

# Pharmacy Benefit Management Can Save Medicaid Drug Programs Over \$100 Billion

Medicaid programs increasingly rely on Pharmacy Benefit Managers (PBMs) to manage drug benefits for Medicaid beneficiaries, whether they have health plan or fee-for-service coverage.

## PBM-Driven Medicaid Pharmacy Savings – Retrospective and Future Estimates

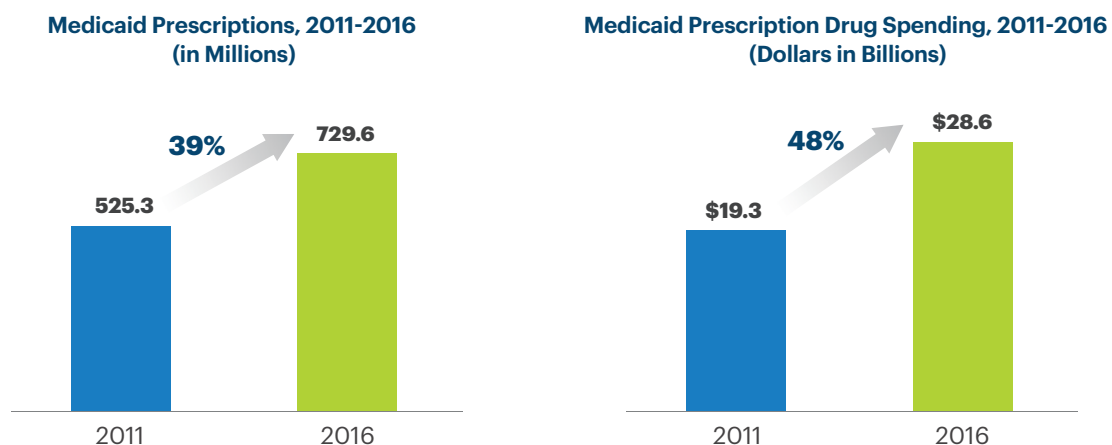
Nationally, PBMs saved Medicaid \$6 billion in 2016. These savings represent only a portion of the potential savings achievable if all states were to fully utilize PBM tools and capabilities, including:

- ▶ Driving use of the highest therapeutic quality, lowest-cost drugs and shifting utilization from brands to generics as clinically appropriate;
- ▶ Developing preferred pharmacy networks;
- ▶ Advancing evidence-based, clinically effective utilization; and
- ▶ Leveraging data analytics to detect and prevent fraud, waste, and abuse.

**The optimal use of these PBM tools and capabilities for all Medicaid prescriptions would yield new savings of \$8.5 billion in 2019 and \$106 billion over 10 years (2019-2028).** The \$8.5 billion in savings would represent a 25% reduction in Medicaid drug spending and an average of \$127 saved per beneficiary. Over 10 years, \$106 billion in savings would result in a 23% reduction in total Medicaid drug spending. During this period, states would save \$42 billion and the federal government would accrue \$64 billion in savings.

## Medicaid Drug Utilization and Spending Trends

From 2011 to 2016, Medicaid prescription drug volume grew by 39% – ultimately accounting for 16% of all U.S. prescription volume – and, simultaneously, net spending increased by 48% to over \$28 billion. In response, more states are turning to PBMs and their Medicaid health plan partners to manage drug spending. PBM-administered prescriptions for Medicaid health plans tripled to almost 69% between 2011 and 2016.



Pharmacy benefit management has resulted in a robust increase in the use of lower-cost generic drugs in Medicaid. In 2016, generics represented over 86% of all Medicaid prescriptions, up from 75% of all Medicaid prescriptions in 2011. Collectively, the transition to PBM-administered prescriptions, with an accompanying focus on increased generic use, has limited Medicaid’s net price per prescription growth over the same time period to an average of 1.25% per year – one-third of the national average annual increase in after-rebate net drug prices of 3.6% – despite the rapid increases in drug prices and the introduction of new, high-priced specialty drugs.

### Pharmacy Benefit Management is Pivotal to Lowering Medicaid Drug Spending

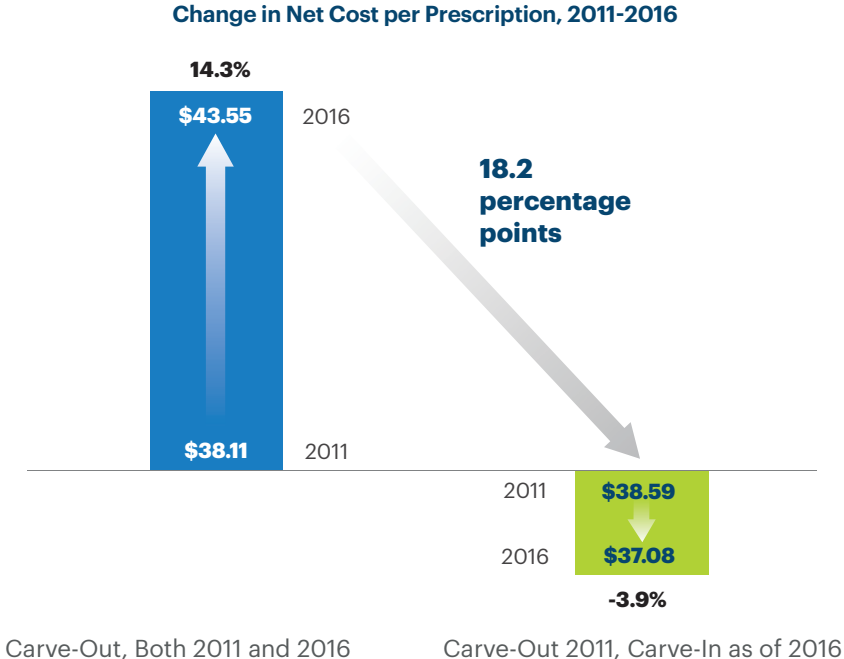
**PBMs perform operational and clinical services for Medicaid drug programs to achieve a lower net cost per prescription while promoting appropriate and safe drug utilization.**

