not include payments for drugs that are part of bundled payment systems (eg, dialysis) or for medical benefit drugs provided to Medicare Advantage enrollees. The figure for Part D includes spending by Medicare Advantage plans that offer drug coverage and spending on the Retiree Drug Subsidy (RDS). Finally, the figures do not include the impact of any beneficiary premiums for Medicare Parts B and D, which would reduce the net impact to the federal government.

2. Avalere Health. Federal spending on brand pharmaceuticals. <http://avalere.com/expertise/life-sciences/insights/access-avaleres-latest-research-on-brand-name-prescription-drug-spending>. Published March 2015. Accessed May 2015.

Brand Prescription Drugs Account for Less than 3% of Total Medicaid Spending

Medicaid Spending, 2017



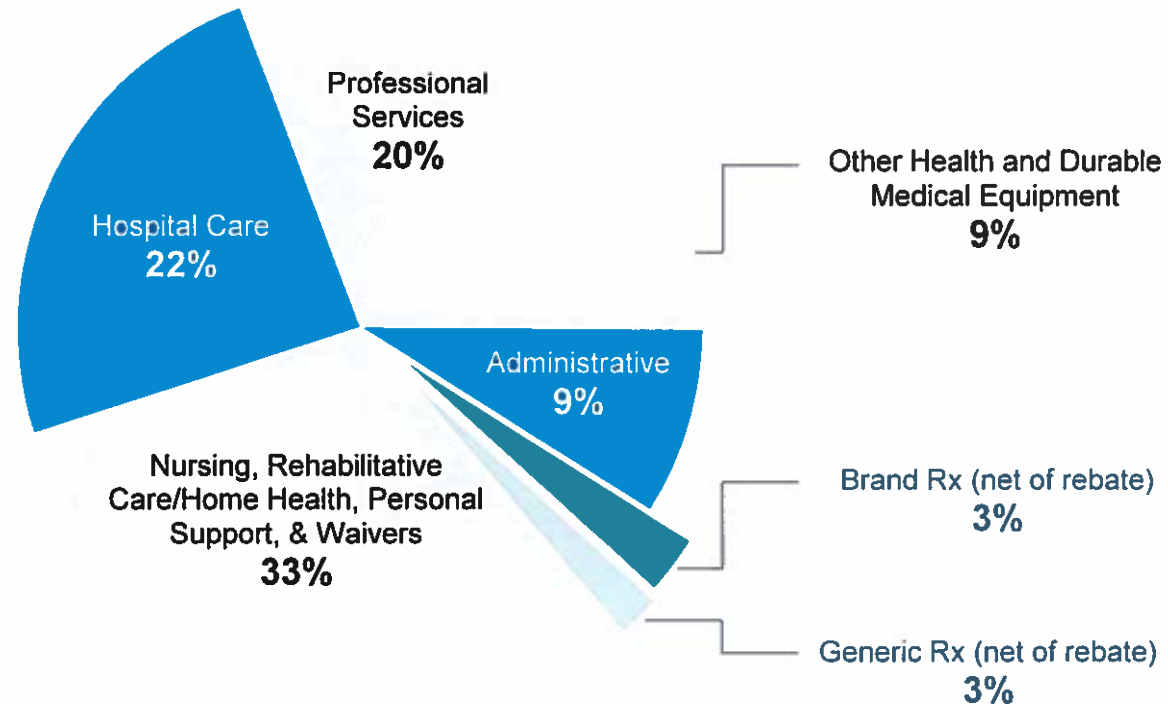
Note: Brand and generic expenditure totals are net of rebates. Professional services include physician and clinic, dental, and other professional services. Administration costs include federal and state administration and net cost of private insurance. Other health, residential, and personal care includes school health, work site, residential mental/substance abuse, some ambulance, and Medicaid home/community waivers.

Data used were predominantly derived from CMS 64 reports. Brand and generic prescription drug costs were tabulated by the Menges group. Pre-rebate expenditures were tabulated using FY2017 CMS State Drug Utilization data files and CMS brand/generic indicators for each NDC

Michigan Medicaid

Medicaid Spending, 2017

Manufacturers rebate **\$1.3 billion** back to Michigan and the federal government, which is **58%** of the total Medicaid spending on drugs in the state.



