



PHARMACEUTICAL CARE MANAGEMENT ASSOCIATION

Mark Merritt  
President & CEO

February 25, 2011

The Honorable Kathleen Sebelius  
Secretary of Health and Human Services  
Office of the Secretary  
United States Department of Health and Human Services  
Hubert H. Humphrey Building  
200 Independence Avenue, SW, Room 120F  
Washington, DC 20201

Secretary Sebelius:

As you assist in helping governors from across the country face difficult Medicaid budget decisions, there is a proven option that would result in significant savings for each state. Instead of painful elimination of benefits and cuts to hospitals and doctors, governors could simply end Medicaid's practice of paying more than other programs for pharmacy benefits and adopt practices reflective of those used in Medicare Part D and commercial plans.

A state-by-state analysis from [The Lewin Group](#) finds that Medicaid pays higher pharmacy rates, uses fewer generics than other programs and could save more than \$30 billion over the next decade by transitioning to more efficient approaches used by Medicare Part D plans and the commercial sector, including union and state employee plans. This would save New York about \$2.3 billion, California about \$2.1 billion, and Texas \$1.2 billion, over the next decade.

In fact, both New York and New Jersey recently announced plans to shift to a more modern pharmacy benefit management approach similar to that described in the study, projecting a combined savings of \$391 million.

In most states, state legislators or government officials determine how much Medicaid pays drugstores for each prescription filled (dispensing fees) and ingredient costs (the reimbursement for the cost of the actual drug) which is a highly political and inefficient process. If states mirrored the operations of Part D, their Medicaid programs could improve generic utilization and negotiate better pharmacy payments directly with chain drugstores and the drug wholesalers that represent independent pharmacies.

[Recent polling](#) finds that voters want to reduce Medicaid spending by more efficient pharmacy management rather than cutting benefits for patients or payments to doctors and hospitals. Voters also want Medicaid to stop paying higher pharmacy costs than other programs while also using fewer generics.

Considering the savings, support, and immediacy associated with this reform, the easiest way for governors to reduce spending in Medicaid without cutting benefits – or slashing hospital or physician payments – is to modernize pharmacy benefits and start using cutting-edge marketplace tools to negotiate lower rates and increase the use of generic medications.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark Merritt". The signature is fluid and cursive, with a prominent loop at the end.

Mark Merritt  
President and Chief Executive Officer

Enclosures: The Lewin Group: Potential Federal and State-by-State Savings if Medicaid  
Pharmacy Programs were Optimally Managed

Ayres, McHenry, & Associates Poll: Voter Attitudes Regarding Medicaid  
Pharmacy Spending