

Breaking Down Medi-Cal Rx

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California Health Benefits Review Program (CHBRP)
University of California

Medi-Cal is California's Medicaid program, which provided essential health care coverage to nearly 15 million enrollees, or nearly one-third of the state's population, in 2025 (DHCS, 2025). Through its pharmacy and medical benefit services, Medi-Cal provides prescription drug coverage that plays a crucial role in maintaining the health of Californians. In 2022, California launched a major reform to how it delivers pharmacy benefits to Medi-Cal beneficiaries by creating Medi-Cal Rx. This program removed pharmacy benefit management from managed care plans and brought it under direct state oversight (HCA, 2021). This explainer describes Medi-Cal Rx, who it serves, how it differs from commercial insurance, and the history behind California's transition to Medi-Cal Rx.

What is Medi-Cal Rx?

Medi-Cal Rx is the pharmacy benefit for most people enrolled in Medi-Cal. It is operated under a fee-for-service (FFS) model, meaning the state pays pharmacies directly for most prescriptions, rather than routing payments through managed care plans (DHCS, 2023). Medi-Cal Rx was created to standardize pharmacy benefits across the state, improve transparency, streamline access, and reduce drug spending through consolidated purchasing power (DHCS, 2023).

How Does Medi-Cal Rx fit in With Other Health Care Services?

In the context of Medi-Cal, a managed care plan is paid a fixed amount per beneficiary per month by the state to coordinate and provide most of a beneficiary's healthcare. These fixed rates, also referred to as capitated rates, are pre-determined payments the state makes to managed care plans for each member, regardless of what services they use. The two primary types of benefit coverage by health plans are pharmacy benefits, which cover prescription drugs, and medical benefits, which generally cover hospital services and outpatient services such as doctor's visits.¹ While most Medi-Cal beneficiaries are enrolled in managed care plans for their medical benefit, pharmacy benefits are carved out and managed by the state through Medi-Cal Rx, rather than these plans. Magellan Medicaid Administration has a contract with the California Department of Health Care Services (DHCS) and assists in overseeing and administering Medi-Cal Rx, including customer service and claims processing (DHCS, 2023).

Medi-Cal Rx covers a wide range of outpatient pharmacy services. This includes prescription medications listed on the Medi-Cal Contract Drug List, which is a publicly available formulary under the control of the state (DHCS, 2023). Other outpatient services, like vaccines, medical supplies, and physician-administered drugs, can be covered by Medi-Cal Rx or

¹ Prescription drugs administered under the supervision of physician may fall under the medical benefit. These types of prescriptions are those generally administered in a hospital, doctor's office, infusion enter, or other medical facility.

by Medi-Cal's medical benefit (DHCS, 2024). However, Medi-Cal Rx does not cover medications administered during inpatient hospital stays or long-term care settings (DHCS, 2024).

Eligible Populations

Populations eligible for Medi-Cal and Medi-Cal Rx include low-income families, seniors, people with disabilities, people experiencing homelessness, and children (DHCS, 2025). As of 2025, Medi-Cal Rx applies to every Medi-Cal plan except Programs of All-Inclusive Care for the Elderly (PACE) plans and Senior Care Action Network (SCAN) plans (DHCS, 2023).

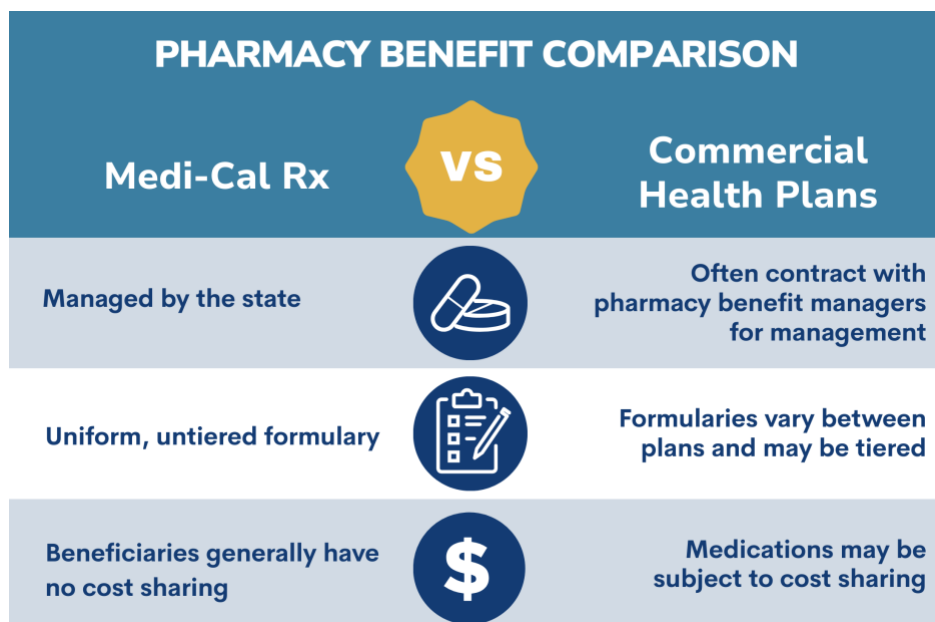
The History of Medi-Cal Rx

Before Medi-Cal Rx, most Medi-Cal pharmacy benefits were administered by managed care plans, leading to inconsistent drug coverage for Medi-Cal beneficiaries (DHCS, 2023). In January 2019, Governor Gavin Newsom issued Executive Order N-01-19, directing the Department of Health Care Services (DHCS) to transition all pharmacy services to a state-run, FFS model (DHCS, 2023). While the change was initially set to take place in 2021, the COVID-19 pandemic and operational concerns delayed the rollout. Medi-Cal Rx officially launched on January 1, 2022, with a phased implementation of one year.

