Greg Browning's Analysis of
Ohio Drug Price Relief Act Backers'
Cost Savings Estimate
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Ohio Taxpayers for Lower Drug Prices support a requirement in Ohio law that a range of state government related entities, including the Ohio Medicaid program, pay no more for prescription drugs than is paid by the U.S. Department of Veterans Affairs (VA). The backers of this 2017 statewide ballot initiative (Ohio Drug Price Relief Act) estimate the annual cost savings at a minimum of $400 million. How the proponents arrived at their estimate is not clear.

It appears that initiative backers have simply assumed that the VA's federally-mandated 24 percent discount off of the non-federal average manufacturer prices for prescription drugs would be applied to the state's existing spending for Ohioans impacted by the proposed act. This includes three million Ohio Medicaid recipients.

In FY 2015, Ohio Medicaid spent $1.5 billion on prescription drugs for those three million recipients. This was *net of* a mandatory Medicaid discount of 23.1 percent *plus numerous additional cost reductions and rebates that states negotiate*. Initiative backers appear to ignore these realities. Instead, they assume Ohio could apply a simple, across-the-board reduction of 20 to 24 percent per year to its current spending.

This is how their mistaken calculation might work. If the low end of the cost savings estimate (20 percent) was applied to the FY 2015 Ohio Medicaid expenditure of $1.5 billion the savings would be $300 million. An additional $100 million in savings can be found if one also assumes that the (approximate) $500 per person, per year average prescription drug cost for Ohio Medicaid recipients is reflective of spending by the one million other, non-Medicaid Ohioans impacted by the initiative. A 20 percent cost reduction on the assumed prescription drug spending of $500 million for this group would total $100 million per year. Adding $300 million and $100 million results in a $400 million annual drug cost savings.

This approach is flawed in important ways. First, it includes a de facto assumption that impacted parties, including Ohio Medicaid, are currently receiving no prescription drug discounts. This is simply not true.

A more appropriate calculation would apply the 20-24 percent estimated savings to an undiscounted spending figure, and only for the subset of drugs that is on the VA formulary. For drugs not on the VA formulary, the state's prices could actually go up.

Additionally, the approach presumes that the Act can be implemented in full, which other analyses have shown to be an inaccurate assumption.

Conclusion

Proponents of the Ohio Drug Price Relief Act appear to have created an annual drug cost savings estimate of "$400 million" both by ignoring the significant discounts Ohio currently receives on prescription drugs and by using faulty logic involving the most basic of relevant policy and fiscal realities. They have done this by assuming that (at least) a 20 percent cut to approximately $2 billion in prescription drug expenditures produces $400 million in savings. Yet they have made this calculation without taking into consideration the profound fact that these Ohio prescription drug expenditures, which involve three million Ohio Medicaid recipients and about one million other impacted citizens, already reflect mandatory and negotiated discounts that already rival drug prices paid by the U.S. Department of Veterans Affairs.

In short, the proponent's claim that passing the Ohio Drug Price Relief Act would result in $400 million in annual savings is simply false and without merit.