



Finding the Formula for Drug Savings

The Role of Pharmacy Benefit Managers
in the Health Care System

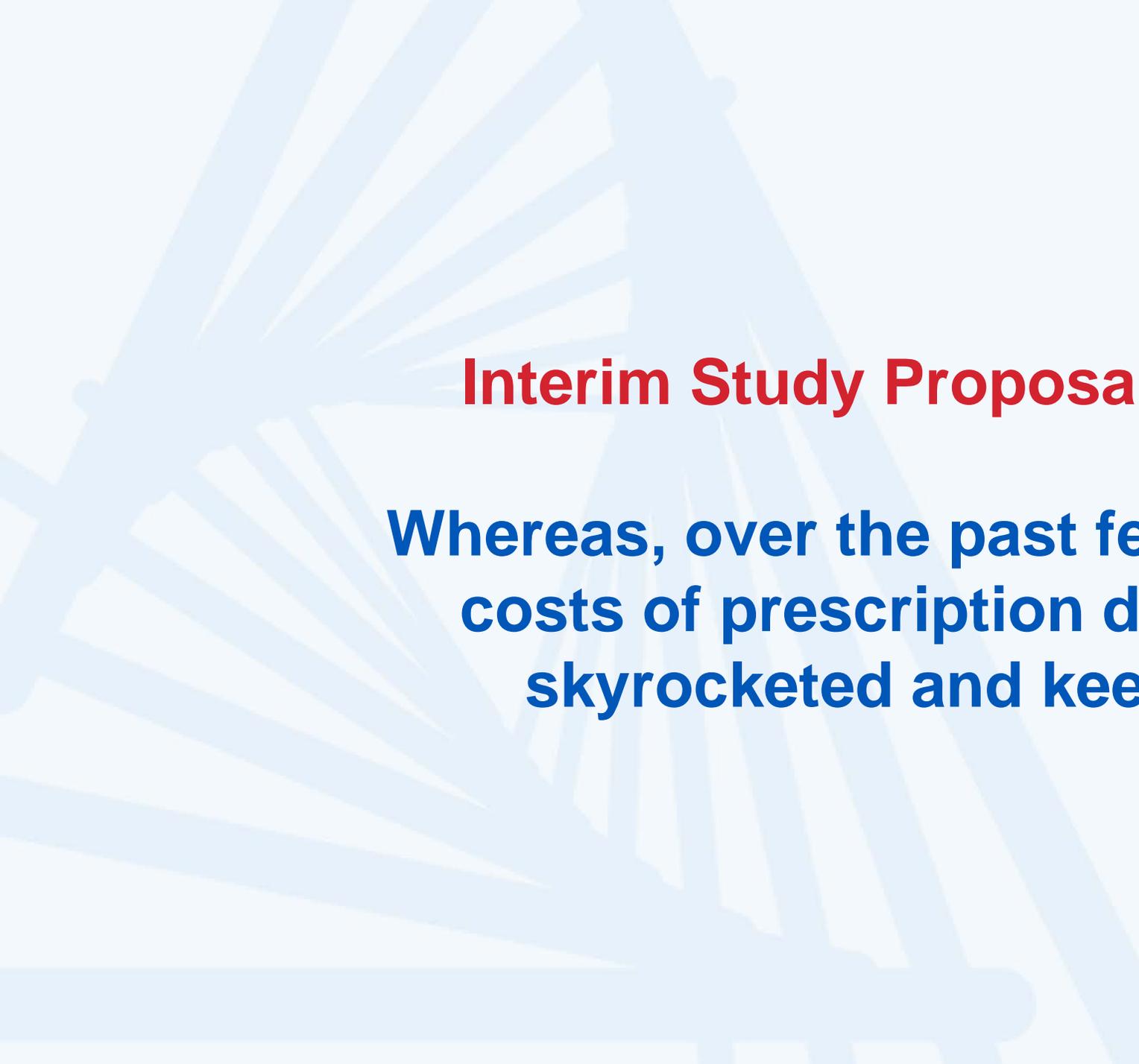
**Arkansas Joint Committee on
Insurance and Commerce**

December 16, 2020



Arkansas Interim Study Proposal

The Causes and Effects of the Rising Costs of Prescription Drugs



Interim Study Proposal 2019-143

Whereas, over the past few years, the costs of prescription drugs have skyrocketed and keep rising

Is Drug Pricing a Problem?

Modern Healthcare

The leader in healthcare business news, research & data

Drug prices rise as pharma profit soars

By Alex Kacik | December 28, 2017

(Updated on Dec. 29)

The amount of money people spend on prescription drugs has over the past three decades as pharmaceutical sales and profit ballooned, according to a government report.

STAT

Several drug makers just raised their prices by nearly 10 percent, and buyers expect more price hikes

By ED SILVERMAN @Pharmalot / JANUARY 2, 2018

Several drug makers celebrated the new year with substantial single-digit price hikes, while a new survey indicated that prices for brand-name medicines are expected to rise 3 percent.

The New York Times

Humira's Best-Selling Drug Formula: Start at a High Price. Go Higher.

By DANNY HAKIM | JAN. 6, 2018

...prescription drug in the world. You may have

...an with rheumatoid arthritis can [wash her puppy](#) with colitis can [stroll happily](#) through a fair packed

The Washington Post

Pharma, under attack for drug prices, started an industry war

By Carolyn Y. Johnson | January 2

It's not easy to get Americans mad at a [behind-the-scenes industry](#) they've barely even heard of, but pharmaceutical companies have spent most of this year trying.

"Who decides what you pay for your medicines? Not who you see in a radio spot"

THE WALL STREET JOURNAL.

