Pharmacy Benefit Management Can Save Medicaid Drug Programs over $110 Billion: Data Sources and Methodology

Data Sources

The findings in this report are derived from analyses of CMS' State Drug Utilization Data[1] and CMS 64 reports for federal fiscal years 2013 to 2018.[2] The CMS State Drug Utilization Data contains nearly 100% of Medicaid prescriptions and the CMS 64 reports contain all state Medicaid agency program benefit costs and administrative expenses reported to CMS. The State Drug Utilization Data is available by state and includes prescription drug counts by National Drug Code (NDC) along with each NDC's corresponding pre-rebate payment amount. This NDC-level dataset distinguishes between brand and generic drugs and breaks-out volume and expenditures for Medicaid FFS- and health plan-administered drug programs. The CMS State Drug Utilization Data for federal fiscal years 2013 to 2018 used in this report come from the May 2019 CMS release and include covered outpatient drugs that are paid for by state Medicaid agencies. The CMS 64 reports include aggregate statutory rebates and supplemental rebates negotiated by each state. The analyses were conducted by The Menges Group.

Methodology

For the retrospective savings estimate, for each year from 2013 to 2018, the percentage difference in net cost per prescription between PBM-administered, Medicaid health plan-paid drugs and Medicaid FFS-paid drugs was calculated. This savings factor was applied to Medicaid health plan-paid prescriptions to determine PBM-driven drug cost savings. Additionally, two savings factors were applied to account for reductions in Medicaid prescription volume, resulting from PBM efforts to drive appropriate utilization and reduce fraud, waste, and abuse.[3] PBM costs incurred for realizing these savings on Medicaid health plan-paid prescriptions were estimated and offset.[4]

For the future savings estimate, baseline volume and costs were established for each year from 2020 to 2029 by trending the most recent year (2018) forward. These figures estimate the drug mix and cost of Medicaid prescriptions that will occur in the absence of implementing any new PBM tools and services in any state. To estimate marginal savings against baseline costs, the analysis estimated the savings that would occur if each state fully utilizes PBM tools—the preferred drug list (PDL) and the resultant generic dispensing rate; preferred pharmacy networks; prevention and detection of fraud, waste, and abuse; and utilization management programs—for all Medicaid FFS and health plan-covered beneficiaries, effective October 1, 2019 (FFY 2020). From these savings estimates, PBM costs were offset.[5] Notably, the savings realized to date are not included in these 10-year estimates. All future savings estimates are *in addition to* what PBMs have already saved—and will continue to save—Medicaid programs through states' existing use of PBM services.

1 The prescriptions in the dataset do not include those filled for persons dually eligible for Medicare, for which Medicare Part D has primary financial responsibility.
2 Federal fiscal year 2018 is the most recent full federal fiscal year for which data is available.
3 Visante. February 2016. Pharmacy Benefit Managers (PBMs): Generating Savings for Plan Sponsors and Consumers. www.pcmanet.org/wp-content/uploads/2016/08/visante-pbm-savings-feb-2016.pdf
4 Sood, N. et al. June 2017. The Flow of Money Through the Pharmaceutical Distribution System. www.healthpolicy.usc.edu/wp-content/uploads/2017/06/USC_Flow-of-MoneyWhitePaper_Final_Spreads.pdf
5 Ibid.

The brief is available at: www.unitedhealthgroup.com/pcs.