



Testimony of

Kristin Bass
Chief Policy and External Affairs Officer

Pharmaceutical Care Management Association
325 7th Street, N.W.
Suite 900
Washington, DC, 20004

Submitted to the

UNITED STATES HOUSE OF REPRESENTATIVES
ENERGY AND COMMERCE COMMITTEE,
SUBCOMMITTEE ON HEALTH

***“Improving Drug Pricing Transparency and Lowering Prices
for American Consumers”***

May 21, 2019

Introduction

Good Morning. I am Kristin Bass, the Chief Policy and External Affairs Officer for the Pharmaceutical Care Management Association (PCMA). PCMA is the national association representing America's pharmacy benefit managers (PBMs), which administer prescription drug plans for 270 million Americans with health coverage provided through employers, health insurers, labor unions, state and local governments, Medicare, Medicaid, and the Federal Employees Health Benefits Program.

PBMs are the primary advocate for consumers and health plans, working to keep prescription drugs accessible and affordable. PBMs negotiate on behalf of consumers and work to keep down premiums and costs for prescription drugs. Our companies use market-based tools that encourage competition among drug manufacturers and pharmacies and incentivize consumers to take the most cost-effective and clinically appropriate medication.

PBMs Are the Only Entity in the Drug Supply Chain Dedicated to Lowering Costs

By leveraging competition among drug manufacturers, PBMs save patients and health plans an average of \$123 per prescription and will negotiate prescription drug costs down \$654 billion over the ten years ending 2025.ⁱ PBMs reduce drug costs by:

- Offering clinical programs to drive medication adherence and health outcomes that address the nearly \$300 billion in annual cost associated with non-adherence.
- Promoting the use of generics and more affordable brand medications.
- Negotiating price concessions from drug manufacturers and pharmacies.
- Providing home delivery of prescription drugs and promoting high-quality, affordable pharmacy networks.
- Reducing fraud, waste, and abuse.

PBMs operate in an extremely competitive marketplace and work hard to satisfy the market demand of both current and potential clients.ⁱⁱ Research by the Pharmacy Benefit Management Institute shows that there are 66 full-service PBMs and 80 organizations offering PBM services operating today in the U.S.ⁱⁱⁱ The presence of so many industry participants engender tremendous competition to drive costs down.

We welcome the opportunity to provide our thoughts to the Committee about how to provide transparency in pharmaceutical pricing for American consumers. It is important to understand that manufacturers alone set the price of prescription drugs. The key to lowering drug prices is a competitive marketplace. This Committee has already taken great steps toward addressing the challenge of lack of competition. The BLOCKING Act, Purple Book Continuity Act, Orange Book Transparency Act, Protecting Consumer Access to Generic Drugs Act, and CREATES Act are all important steps toward ending market abuses to block competition as well as to promote a transparent and competitive pharmaceutical marketplace. But we agree with the Committee that still more can be done and the appropriate level of transparency across the full supply chain is

important.

PBM's Role in the Drug Delivery System

Through negotiated savings and benefit administration services, PBMs play a crucial role in lowering prescription drug costs for health plan sponsors and government programs – hereafter referred to as clients or payers – and plan enrollees. There are no requirements that plan sponsors utilize a PBM. PBM clients choose to contract for these services because of the value they provide both to the plan and to the patients that the plan serves.

Plan sponsor clients themselves decide how actively they want their PBM to manage the pharmacy benefits they provide to the patients in their enrollee populations. For example, they select formulary coverage, copayment tiers, utilization management, and pharmacy channel options. In addition, PBMs use a variety of tools for their clients, such as drug utilization review and medication management. These tools are crucial to encourage the best clinical outcomes for the patients PBMs serve.

In retaining PBM services, PBM clients' contracts typically include thorough audit rights and may include other terms, such as protections against drug manufacturer price inflation, and price concessions at the point of sale.

PBMs may be a business-to-business enterprise, providing services to plan sponsors. But the core of their mission is to serve patients through lower costs, affordable access to medications, and administrative services that provide a seamless experience at the pharmacy counter.

PBMs Drive Savings by Creating Market Competition among Brand Manufacturers

The first link in the drug supply chain is the drug manufacturer, which alone sets the price for the drug. The manufacturer sells the drug to a wholesaler, who then sells the drug to a pharmacy. PBMs are not involved in the physical supply chain. Rather, PBMs drive competition among drug manufacturers. For generics, which are commodities, PBMs in their pharmacy contracts negotiate payment terms that give pharmacies the incentive to purchase their generic drugs at the lowest price possible. For brand drugs, PBMs negotiate price concessions with brand manufacturers directly, typically in the form of retrospective rebates, an artifact of a class action settlement between pharmacies and manufacturers several decades ago.