BUSINESS | HEALTH CARE

Cancer Drug Price Rises 1,400% With No Generic to Challenge It

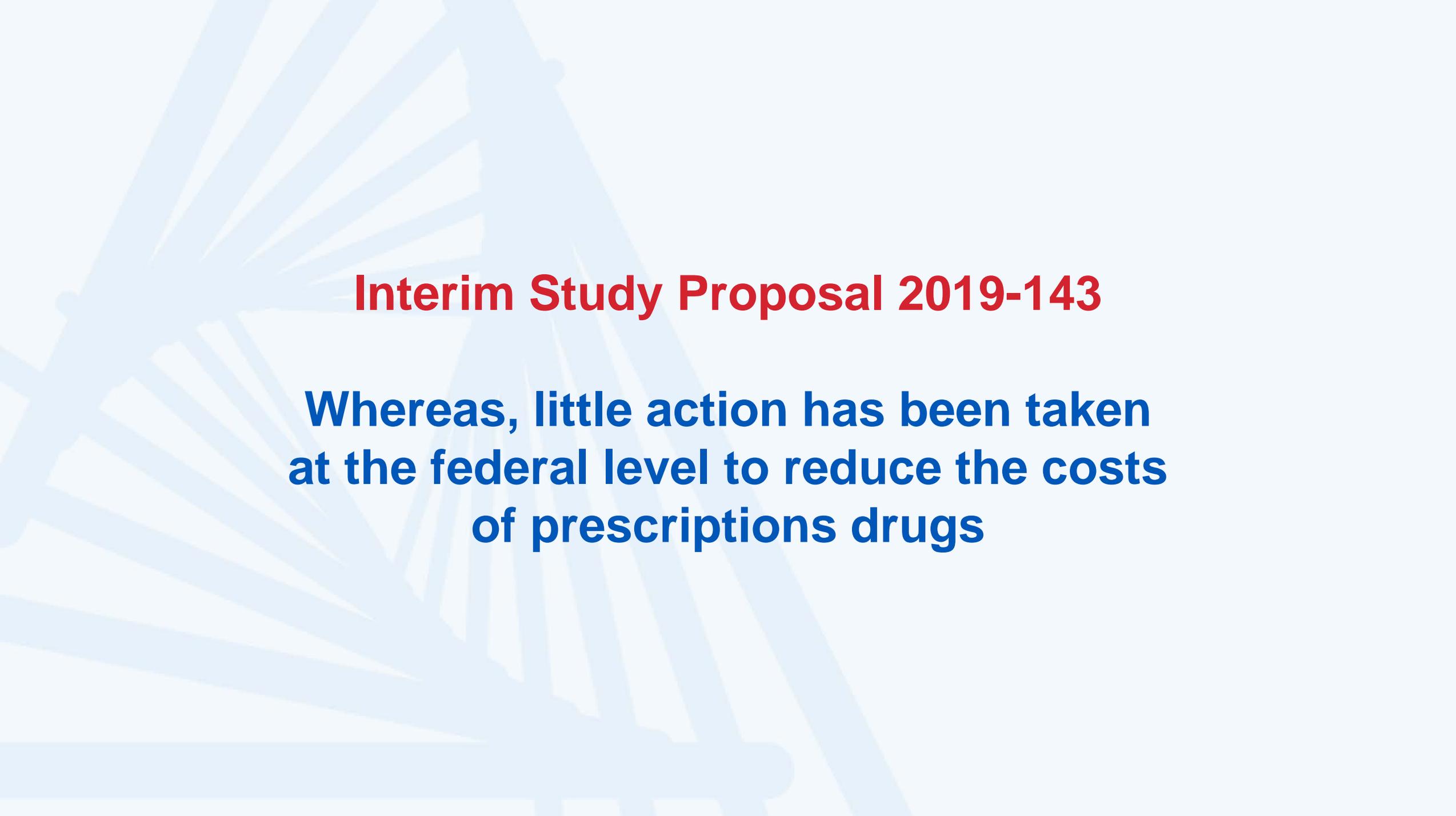
Lomustine among 319 drugs with expired patents but no copies; FDA trying to boost competition

By Peter Loftus

Dec 25, 2017 7:00 a.m. ET

Since 2013, the price of a 40-year-old, off-patent cancer drug in the U.S. has risen 1,400%, putting the life-extending medicine out of reach for some patients.

