



Finding the Formula for Drug Savings

The Role of Pharmacy Benefit Managers in the Health Care System

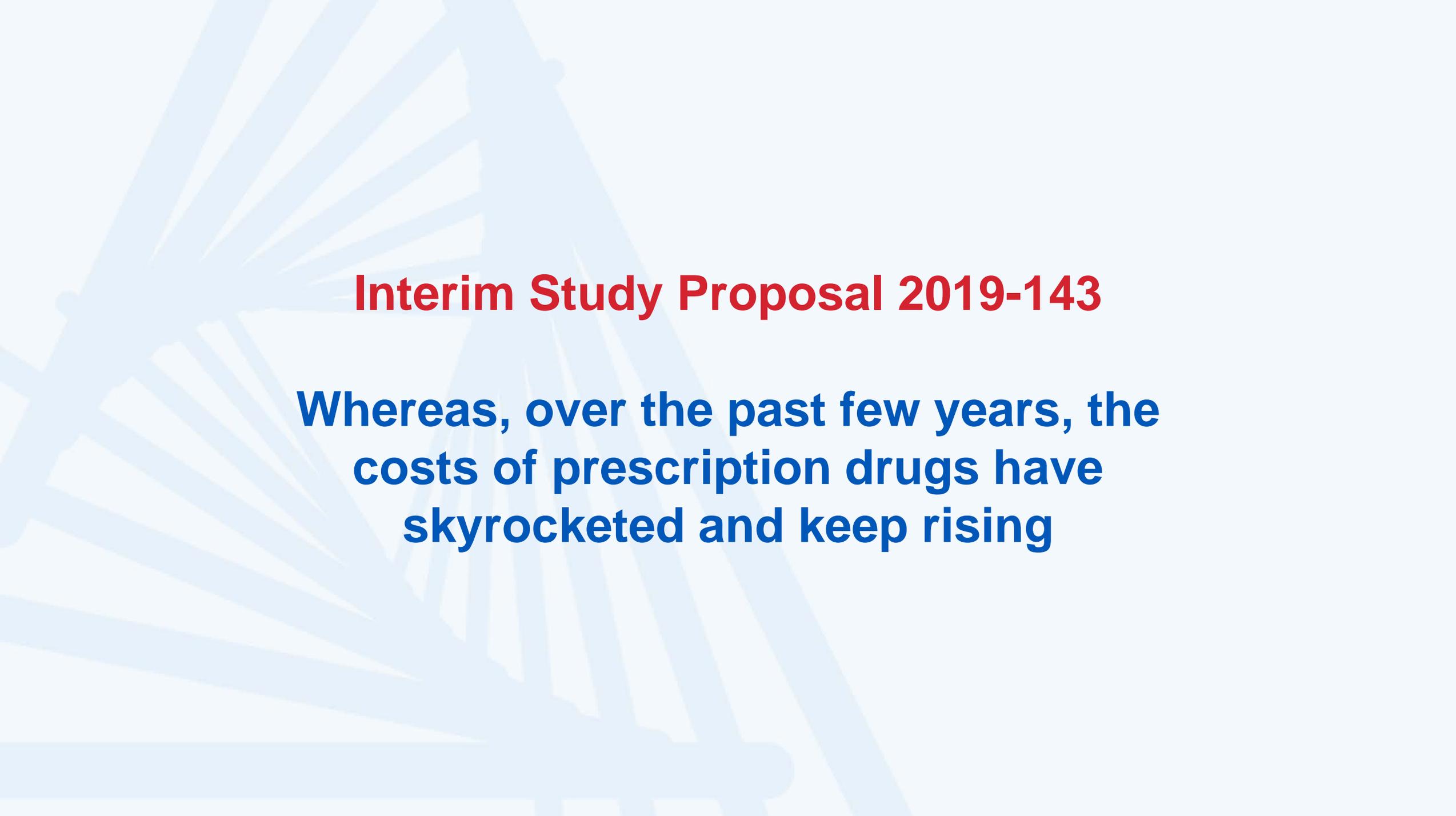
Arkansas Joint Committee on Insurance and Commerce

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
...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