These services leverage PBMs’ expertise, data analytics capabilities, and negotiating capacities to drive cost savings, while simultaneously improving care quality, safety, and appropriate drug use – all of which make PBMs essential to lowering Medicaid drug spending through effective medical and drug benefit management. While PBM cost-saving tools are available to Medicaid programs, not all states use PBMs to manage their Medicaid prescription drug benefits.

The breadth of tools PBMs can implement and the corresponding magnitude of pharmacy savings realized are driven by states’ decisions regarding 1) whether the drug benefit is incorporated into Medicaid’s medical benefits and 2) whether the PBMs have latitude over the development and implementation of the preferred drug list (PDL).

**States that incorporate the drug benefit into Medicaid’s medical benefit achieve a lower net cost per prescription.**

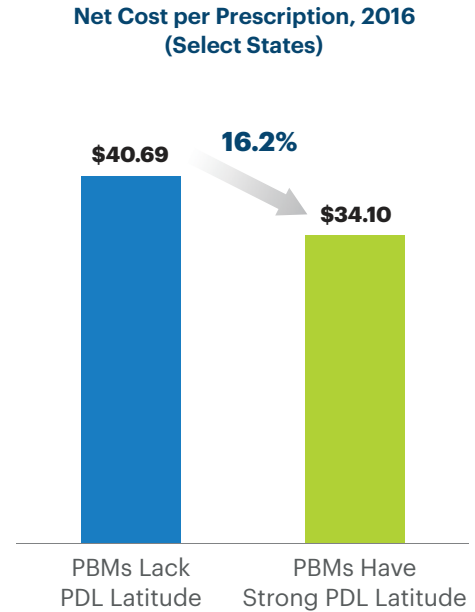
States that integrated (carved-in) the drug benefit into Medicaid’s medical benefits between 2011 and 2016 realized an 18.2 percentage point reduction in net cost per prescription, compared to the states that kept their drug benefit carved-out. This suggests that carving the drug benefit into Medicaid’s medical benefit lowers net cost per prescription.



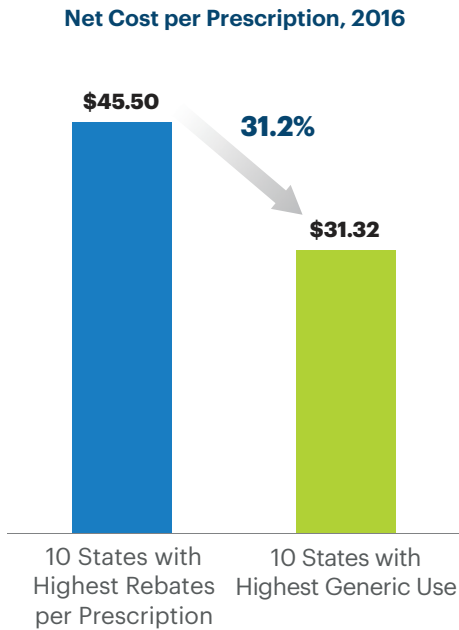
**States that give PBMs latitude over the preferred drug list achieve a lower net cost per prescription than states in which PBMs lack PDL latitude.**

Beyond deciding to incorporate the drug benefit into Medicaid’s medical benefit, states decide how much latitude PBMs have over the development and implementation of the PDL. Latitude over the PDL increases a PBM’s ability to manage Medicaid drug spending. Through the PDL, PBMs drive utilization of the highest therapeutic quality, lowest-cost brand and generic drugs, achieving the highest value for states and the consumers they cover.

In 2016, states in which PBMs had strong PDL latitude benefitted from competitive negotiation, achieving a 16.2% lower net cost per prescription. Higher generic utilization (87.7%) was a contributing factor to the lower net cost per prescription in states where PBMs have PDL latitude, when compared to states where PBMs have no PDL latitude (83.4%).



**PBMs generate more savings for states from driving higher generic use than from maximizing rebates on brand drugs.**



PBMs with PDL latitude drive greater generic use, which results in lower rebates. However, the savings realized from increased generic use far exceed the savings garnered from rebates. In 2016, the ten states with the highest generic utilization had a lower net cost per prescription (\$31.32) than the ten states with the highest rebates per prescription (\$45.50). Notably, in the ten states with the highest generic utilization, PBMs maintained PDL latitude and advanced a more-than 89% generic utilization rate for Medicaid health plans, whereas in the ten states with the highest rebates, PBMs lacked PDL latitude and the states experienced an 81% generic utilization rate in their Medicaid health plans.

For state-specific savings estimates, please refer to: [www.unitedhealthgroup.com/pcs/state](http://www.unitedhealthgroup.com/pcs/state)

For the data sources and methods used to develop this brief, please refer to the appendix available at: [www.unitedhealthgroup.com/pcs/appendix](http://www.unitedhealthgroup.com/pcs/appendix)

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