Federal Medicaid Reforms

THE ISSUE: The Medicaid program provides prescription drug coverage to low-income adults, children, pregnant women, and individuals with disabilities. Prescription drug manufacturers are required to pay a base rebate to Medicaid as well as an additional rebate that accounts for price increases greater than inflation.[1] The rebate requirements in Medicaid have been very successful at lowering drug spending, generating rebates over 3 times greater on average than those produced by private sector pharmacy benefit managers (PBMs) in Medicare Part D.[2] However, states do not have as many tools as the private sector to manage the Medicaid drug benefit, which gives them limited ability to rein in costs for new high-cost specialty drugs, which comprise a growing share of the drug pipeline.[3]

THE EVIDENCE: In total, the federal government and states spent about $48 billion on Medicaid drugs in 2024 net of rebates, up from $25 billion in 2018. Average net price per prescription grew 85% over this period, from $34 in 2018 to $63 in 2024.[4] Over the 2018–2021 period, Medicaid's average net price for a brand-name prescription increased by about 50 percent, from $147 to $218.[5] Medicaid drug spending trends are increasingly being driven by new, high-cost drugs, including GLP-1s and cell and gene therapies.[6]

THE SOLUTIONS: Despite the success of the Medicaid drug rebate program, it is clear that more needs to be done to lower the prices states pay for drugs.

- **Provide States with Formulary Flexibilities.** State Medicaid programs are required to cover nearly all approved drugs. In addition to a statutory rebate, states manage costs by negotiating supplemental rebates, which they achieve by offering drug placement on their preferred drug lists. However, states could extract greater rebates if they were able to operate closed formularies. Congress should give states the flexibility to exclude certain drugs from coverage, while maintaining access to the statutory rebate. This policy would be accompanied by beneficiary protections that could include requiring coverage of a minimum number of drugs per class, a well-designed appeals process, and access to off-formulary drugs when clinically indicated. Additionally, this flexibility could allow states to use coverage with evidence development requirements to mirror those implemented under a Medicare national coverage determination.[7]
- **Increase Medicaid Rebates on Accelerated Approval Drugs.** State Medicaid officials have expressed significant concern about paying high prices for accelerated approval drugs — those drugs approved with a reasonable likelihood to predict a clinical benefit that has yet to be confirmed. Annual net spending on drugs with accelerated approval increased from 6.4 percent to 9.1 percent ($27.6 billion to $34.6 billion) between 2015 and 2019.[8] Congress should require higher Medicaid rebates on accelerated approval drugs until the drug's clinical benefit has been verified.[9] Once the FDA grants traditional approval, the rebate would revert to the amount as applicable under the Medicaid Drug Rebate Program.
- **Require Full Transparency in PBM Pricing.** Requiring full pricing transparency between PBMs and their clients would both include that all rebates the PBM negotiates on the state's behalf are passed along, and that clients are able to evaluate offers from competing PBMs with more complete information. Although CMS published a final rule in September 2024 that requires PBM reporting to MCOs of drug reimbursements, certain fees remain opaque.[10]
- **Protect States from High-Priced Authorized Generic Drugs.** Congress should require that the inflation rebate of an authorized generic (AG) drug be the higher of the brand equivalent's inflation rebate or the AG drug's inflation rebate. This can be constructed in a similar manner to the Medicaid line extension rebate formula that passed in the Bipartisan Budget Act of 2018.

- **Require National Average Drug Acquisition Cost (NADAC) Reporting and Expand Its Scope to Non-Retail Pharmacies.** The National Average Drug Acquisition Cost (NADAC) is based on a nationwide survey of retail pharmacies conducted for CMS to estimate the prices pharmacies pay to acquire drugs. NADAC is used by most states to set ingredient cost reimbursement rates in Medicaid fee-for-service for outpatient drugs. However, pharmacy participation in the survey is voluntary, and larger chain pharmacies — often able to secure lower prices — may be less likely to respond.

  Congress should make participation in the NADAC survey mandatory to ensure more complete and accurate reporting of acquisition costs. This would allow Medicaid to better reflect the lower prices negotiated by some pharmacies and reduce overpayment.

  In addition, NADAC currently applies only to retail pharmacies. For drugs dispensed through mail-order or specialty pharmacies, states must rely on alternative, often less precise pricing benchmarks. Congress should expand NADAC to cover all outpatient drugs, regardless of whether they are dispensed through retail or non-retail pharmacy settings.[11]

ENDNOTES

1 https://www.medicaid.gov/medicaid/prescription-drugs/medicaid-drug-rebate-program/index.html

2 https://www.cbo.gov/system/files/2022-01/57050-Rx-Spending.pdf

3 https://www.macpac.gov/wp-content/uploads/2024/02/Policy-in-Brief-High-Cost-Drugs-FINAL-2.pdf

4 AV calculations from 2026 and 2019 MACStats, available at https://www.macpac.gov/macstats/

5 https://www.cbo.gov/system/files/2022-01/57050-Rx-Spending.pdf

6 https://files.kff.org/attachment/report-results-from-an-annual-medicaid-budget-survey-for-state-fiscal-years-2025-and-2026.pdf

7 https://www.macpac.gov/wp-content/uploads/2023/03/Chapter-3-Strengthening-Evidence-under-Medicaid-Drug-Coverage.pdf

8 https://jamanetwork.com/journals/jama-health-forum/fullarticle/2784982

9 https://www.macpac.gov/wp-content/uploads/2021/06/Chapter-1-Addressing-High-Cost-Specialty-Drugs.pdf

10 https://www.federalregister.gov/documents/2024/09/26/2024-21254/medicaid-program-misclassification-of-drugs-program-administration-and-program-integrity-updates

11 https://ccf.georgetown.edu/2023/11/13/bipartisan-senate-finance-committee-legislation-includes-enhanced-medicaid-pharmacy-pricing-survey-provision/