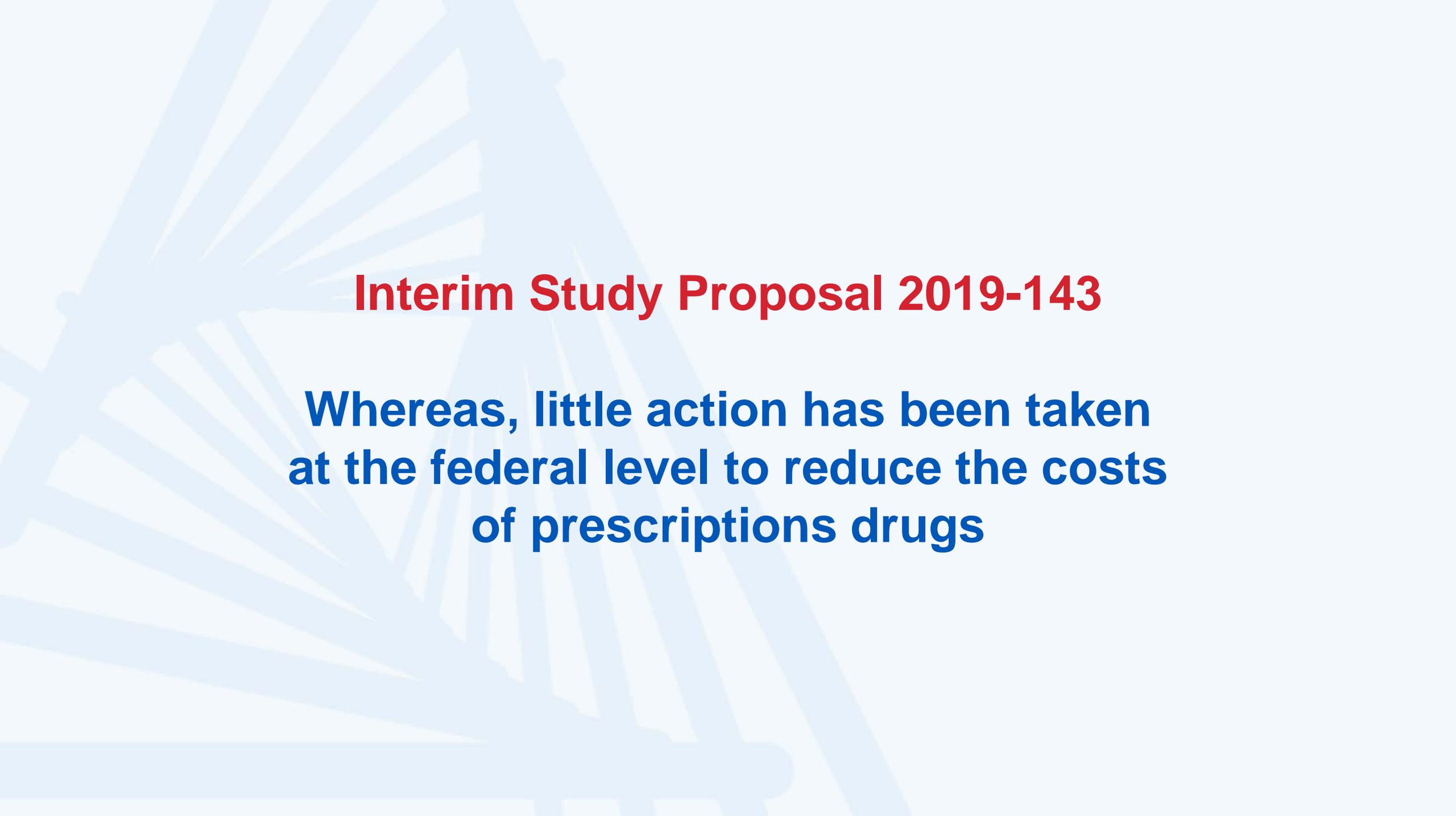
Lomustine among 319 drugs with expired patents but no copies; FDA trying to boost competition