Pharmacy benefit management is a scale business. The PBMs competing in the marketplace have leverage with manufacturers because they are negotiating on behalf of significant total patient populations.^{iv} The price concession a manufacturer may be willing to offer is generally based on the market share a PBM can demonstrate it will move to a drug.

These negotiations can only take place where there are competing, clinically equivalent drug therapies offered by different manufacturers. Where competition exists, PBMs can use their leverage to encourage the use of the lowest net cost option. According to the HHS Inspector

General, roughly 61 percent of brand drugs in Medicare Part D have a PBM rebate associated with them^v – 39 percent do not. This underscores the need for more competition among manufacturers.

Negotiated price concessions are not correlated with price increases. A recent study found no correlation between the prices that drug manufacturers set on individual drugs and the rebates that they may negotiate with PBMs on those products.^{vi} At the same time, separate research by Credit Suisse shows that the size of drug rebates is positively correlated with the extent to which a given brand drug faces competition in the market.^{vii} Thus, evidence shows that PBMs use price concessions to harness competition in the market to bring down costs for patients and clients.

Plan sponsors determine how PBM-negotiated price concessions are utilized. Payers can choose to apply the savings to offset overall benefits costs, to reduce premiums for plan enrollees, or to reduce out-of-pocket costs. For plan sponsors who receive rebates as a part of their contractual arrangement with PBMs, 100 percent rebate pass-through is the most common rebate arrangement.^{viii} In Medicare Part D, price concessions have been used to lower premiums, keeping them stable over the last decade of the Part D program.

For 2019, CMS announced that Part D's base beneficiary premium was \$33.19, a 5 percent drop from \$35.02 in 2018,^{ix} and the average Part D base premium has been between \$30 and \$32 since 2010.^x

PBMs Use Formularies to Encourage Patients to Use High-Value Drugs

In addition to negotiated price concessions from manufacturers, PBMs recommend drug formularies to encourage patients to take the most cost-effective, clinically appropriate drug for their disease or condition. Typically, drugs are placed on tiers with cost-sharing assigned according to the drug's value. The primary purpose of the formulary is to encourage patients and prescribers to choose the lowest cost, clinically effective drug.

In developing formularies, PBMs rely on independent Pharmacy and Therapeutics (P&T) committees comprising physicians, pharmacists, and other clinicians. P&T committees evaluate all available evidence in clinical and medical literature to recommend which drugs must be covered and which drugs may have therapeutically substitutable alternatives. This vital first step in developing a formulary ensures that the first question asked is whether patients will have access to the clinically necessary therapy for their condition.

With respect to brand drugs, where the P&T committee has identified at least two therapeutically equivalent drugs, PBMs can use competition among manufacturers – who prefer that their drugs be offered to patients with lower cost sharing – to reduce the net cost of the drug. The more favorable a drug's placement on the formulary, the more market share a drug will realize, and the greater a concession the drug's manufacturer may agree to. PBMs use the prospect of moving market share to a given drug and the threat of excluding drugs from

formularies to simultaneously drive competition among the manufacturers and offer a value-based prescription drug formulary to the clients they serve.

PBM Negotiations with Pharmacies Reduce Costs for Consumers and Payers

PBMs also use value-based contracting to build networks of high-performing pharmacies. Based on negotiated, agreed-upon performance metrics, PBMs hold pharmacies accountable for performance on certain activities such as generic dispensing, cost-effective dispensing, improving medication adherence, and reducing inappropriate drug use. In turn, pharmacies performing well on such metrics earn bonus payments and preferred status. The ability of health plans and PBMs to construct networks that include some, but not all, providers, including pharmacies has long been used to increase quality of care and lower costs for patients.

PBM pharmacy networks include independent pharmacies, the vast majority of whom hire pharmacy services administrative organizations (PSAOs) to negotiate and contract with PBMs and other third-party payers on their behalf. A typical PSAO represents thousands of pharmacies. The eight largest PSAOs represent more than 24,000 pharmacies.^{xi} PSAOs provide access to pooled purchasing power, negotiating leverage, and contracting strategies similar to those of large, multi-location chain pharmacies.

As this Committee considers a comprehensive look at pharmaceutical intermediaries, the relationship of PSAOs and wholesalers is equally important to consider.

Transparency

The PBM industry supports transparency that can help lower costs and improve quality of care. PBMs support transparency to empower patients and their physicians. Our industry provides real-time benefits tools (RTBT) so physicians and patients know, immediately in the doctor's office, what drugs are on formulary and what the patient's cost-sharing will be. Prescribers and patients can work together to choose the drug that works best for the patient.

