

Waiving the Medicaid Best Price Rule Could Boost Savings from a Commercial Value-Based Arrangement by \$4 Billion

With millions of Americans struggling to afford their medications,¹ 10% annual price growth of brand drugs between 2012 and 2017,² and the introduction of drugs with varying clinical value, strategies are needed to lower costs and improve health outcomes for patients. **Value-based arrangements (VBAs) can help address these issues in the commercial health insurance market by connecting payment for a drug to its value.** However, few VBAs currently exist between drug manufacturers and commercial health plans.³

The **Medicaid Best Price rule** – which offers state Medicaid programs the lowest price negotiated with any other payer – plays an important role in making prescription drugs affordable and accessible for Medicaid beneficiaries. However, in the commercial market, this same rule has had the unintended effect of preventing or limiting VBAs because it presents significant financial risk to drug manufacturers.^{b,c}

For example, if a price for a drug negotiated under a VBA is below the drug's existing Medicaid "Best Price" and the drug does not perform as expected, the broader

revenue of the drug manufacturer would decline because the new lowest price would be used for the entire Medicaid market. This anticipated scenario can discourage drug manufacturers from entering VBAs with commercial payers.

The Medicaid Drug Rebate Program, established in 1990 and updated by the Affordable Care Act, guarantees that Medicaid fee-for-service (FFS) programs and Medicaid managed care plans get the lowest price available for all outpatient prescription drugs.^a The discount to the Medicaid program is the greater of: (1) the difference between a drug's average manufacturer price (AMP) and the "Best Price" available in the commercial market; or (2) the drug's AMP discounted by a statutory-mandated percentage. Medicaid is required to cover any discounted FDA-approved drug.

CASE STUDY

OptumRx, a pharmacy care services provider, has several VBAs with drug manufacturers in its commercial health plan offerings, including one for the immunomodulator class of drugs, which represents 17% of overall net spend for a common formulary.^d

The immunomodulator VBA has the potential to add savings of \$3 to \$4.4 billion for the health care system in a year, which includes more than \$700 million in patient savings. **However, the Medicaid Best Price rule, which discourages manufacturers of ten of 17 eligible drugs from participating in the VBA, prevents these savings.**

The Missed Savings Opportunity

as much as

\$4.4 Billion (39%)
system savings in a year



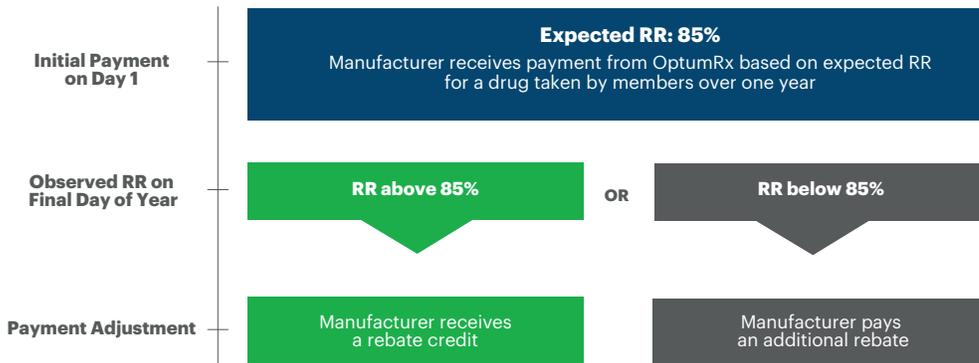
\$710 Million (90%)
patient savings in a year



The Payment Model

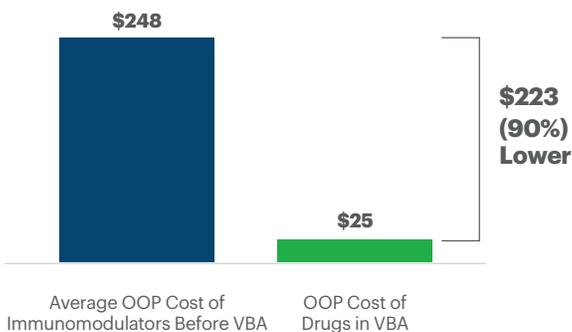
OptumRx's VBA for immunomodulators links payment to whether a patient stays on the drug, switches to a different drug, or discontinues treatment over the course of a year (i.e., the drug's "response rate"). Essentially, the response rate (RR) determines a drug's clinical efficacy based on the extent to which patients continue to use that drug; continued use is a proxy for the drug working.

Example: VBA for an Immunomodulator



At the beginning of the year, OptumRx and the manufacturer agree on a two-sided risk arrangement based on the expected RR. If at the end of the year the RR is above the expected range, OptumRx gives the manufacturer a rebate credit, but if the observed RR is lower, OptumRx receives an additional rebate from the manufacturer.

Out-of-Pocket Cost of Drugs in VBA is 90% Lower



For patients, the out-of-pocket (OOP) cost of drugs included in the VBA is \$25, which is \$223 (90%) lower than the average out-of-pocket cost of immunomodulators before the VBA.

The low out-of-pocket cost is intended to make the participating drugs affordable for patients.

Immunomodulators regulate the immune system and treat diseases such as rheumatoid arthritis and plaque psoriasis. Price increases for immunomodulators—many of which are biologics—have been among the highest of all classes of specialty drugs, reaching an annual average increase of 16 percent in 2017.⁴

The immunomodulator class is a strong candidate for VBAs because it has several of the necessary components to achieve savings:

- It includes expensive brand drugs that have more affordable competitor drugs that, in many cases, can be substituted.
- The variety of competitors gives patients and their physicians the opportunity to switch from a less effective drug to another that may generate an improved response.

As a result, there is the potential for significant shift to drugs that demonstrate the greatest value.

a Exclusions include the Department of Veterans Affairs, the 340B program, the Department of Defense, the Public Health Service, and the Indian Health Service.

b Although Medicaid Best Price is often cited as the most common barrier to VBAs, other laws and regulations such as anti-kickback statute and off-label communication restrictions can be barriers as well.

c A new rule finalized by the Centers for Medicare & Medicaid Services on December 21, 2020 granted manufacturers more flexibility in reporting Medicaid "Best Price" beginning January 2022. However, it did not eliminate barriers to manufacturer participation in commercial VBAs.

d The formulary serves a third of OptumRx employer health plan members.

Sources for citations are available at: www.uhg.com/Medicaid-Best-Price-research.