

News Release
For Immediate Release

New Study Shows Large-Scale State Medicaid Savings by Adopting Pharmacy Carve-In Model

Thirteen states can realize over \$11 billion savings in Medicaid over 10 years while strengthening their coordinated care models

Washington, DC –January 20, 2011 – A study sponsored by Medicaid Health Plans of America (MHPA) released today by The Lewin Group finds large-scale savings can be achieved if 13 states abandoned their current pharmacy carve-out model in favor of a carve-in approach -- including prescription drugs in health plans' capitation payments. In "Projected Impacts of Adopting a Pharmacy Carve-In Approach Within Medicaid Capitation Programs," Lewin researchers reported that these states where prescription drugs are not part of the Medicaid capitated rate but instead are "carved-out" – paid separately through the traditional fee-for-service (FFS) program – could collectively save \$11.1 billion over 10 years through the carve-in model. These carve-out states are Connecticut, Delaware, Illinois, Iowa, Missouri, Nebraska, New York, Ohio, Tennessee, Texas, Utah, West Virginia and Wisconsin.

"We commissioned this research to show that health plans' management of the Medicaid pharmacy benefit is more efficient than in the fee-for-service setting and how much these states might actually save if they switched to the carve-in model," said Thomas L. Johnson, President and CEO of MHPA, the leading trade association solely focused on representing Medicaid health plans.

Joel Menges, a Vice President at Lewin and the report's principal author, explained: "The Federal rebate on Medicaid prescription drugs, previously available only for the fee-for-service program, was the main reason states opted for the pharmacy carve-out. But the recently passed health reform law included equalization provisions that gave Medicaid health plans the same rebates as the fee-for-service program. This effectively removed the primary incentive for states to use the pharmacy carve-out model."

Study highlights show how health plans' pharmacy carve-in approach saves state Medicaid dollars versus traditional FFS:

- Health plans pay pharmacies lower dispensing fees – FFS programs usually pay considerably more for pharmacists to fill prescriptions than health plans pay.
- Health plans pay pharmacies lower ingredient costs – FFS programs appear to pay slightly more for the actual cost of the medications.
- Health plans encourage the use of generic medications – FFS programs don't have the same capability to steer volume to lower-cost but clinically equivalent prescription drugs.
- Health plans have a lower medication use rate – FFS programs tend to prescribe more medications, in part because health plans more effectively identify unnecessary or fraudulent prescriptions.

After considering the above factors in their analysis, authors estimate total Medicaid savings across the 13 states would be over \$11.1 billion over the next 10 years and \$700 million in the first year

alone. The study reports the potential savings for each of the 13 carve-out states, but notes that the extent of savings varies based on the size of their Medicaid capitation programs and the specific features of their FFS pharmacy programs.

“Given the severe budget crises many of these states are facing, the financial benefits of the pharmacy carve-in model are particularly important to access,” said Menges.

The study also noted that including a treatment option as important as prescription drugs in a Medicaid capitation program also contributes to the strength of the coordinated care model.

“Carving in prescription drugs will help the Medicaid health plans in these states more effectively treat disease in the coordinated care setting while maintaining the cost efficiency inherent in the capitated model,” stated Johnson.

A copy of the study is available at: www.lewin.com and www.mhpa.org.

Medicaid Health Plans of America (MHPA) is the leading trade association solely focused on representing Medicaid health plans. MHPA provides advocacy, research and organized forums that support the development of policy solutions to enhance the delivery of quality health care. For more information, visit Medicaid Health Plans of America at <http://www.mhpa.org> or email at info@mhpa.org.

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