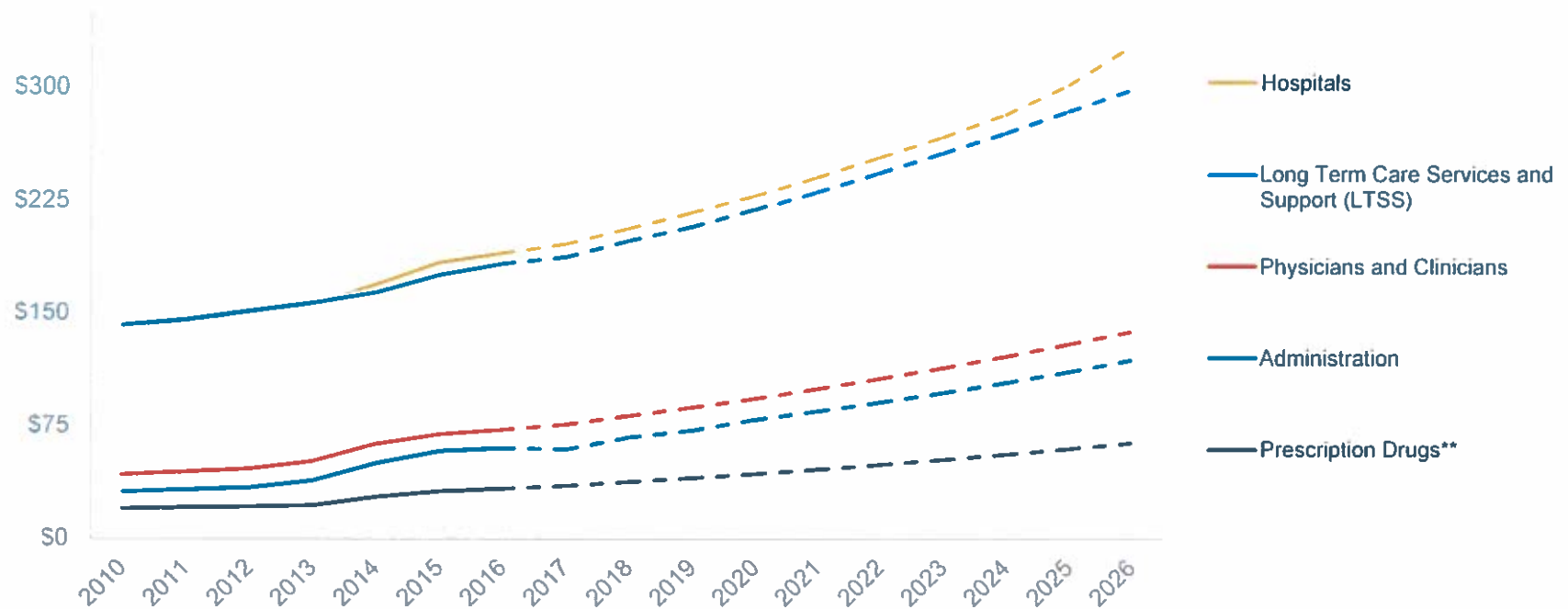
Note: Brand and generic expenditure totals are net of rebates. Professional services include physician and clinic, dental, and other professional services. Administration costs include federal and state administration and net cost of private insurance. Other health, residential, and personal care includes school health, work site, residential mental/substance abuse, some ambulance, and Medicaid home/community waivers.

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Prescription Drugs Are Projected to Be a Small Share of Medicaid Spending Through 2026

In 2016, Medicaid retail drug spending, including brands and generics, was \$33.4 billion, while total Medicaid spending was \$565.5 billion

Total Medicaid Spending and Spending by Selected Service, 2010-2026 (in Billions)*



*Years 2016 and beyond are projections. Long Term Care Services and Support (LTSS) includes nursing and continuing care facility expenditures, home health care expenditures, and other health, residential and personal expenditures.

**Prescription drug spending includes brand and generic ingredients, pharmacy, and distribution costs.

All other spending which is made up of dental services, durable medical equipment and other professional are excluded from this chart

Medicaid Price Controls

As a condition of a drug being covered by Medicaid, drug manufacturers pay a rebate to the states and the Centers for Medicare & Medicaid Services based on a statutory formula.

Price Controls in Medicaid Are Manifested Through the Rebate Program



THE BASE REBATE FOR BRAND MEDICINES

is the greater of **23.1%** of the Average Manufacturer Price (AMP) or the difference between AMP and a manufacturer's best price for the drug.*



AN ADDITIONAL REBATE

is paid by brand manufacturers if their AMP increases more than inflation.



ADDITIONAL STATE SUPPLEMENTAL REBATES

are also often required on brand medicines.



GENERIC MANUFACTURERS

also pay a statutory rebate of **13.0%** of AMP



ACCORDING TO THE CONGRESSIONAL BUDGET OFFICE

Medicaid price controls distort the market, resulting in higher prices elsewhere.^{4,5}

In FY 2017, manufacturers paid Medicaid rebates totaling **\$34.9 billion**.⁶

*Certain brand medicines are subject to a different rebate percentage.

4. Congressional Budget Office. Letter to Senate Finance Committee Chairman Chuck Grassley (R-IA). June 21, 2005.

5. Congressional Budget Office. How the Medicaid rebate on prescription drugs affects pricing in the pharmaceutical industry. Washington, DC: CBO; 1996. www.cbo.gov/sites/default/files/cbofiles/ftpdocs/47xx/doc4750/1996doc20.pdf. Accessed January 2015.