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

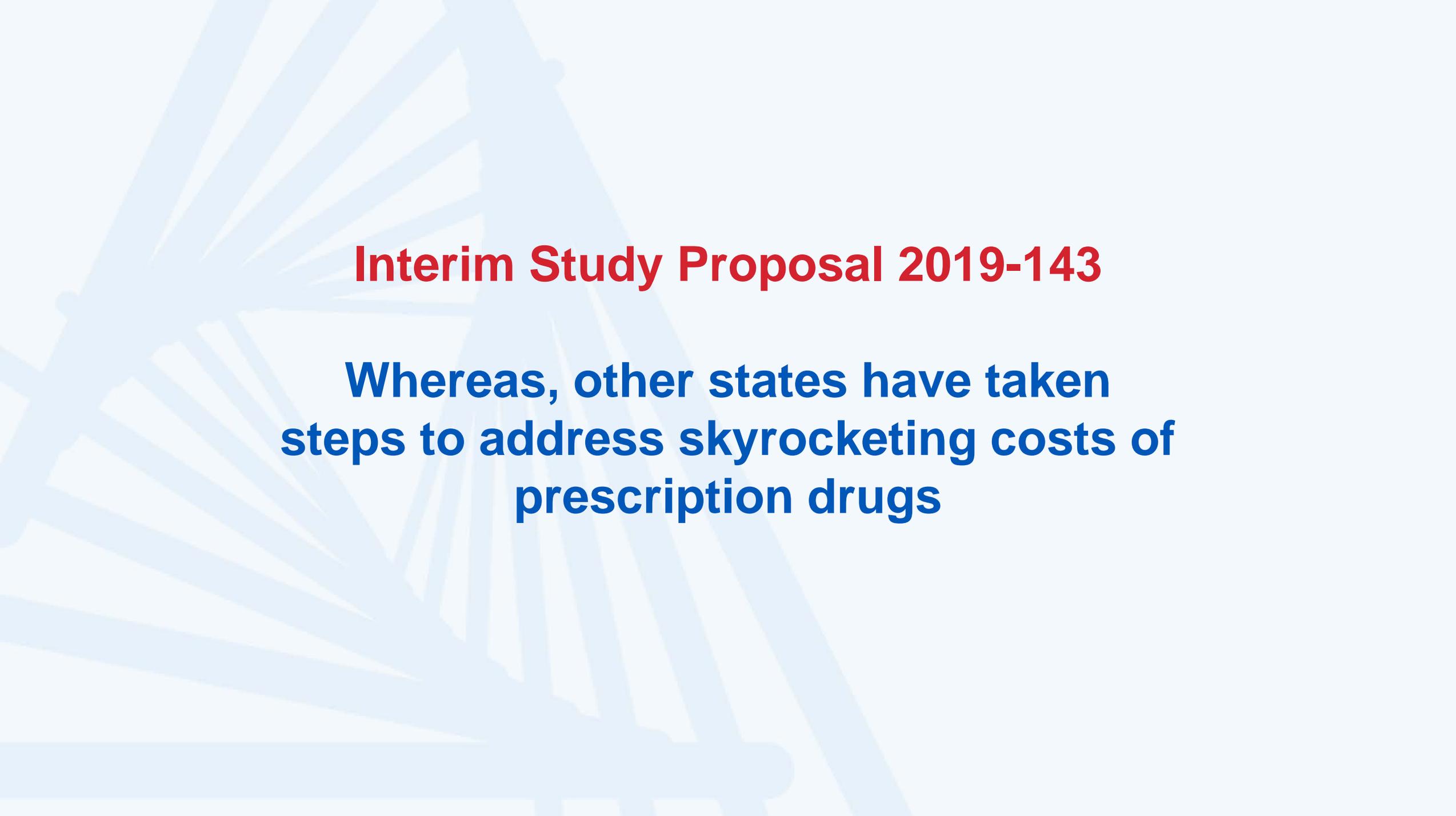


Interim Study Proposal 2019-143

**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

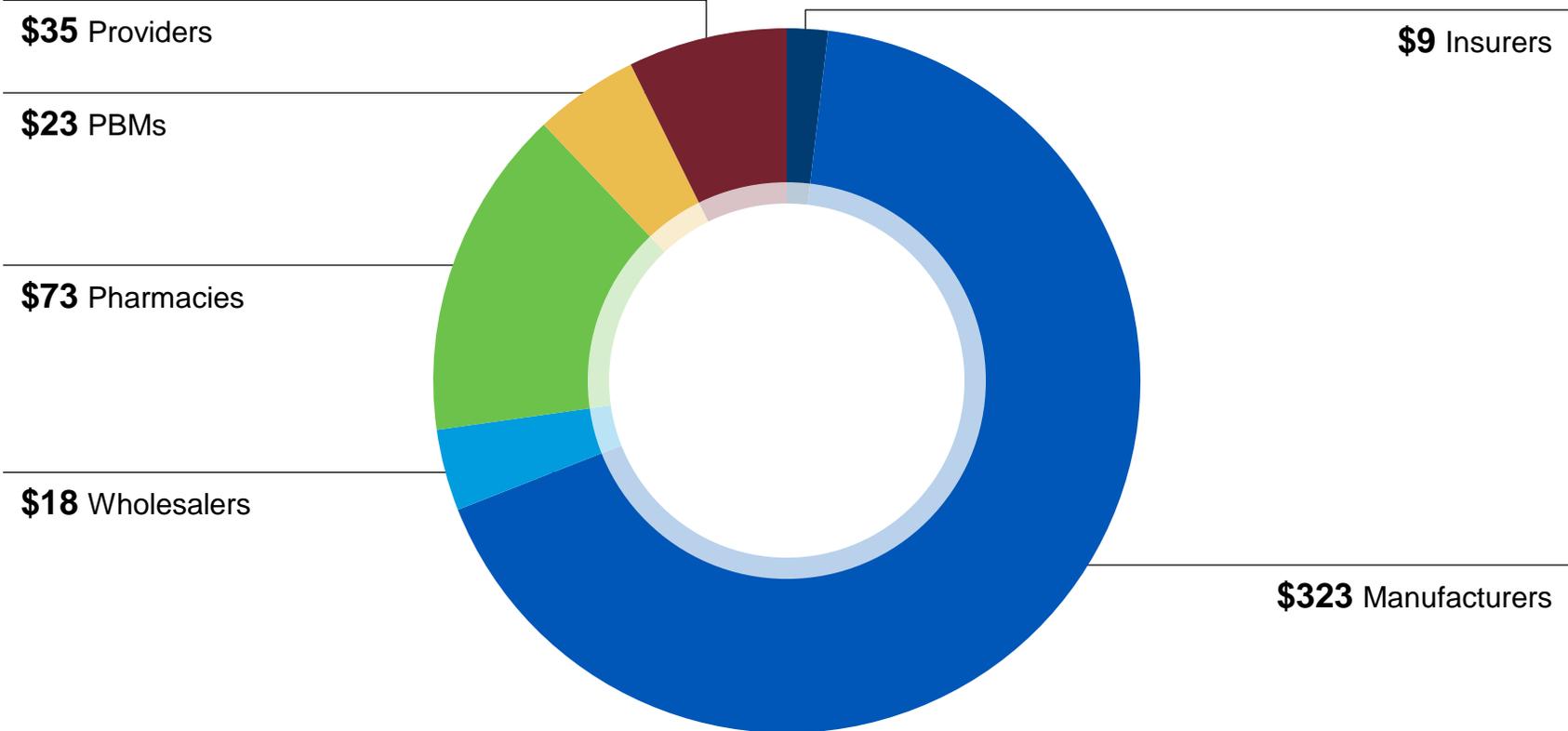