...and Hodekin... mustine has no generic

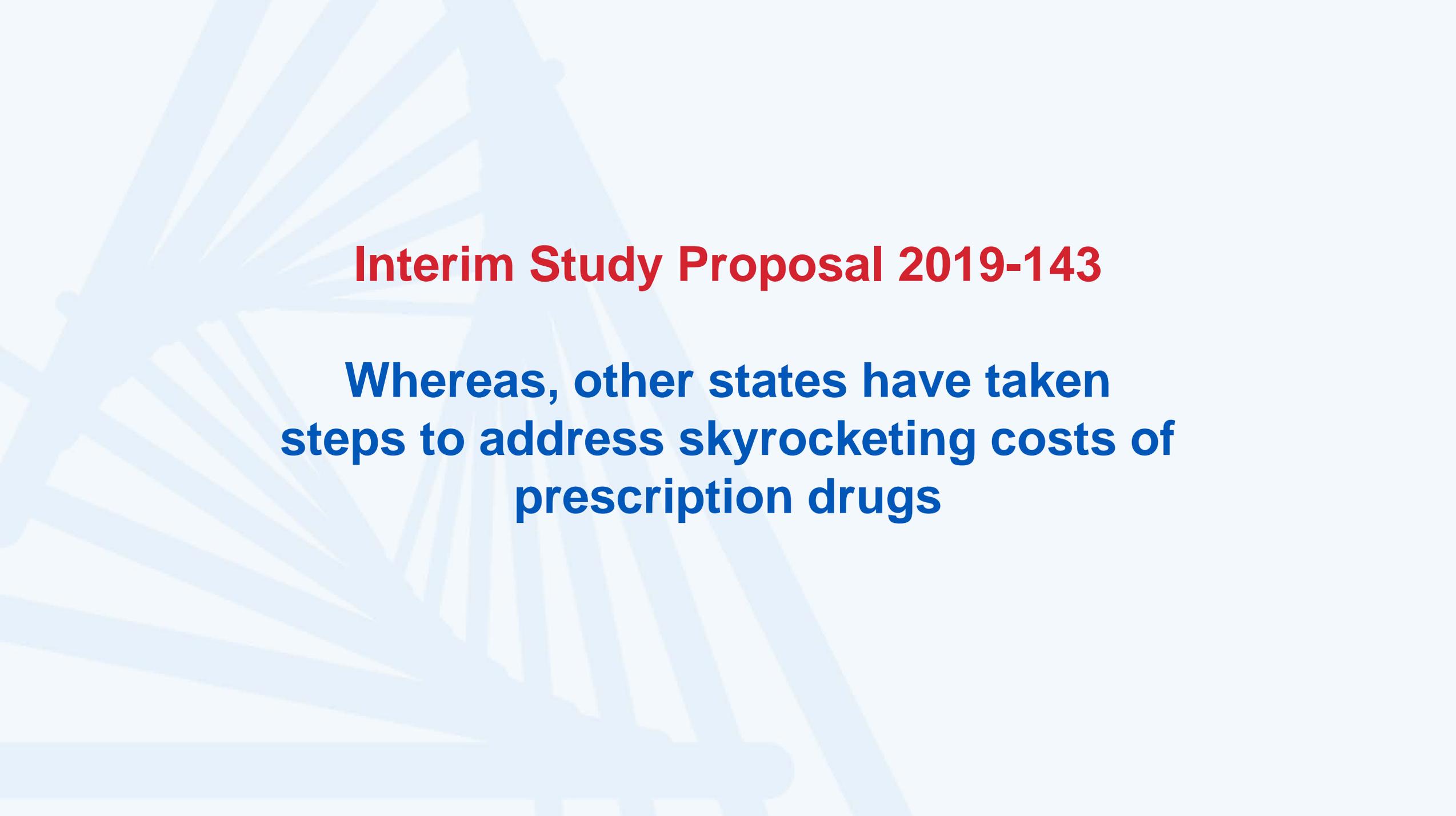


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**Whereas, little action has been taken
at the federal level to reduce the costs
of prescriptions drugs**

PCMA Supports Federal Solutions for High Drug Costs

- Eliminate anticompetitive “pay for delay” agreements
- End Orphan Drug Exclusivity
- Revise innovator biologic exclusivity to seven years
- Allow for FDA accelerated approval of me-too brands
- Promote uptake of biosimilars and interchangeables
- Eliminate the tax deductibility of direct-to-consumer (DTC) prescription drug advertising
- Promote wider adoption of electronic prescribing (eRx)
- Eliminate the cap on the inflationary penalty in the Medicaid Drug Rebate Program

