

Johnson & Johnson

State Medicaid spending on prescription drugs in California



Objective

Despite widespread stakeholder interest, there is no central source of data to identify the amount that states are spending on prescription drugs as a part of total Medicaid spending. As such, discussion of prescription drug costs lacks context on actual drug spending as a portion of state spending on healthcare. To advance the discussion around prescription drug spending in Medicaid, the objective of this analysis was to estimate 2023 prescription drug spending using state budgets and other publicly available sources. This enables evidence-based discussions around net drug spend and proposed drug pricing policies.

Methods

Researchers analyzed state Medicaid drug expenditures and drug rebate income to generate an overview of total state spending on prescription drugs and an estimate of Medicaid drug spending as a percentage of total Medicaid expenditures for California in Fiscal Year 2023.

Sources included:

- Medicaid State Drug Utilization Data to obtain total (non-340B) outpatient drug spending, separated by MCO and FFS spending¹
- Medicaid Budget and Expenditure System/State Children's Health Insurance Program (CHIP) Budget and Expenditure System (MBES/CBES) Form CMS-64; data includes state-reported drug rebate amounts²
- Kaiser Family Foundation FMAP 2023 data³
- State budget documents⁴
- MACStats: Medicaid and CHIP Data Book⁵

Table: Calculations to estimate gross and net drug spend⁴

Gross (total) Medicaid spending	=	State Medicaid contribution	+	Federal Medicaid contribution
Net state Medicaid spending on drugs	=	State share of Medicaid spending on outpatient, non-340B drugs	-	State share of Medicaid rebates (statutory and supplemental)
Percentage of state Medicaid spending that is drug spending	=	Net state Medicaid spending on drugs	÷	State share of Medicaid spending

Note: Gross spending reflects expenditures before the subtraction of manufacturer rebate.

California spends an estimated 7.9% of its Medicaid budget on prescription drugs, net of rebates⁴



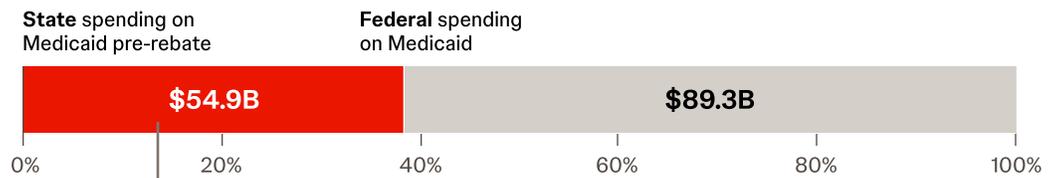
Prescription drugs have become an increasingly important part of the United States healthcare system.² As states consider legislation to establish price controls and other drug pricing policies, review of Medicaid spending on prescription drugs adds vital context to these important discussions.

After rebates, California’s net Medicaid spending on prescription drugs was approximately \$4.3B, just 7.9% of California’s total state Medicaid spending in FY 2023.⁴

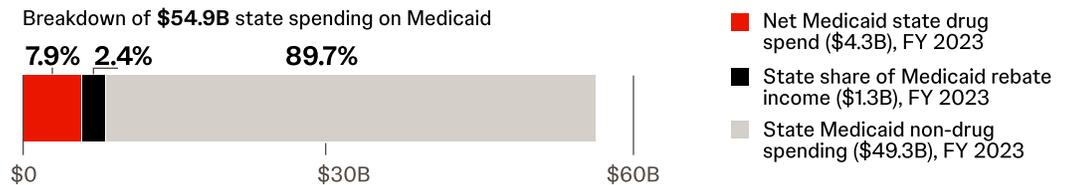
This is below the national rate of drug spending as a share of overall healthcare spending of 14%.⁶

Medicaid spending in California, FY 2023

Estimated state vs. federal share of Medicaid spending, FY 2023



State Medicaid drug spending as a proportion of total Medicaid spending in California, FY 2023



Medicaid Drug Rebates: Under the federal Medicaid Drug Rebate Program, manufacturers provide discounts in the form of rebates on covered outpatient drugs paid for by state Medicaid programs.⁷ **Medicaid rebates reduce gross drug spending by over half.⁸**

Medicaid in CA snapshot: *Medi-Cal* is California’s Medicaid program⁹

37%

Share of CA population covered by Medicaid, FY 2023^{10,11}

14.4M

Total Medicaid & CHIP population, FY 2023¹⁰

18% FFS, 82% MCO

Percent Medicaid population in FFS vs. MCO, FY 2023¹²

\$301

State drug spending per beneficiary after discounts, FY 2023⁴

State and federal contribution to Medicaid

Medicaid is jointly funded by the state and federal government, but is administered by the states.¹³ In California, the state contributed 44% and the federal government contributed 56% to Medicaid expenditures in FY 2022.¹⁴ Actual state and federal Medicaid spending rates can vary significantly from these percentages due to other factors influencing total Medicaid costs, including Medicaid expansion, Medicaid waivers, and special programs in California, which have varying state/federal contribution rates.¹⁵

State initiatives

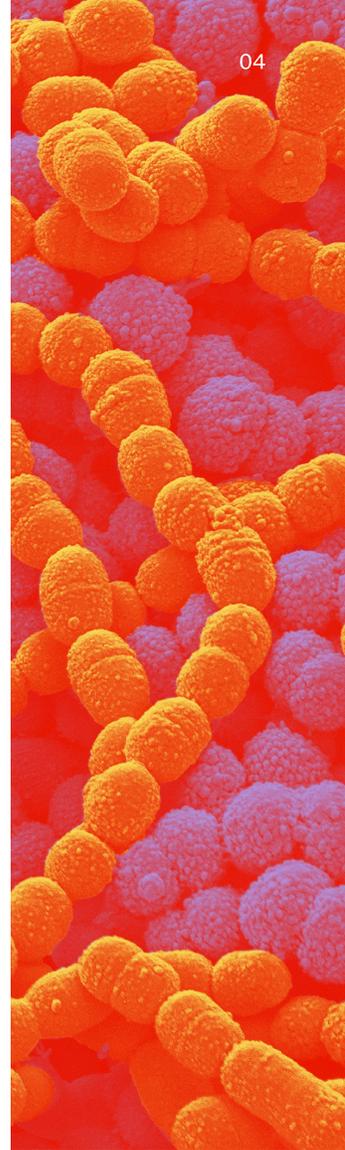
In 2022, Medi-Cal’s pharmacy benefit transitioned from managed care plans to a fee for service system, Medi-Cal Rx, which standardizes the pharmacy benefit and allows the state to implement state-wide utilization controls for outpatient drugs.¹⁶

Limitations

Important limitations to this analysis should be considered. First, there is uncertainty regarding inpatient hospital spending on drugs due to bundled payments (i.e., drug costs not separately identified from hospital costs), and MCO spending on prescription drugs due to limited public reporting.

Furthermore, the drug rebates collected by states in each quarter are generally attributable to drugs administered or dispensed in prior quarters. As a result, gross spending in a given time period does not necessarily align with the rebate dollars received in that period. In addition, there is a lack of transparency across states as to what types of information states publish relating to Medicaid spending.

Some states had detailed Medicaid budget documents, while others limited publicly available information about specific spending areas. Finally, this analysis does not consider 340B drug spending due to lack of transparency regarding the amount of 340B drugs used for Medicaid beneficiaries. 340B entities should be passing 340B discounts through to Medicaid by acquisition cost billing, but it's unclear that it's happening particularly in Medicaid managed care due to lack of transparency. The net Medicaid spend may be higher to the extent covered entities are billing Medicaid and Managed Medicaid at regular rates.



Citations

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