REPORT SUMMARY

"Assessment of Medi-Cal Pharmacy Benefits Policy Options"

The Menges Group

Policymakers are considering moving Medi-Cal to a pharmacy "carve-out" – that is, shifting the pharmacy benefit out of managed care to instead be administered by the state in fee-for-service (FFS). The carve-out proposal is motivated, in part, by the potential for the state to collect more drug manufacturer rebates. A report by The Menges Group provides strong evidence that a pharmacy benefit carve-out will not achieve its intended cost savings and will have an adverse impact on the integrated, whole-person approach to care the Medi-Cal program has embraced. The Menges Group reaches these conclusions through detailed cost analysis of the experience of 13 states that moved between a Medicaid pharmacy carve-in and carve-out (and vice versa) and using publicly available Medicaid pharmacy claims data.

Key Findings

➢ A Medi-Cal Pharmacy Carve-Out Would Increase Net Pharmacy Expenditures 19.4% Over Five Years

- The proposed carve-out would increase Medi-Cal costs by an estimated ***$149 million in the first year*** and by ***$2.2 billion over five years*** (SFY2020-2024) (Table 1).
- Enrollee continuity of care protections may initially slow cost growth, but by Year 3 and beyond, estimated annual net cost increase for a carve-out is 23.85%.
- Carve-out costs are primarily attributable to (1) the state's increased reliance on brand-name and other costlier drugs to secure more manufacturer rebates (2) higher dispensing fees and (3) decreased ability to promptly make modifications to the formulary to address emerging dynamics such as price changes, patent expirations, and new drug introductions.

Table 1

Year	Net Overall Medi-Cal Cost Increase Due to Carve-Out ($ millions)	Net State-Fund Cost Increase Due to Carve-Out ($ millions)
SFY2020	$149	$51
SFY2021	$344	$117
SFY2022	$555	$189
SFY2023	$577	$196
SFY2024	$600	$204
5 Year Total	**$2,227**	**$757**

➢ Across the Nation, Pharmacy Benefit Carve-In States Outperform Carve-Out States

- A key metric demonstrating this performance is that the states that carved in the pharmacy benefit experienced a *1.3% decrease* in net cost per prescription across the entire FFY2011-FFY2017 timeframe, after factoring in drug manufacturer rebates.
- States that continued to carve out the pharmacy benefit experienced an *14.3% increase* in net cost in the same timeframe.
- States that have been the most successful at collecting drug manufacturer rebates have been the least successful at controlling net costs (i.e., maximizing use of generics).
- Optimizing front-end drug mix is more impactful than securing back-end rebates.

Because the net cost of a brand drug is 8.9 times higher than the average generic, managing the front-end drug mix on a formulary is more impactful than securing back-end rebates.

➢ A Medi-Cal Pharmacy Carve-Out Would be Detrimental to Clinical Integration, Health Outcomes

- Prescription drug benefits are central to the integrated health services Medi-Cal enrollees receive. Health plans' existing access to real-time prescription drug data is essential to discerning individuals' health needs, comorbidities, new diagnoses, and treatment patterns.
- Under a carve-out, the state would provide plans with a pharmacy file – a daily data feed – which is not the same as real-time pharmacy data.
- The carve-out would compromise the availability of real-time pharmacy data, eroding integrated care management programs and clinical outcomes.

Uses of Real-Time Pharmacy Data

Allow providers and prescribers to monitor for drug cross-reactivity.

Provide enrollees' medication profile during time-sensitive care transitions.

Resolve Customer Service inquiries.

Support enrollees in tobacco cessation, opioid overutilization, polypharmacy, disease management, case management, and HEDIS programs.

Identify fraud, waste and abuse.

Recommendations

The Menges Group offers the following recommendations:

1. Keep the current Medi-Cal pharmacy benefit carved in unless compelling, objective evidence demonstrates that a carve-out will produce large scale cost savings without eroding access, care management resources, and enrollees' clinical outcomes.
2. Because the state's cost-saving assumptions have not been supported with data and information and are at odds with other carve-out states' experiences, further analysis should be disclosed and discussed prior to implementing a carve-out.
3. California could look to achieve near-term fiscal savings under the existing pharmacy carve-in by increasing pharmacy cost transparency to identify savings opportunities and devise tailored solutions.