Interim Study Proposal 2019-143

**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?

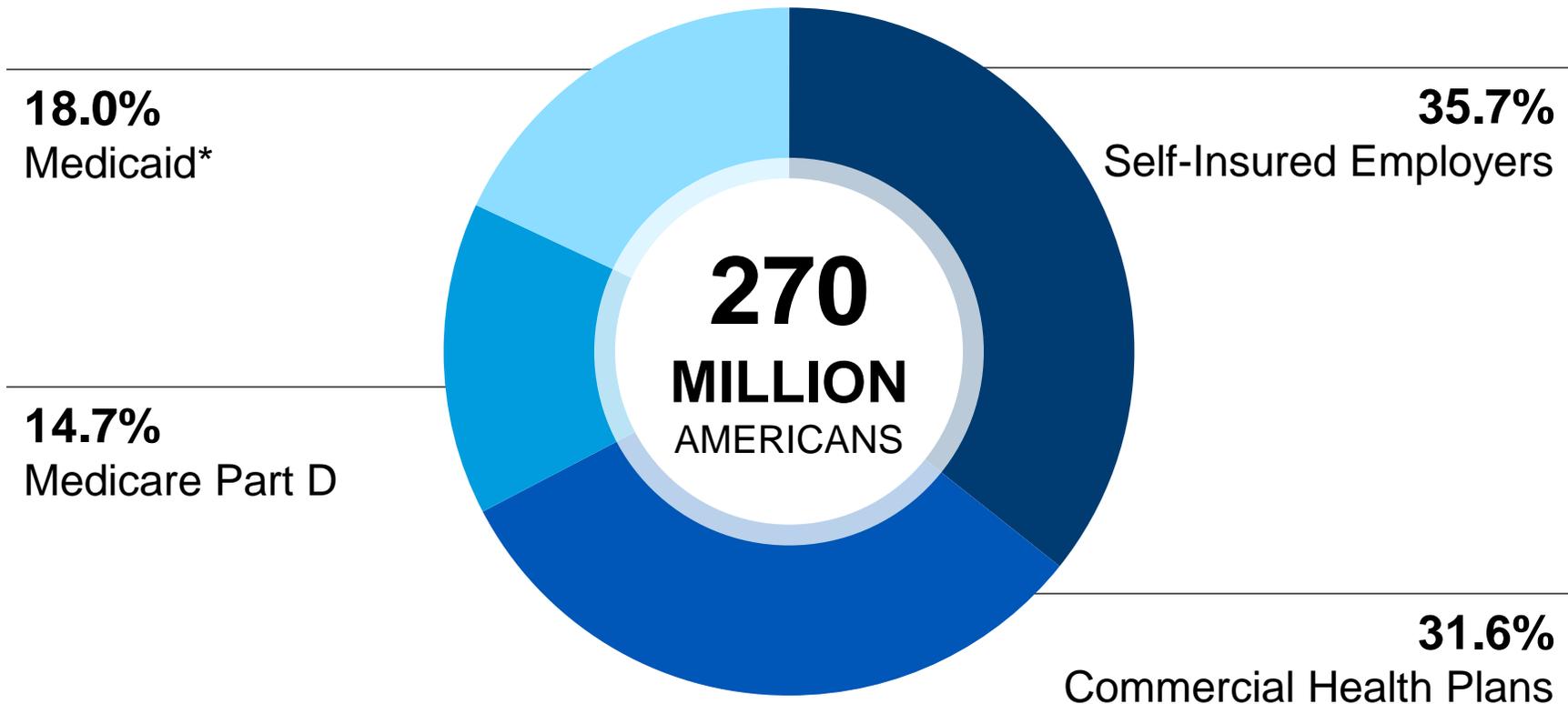
- A pharmacy benefits manager (PBM) is a health care company that contracts with plan sponsors—insurers, employers, labor unions, and government programs to administer the prescription drug portion of the health care benefit.
- PBMs work with insurers and employers to perform a variety of services to 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

