



Executive Summary

Pharmacy benefits managers (PBMs) are third-party administrators that operate as intermediaries in the healthcare supply chain, serving as the go-between for pharmacies, insurers, and pharmaceutical manufacturers. Their three primary functions are to process prescription drug claims, develop drug formularies, and negotiate drug pricing with manufacturers with the intent of keeping drug prices low and claims processing efficient.

State health programs contract with managed care organizations (MCOs) to deliver healthcare services rather than paying providers directly. MCOs typically contract with PBMs to manage pharmacy benefits. When a state health plan contracts with multiple MCOs, each of which contracts with its own PBM, states may face challenges related to oversight, transparency, and monitoring PBM practices, including spread pricing. At the same time, beneficiaries enrolled in different MCOs may face disjointed and potentially inequitable prescription drug coverage due to differences in drug formularies. This memorandum explores how some states in the CSG South region have attempted to address this issue by reducing the number of PBMs MCOs can use.

Research Methods

The information in this memorandum was gathered using publicly available data and through a legislative review via Quorum.

Findings and Analysis

In response, states have increasingly consolidated pharmacy benefit administration by either “carving out” pharmacy benefits from MCO contracts or by requiring MCOs to contract with a single state-selected PBM. As of July 2025, eight states operated pharmacy carve-outs: California, Missouri, North Dakota, New York, Ohio, Tennessee, West Virginia, and Wisconsin.ⁱ Meanwhile, Kentucky and Mississippi have adopted a single-PBM model. It should be noted that Louisiana did operate a single-PBM model, but as of October 1, 2025, this only applied to fee-for-service members or to people with behavioral-health-only coverage through their Medicaid health plan.ⁱⁱ The following summaries describe how five states in the CSG South region have implemented PBM consolidation strategies

Kentucky:

Rather than implementing a full carve-out, Kentucky adopted a centralized PBM structure through [Senate Bill 50 \(2020\)](#). The legislation requires Medicaid managed care organizations to utilize a state-selected PBM for the administration of pharmacy benefits. Kentucky's approach preserves managed care for medical services while consolidating pharmacy benefit administration under a single PBM and a unified formulary. According to one published analysis, Kentucky's model generated approximately \$283 million in savings after implementation.ⁱⁱⁱ

Mississippi:

Mississippi implemented a statewide pharmacy benefit administrator beginning July 1, 2024. Under this model, Medicaid MCOs must use the state's designated PBM, creating a unified pharmacy benefit structure across the program.^{iv} There is currently no available savings data.



Missouri:

Missouri administers outpatient prescription drug benefits directly through the state's MO HealthNet Pharmacy Program rather than through MCOs.^v This carve-out model allows the state to manage formularies, rebates, and pharmacy reimbursement directly. Available data estimate savings of approximately \$4.4 million following implementation of the carve-out approach.^{vi}

Virginia:

Beginning July 1, 2026, Virginia will contract with a single third-party administrator to serve as the state pharmacy benefits manager for Medicaid recipients, including those enrolled through MCOs.^{vii} This change was brought on by the passage of companion bills, [House Bill 2610](#) and [Senate Bill 875](#), during the 2025 session.

West Virginia:

In 2017, West Virginia carved out prescription drug benefits from its Medicaid program and began administering the pharmacy benefit directly under a fee-for-service model. The state effectively became its own pharmacy benefit administrator. An actuarial review found that the reform generated approximately \$54.4 million in savings during its first year.^{viii, ix}

Conclusion

Examples from the CSG South region indicate that states have pursued PBM consolidation with goals that include increasing transparency, improving oversight, and reducing prescription drug costs. Reported outcomes vary by state and implementation model. As concerns regarding PBM practices continue to grow, more states are exploring centralized pharmacy benefit administration as a strategy to improve accountability and control Medicaid prescription drug costs.

ⁱ Raphael, Jada. 2025. "A View of Medicaid Today and a Look Ahead: Balancing Access, Budgets and Upcoming Changes | KFF." KFF. November 13, 2025. <https://www.kff.org/medicaid/50-state-medicaid-budget-survey-fy-2025-2026/>.

ⁱⁱ "Changes to Medicaid Pharmacy Benefit Management | Louisiana Department of Health." 2025. La.gov. 2025. <https://ldh.la.gov/medicaid/PBMtransition>.

ⁱⁱⁱ "Reprieve for Kentucky's Independent Pharmacies Is Saving Medicaid Millions." 2023. News from the States. 2023. <https://www.newsfromthestates.com/article/reprieve-kentuckys-independent-pharmacies-saving-medicaid-millions>.

^{iv} Westerfield, Matt. 2024. "Medicaid to Implement Single Pharmacy Benefit Administrator July 1, 2024 - Mississippi Division of Medicaid." Mississippi Division of Medicaid -. June 19, 2024. <https://medicaid.ms.gov/medicaid-to-implement-single-pharmacy-benefit-administrator-july-1/>.

^v "Pharmacy Resources and Physician-Administered Drugs | UnitedHealthcare Community Plan of Missouri | UHCprovider.com." 2026. Uhcprovider.com. 2026. <https://www.uhcprovider.com/en/health-plans-by-state/missouri-health-plans/mo-comm-plan-home/mo-cp-pharmacy.html>.

^{vi} Knodell, Robert. 2024. Review of Department of Social Services MO HealthNet Division Fiscal Year 2024 Budget Request Book 7 of 8. Missouri Department of Social Services.

^{vii} Code of Virginia § 32.1-325.5

^{viii} "West Virginia Medicaid Saves \$54.4 Million with Prescription Drug Carve-Out." 2026. West Virginia Medicaid Saves \$54.4 Million with Prescription Drug Carve-Out. June 2, 2026. <https://ncpa.org/newsroom/news-releases/2019/03/13/west-virginia-medicaid-saves-%2454.4-million-with-prescription-drug-carve-out>.

^{ix} Nashp. 2023. "State Action on Pharmacy Benefit Managers (PBMs) to Address Prescription Drug Pricing." NASHP. July 24, 2023. <https://nashp.org/state-action-on-pharmacy-benefits-managers-pbms-to-address-prescription-drug-pricing/>.