

Department of Health Care Policy and Financing

Funding Request for the FY 2025-26 Budget Cycle

Request Title

R-15 Pharmacy MAC

Dept. Approval By: _____

Supplemental FY 2024-25

OSPB Approval By: _____

Budget Amendment FY 2025-26

X

Change Request FY 2025-26

Summary Information	Fund	FY 2024-25		FY 2025-26		FY 2026-27
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation
Total		\$11,931,356,051	\$0	\$12,009,671,603	(\$2,066,234)	(\$2,066,234)
FTE		0.0	0.0	0.0	0.0	0.0
Total of All Line Items Impacted by Change Request	GF	\$3,573,779,779	\$0	\$3,561,445,916	(\$470,433)	(\$470,433)
	CF	\$1,321,506,284	\$0	\$1,312,107,528	(\$129,619)	(\$129,619)
	RF	\$120,304,766	\$0	\$120,304,766	\$0	\$0
	FF	\$6,915,765,222	\$0	\$7,015,813,393	(\$1,466,182)	(\$1,466,182)

Line Item Information	Fund	FY 2024-25		FY 2025-26		FY 2026-27
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation
Total		\$11,931,356,051	\$0	\$12,009,671,603	(\$2,066,234)	(\$2,066,234)
02. Medical Services Premiums, (A) Medical Services Premiums, (1) Medical Services Premiums - Medical Services Premiums	FTE	0.0	0.0	0.0	0.0	0.0
	GF	\$3,573,779,779	\$0	\$3,561,445,916	(\$470,433)	(\$470,433)
	CF	\$1,321,506,284	\$0	\$1,312,107,528	(\$129,619)	(\$129,619)
	RF	\$120,304,766	\$0	\$120,304,766	\$0	\$0
	FF	\$6,915,765,222	\$0	\$7,015,813,393	(\$1,466,182)	(\$1,466,182)

Auxiliary Data

Requires Legislation? NO

Type of Request? Health Care Policy and Financing Prioritized Request

Interagency Approval or Related Schedule 13s:

No Other Agency Impact



Department Priority: R-15 Pharmacy MAC

Summary of Funding Change for FY 2025-26

Fund Type	FY 2025-26 Base Request	FY 2025-26 Incremental Request	FY 2026-27 Incremental Request
Total Funds	\$12,009,671,603	(\$2,066,234)	(\$2,066,234)
General Fund	\$3,561,445,916	(\$470,433)	(\$470,433)
Cash Funds	\$1,312,107,528	(\$129,619)	(\$129,619)
Reappropriated Funds	\$120,304,766	\$0	\$0
Federal Funds	\$7,015,813,393	(\$1,466,182)	(\$1,466,182)
FTE	0.0	0.0	0.0

Summary of Request

Problem or Opportunity: Currently the Department uses the Maximum Allowable Cost (MAC) rates in pharmaceutical pricing situations where there is insufficient data to calculate the Average Acquisition Cost (AAC) or National Average Drug Acquisition Cost (NADAC). The primary goal of the MAC methodology is to ensure that state Medicaid programs pay a fair and reasonable price for prescription drugs, particularly generics, while encouraging cost-effective prescribing practices. Colorado's MAC rates are above acquisition costs and Colorado has the opportunity to reduce health care expenditure by increasing the discount on prescription drugs that use MAC discount methodology.

Proposed Solution: The Department proposes to increase the MAC discount to offset pharmacy costs on certain drugs for which the AAC or NADAC are not available. The MAC pricing methodology applies different discount rates for generic and brand name drugs. The Department is requesting to increase both discount rates. This action will promote equitable outcomes by reducing overall drug costs in the state's Medicaid program.

Fiscal Impact of Solution: The Department requests a reduction of \$2,066,234, including \$470,433 General Fund, in FY 2025-26 and ongoing to increase the Maximum Allowable Cost (MAC) Discount. Increasing the MAC discount will reduce pharmacy costs by more closely aligning pharmacy rates with prescription drug acquisition costs.

Requires Legislation	Equity Impacts	Revenue Impacts	Impacts Another Department?	Statutory Authority
No	Neutral	N/A	No	25.5-4-401 C.R.S.