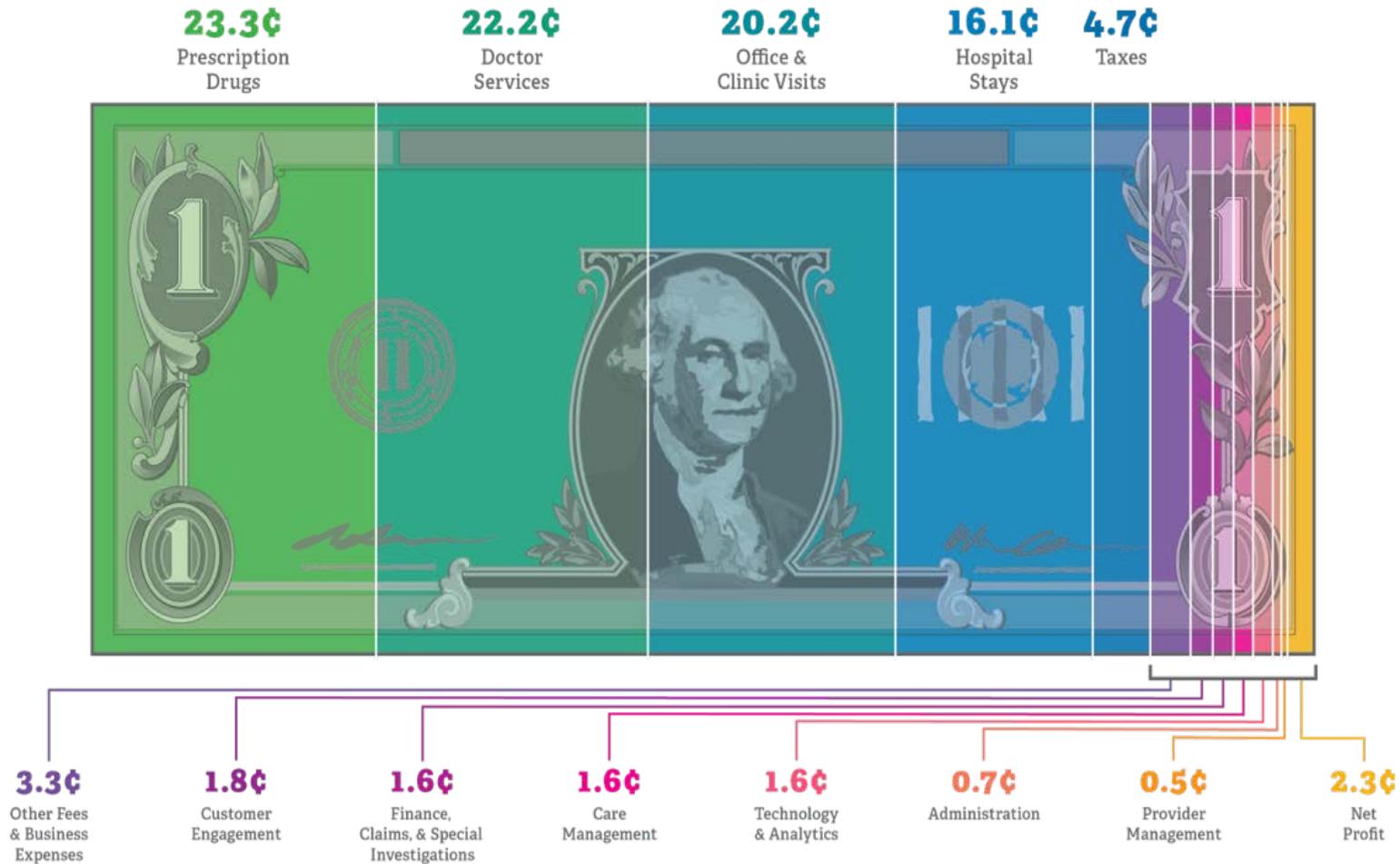
PBMs' National Footprint

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



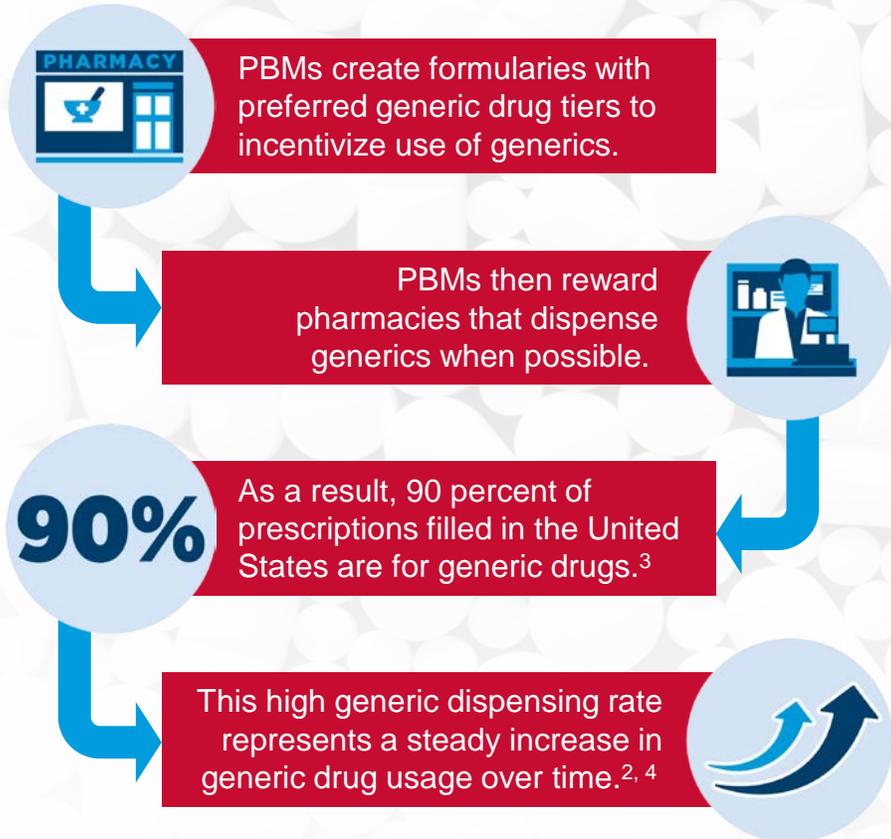
*Excludes Medicare-Medicaid Dual Eligibles where drugs are covered by Medicare Part D.
Source: Visante estimates prepared for PCMA, 2016.

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



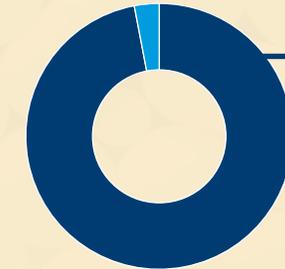
Generics
\$6.18

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



97%
When a generic version of a drug is available, that version is substituted for the brand drug 97 percent of the time.