Differences Between Pharmacy Benefits: Commercial plans vs. Medi-Cal

While commercial plans often contract with private pharmacy benefit managers (PBMs) to handle drug formularies and prior authorizations, Medi-Cal Rx consolidates those functions so that they are under the state's control. Commercial plans typically use varied and tiered² drug formularies that are created specifically for that plan, meaning coverage and costs can differ widely between insurers. In contrast, Medi-Cal Rx uses a uniform formulary. Medi-Cal beneficiaries often pay little to nothing for their prescriptions, whereas commercial enrollees often face copayments and coinsurance as part of their plan.

Figure 1. Key Differences Between Medi-Cal Rx and Commercial Health Plan Pharmacy Benefits



Source: California Health Benefits Review Program, 2025.

Key: PBM = pharmacy benefit manager.

² A tiered formulary is organized into levels based on preference by the health plan, where each tier determines how much a patient pays.

Medi-Cal Rx Spending and Statutory Requirements

Medi-Cal Rx Spending

DHCS does not report specified annual data on Medi-Cal Rx spending (LAO, 2025). However, the Legislative Analyst's Office estimates that Medi-Cal pharmacy spending steadily increased from 2018 to 2024, even after the implementation of Medi-Cal Rx in 2022 (LAO, 2025). Overall, Medi-Cal Rx does not seem to have either positively or negatively impacted the upward trend in the state's pharmacy spending in the last 6 years, which is likely driven by the steady increase in prescription drug costs in the same period (LAO, 2025). From 2018 to 2024, spending on antipsychotics and insulin has fallen dramatically, while spending on anti-inflammatory drugs, GLP-1 agonists (typically used for weight loss or to treat diabetes), and diabetes, heart, and kidney disease drugs increased (LAO, 2025).

The state recovers some of the costs of drug spending through the federal Medicaid Drug Rebate Program, where certain drug manufacturers set rebates³ for specific drugs in all state Medicaid programs. However, drug-level rebate information is not publicly available and may alter estimates of these trends (LAO, 2025). Although data is limited, the LAO estimates it is likely that California's transition to the Medi-Cal Rx FFS model will make frequent, significant upward and downward changes in pharmacy spending more common in the future, as the state now absorbs the full risk of the fluctuating pharmaceutical market (LAO, 2025).

Federal and State Requirements

Benefits covered under Medi-Cal Rx are influenced by both federal law and state-level decisions. Federal law sets minimum standards for benefits and eligibility with regard to Medicaid services, but states have the flexibility to expand their programs. Under federal law, Medicaid pharmacy benefits in all states must cover most drugs from manufacturers in the Medicaid Drug Rebate Program. However, California does choose to cover some optional drugs under Medi-Cal Rx, including, but not limited to, nonprescription drugs, cough and cold relief, and certain vitamins (LAO, 2025). In addition, some state laws affect what Medi-Cal Rx must cover and how it operates. For example, California mandates coverage of HIV prophylactic drugs like preexposure prophylaxis (PrEP) without prior authorization.

Medi-Cal Rx and CHBRP Analyses

Medi-Cal Rx represents a fundamental change in how California delivers pharmacy benefits to its Medicaid population. CHBRP is charged by statute to analyze the medical, public health, and fiscal impacts of proposed legislation, including those that would mandate coverage of specific prescription drugs. Because the pharmacy benefit for Medi-Cal beneficiaries is carved out from other Medi-Cal services and administered through a third-party entity, CHBRP assumes that legislative proposals related to state-regulated pharmacy benefit⁴s would not impact the pharmacy benefit for Medi-Cal beneficiaries. Implementation of any mandates for drug coverage under Medi-Cal Rx is handled through contracts with DHCS.⁵

³ A rebate is a partial refund that drug manufacturers give to another party, often a pharmacy benefit manager or health plan, after a prescription drug is sold. Rebates are typically negotiated as part of a contract between a manufacturer and a health plan.

⁴ Health insurance plans regulated by the Department of Managed Health Care and health insurance policies regulated by the California Department of Insurance.

⁵ Find more information in [Pharmacy Benefit Coverage in State-Regulated Health Insurance for 2026](#).

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About the California Health Benefits Review Program (CHBRP)

Drawing on the experience and assistance of multi-disciplinary faculty, researchers, and analysts based at the University of California, CHBRP provides the California Legislature with timely, independent, and rigorous evidence-based analyses of introduced health insurance benefits-related legislation. Most frequently, CHBRP analyzes proposed health insurance benefit mandates (e.g., mandates to cover a test, treatment, or service, such as continuous glucose monitors). For more about CHBRP’s 60-day analysis process, see the resource [Academic Rigor on a Legislature’s Timeline](#).

To read any of the 200+ bill analyses CHBRP has completed, see the [Completed Analysis](#) page on [CHBRP’s website](#). In addition to analysis of introduced legislation, CHBRP produces [other publications](#) including several annually updated resources, as well as issue briefs and explainers.

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