Background and Opportunity

The Department began using the MAC rates in FY 2020-21 after the approval of the FY 2020-21 R-07 “Pharmacy Pricing and Technology” request. The Department, through a contractual relationship with its pharmacy benefit management system vendor, sets the rates paid for each drug using either the AAC or NADAC methodologies. When there are insufficient data on the acquisition cost of drugs, the Department applies the MAC rate methodology, which is based on discounts from Wholesale Acquisition Cost (WAC) rates that were derived from the National Average Drug Acquisition Cost (NADAC) equivalency results published by CMS. By paying the MAC rates, which are lower than the current WAC rates, the Department has been able to save on pharmacy costs in situations when there is insufficient data for the AAC or NADAC rates calculations.

State Medicaid programs have a degree of flexibility in utilizing the MAC rates. States have the ability to establish the list of drugs for which they pay MAC rates provided they comply with federal guidelines and ensure that reimbursement rates are consistent with efficiency, economy, and quality of care.¹ This presents the Department with the opportunity to increase the MAC discount and to better align pharmacy expenditure with prescription drug acquisition costs. In addition, the drugs that are eligible for MAC discounts grows continually as drug prices and market conditions evolve. Thus, periodic reviews and adjustments to the MAC rates ensure that they are accurate and fair.

Proposed Solution and Anticipated Outcomes

The Department requests the authority to increase the MAC discount rates. The Department believes this to be an effective solution to control escalating prescription drug costs within the Medicaid program.

Performance metrics will include reduced average expenditure per prescription and enhanced generic drug utilization rates. The expanded use of MAC rates will encourage the use of cost-effective generic drugs by decreasing the reimbursement for brand name drugs, thereby ensuring the efficient use of state funds. Inputs will include updated pricing data and stakeholder engagement, while outputs will focus on adjusted reimbursement rates and

¹ <https://www.federalregister.gov/documents/2016/02/01/2016-01274/medicaid-program-covered-outpatient-drugs>. See also 42 CFR § 447.512 - Drugs: Aggregate upper limits of payment and 42 CFR § 447.518 - State plan requirements, findings, and assurances.

comprehensive monitoring of spending trends. The Department will work internally and with external stakeholders to develop a communications plan to engage with pharmacy providers and associations in January 2025. This work is absorbable within existing resources. The purpose of the communications plan will be to help pharmacy providers and associations understand the impact of this request if it were implemented.

The Department anticipates that the negative revenue impact driven by this change will be borne primarily by mail order pharmacy providers. The Department made this determination by analyzing existing data on the drugs which will become newly eligible for the MAC discount and the setting in which they were commonly reimbursed. Expected outcomes include aligning pharmacy expenditure with the Department's acquisition costs and a more sustainable Medicaid budget. Medicaid members and taxpayers stand to gain from reduced health care costs, though some pharmacy providers may express concerns about the impact on their reimbursement levels. Overall, this initiative aims to balance fiscal responsibility with the health needs of Colorado's Medicaid population. This request will help the Department reach its goal of increasing value in Medicaid by reducing Pharmacy expenditures.

Supporting Evidence and Evidence Designation

The Department assumes that an Evidence Designation is not applicable to this request because the request does not meet the statutory definition for a program or practice. To be considered a program or practice, the request must have specific outcomes, a target population, and defined and replicable elements. The MAC pricing strategy is a methodology that the Department already utilizes to determine the reimbursement rate of certain drugs. The State has existing authority to increase the discount rate provided federal guidelines pertaining to efficiency, economy, and quality of care are met. This drug reimbursement methodology is widely utilized by state Medicaid programs throughout the United States to reduce Medicaid expenditure on Pharmacy costs. The Department will continue to closely monitor its compliance with relevant federal regulations.²

Promoting Equitable Outcomes

The Department anticipates neutral equity impacts from this request. The reduction to pharmacy costs will only impact the subset of drugs that use the MAC discount methodology prior to there being sufficient data to calculate the acquisition cost of the drugs. By increasing the MAC discount, the Department will pay closer to the actual acquisition costs and does not anticipate an impact on access to care for Medicaid members.

Assumptions and Calculations

The Department worked with a vendor to analyze current MAC discounts and to identify the drugs that currently use the MAC methodology for price setting. The vendor then performed an analysis of the current MAC methodology to determine a reasonable discount rate that would better align the MAC rates with acquisition costs in Colorado. Based on this analysis, the Department requests that the discount be increased from 10% to 20% for generic drugs and from

² 42 CFR § 447.512 - Drugs: Aggregate upper limits of payment and 42 CFR § 447.518 - State plan requirements, findings, and assurances.

3% to 3.5% for brand name drugs. This percentage increase was then applied to the list of drugs in the vendor analysis to calculate the estimated savings. This proposed savings was subtracted from the current savings to generate the incremental impact of the change in MAC discount. See appendix for more details.

