SUMMARY

Federal health care reform passed in March 2010 (Patient Protection and Affordable Health Care Act) made three changes to Medicaid pharmacy. Until further federal clarification becomes available, the cost impact to the State will remain unknown. This brief is for informational purposes only and no Legislative action is required.

DISCUSSION AND ANALYSIS

This brief provides a brief discussion of each of the three changes to Medicaid pharmacy policies as well as the fiscal impact to the State wherever possible.

Unknown General Fund Impact to the State

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Wherever “???” appears in the table above, it means that the impact to State expenditures is not known, but an impact is probable. One of the three changes will not impact Utah Medicaid. The other two of the three provisions could not be quantified at this time. As those estimates become available, this will change the estimated net impact to State expenditures. Each of the three changes in the table are discussed in detail below.

Maximum Federal Reimbursement set at 175% of Average Manufacturer’s Price for Multiple-source Drugs

Currently pharmacy reimbursement is based on the lowest price of four different calculations for each drug. Each price is listed below:

1. Estimated Acquisition Cost – Average Wholesale Price (this is the pharmaceutical industries equivalent of a catalog price for all of its drugs) minus 17.4%, pending federal approval.

2. Federal Maximum Allowable Cost (known as federal upper limit) – Federal law establishes maximum price for multiple-source drugs.

3. Utah Maximum Allowable Cost – Utah has the option to set maximum prices for its multiple-source drug reimbursements. Utah has adopted Federal Maximum Allowable Cost and Utah Maximum Allowable Cost for about 43% of the drugs that it covers. Currently, Utah Maximum Allowable Cost primarily is used for multiple-source drugs.

4. Usual and Customary Charges – by law providers have to submit their usual and customary charge when submitting for reimbursement.

The federal government is changing its maximum price reimbursement for multiple-source drugs to a new methodology using weighted average Average Manufacturer’s Price. As of February 3, 2011, this new system had not been established and so rates for the federal maximum price cannot be calculated. The federal maximum price has not been updated since the passage of federal health care reform. The clarifications for
how this will be calculated has been put forth as a rule, but the actual calculation figures are not available. Multiple-source drugs represent about 10% of all of Medicaid’s total fund pharmacy expenditures. In FY 2010, Utah Medicaid spent $141,259,500 total funds on its pharmacy program.

**Higher Rebates for the Federal Government**

Federal health care reform passed in March 2010 (Patient Protection and Affordable Health Care Act) and mandated that federal rebates be increased effective January 1, 2010. The amount of these rebates must be paid whether or not the State actually receives the rebates from drug manufacturers. The federal government has indicated that they will calculate the required rebates. The list below has the minimum rebate changes mandated as a percentage increase of the Average Manufacturer’s Price:

- 8% for most single source brand name drugs
- 2% for clotting factors and drugs exclusively for children
- 2% for generic drugs

Additional information can be obtained by referencing the letter from the federal government to State Medicaid Directors ([http://www.cms.gov/smdl/downloads/SMD10019.pdf](http://www.cms.gov/smdl/downloads/SMD10019.pdf)).

**Rebates for Medicaid Enrollees in Managed Care Organizations**

New federal provisions for drug rebates on Medicaid clients served by managed care organizations, do not affect managed care providers in Utah Medicaid. In Utah the Medicaid pharmacy program reimburses for all drugs and this allows the State to capture the rebate on those drugs.

**Additional Information About Federal Health Care Reform**

- [www.healthcare.gov](http://www.healthcare.gov)
- [www.ncsl.org](http://www.ncsl.org)
- [www.kff.org](http://www.kff.org)