6. MACPAC. MACStats: Exhibit 28. Medicaid Gross Spending and Rebates for Drugs by Delivery System, FY 2017. <https://www.macpac.gov/wp-content/uploads/2015/11/EXHIBIT-28.-Medicaid-Gross-Spending-and-Rebates-for-Drugs-by-Delivery-System-FY-2017.pdf>. Published December 2018. Accessed March 2019.

Initial Medicaid Costs for Medicines Greatly Overstate Costs Net of Rebates

On average, about 63% of the initial cost of brand medicines is returned to states through rebates.

How rebates dramatically lower costs for states:

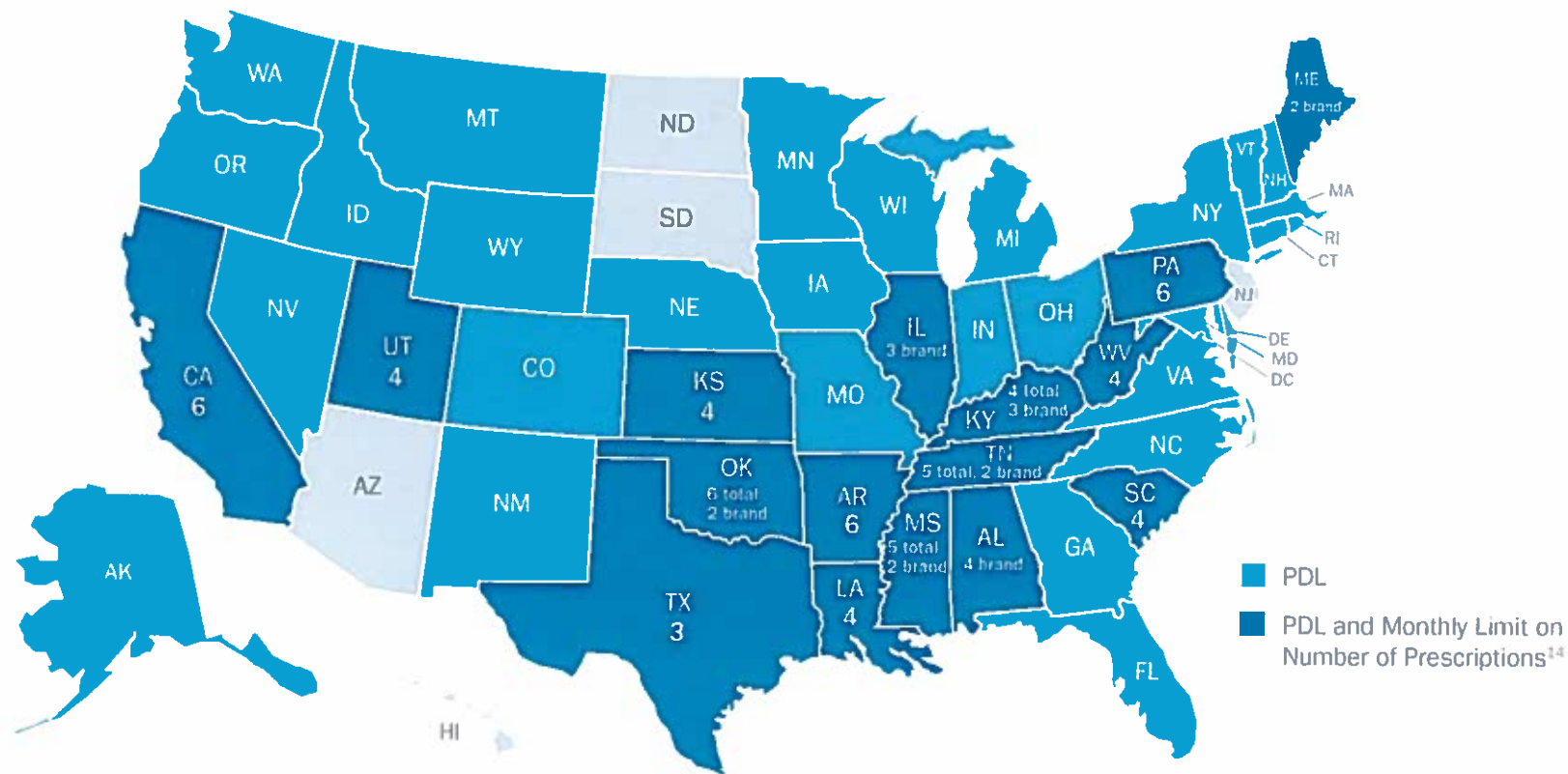
\$100.00	Initial cost of a brand medicine
- \$63.00	Manufacturer rebates returned to Medicaid*
<hr/>	
\$37.00	Cost to Medicaid of brand medicine net of manufacturer rebates

Rebates from manufacturers repay Medicaid for about half of their initial ingredient costs for medicines. In addition to the rebate amount required by law, states and Managed Care Organizations (MCOs) often negotiate for additional rebates. Manufacturers may pay these rebates to obtain favorable placement for their medicines on preferred drug lists or managed care formularies.

