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# *Four Medicaid Proposals That May Cut Enrollment—and Manufacturer Revenues*


## By Doug Brown

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A new administration in Washington brings both new opportunities and new challenges for pharmaceutical manufacturers doing business with state Medicaid programs. The House Budget Committee compiled a list of spending reform options for committee member consideration with a $5.3T topline savings. Many of the proposed reforms come from the federal Medicaid program and could have significant consequences for both the states and the Medicaid patients they serve. Of the roughly 14 proposals directly impacting Medicaid, we are watching 4 that we think are most likely to impact the coverage, eligibility, and services Medicaid beneficiaries receive and, by extension, will impact pharmaceutical manufacturers as well.

1. **Per capita caps**: These would change Medicaid funding from a guaranteed matching percentage of state expenditure by the federal government to a fixed limit on Medicaid spending per enrollee. This proposal would shift financial risk for cost overruns to the states. As a result, states may need to cut eligibility or benefits to stay within budget.
2. **Reduced Federal Medical Assistance Percentage (FMAP) for the expansion population:** A pullback of the 90% FMAP for the ACA's expansion population would leave millions at risk of losing coverage. Roughly 21 million Americans gained coverage through Medicaid expansion, and 4.3 million are in states with laws that would mandate review or end coverage if federal funding is reduced. In 9 states (AZ, AR, IL, IN, MT, NH, NC, UT, VA), coverage would automatically terminate if federal support drops, forcing many to seek coverage through other means.
3. **Limiting Medicaid provider taxes:** The federal government matches state Medicaid spending based on the FMAP. Provider taxes increase the state's share of Medicaid spending, which in turn increases the amount of federal matching funds the state receives. Limiting or reducing provider taxes would reduce state Medicaid spending, which would lower federal matching funds and shift those costs back to the state. As a result, look for states to find alternative funding sources like reducing provider reimbursement or reducing services.
4. L**owering the FMAP floor:** There are currently 10 states at the 50% minimum FMAP threshold (CA, CO, CT, MD, MA, NH, NJ, NY, WA, WY). The FMAP is based on an average per capita income formula; the higher the average, the lower the FMAP. The range is 50% (minimum) to an 83% (maximum). By removing the floor of 50%, the FMAP for these 10 states will drop below 50% and could result in reduced Medicaid services, eligibility, or both.

- These 4 budget proposals could impact pharmaceutical manufacturers in several ways. All these initiatives could result in lower enrollment, which will reduce overall drug utilization and manufacturer revenue.
  - State budget shortfalls could drive stricter drug coverage policies and the more frequent use of utilization management tools. Tighter restrictions on drug access may include the following:
    - Additional prior authorization criteria
    - Prescription limits (for example, 2 brand drugs and 3 generic drugs)
    - Increased patient co-payments
    - Increased use of specialist consultation for prescription services
    - Site-of-service requirements
  - Manufacturers will likely face added pressure to offer additional supplemental or value-based rebates or additional discounts to keep products accessible
  - Manufacturers will see increased demand for manufacturer patient assistance programs
  - States will increase use of Medicaid managed care, which provides budget certainty for state Medicaid programs

As these or other proposals advance out of committee, we will take a deeper dive to analyze the potential impacts to states, the people they serve, and the downstream impacts to manufacturers.

**About Doug Brown**

Doug spent 2 decades working with state Medicaid Pharmacy Directors helping them manage their pharmacy benefit, consulting with policy leaders in Washington, DC, and years analyzing healthcare policy at COEUS with manufacturers, PBMs, and the Centers for Medicare & Medicaid Services (CMS). Doug is also a commissioner on the Medicaid and CHIP Payment and Access Commission (MACPAC), a non-partisan legislative branch agency that provides policy and data analysis and makes recommendations to Congress, the Secretary of the US Department of Health and Human Services, and the states on a wide array of issues affecting Medicaid and the State Children's Health Insurance Program (CHIP).

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