

# Medicaid Pharmacy Costs, FFY2013 and FFY2014

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# Summary

- This report quantifies Medicaid drug expenditures and emphasizes the importance of viewing these costs on a net, post-rebate basis.
- Medicaid paid \$42.6 billion to pharmacies in FFY2014, with drug manufacturers returning \$20.6 billion (48.5%) to the program in rebates.
- Rebates on brand medications average approximately 60% of the initial amount paid; rebates on generics likely average just under 15% of the initial amount paid.
- Sovaldi, a recently introduced Hepatitis C medication, represented approximately 2.6% of overall initial FFY2014 Medicaid pharmacy spending and 3.7% of post-rebate costs.

# Key Medicaid Rebate Provisions (text from CMS website is italicized)

- ***The amount of rebate due for each unit of a drug is based on statutory formulas as follows:***
  - ***Innovator Drugs*** (brand medications)– *the greater of 23.1 % of the Average Manufacturer Price (AMP) per unit or the difference between the AMP and the best price per unit and adjusted by the Consumer Price Index-Urban (CPI-U) based on launch date and current quarter AMP.*
  - ***Non-innovator Drugs*** (generic medications) – *13 % of the AMP per unit.*
- Due to the best price and inflation factor triggers, rebates for brand medications average far more than 23.1%. We estimate that Medicaid drug rebates averaged 59% of initial amounts paid to pharmacies for brand medications during FFY2014.
- States and Medicaid MCOs negotiate additional (“supplemental”) rebates with drug manufacturers, but these rebates represent only a small proportion of overall rebates. Statutory ACA rebates represented approximately 95% of all Medicaid rebates during FFY2014.

# Medicaid Prescription Drug Expenditures -- Nationwide, 2013 and 2014

Total Cost (\$ Billions)	FFY2013	FFY2014	Percent Change, 2013-2014
Initial Amount Paid to Pharmacies	\$37.5	\$42.6	13.4%
Rebates	\$18.6	\$20.6	10.7%
Net Medicaid Cost	\$18.9	\$21.9	16.0%
Rebates as % of Initial Cost	49.6%	48.5%	

- After taking dispensing fees into account (which average approximately \$3 per prescription in Medicaid), manufacturer rebates currently represent just over half of the initial ingredient costs paid by Medicaid.

# 2013 & 2014 Average Medicaid Cost Per Prescription, Pre-Rebate and Post-Rebate

<b>Cost Per Prescription</b>	<b>FFY2013</b>	<b>FFY2014</b>	<b>Percent Change, 2013-2014</b>
Medicaid Prescription Volume	566,156,085	587,738,294	3.8%
Initial Amount Paid to Pharmacies	\$66.30	\$72.40	9.2%
Rebates	\$32.89	\$35.09	6.7%
Net Medicaid Cost	\$33.40	\$37.32	11.7%

- Medicaid pays for approximately 600 million medications annually
- 3.8% growth in prescription volume occurred in 2014, largely attributable to Medicaid coverage expansions in 28 states

# Sovaldi's 2014 Costs

Time Period	Units	Prescriptions	Medicaid Amount Reimbursed	Percent of Medicaid Amount Reimbursed for all Medications	Cost Per Rx	Cost Per Unit
2013 Q4	4,006	143	\$4,056,068	0.0%	\$28,364	\$1,012
2014 Q1	218,563	8,003	\$222,843,600	2.2%	\$27,845	\$1,020
2014 Q2	509,106	18,682	\$516,240,029	4.2%	\$27,633	\$1,014
2014 Q3	339,174	12,634	\$342,382,933	3.5%	\$27,100	\$1,009
<b>FFY14 Total</b>	<b>1,070,849</b>	<b>39,462</b>	<b>\$1,085,522,631</b>	<b>2.6%</b>	<b>\$27,508</b>	<b>\$1,014</b>
Rebates at 25%			\$271,380,658		\$6,877	\$253
<b>Net Cost at 25% Rebate</b>			<b>\$814,141,973</b>		<b>\$20,631</b>	<b>\$760</b>

- Sovaldi's rebate is required to be at least 23.1%. Above table assumes the manufacturer (Gilead) has not discounted its price to any payer nor agreed to significant rebates in addition to the minimum statutory Medicaid amounts. However, drug-specific rebate information (for Sovaldi or other products) is not publicly available.
- "Units" in above table represents pills.

# Data Sources Used and Contact Information

Figures in this report derived through tabulations using:

- a) CMS State Drug Utilization Data files (which are available quarterly); and
- b) CMS 64 data reports (which are available by Federal fiscal year).

In several states, adjustments were made to estimate full-year costs (e.g., when quarterly utilization data were missing or clearly under-reported, when reported rebates fall outside of reasonable range created by ACA provisions, etc.)

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