*Includes statutory rebates and supplemental rebates negotiated by states and Medicaid MCOs or their pharmacy benefits managers.

States Limit Access to Prescription Medicines in Medicaid

Nearly all states use preferred drug lists (PDLs),* and 16 states limit the number of prescriptions that beneficiaries can fill each month.



*Even though every state is guaranteed sizable statutory discounts on all medicines, states may also define a list of Medicaid-covered medicines (ie, PDLs) with Centers for Medicare & Medicaid Services approval. Patients seeking access to medicines not on the PDL must obtain prior authorization. In some cases, exceptions to script limits are made for individuals with certain conditions or other special circumstances.

14. Preferred drug list information as of 2014. Kaiser Commission on Medicaid and the Uninsured. Medicaid in an era of health & delivery system reform: results from a 50-state Medicaid budget survey for state fiscal years 2014 and 2015. October 2014. Data on monthly prescriptions limits from the Kaiser Commission on Medicaid and the Uninsured Medicaid Benefits Online Database. 2012. <http://medicaidbenefits.kff.org/service.jsp?yr=5&cat=5&nt=on&sv=32&so=0&tg=0>. Accessed January 2015. Data for Georgia updated from Georgia Department of Community Health. Georgia Medicaid fee-for-service pharmacy program frequently asked questions. https://dch.georgia.gov/sites/dch.georgia.gov/files/related_files/site_page/GA_Medicaid_FFS_Frequently_Asked_Questions_rv_11-19-12.pdf. Updated April 19, 2012. Accessed January 2015.

The Facts About Medicaid in Michigan

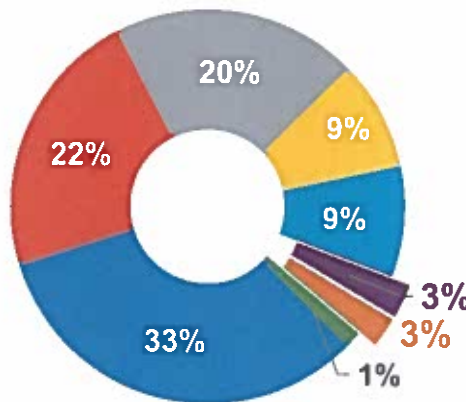


Medicines provide great value to Medicaid patients and society by saving and extending lives and preventing unnecessary hospitalizations and other costly health care services. According to National Health Expenditure estimates, national Medicaid spending on prescription drugs will grow roughly in line with overall national Medicaid spending growth from 2016 to 2025.¹

Breakdown of 2017 Medicaid Spending in Michigan²



Less than 6% of the total Medicaid budget in Michigan is spent on retail brand and generic prescription drugs.



- Nursing, Rehabilitative Care / Home Health, Personal Support & Waivers
- Hospital Care
- Professional Services
- Other Health and Durable Medical Equipment
- Administrative
- Brand Rx
- Generic Rx
- Mental Health Facilities

How Medicaid Pays for Drugs

All 50 states and the District of Columbia elect to cover prescription drugs as a benefit under the Medicaid Drug Rebate Program (MDRP). The MDRP is a federal-state-drug manufacturer program that provides significant rebates to Medicaid programs that offset the costs of prescription drugs while ensuring patients can access needed medicines. States, and managed care organizations or pharmacy benefit managers administering the prescription drug benefit on behalf of states, may also negotiate supplemental rebates with drug manufacturers, further reducing spending.



Manufacturers rebate **\$1.3 billion** back to Michigan and the federal government, which is **58%** of the total Medicaid spending on drugs in the state.

1. Sean P. Keehan, et al. National Health Expenditure Projections, 2015–25: Economy, Prices, And Aging Expected To Shape Spending And Enrollment. Health Affairs published online, July 13, 2016.
2. The Menges Group analysis of FY2016 CMS 64 reports and State Drug Utilization data files. Brand and generic expenditure totals are net of rebates. Data used were predominantly derived from CMS 64 reports. Brand and generic prescription drug costs in each state were derived through a set of tabulations performed by The Menges Group. Pre-rebate expenditures were tabulated using FY2016 CMS State Drug Utilization data files and CMS brand/generic indicators for each National Drug Code. Rebate information was obtained from CMS-64 reports. Brand/generic share of rebates estimated by The Menges Group. Post-rebate expenditures derived through Menges Group tabulations using above information.