

Carving Out Rx from Managed Care Will Harm Patients, Increase Medicaid by \$400MM

The state's FY21 enacted budget includes a provision requiring the state to carve the pharmacy benefit out of Medicaid managed care beginning April 1, 2021. While the state estimates savings in FY22, they have provided no detail on their assumptions, and an HPA analysis demonstrates otherwise. Carving out pharmacy drug coverage for all New York Medicaid beneficiaries enrolled in a Managed Care Organization (MCO) will lead to negative impacts across the state, including, but not limited to, an estimated **\$400MM increase in pharmacy cost expenditure per year**, increased medical costs, and decreased oversight and effective management of Medicaid beneficiaries' drug adherence. The carve-in model has allowed for controls in pharmacy trend, predictability in pharmacy costs for the state, and seamless integration of medical and pharmacy services that allow New York to operate a sustainable Medicaid program.

Financial Analysis of Pharmacy Carve-In versus Carve-Out Model

While the state projects \$174.4MM savings, carving out the pharmacy benefit will significantly increase costs for the Medicaid program. An analysis by HPA plans found that the carve-in approach that is currently in place is more cost effective and provided for a better member experience. The analysis estimates that the existing benefit structure saves **the Medicaid program \$400MM per year and save the State \$218MM per year** based on the current Federal Medical Assistance Percentage (FMAP). The costs increase in a carve-out model due to:

- Increased dispensing fees under Medicaid fee-for-service contracts - \$595MM;
- A shift to more brand drugs under the Medicaid FFS Preferred Drug List (PDL), in excess of increased rebates - \$486MM; and,
- Loss of state revenue in taxes due to lower capitation amounts - \$52MM.

These increases are offset by savings in the carve-out model due to lower ingredient costs and higher rebates, but **the net effect is that a carve-out model will increase the program's cost by \$400MM per year.**

**Pharmacy
Carve-Out Models
Result in Reduced
Medication
Adherence &
Poorer Quality**



Medical Costs

↓11%



Hospitalization

↓9%



ED Usage

↓4%

Carve-in models support integrating care for the whole person under one umbrella. A study published by Prime Therapeutics showed that an integrated care model combining pharmacy and diagnosis data produces better care at lower cost¹. **Key results showed 11% lower medical costs, 9% lower hospitalization events, and 4% lower emergency department visits when using an integrated care carve-in model versus a carve-out model.** These savings were obtained by improved health plan care coordination, through integrated data resulting in more timely and targeted health interventions including enhancing care management and disease management programs.

¹: Value of Managed Care Organizations and Pharmacy Benefit Managers in Managing the Medicaid Prescription Drug Benefit, The Menges Group, October 2019.

Carve-In Protects NY's Medicaid Program from Pharmacy Cost Volatility

A major advantage of the carve-in model to the State of New York is that it insulates the state budget from the volatility in prescription drug costs. Currently the drug cost volatility risk is assumed by the MCO, so the state is guaranteed a predictable drug cost budget during the year. Under a carve-out model, the state would be at risk for prescription drug cost volatility, which has been as high as 11.5% in the past five years.²

The Problems with Carve-Out Model: Fragmented Care for Members

Issue	Carve-in Model	Carve-out Model
Member Engagement	Members receive medical and pharmacy coverage through the same entity and have a single point of contact to turn with concerns or issues on either front.	Members must obtain information from different entities when seeking to address medical vs Rx concerns.
Fraud, Waste and Abuse	MCOs have robust Fraud, Waste and Abuse programs that identify inappropriate prescribing.	The state's current Fraud, Waste and Abuse programs are not as robust.
Whole Person Approach	Carve-in model keeps MCOs focused on meeting beneficiaries overall health needs, identifying members with gaps in care, providing timely interventions, preventing readmissions and performing member outreach.	Carve-outs create delays in care and buckets of financial responsibility fragmented among the different service providers.
Real-time Rx Data	Access to real-time pharmacy claims data enables our care managers to intervene faster when a member's health is declining. Also allows claims for members with certain diagnoses in medical history to process POS.	Rx data files are provided to MCOs on a specific timeframe and with data structure not tailored to integrate with each MCO or service system.

Across the Nation, States Have Rejected Carve-Out Models

Experience from other states suggests that a carve-out would lead to considerable increases in pharmacy spending. **A majority of states use a carve-in model to cover some or all of their Medicaid pharmacy benefit, because they save states money and provide better care for patients.** A 2018 analysis by the Association for Community Affiliated Plans³ comparing Medicaid prescription drug costs in states with managed care drug programs and states with fee-for-service programs from 2011 to 2017 showed:

- States that moved to managed care models saw only a 0.9% increase in their collective Medicaid pharmacy costs per prescription, including savings from rebates.
- States that maintained their fee-for-service pharmacy programs saw a 16.1% increase in their collective Medicaid pharmacy costs per prescription, including savings from rebates.

States with managed care drug programs save taxpayer dollars.

Conclusion

Proven evidence shows that maintaining prescription drug benefits as a carve-in with MCOs drives cost savings and delivers highly effective and quality integrated care. While a pharmacy carve-out would increase rebate revenue and decrease ingredient costs for the Medicaid program, the additional costs from dispensing fees, a single preferred drug list medical utilization, and further bifurcating the quality of care received by beneficiaries would far exceed this.

Health plans ensure that Medicaid is effective, affordable, and accountable. Integrated prescription drug management ensures that taxpayer dollars are used wisely and that care is integrated and coordinated for Medicaid members.

2: Value of Managed Care Organizations and Pharmacy Benefit Managers in Managing the Medicaid Prescription Drug Benefit, The Menges Group, October 2019.

3: Medicaid Prescription Drug Utilization and Expenditure Dynamics, published by the Association for Community Affiliated Plans, November 2018.