



## **New York Medicaid Prescription Drug Expenditure Trends**

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In response to a client request, The Menges Group updated the tabulations of New York Medicaid prescription volume and expenditures and year-over-year growth trends for state fiscal years (SFY) 2014 through 2018.

In 2017, the New York State Department of Health projected a 15% annual increase in net pharmacy spend in the New York Medicaid program. This year, the state projects annual growth of 11.5%. While the state and its actuaries may have additional information regarding the New York-specific dynamics – such as enrollment growth projections – that could factor into an accurate estimate of upcoming expenditures, based on New York’s recent trends, this high rate of prescription drug cost escalation seems unlikely to occur in 2019 (relative to 2018).

As one point of reference, the most recent National Health Expenditure data from the federal Centers for Medicare and Medicaid Services (CMS) project that Medicaid prescription drug spending will grow by 6.8% from 2018 to 2019. Additionally, CMS projects that national Medicaid prescription drug spending will continue to grow by six to seven percent over the next several years.

As shown below, these projections are in line with the cost and utilization data we have seen in New York over the past few years. New York Medicaid prescription drug volume increased by 2.2% from SFY2016-2017 to SFY2017-2018 and net prescription drug expenditures increased by 3.8%. Average net cost per prescription, which is a strong indicator of program cost management, increased marginally—by just 1.6%.

### **Recent Trends**

The Menges Group’s calculations of year-over-year changes in New York Medicaid expenditures and average costs per prescription for recent years are reflected in Tables 1 and 2 below. Our tabulations rely on data submitted quarterly by the State of New York to CMS. These data are publicly available in CMS State Drug Utilization files.

Table 1 below shows Medicaid prescription volume, pre- and post-rebate New York Medicaid prescription drug expenditures, and pre- and post-rebate cost per prescription for each of the past several years. This includes prescription drugs in both fee-for-service and managed care settings. Pre-rebate expenditures increased from \$4.4 billion in SFY2013-2014 to close to \$6.5 billion in SFY2017-2018. Pre-rebate cost per prescription increased from \$68.10 during SFY2013-2014 to

\$84.64 during SFY2017-2018. Net cost per prescription increased from \$34.50 during SFY2013-2014 to \$43.43 during SFY2017-2018. Most of these increases across the five-year timeframe occurred between the first and second years. Recent years' annual cost escalation has been modest.

Table 2 conveys these values as trends from year-to-year. On average, New York's overall Medicaid prescription drug expenditures (post-rebate) have increased an average of 10.3% per year from SFY2013-2014 to SFY2017-2018. Average net costs per prescription increased annually by 5.9% during this same timeframe.

**Table 1. New York Medicaid Prescription Expenditures, SFY2013-2014 to SFY2017-2018**

	Prescription Volume	Pre-Rebate		Post-Rebate*	
		Total Expenditures	Cost Per Prescription	Total Expenditures	Cost Per Prescription
SFY2013-2014 (April 2013 - March 2014)	64,874,938	\$4,418,134,603	\$68.10	\$2,238,307,755	\$34.50
SFY2014-2015 (April 2014 - March 2015)	72,117,930	\$5,544,851,272	\$76.89	\$3,016,189,679	\$41.82
SFY2015-2016 (April 2015 - March 2016)	76,014,194	\$5,989,398,185	\$78.79	\$3,119,202,961	\$41.03
SFY2016-2017 (April 2016 - March 2017)	74,577,645	\$6,279,073,421	\$84.20	\$3,189,024,730	\$42.76
SFY2017-2018 (April 2017 - March 2018)	76,240,170	\$6,452,701,096	\$84.64	\$3,310,841,393	\$43.43

*\*Rebates were collected from the annual Medicaid Financial Management Reports, which present state prescription drug rebates at the federal fiscal year (FFY) level. As such, New York's rebates do not perfectly align with the state fiscal year.*

**Roughly 40% of New York's Medicaid prescription drug raw dollar expenditure increases from 2013-2017 were driven by an increase in the volume of prescriptions** (which in turn has likely been attributable to enrollment growth in New York's Medicaid program). SFY2013-2014 to SFY2014-2015 had a particularly large increase in expenditures due to a number of factors, including large Medicaid population growth from Medicaid expansion and the introduction of new high-cost drugs, including curative hepatitis C products. Looking at the average trends from SFY2014-2015 to SFY2017-2018 (which removes the unusually large cost drug volume and cost increases that occurred in SFY2014-2015 versus the prior year), the average annual changes have been quite modest. Across this most recent four-year timeframe, the average annual change in prescription volume was 1.9%, the average annual increase in net prescription drug expenditures was 3.2%, and the average annual increase in net costs per prescription was 1.3%. These actual trends lie in stark contrast to the recent predictions of double-digit annual cost escalation.