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>

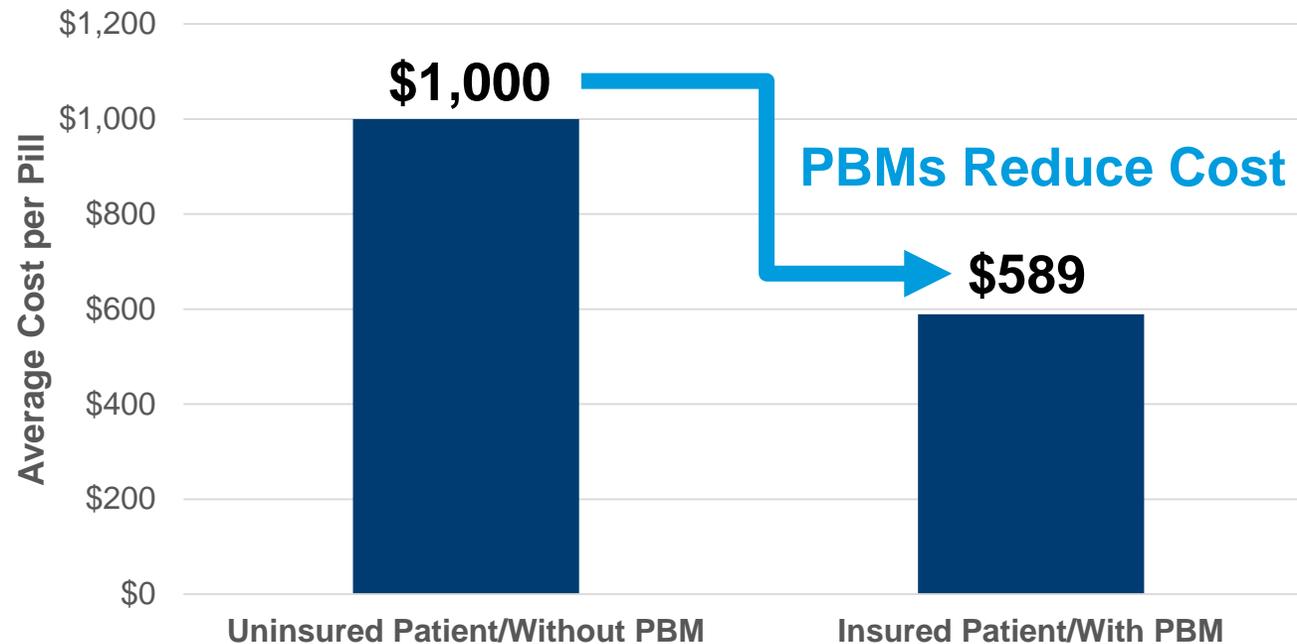
6 United Health Group, Medicaid Savings Appendix, <https://www.unitedhealthgroup.com/content/dam/UHG/PDF/2018/PBM-Medicaid-Savings-Appendix.pdf>