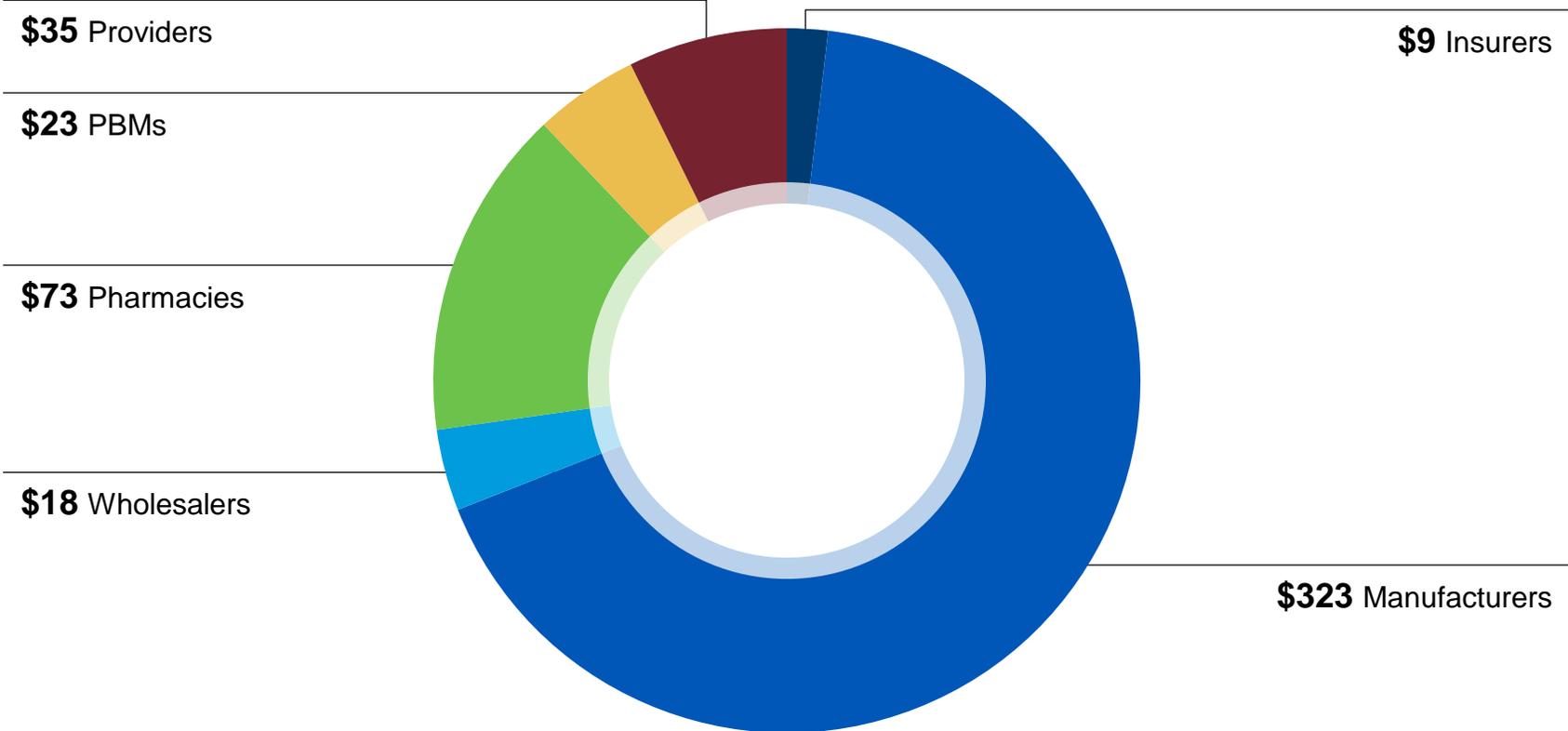


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**Whereas, other states have taken
steps to address skyrocketing costs of
prescription drugs**

Drug Manufacturers Reap 67% of Rx Dollars

Retained Revenue Across U.S. Pharmaceutical Sector, 2016 (\$billions)



Source: Nancy L. Yu, Preston Atteberry, Peter B. Bach. "Spending On Prescription Drugs In The US: Where Does All The Money Go?" *Health Affairs*, July 31, 2018.
Note: Study does not take into account the full amount of manufacturer rebates that PBMs may pass along to clients, which may lower estimated PBM retained revenue.

Interim Study Proposal 2019-143

Whereas, an understanding of the causes and effects of the rising costs of prescription drugs will help the citizens of Arkansas

How Can We Help?

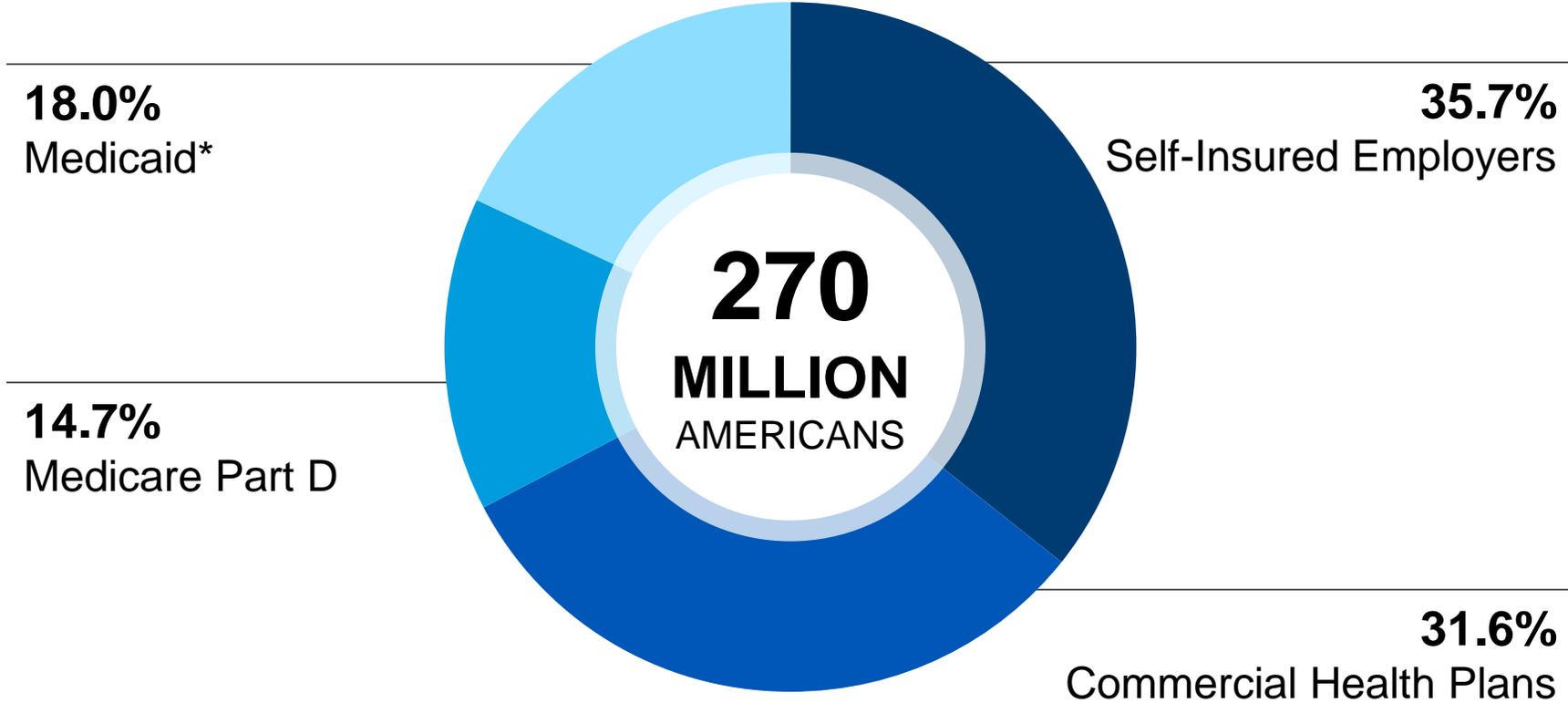
- A pharmacy benefits manager (PBM) is a health care company that contracts with plan sponsors—insurers, employers, labor unions, and government programs to administer the prescription drug portion of the health care benefit.
- PBMs work with insurers and employers to perform a variety of services to ensure high-quality, cost efficient delivery of prescription drugs to consumers.
- PBMs aggregate the buying clout of millions of enrollees, enabling plan sponsors and individuals to obtain lower prices for their prescription drugs.
- PBMs help save patients and payers 40–50% on their annual drug and related medical costs compared to what they would have spent without PBMs

¹ Visante, Return on Investment on PBM Services, February 2020.