**Table 2. Year-over-Year New York Medicaid Prescription Expenditure Trends, SFY2013-2014 to SFY2017-2018**

	Prescription Volume	Pre-Rebate		Post-Rebate*	
		Total Expenditures	Cost Per Prescription	Total Expenditures	Cost Per Prescription
<b>SFY2013-2014 to SFY2014-2015</b>	11.2%	25.5%	12.9%	34.8%	21.2%
<b>SFY2014-2015 to SFY2015-2016</b>	5.4%	8.0%	2.5%	3.4%	-1.9%
<b>SFY2015-2016 to SFY2016-2017</b>	-1.9%	4.8%	6.9%	2.2%	4.2%
<b>SFY2016-2017 to SFY2017-2018</b>	2.2%	2.8%	0.5%	3.8%	1.6%
<b>Average Annual Change, SFY2013-2014 to SFY2017-2018</b>	4.1%	9.9%	5.6%	10.3%	5.9%
<b>Average Annual Change, SFY2014-2015 to SFY2017-2018</b>	1.9%	5.2%	3.3%	3.2%	1.3%

*\*Rebates were collected from the annual Medicaid Financial Management Reports, which present state prescription drug rebates at the FFY level. As such, New York’s rebates do not perfectly align with the state fiscal year.*

## Future Outlook

Based on New York’s recent expenditure and growth trends, double-digit escalation in New York’s Medicaid prescription drug expenditures seems unlikely to occur in 2019 (relative to 2018) in the absence of an increase in Medicaid enrollment and corresponding prescription volume. A confirming set of expectations is that during the past year, large pharmacy benefit managers (PBMs) have reported low, single-digit Medicaid prescription spending growth rates.<sup>1</sup>

That said, future annual trends in Medicaid prescription drug expenditures are challenging to predict. Many factors come into play, including:

- a) Changes in the Medicaid population (both in size and demographics);
- b) The volume and pricing of new drugs, particularly any high-cost specialty drugs that may be introduced;
- c) The competitive dynamics among drug products, including, but not limited to, the degree to which drugs are coming off patent and for which generics are available; and
- d) The proportion of Medicaid prescription drug spending paid for by Medicaid managed care organizations (MCOs). During Q1 2018, 86.7% of New York’s Medicaid prescriptions were paid for by MCOs – meaning the prescription drug benefit is likely being managed using a high level

<sup>1</sup> Examples include Express Scripts, Prime Therapeutics, and OptumRx: <http://lab.express-scripts.com/lab/drug-trend-report>; <https://www.primetherapeutics.com/en/news/prime-insights/2017-insights/insights-drug-trend-reports.html>; <https://cdn-aem.optum.com/content/dam/optum3/optum/en/resources/ebooks/OptumRxTrendInsightsFINAL.pdf>

of sophistication. Most Medicaid MCOs utilize large PBMs to design lists of preferred drugs, negotiate with pharmacies, and negotiate with prescription drug manufacturers. These PBMs typically have significant purchasing power and negotiating experience which both help them encourage generic drugs over brand drugs, encourage lower cost drugs over higher cost alternatives *within* brands and *within* generics, negotiate supplemental rebates from drug manufacturers, and reduce fraud, waste, and abuse.

## **Methodology**

The Menges Group collected the New York Medicaid prescription drug volume and expenditures from the CMS State Drug Utilization files. CMS-reported files suppress the volume and expenditures of prescriptions for any national drug code (NDC) with fewer than 11 prescriptions in a given calendar quarter. To account for these unreported data, The Menges Group estimated a suppression factor of 5% for expenditures and 1% for prescription volume in New York by comparing suppressed FFY2015 data with older, unsuppressed FFY2015 data. These suppression factors were used to estimate New York's total Medicaid prescription volume and pre-rebate Medicaid prescription drug expenditures.

Rebates for New York Medicaid were collected from annual Medicaid Financial Management Reports available from CMS. New York's reported rebates for each year were unrealistic based on drug usage and pre-rebate spending, creating high levels of variation in the annual net costs per prescription. However, the FFY2013 to FFY2017 rebates, collectively, were approximately what would be expected. Therefore, we "smoothed" the rebates across the five years to create realistic annual values while maintaining the total reported rebate information across this timeframe.