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

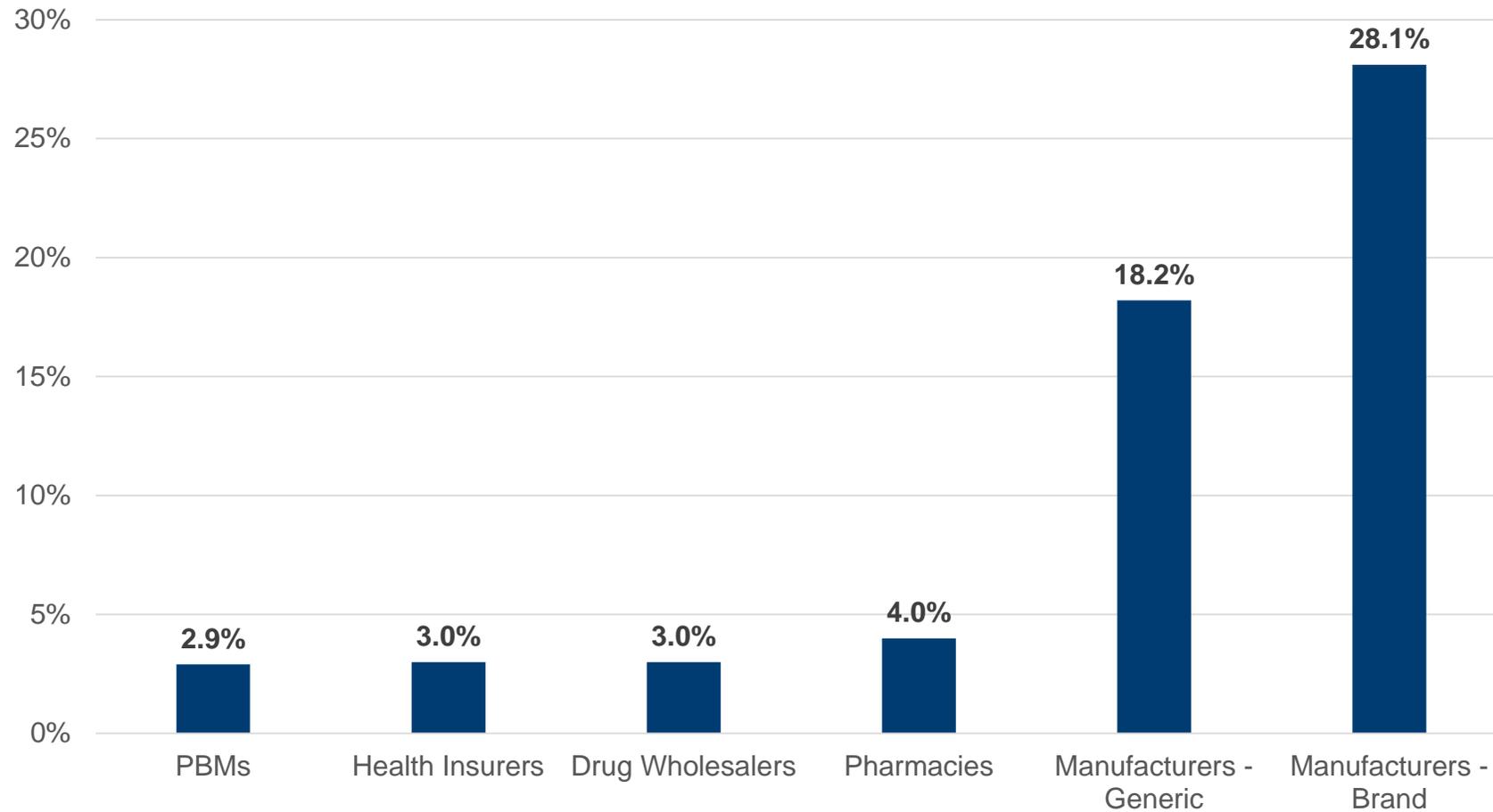
- PBMs are able to bring volume to manufacturers and in some cases, obtain price concessions.
- Rebates reduce the net cost of drugs for payers, **but they aren't available on all drugs**—only where there is competition.
 - 90% of drugs dispensed are generics, with little-to-no rebate in commercial programs.
 - 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:

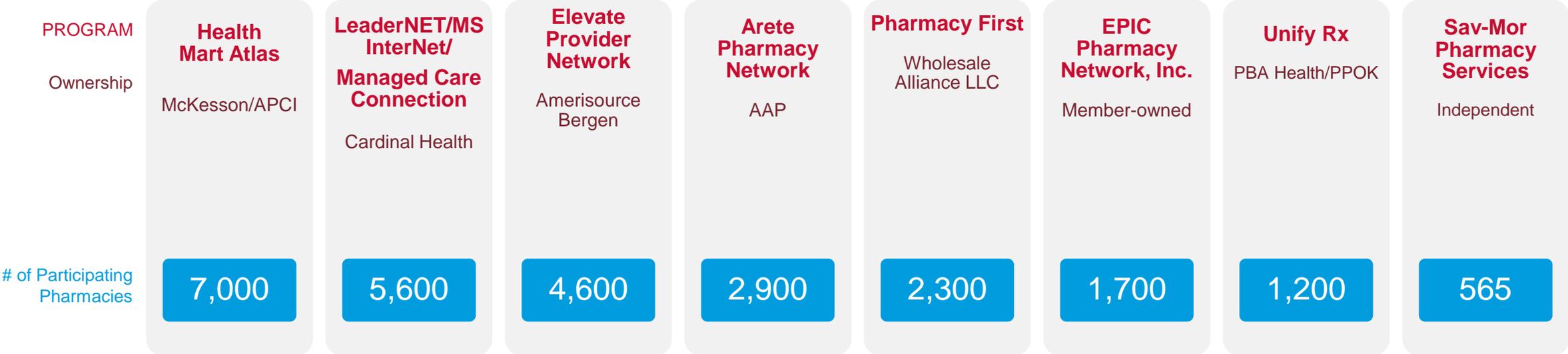
- ✓ Negotiate and enter into contracts with third-party payers on behalf of independent pharmacies
- ✓ Negotiate reimbursement rates, payment, and audit terms
- ✓ Provide access to pooled purchasing power, negotiating leverage, and contracting strategies similar to large, multi-location chain pharmacy 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.

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
...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

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