Drug Costs: Perspectives from the Pharmacy Benefit Managers

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The Role of PBMs

PBMs aggregate the buying clout of millions of enrollees, enabling plan sponsors and individuals to pay less for prescription drugs.
More than **266 million Americans** receive pharmacy benefits provided through PBM.

- **35.7%** Self-Insured Employers
- **31.6%** Commercial Health Plans
- **18.0%** Medicaid*
- **14.7%** Medicare Part D

*Excludes Medicare-Medicaid Dual Eligibles where drugs are covered by Medicare Part D.

**Note:** 2.7 million state employees and their families are privately insured.

**Source:** Visante estimates prepared for PCMA, 2016.
Pharmacy Benefit Management Services

- Claims Processing
- Price, Discount and Rebate Negotiations with Pharmaceutical Manufacturers and Drugstores
- Formulary Management
- Pharmacy Networks
- Mail-service Pharmacy
- Specialty Pharmacy
- Drug Utilization Review
- Disease Management and Adherence Initiatives
PBMs Save On Prescription Costs For Patients and Plans

PBMs save patients and plans $123 per prescription*

Full price for brand prescription $391

PBM-negotiated savings realized by patient and plan $123

Prescription cost after PBM savings $268

Of the $268 average prescription cost paid by patients and plans:

Plan Pays 81%

Manufacturer Reaps 88%

*Comparison based on non-specialty brands. PBM = Pharmacy Benefit Manager.
PBM Harress Competition

PBM use competition among drugs that are therapeutically substitutable to negotiate rebates with manufacturers.

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

Uninsured Patient/Without PBM

Average Cost per Pill

$1,000

PBM Reduced Cost

Insured Patient/With PBM

$589

Source: Visante, prepared for PCMA. February 2016.
PBMs Pass Through Rebates

- In Medicare Part D, rebates must be used to benefit beneficiary
- In Medicaid, states may negotiate above 23.5% statutory rebates and collect supplemental rebates
- In private insurance, disposition of rebates is up to the client
  - 29 percent of employers negotiate to keep all rebates*
  - On average, 90 percent of rebates are passed through to clients**
- Use of rebates by client depends on plan design
  - Most use rebates to reduce premiums, cost sharing
- Some insurers offer no- or low-drug-deductible plans

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No Correlation Between Rebates and Prices

Using commercially available data on gross and net sales for the top 200 self-administered, patent-protected, brand drugs in the United States, Visante estimated annual rebate levels over the 2011-2016 period and compared these against manufacturer list price levels and increases over the same time period.

Major findings:

• No correlation between the size of rebates and price increases
• High price increases in drug categories with low rebates
• Lower price increases in drug categories with high rebates
• Drug prices increasing regardless of rebate levels
Higher Price Increases in Categories with Lower Rebates and Lower Price Increases in Categories with Higher Rebates

Source: Visante estimates and analysis of SSR Health data, 2017.
Drug Price Growth Varies Widely Across Drug Categories Regardless of Rebate Levels

Source: Visante estimates and analysis of SSR Health data, 2017.
Policies to Address High Drug Prices

- Allow FDA to accelerate me-too brand, generic approvals
- Eliminate generic review backlog
- Improve biosimilar labeling and naming
- Eliminate “pay for delay” agreements blocking generics
- Eliminate use of REMS to block development of generics
- Exempt value-based drug negotiations from Best Price
- Reduce biologic exclusivity to seven years
- Eliminate tax deduction for DTC drug ads
- Eliminate protected classes in Medicare
- Make biosimilars subject to 50% discount in coverage gap