

As Cuts Loom, State Medicaid Programs Leave Millions in Drug Rebates on the Table

The programs are entitled to drug discounts, but struggle with the paperwork.

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Even as states worry about looming Medicaid cuts, they are failing to collect tens of millions of dollars in drug discounts every year, according to a report by a government watchdog.

Since 1991, state Medicaid agencies have been entitled to claim rebates from pharmaceutical companies. But between 2008 and 2020, the agencies failed to collect \$392.8 million in rebates, according to a little-noticed [report](#) released last spring by the inspector general's office of the U.S. Department of Health and Human Services.

In addition, states should have claimed rebates totaling an unknown amount for another \$362.3 million worth of drugs, the report found. The HHS inspector general examined 57 previous audits of state Medicaid agencies to compile the most recent report.

Only [about 6%](#) of overall Medicaid spending goes toward prescription drugs, but the cost is rising fast. Net Medicaid spending (after rebates) on prescriptions [increased by an estimated 72%](#) from 2017 to 2023, from \$30 billion to \$51 billion, according to KFF, a health research organization.

Medicaid, which provides health care coverage for people with low incomes, is funded jointly by the federal government and the states. States are bracing for federal cuts to the program, as the Trump administration and congressional Republicans [look for ways](#) to pay for extending tax cuts enacted during Trump's first term in office.

Deborah Williams, who has worked as a health policy analyst on Capitol Hill and at several drug companies, said states have long struggled with the administrative and technical burdens of invoicing for the discounts. To claim them, state Medicaid agencies must collect and submit data to manufacturers, detailing drug usage by Medicaid enrollees, within 60 days of the end of each quarter.

"It's been a perennial problem for over 30 years," said Williams, who now runs her own consulting

firm, Health Policy Insights. “In general, the states are underfunded and the variability and the competence of the states ... dramatically varies as well.”

New York, for example, left \$21 million in rebates on the table and should have collected an unknown amount of money associated with another \$11.7 million in costs.

The state spent [\\$34.7 billion](#) on Medicaid last year, but at a time when Medicaid funding is under scrutiny, the lost rebates matter, said Robin Feldman, a professor at UC Law San Francisco and an expert on pharmaceutical law.

“Every budget is limited. If drug prices were lower, then the government could spend those dollars expanding the program, or expanding who’s eligible for the program,” Feldman said in an interview. “One should never leave money on the table if humanly possible. It’s not good for economic efficiency and it’s not good for taxpayers and consumers.”

The report covers so-called physician-administered medications, or drugs (other than vaccines) that are often infused or injected in a doctor’s office or other outpatient setting.

Kimberly Leonard, who oversees Medicaid pharmacy policy at the New York State Department of Health, said it’s more difficult to claim rebates for physician-administered drugs than it is for a bottle of pills.

To capture more of the missed rebates, Leonard said, New York has hired a small team of pharmacists and accountants to examine claims and has hired an outside vendor to help with invoicing claims.

Antonio Ciaccia, CEO of 46brooklyn Research, a nonprofit that studies drug pricing data, acts as a consultant for state Medicaid agencies. He said some states struggle to claim the rebates because they don’t have enough people with the technical expertise to review and plug in the necessary codes.

“There are massive logistical hurdles that you have to go through just to obtain what a system is supposed to give you,” Ciaccia said. He added that the fact that states have to hire consultants like him to claim what they are owed is evidence of a broken system.

The HHS report recommends that the federal government help states create better internal systems for capturing all the rebates they are due.

Williams said states’ struggles to claim the rebates are emblematic of a broader problem: When programs designed to generate savings are too complicated, they ultimately benefit drug manufacturers and insurance companies — not taxpayers or patients.

“The feds are not going to allocate more administrative dollars to make it work,” Williams said. “If after 30 years, [the states] haven’t managed to achieve operational excellence, they are not going to change it overnight. So, it’s a structural, systematic and a political problem.”

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