

## Medicaid Pharmacy Cost Containment: No Good Deed Goes Unpunished

Paul Reinhart, Director  
Medical Services Administration  
Michigan Department of Community Health  
July 22, 2004  
NCSL Annual Meeting "Affordable Pharmaceuticals"  
session

## Conclusions

The Medicare pharmacy benefit:

- Is unlikely to reduce Medicaid pharmacy costs,
- But will reduce state costs in state pharmacy assistance programs.

2

## Topics:

- Michigan Medicaid program background
- Michigan pharmacy cost containment initiatives
- Impact of Medicare Modernization Act

3

## Michigan's Medicaid Program

4

"Medicaid is the bleeding ulcer of state government."

State Rep. Marc Shulman  
Detroit News, April 19, 2004

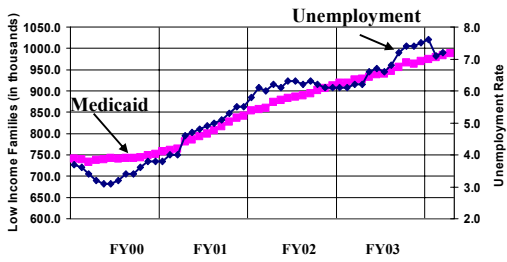
5

"When more and more people are thrown out of work, unemployment results."

Calvin Coolidge

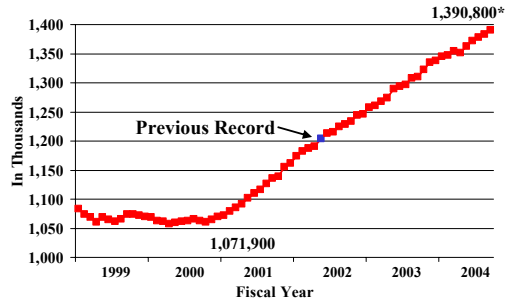
6

## Medicaid Caseload and Unemployment Rate



7

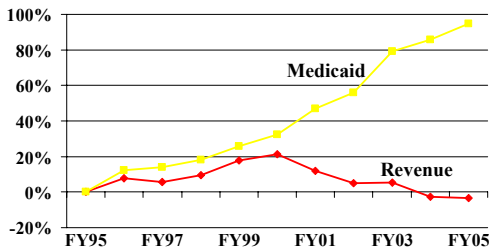
## Michigan Medicaid Caseload



\* June 2004

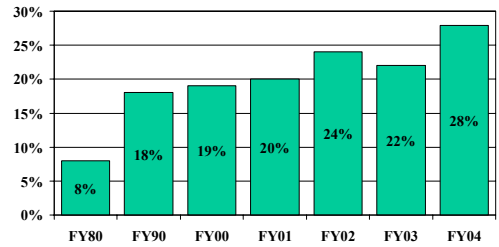
8

## Growth in Michigan Medicaid Vs. Growth in Michigan Revenue



9

## Percent of Michigan's General Fund Revenue Spent on Medicaid



10

“Nothing is as exhilarating as being shot at and missed.”

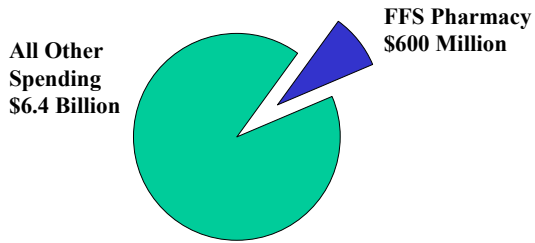
Winston Churchill

11

## Michigan Medicaid Pharmacy Cost Containment

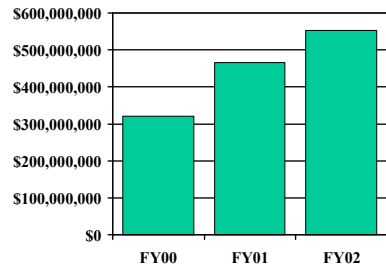
12

## Medicaid Fee for Service Pharmaceutical Spending



13

## Pharmacy Expenditures



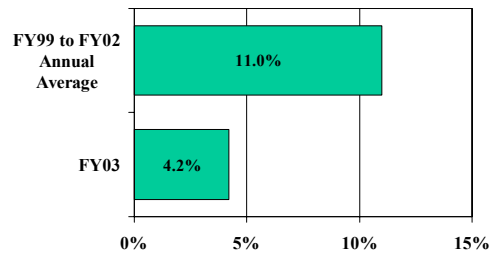
14

## 2003 and 2004 Preferred Drug List Program

- Limited to Michigan
- Pharmacy and Therapeutics Committee identified clinically necessary drugs in 40 drug classes
- Negotiated supplemental rebates
- Clinically necessary and drugs with supplemental rebates were not subjected to prior authorization

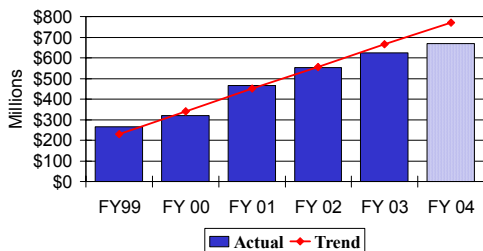
15

## Annual Cost Per Script Increase



16

## Estimated Pharmacy Cost Containment Savings



17

## 2005 Michigan Multi-State Pooling Agreement

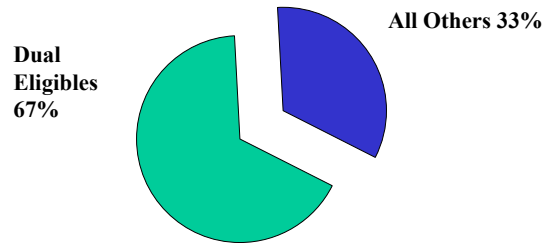
- Approved by the federal government on April 22, 2004
- States in the initial pool: Michigan, Vermont, Nevada, Alaska, New Hampshire
- Other states are likely to join
- Will continue to constrain cost growth

18

## Impact of Medicare Modernization Act

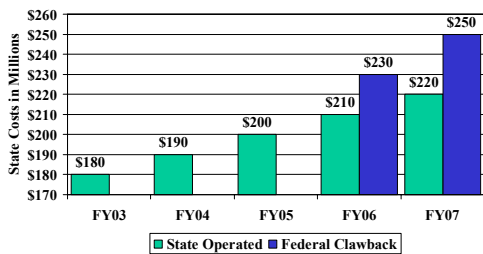
19

## Michigan Fee-for-Service Pharmaceutical Spending



20

## “Clawback” Will Increase Michigan’s Costs



21

## Other MMA Impacts

- New state administrative costs
- Reduced state pharmacy bargaining power
- State pharmacy assistance program savings
- State pharmacy assistance coverage expansion opportunities

22

## Conclusions

The Medicare pharmacy benefit:

- Is unlikely to reduce Medicaid pharmacy costs,
- But will reduce state costs in state pharmacy assistance programs.

23