²

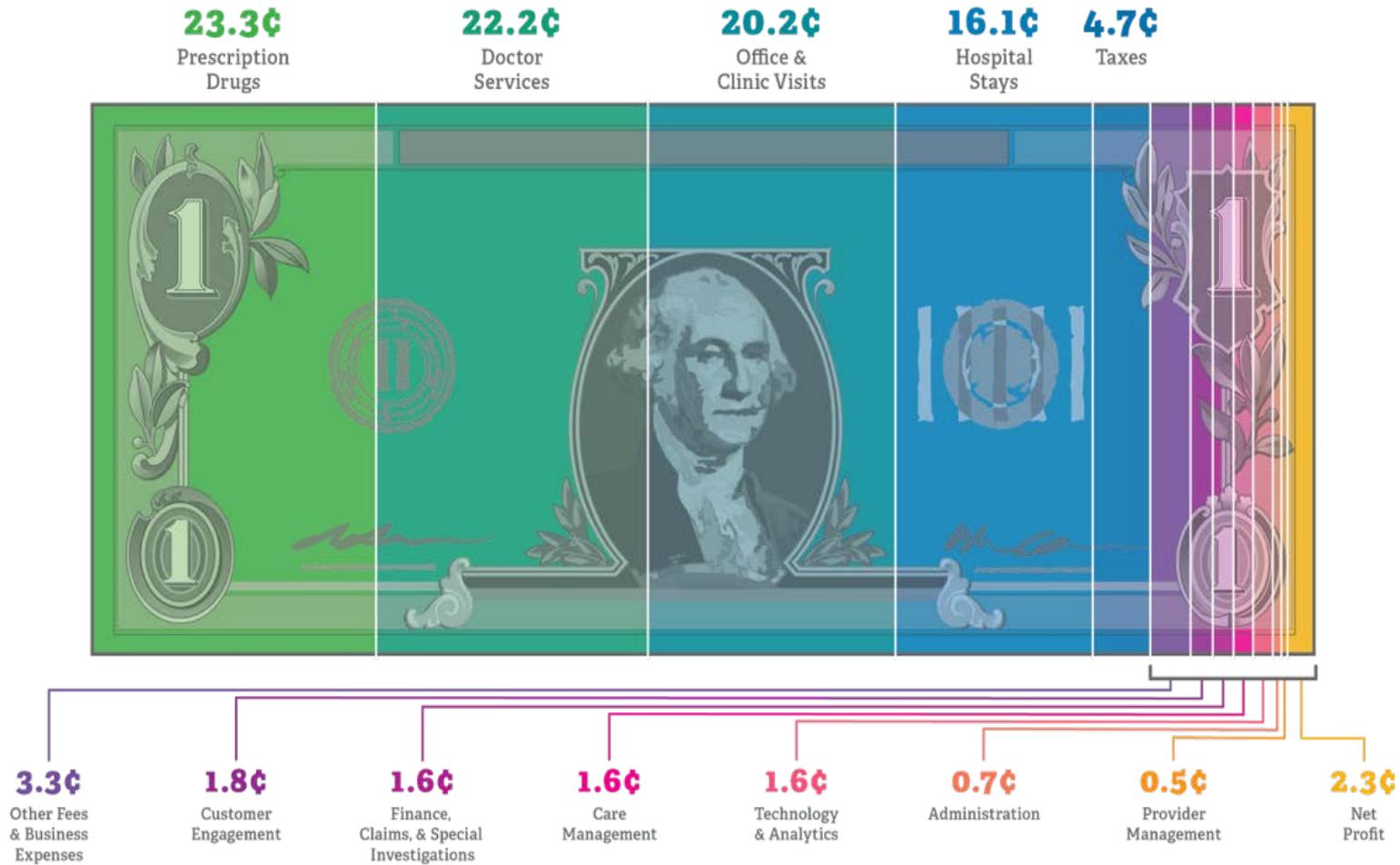
PBMs' National Footprint

More than **270 million Americans** receive pharmacy benefits provided through PBMs



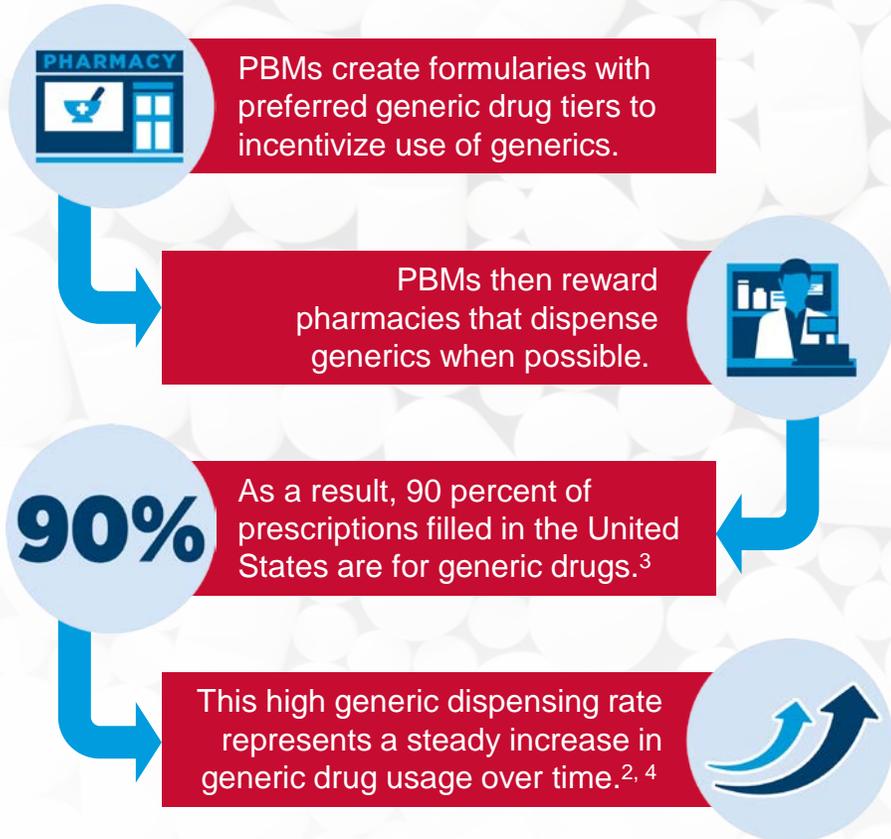
*Excludes Medicare-Medicaid Dual Eligibles where drugs are covered by Medicare Part D.
Source: Visante estimates prepared for PCMA, 2016.

