Prescription Drug Affordability Board Upper Payment Limit and Medicaid

There are two important points about how an upper payment limit (UPL) set by a Prescription Drug Affordability Board (PDAB) will affect Medicaid:

* A UPL will reduce costs in both fee for service and Medicaid managed care programs for prescription drugs to which a UPL is applied by decreasing pharmacy claims payments.
* A UPL will not affect federal Medicaid rebates for the drug.

**Medicaid pharmacy claims payments will be reduced for a drug with a UPL**

Like other health plans and payers, in the absence of a UPL, Medicaid reimburses pharmacies for dispensed drugs based on some percentage of wholesale acquisition cost (WAC), for example, 100% of WAC, 5% less than WAC, etc. Payers aim to reimburse for what it cost the pharmacy to stock the drug plus a professional fee. For a drug with a UPL, Medicaid will reimburse pharmacies at the UPL plus a professional fee. In other words, for drugs with a UPL, the pharmacy acquisition cost is the UPL, and the reimbursement formula is the UPL plus a dispensing fee. The difference between the WAC-based reimbursement and the UPL is the savings for Medicaid.

For example, if the WAC is $100 and Medicaid reimburses pharmacies $100 for the drug product, the Medicaid pharmacy drug product claims payment cost is $100. Alternately, if the UPL for the drug is set at $75, the Medicaid pharmacy reimbursement is $75 ($25 lower than WAC reimbursement).[[1]](#endnote-1)

Savings on claims payment is important for Medicaid since those funds must be appropriated each year. UPLs on certain high-cost drugs will help limit the growth in appropriations for pharmacy claims.

**The UPL will not interfere with the federal Medicaid rebate for that drug**

Medicaid rebates are established by federal law and based on national sales of a drug. Federal rebates determine the net cost of a drug to a state Medicaid program. The minimum federal rebate is 23%.

For the $100 WAC cost drug in the example above, the net cost after federal rebate of 23% is $77 ($100 - ($100 x 0.23)). In contrast, the net cost after the federal rebate for that same drug with a UPL of $75 is $52 ($75 - ($100 x 0.23)) because the UPL would not change the calculation of AMP which uses national data

There may be some cases where the Medicaid rebate is so large under current law that the net product cost to Medicaid is near $0 even without a UPL in place. In this situation, the federal Medicaid rebate could produce a surplus for Medicaid for the UPL drug.[[2]](#endnote-2)

A manufacturer may not be willing to enter into a voluntary supplemental rebate agreement for a drug with a UPL. However, the Medicaid tools and incentives that produce supplemental rebates now will continue to exist without regard to a UPL, so it is not clear that a manufacturer’s response to a request for Medicaid supplemental rebates will be different in the presence of a UPL.

1. The actual Medicaid rebate formula is based on average manufacturer price (AMP), which approximates the WAC given how the AMP formula works. [↑](#endnote-ref-1)
2. Manufacturer rebate amount obligations are capped at 100% of the AMP until 2023 at which point the federal rebate can exceed the price of the drug. A UPL would not affect that situation either other than to increase the surplus Medicaid receives for the drug with a UPL [↑](#endnote-ref-2)