

# Approaches to the Medicaid Prescription Drug Benefit

March 2022



## OVERVIEW

**States that employ Medicaid managed care organizations (MCOs) to pay for prescription drugs outperform states that rely on the fee-for-service (FFS) setting to control drug costs. Despite larger rebates in FFS, MCOs' effective strategies to encourage use of less expensive drugs contribute to lower net costs per prescription.**

Capitation contracting with Medicaid MCOs is the nation's primary approach to delivering Medicaid coverage. Within the pharmacy benefit, over 70% of Medicaid prescriptions nationwide were paid by MCOs in the past several years. Medicaid MCOs more effectively steer prescription volume to low-cost, generic drugs.

In FFS, states encourage use of brand medications with the largest manufacturer rebates. Yet, states can still achieve the greatest savings through MCOs' management of the drug benefit. While this report focuses on cost-effectiveness, it is just one factor states may consider when deciding how to manage the Medicaid drug benefit. Clinical outcomes, quality, and provider and beneficiary experience are also important considerations, but are outside the scope of this study.

### Topics

- Medicaid prescription drug benefit
- Cost effectiveness of Medicaid pharmacy benefit models
- Generic utilization across Medicaid pharmacy benefit models
- Policy implications