PBMs support transparency to their clients, so that both sides have a clear understanding of their contract terms, including how the PBM is paid for its services, the amounts of negotiated rebates and the portion the client chooses to have the PBM pass along.

And PBMs support transparency to policymakers. PBMs already report on all price concessions, costs and fees in Medicare to CMS, and support legislation that would provide that data to congressional advisors at MedPAC and MACPAC.

In addition, PBMs support additional transparency for others in the supply chain – manufacturers, wholesalers, and the PSAOs, to enable policymakers, payers, and consumers to understand costs throughout the supply chain.

Comments on Specific Bills and Concepts

H.R. 2115: Public Disclosure of Drug Discounts Act: As the Committee considers public reporting of aggregate PBM rebates, which we generally support, we urge you to make sure manufacturers cannot use public reports to calculate competitors' discounts and thus avoid competition, a risk that has been validated by the Federal Trade Commission (FTC). The FTC has said that if rebates or price concessions are known among business competitors, the competitors will engage in tacit collusion to keep net prices higher and thus not offer as deep price concessions as they otherwise might have.^{xii}

Public reporting of rebates by drug or even by drug class, in classes with fewer than three drugs, would allow manufacturers to figure out the rebates offered by other manufacturers and result in tacit collusion behavior. In addition, all rebates, discounts, and remuneration are reported to the Centers for Medicare & Medicaid Services (CMS) in Part D, which keeps all but the aggregate percentage of rebates across the program confidential.

H.R. 2376: Prescription Pricing for the People Act: PBMs welcome FTC scrutiny of the industry. The FTC has studied the PBM industry extensively and consistently found that PBMs indeed lower costs in the drug supply chain and that the industry is competitive. We encourage the Committee to add others in the supply chain to this bill, so the FTC can examine not only the PBM industry, but also manufacturers, wholesalers, and PSAOs.

H.R. 2064: (Re: Product Samples): PCMA supports the Sunshine Act and agrees that reporting of aggregate product sample value is a commonsense way to build on drug manufacturer sunshine requirements.

In addition, increased manufacturer reporting can help bring sunshine into their pricing practices, as well as their marketing practices, as addressed in **H.R. 2069, H.R. 2296, and H.R. 2087.**

LIS Cost-Sharing: PCMA supports reducing Medicare Low Income Subsidy beneficiary cost-sharing for generic drugs.

Conclusion

Thank you for the invitation to appear before the Committee today. In the search for solutions to address high drug costs, the Committee and Congress would be best served in pursuing policies that foster and encourage competition to keep prescription drug costs and pharmacy benefits more affordable for employers, enrollees, taxpayers, and government programs. Transparency in the drug supply chain can be a valuable tool to enhance such competition, but not if it allows tacit collusion, which leads to higher prices.

PCMA member companies welcome continuing discussion among all stakeholders to create a robust, sustainable market that will continue to deliver needed cures and treatments for patients

who suffer through disease and chronic illness. To that end, PCMA staff will be happy to speak with you and your staffs on any of the specific bills discussed today or any other matter that comes before the Committee.

ⁱ Visante, "Pharmacy Benefit Managers (PBMs): Generating Savings for Plan Sponsors and Consumers," February 2016.

<https://www.pcmamet.org/wp-content/uploads/2016/08/visante-pbm-savings-feb-2016.pdf>

ⁱⁱ Eversana, "A Highly Competitive PBM Market Spurs Consolidation and Emerging Competitors," February, 2013

ⁱⁱⁱ Pharmacy Benefit Management Institute (PBMI), Information compiled and provided to PCMA, March 28, 2019.

^{iv} Health Strategies Group, "Pharmacy Benefit Manager Research Agenda 2015,"

<http://www.healthstrategies.com/download/file/fid/1892>

^v HHS OIG, "Increases in Reimbursement for Brand-Name Drugs in Part D," June 2018. <https://oig.hhs.gov/oei/reports/oei-03-15-00080.pdf>

^{vi} Visante, "Increasing Prices Set by Drugmakers Not Correlated With Rebates: An Analysis Prepared by Visante on behalf of PCMA, June 2017

^{vii} Credit Suisse Equity Research, "Global Pharma and Biotech," April 18, 2017

^{viii} Drug Channels, "Solving the Mystery of Employer-PBM Rebate Pass-Through," January 14, 2016.

^{ix} MedPAC, March 2019 Annual Report to Congress, p. 399.

^x MedPAC, March 2018 Annual Report to Congress, p. 408.

^{xi} Drug Channels, "[McKesson Leads Another Round of PSAO Consolidation](#)," May 17, 2018

^{xii} Ibid.