Pharmacy Benefit Accounts for 23% of the Medical Dollar



GENERIC DRUGS KEY TOOL FOR PBMs IN KEEPING COSTS DOWN

Pharmacy Benefit Managers Drive Generic Utilization



What are generic drugs?

A generic drug is the same as a brand-name drug in dosage, safety, effectiveness, strength, stability, and quality, as well as in the way it is taken and should be used.¹

Average Out-Of-Pocket Cost-Sharing²



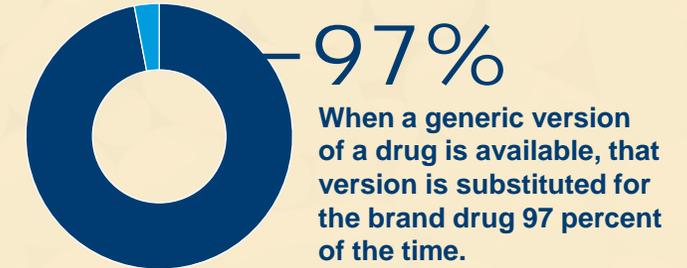
Generics
\$6.18

Brands
\$30.59

Generics save people money

The steady increase in use of generic drugs in Medicare Part D has helped produce lower than expected costs for taxpayers and beneficiaries.⁵

In Medicaid managed care programs, pharmacy benefit managers employ a strategy of maximizing the use of generic drugs including the higher value generic alternatives, which leads to lower drug costs.⁶



1 U.S. Food and Drug Administration, <https://www.fda.gov/drugs/questions-answers/generic-drugs-questions-answers>

2 IQVIA, Medicine Use and Spending in the U.S. "A Review of 2018 and Outlook to 2023, May 2019, <https://www.iqvia.com/insights/the-iqvia-institute/reports/medicine-use-and-spending-in-the-us-a-review-of-2018-and-outlook-to-2023>

3 Association for Accessible Medicines, 2019, Generic Drug and Biosimilars Access Savings Report, <https://accessiblemeds.org/resources/blog/2019-generic-drug-and-biosimilars-access-savings-us-report>

4 The Medicare Payment Advisory Commission, 2019, http://medpac.gov/docs/default-source/reports/mar19_medpac_ch14_sec.pdf?sfvrsn=05.

5 Congressional Budget Office, Competition and the Cost of Medicare's Prescription Drug Program, 2014, <http://www.cbo.gov/sites/default/files/113th-congress-2013-2014/reports/45552-PartD.pdf>

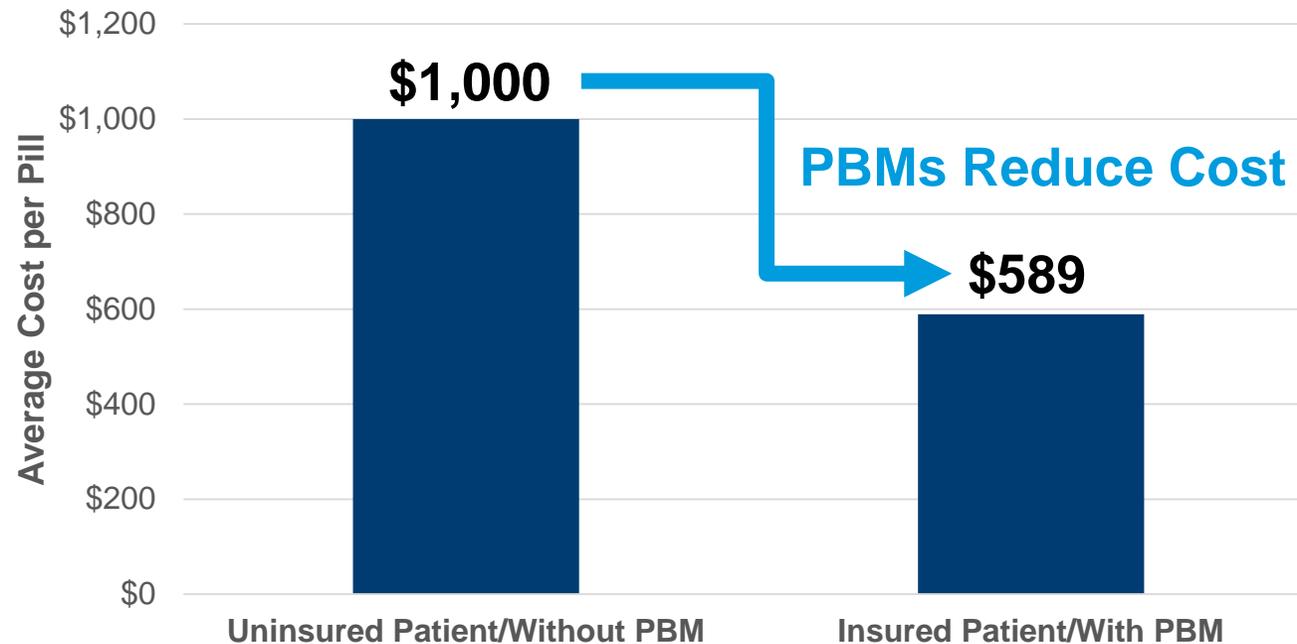
6 United Health Group, Medicaid Savings Appendix, <https://www.unitedhealthgroup.com/content/dam/UHG/PDF/2018/PBM-Medicaid-Savings-Appendix.pdf>

