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STATE OF IOWA
LEGISLATIVE FISCAL BUREAU

Memorandum

TO: Fiscal Committee Members
FROM: Deb Anderson
DATE: November 7, 2000
RE: Medicaid Drug Rebates

The Omnibus Budget Reconciliation Act of 1990 established the Medicaid drug rebate program effective January 1, 1991. The rebate program requires Medicaid coverage of all drugs marketed by a manufacturer if the manufacturer has signed a rebate agreement with the federal Health Care Financing Administration. The rebate program is designed to tap Medicaid's purchasing power by giving Medicaid volume discounts similar to those afforded to other large purchasers of prescription drugs. Approximately 500 pharmaceutical companies now participate in the program.

Iowa's rebate program is administered by its fiscal agent, Consultec. Consultec collects the rebates through quarterly computer searches of all paid outpatient drug claims. Units paid are multiplied by rebate amount per unit to determine the amount of rebate due from and billed to each manufacturer. The amount of rebate varies from 11.0% to 15.1% of the average manufacturer price, depending upon the type of pharmaceutical reimbursed.

Iowa's share of drug rebates collected since the rebate program began in 1991 is \$71.6 million. Total Medicaid pharmaceutical expenditures reimbursed by the State over the same time period were \$417.8 million prior to rebates. In FY 2000, Medicaid pharmaceutical expenditures reimbursed by the State were \$69.7 million prior to rebates. Drug rebates collected by the State were \$13.0 million, and rebates outstanding at the end of the fiscal year were \$6.0 million.

The following table illustrates the pharmaceutical data:

<u>Fiscal Year</u>	<u>State Pharmaceutical Expenditures</u>	<u>State Pharmaceutical Rebates</u>	<u>Net State Pharmaceutical Expenditures</u>
1991-2000	\$417.8 million	\$71.6 million	\$346.2 million
2000	69.7 million	13.0 million	56.7 million

If you have additional questions related to drug rebates, please contact me at 281-6764.