R-15 Pharmacy MAC
Appendix A: Assumptions and Calculations

Table 1.1 Summary by Line Item FY 2025-26									
Row	Line Item	Total Funds	FTE	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	FFP Rate	Notes/Calculations
A	(2) Medical Services Premiums; Medical and Long-Term Care Services for Medicaid Eligible Individuals	(\$2,066,234)	0.0	(\$470,433)	(\$129,619)	\$0	(\$1,466,182)	70.96%	Table 2.1
B	Total Request	(\$2,066,234)	0.0	(\$470,433)	(\$129,619)	\$0	(\$1,466,182)	70.96%	Row A

Table 1.2 Summary by Line Item FY 2026-27									
Row	Line Item	Total Funds	FTE	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	FFP Rate	Notes/Calculations
A	(2) Medical Services Premiums; Medical and Long-Term Care Services for Medicaid Eligible Individuals	(\$2,066,234)	0.0	(\$470,433)	(\$129,619)	\$0	(\$1,466,182)	70.96%	Table 2.2
B	Total Request	(\$2,066,234)	0.0	(\$470,433)	(\$129,619)	\$0	(\$1,466,182)	70.96%	Row A

Table 1.3 Summary by Line Item FY 2027-28 and Ongoing									
Row	Line Item	Total Funds	FTE	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	FFP Rate	Notes/Calculations
A	(2) Medical Services Premiums; Medical and Long-Term Care Services for Medicaid Eligible Individuals	(\$2,066,234)	0.0	(\$470,433)	(\$129,619)	\$0	(\$1,466,182)	70.96%	Table 2.3
B	Total Request	(\$2,066,234)	0.0	(\$470,433)	(\$129,619)	\$0	(\$1,466,182)	70.96%	Row A

R-15 Pharmacy MAC
Appendix A: Assumptions and Calculations

Table 2.1 Summary by Initiative FY 2025-26									
Row	Item	Total Funds	FTE	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	FFP Rate	Notes/Calculations
A	Increase MAC Discount	(\$2,066,234)	0.0	(\$470,433)	(\$129,619)	\$0	(\$1,466,182)	70.96%	Table 3.2
R	Total Request	(\$2,066,234)	0.0	(\$470,433)	(\$129,619)	\$0	(\$1,466,182)	70.96%	Row A

Table 2.2 Summary by Initiative FY 2026-27									
Row	Item	Total Funds	FTE	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	FFP Rate	Notes/Calculations
A	Increase MAC Discount	(\$2,066,234)	0.0	(\$470,433)	(\$129,619)	\$0	(\$1,466,182)	70.96%	Table 3.2
B	Total Request	(\$2,066,234)	0.0	(\$470,433)	(\$129,619)	\$0	(\$1,466,182)	70.96%	Row A

Table 2.3 Summary by Initiative FY 2027-28 and Ongoing									
Row	Item	Total Funds	FTE	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	FFP Rate	Notes/Calculations
A	Increase MAC Discount	(\$2,066,234)	0.0	(\$470,433)	(\$129,619)	\$0	(\$1,466,182)	70.96%	Table 3.2
B	Total Request	(\$2,066,234)	0.0	(\$470,433)	(\$129,619)	\$0	(\$1,466,182)	70.96%	Row A

R-15 Pharmacy MAC
Appendix A: Assumptions and Calculations

Item	Enter WAC Discount Below	Current MAC Discount off WAC	Additional Discount off WAC
Brand WAC Discount	-3.50%	-3.00%	-0.50%
Generic WAC Discount	-20.00%	-10.00%	-10.00%

Row	Drug Type	Brand	Generic	Total	Notes
A	Expenditure at WAC	\$213,830,162	\$9,970,833	\$223,800,996	Vendor Analysis
B	Spend at Current MAC	\$207,415,258	\$8,973,749	\$216,389,008	Vendor Analysis
C	Estimated Fiscal Savings of Current MAC	(\$6,414,904)	(\$997,084)	(\$7,411,988)	Row B - Row A
D	Expenditure at Proposed MAC	\$206,346,107	\$7,976,666	\$214,322,773	Vendor Analysis
E	Estimated Saving at Proposed MAC	(\$7,484,056)	(\$1,994,167)	(\$9,478,222)	Row D - Row A
F	Estimated Additional Savings	(\$1,069,152)	(\$997,083)	(\$2,066,234)	Row E - Row E