7 IQVIA, Medicine Use and Spending in the U.S. "A Review of 2018 and Outlook to 2023, May 2019, <https://www.iqvia.com/insights/the-iqvia-institute/reports/medicine-use-and-spending-in-the-us-a-review-of-2018-and-outlook-to-2023>

The Value of PBMs

PBMs save plan sponsors and consumers an average **40%** compared to expenditures made without pharmacy benefit management

Head to Head Competition Reduced the Cost of an Average Hepatitis C Drug by More Than 40%



Source: Visante, prepared for PCMA. February 2016.

Tackling High Drug Costs

- **Health plans and PBMs do not have any control over the price the manufacturer sets for a drug** — but PBMs have some tools to drive down drug costs.
- Patient cost-sharing often represents only a small fraction of the total cost of the drug.
- Brand drug manufacturers establish prices within a monopoly established by federal patent law.
- Until other drugs are approved for the same disease or condition, manufacturers have little incentive to reduce their prices.

How PBMs Drive Savings and Quality: Manufacturers

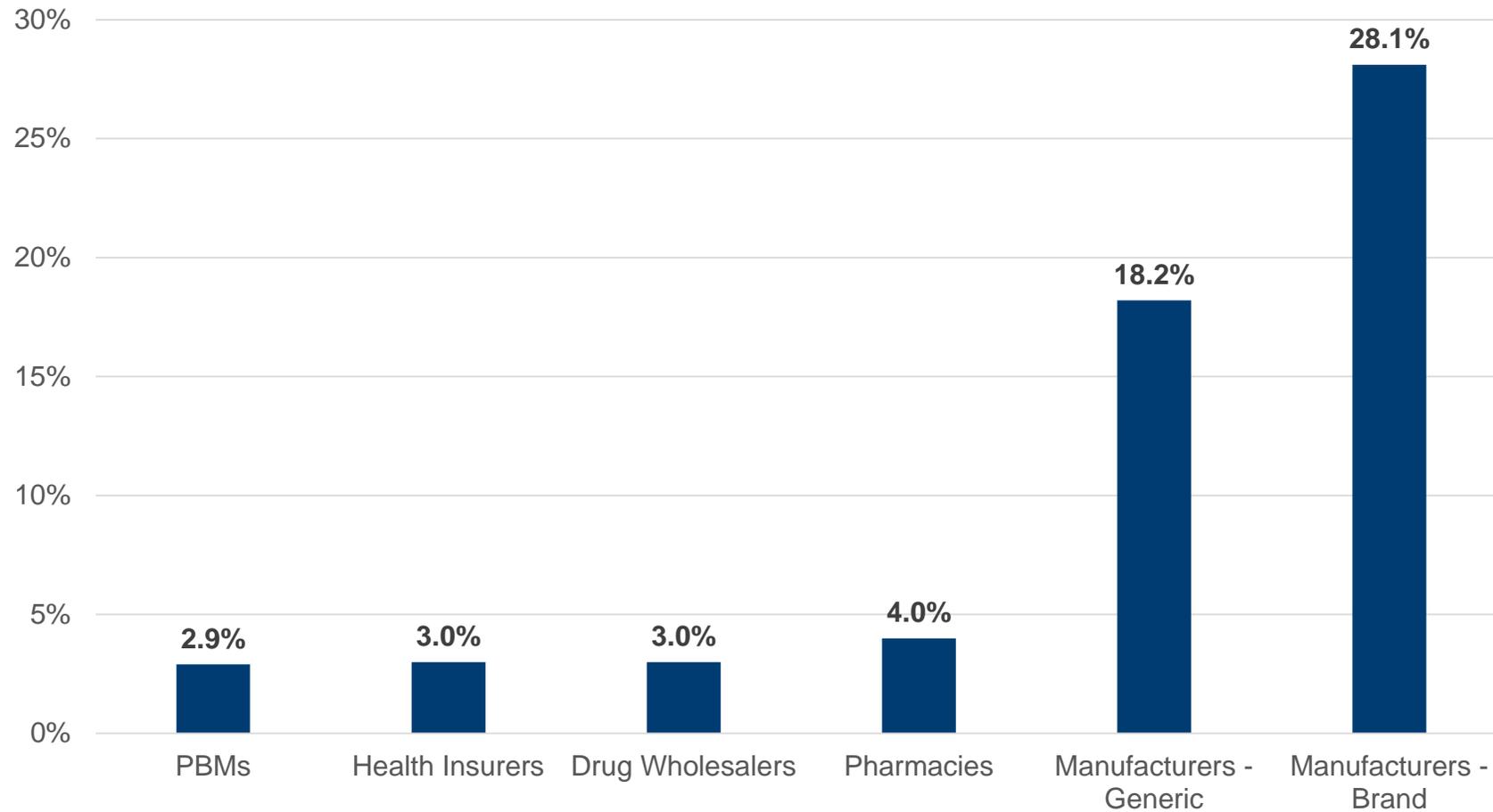
- PBMs are able to bring volume to manufacturers and in some cases, obtain price concessions.
- Rebates reduce the net cost of drugs for payers, **but they aren't available on all drugs**—only where there is competition.
 - 90% of drugs dispensed are generics, with little-to-no rebate in commercial programs.
 - In Medicare Part D, 64% of brands were not eligible for rebates.¹
 - PBMs pass the vast majority of the rebates back to their clients.^{2, 3}
- Rebates help reduce premiums & cost-sharing, and revenue is included in MLR calculation.
- Plans have no alternative tool at this time that is as effective at forcing manufacturers to compete, bringing down the net cost of drugs.

¹ Milliman, "Prescription Drug Rebates and Part D Drug Costs." (July 2018).

² U.S. Government Accountability Office, "Medicare Part D: Use of Pharmacy Benefit Managers and Efforts to Manage Drug Expenditures and Utilization." (July 2019).

³ Pew Charitable Trusts, "The Prescription Drug Landscape, Explored." (March 2019).

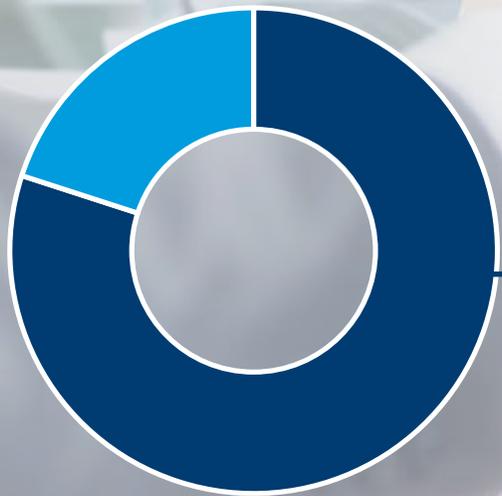
Pharmaceutical Supply Chain Profit Margins



Source: *The Flow of Money Through the Pharmaceutical Distribution System*. Schaeffer Center for Health Policy & Economics, University of Southern California. June 2017.

INDEPENDENT PHARMACIES USE LARGE BARGAINING GROUPS TO GAIN MARKET POWER

Independent pharmacies are not just mom-and-pop neighborhood businesses — they have significant bargaining clout in negotiations with health plans and pharmacy benefit managers (PBMs) by hiring powerful pharmacy services administrative organizations (PSAOs).



80%
**of independent
pharmacies in the
U.S. are represented
by PSAOs¹**

What is a PSAO?

The typical PSAO represents thousands of pharmacies.

Here's how PSAOs work:

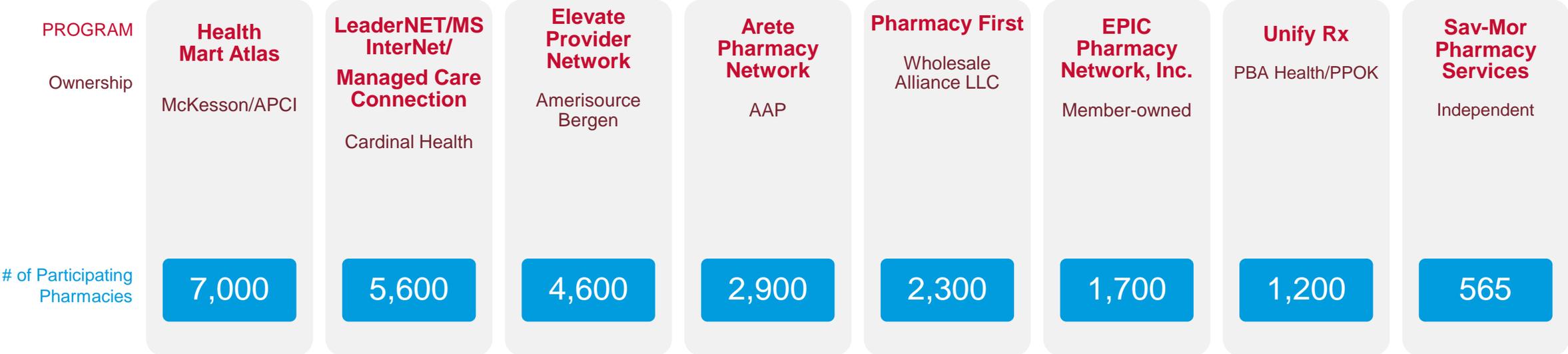
- ✓ Negotiate and enter into contracts with third-party payers on behalf of independent pharmacies
- ✓ Negotiate reimbursement rates, payment, and audit terms
- ✓ Provide access to pooled purchasing power, negotiating leverage, and contracting strategies similar to large, multi-location chain pharmacy corporations
- ✓ Provide inventory and back-office functions to improve pharmacy business
- ✓ Allow rural pharmacies to more effectively negotiate contract terms than pharmacies operating in urban areas with many competitors

¹ U.S. Government Accountability Office (GAO), *The Number, Role, and Ownership of Pharmacy Services Administrative Organizations*. (January 2013). <http://www.gao.gov/assets/660/651631.pdf>

Drug Wholesalers Own 3 Largest PSAOs

- Over 80% of independent pharmacies belong to pharmacy services administrative organizations (PSAOs), which provide a range of services, including: negotiating third-party payer contracts, providing access to pooled purchasing power/inventory, and back-office functions.
- PSAOs give independent pharmacies significant bargaining clout in negotiations with payers.

Largest Pharmacy Services Administrative Organizations, by Members and Ownership, 2019



Source: Drug Channels Institute research and estimates. Figures show number of pharmacies using PSAO services.

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Conclusion

- Manufacturers are increasing drug prices for both brands and generics
- PBMs play a unique and central role in **driving adherence, holding down costs, and increasing quality**
- PBM tools **deliver savings** for plan sponsors and consumers, underscoring the success of the competitive marketplace