

August 2009

PBMs: Where's the Money Going? **Support PBM Transparency in Health Care Reform**

Language included in the transparency section (133) of H.R. 3200 will require transparency for pharmacy benefit managers (PBMs) contracting with health plans in a public health care exchange. PBMs are the middlemen (such as Express Scripts Inc., Medco Health Solutions Inc., and CVS Caremark) that health plans contract with to administer drug benefits for over 210 million Americans. Currently, transparency helps reduce drug costs but there is no meaningful Federal or state requirement that PBMs disclose to public or private payers how they conduct business. This language will allow the secretary of the exchange and health plans access to the following information, leading to greater cost control and consumer protections:

- Disclosure of all aggregate rebates, price concessions, discounts and other payments the PBM receives from manufacturers;
- Information on the number of times when a prescription is switched to a more costly version;
- Disclosure of the percentage of generics dispensed at the retail pharmacy versus the mail order facility; and
- Information on the price paid by the health plan to the PBM for the prescription versus what the PBM pays the pharmacy for the prescription.

Payers who contract with a PBM should have access to this aggregated information in order to reduce prescription drug costs. **This language is merely the minimum necessary to achieve some transparency -- it does not, for example, mandate or set reimbursements or require the PBM to pass through the rebates or discounts to the health plan.** It also does not require public disclosure of prices – so it will not interfere in the competition among manufacturers in the marketplace, as some opponents would claim. In addition, many of these requirements already exist in the Medicare Part D program.

The language only requires that PBMs disclose information that the health plan should have access to in order to allow the plan to make the right decisions for their beneficiaries.

PBM Transparency Will Create Health Care Savings!

1. PBM transparency will lead to lower drug prices and reduced costs for the government and health plans.

Transparency enables a buyer to know that it is receiving the best price possible. Increasingly, the largest health plans – those with bargaining leverage – have secured transparency and reduced drug costs. There are numerous examples where the ability of plans to secure transparency has led to lower prices (see Appendix A). Several states have enacted legislation to require PBM transparency for this reason.

2. Based on recent discussions, CBO has said the PBM transparency language in H.R. 3200 will not score - that is in direct opposition to what the large PBMs are touting.

The PBMs, which want to protect their supracompetitive profits, will suggest that transparency will increase costs and rely on a 2003 CBO score of a proposed 2003 PBM transparency amendment. That score is irrelevant to this legislation. The 2003 bill arguably may have increased the risk of public disclosure of the terms of deals between PBMs and pharmaceutical manufacturers, making it more difficult for these PBMs to gain significant price concessions. The current transparency language requires PBMs to disclose similar information to plan sponsors, but the PBM is allowed to classify such information as “confidential” to prevent such public disclosure. The 2003 score is no longer relevant, and based upon what NCPA has recently heard, the H.R. 3200 PBM transparency language will not score - it will actually save money!

3. PBM transparency allows for informed purchasing and garners trust.

Purchasing PBM services without transparency is like going to a grocery store that does not post prices. If a plan does not know the amount of rebates that a PBM has secured, it does not know what it is buying. The PBM is meant to be an intermediary between health plans and the pharmacy, designed for the purpose of lowering transaction costs. Even though PBMs were initially created to work on behalf of plan sponsors, they have grown increasingly complex with multiple streams of revenue. It is only by having PBMs open their books to plan sponsors that they will be able to develop a relationship of trust with the health plans they are designed to serve. A vote for transparency is a vote for trust between PBMs, pharmacies, health plans, and patients.

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4. PBM transparency in the market will lead to greater competition.

The FTC permitted massive PBM consolidation over the past several years without conducting a serious investigation of any of the mergers. During the past year the operating profits of the 3 largest PBMs have skyrocketed, increasing by more than 20% each for the 2008 fiscal year – if the market were truly competitive, profits would not be increasing at such a rapid rate. Yet, while profits soar for the PBMs, patients are paying more for less. According to the Kaiser Family Foundation, premiums have soared by 17% since 2008 under PBM administered Medicare Part D plans, and a 2008 year end report published by AARP demonstrates that brand name prescription drugs continue to increase in price faster than inflation.

5. PBM transparency will help payers know if they are gaining the best price.

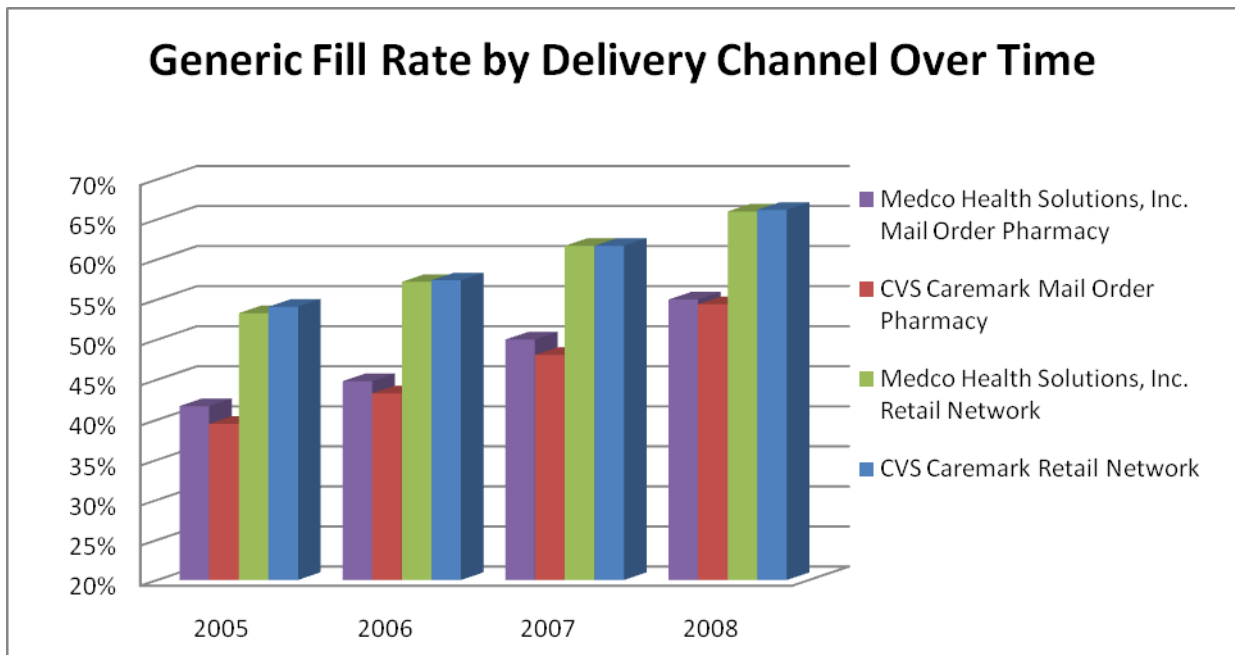
Currently, PBM-administered prescription drug plans under Medicare Part D are less successful at securing rebates when compared to Medicaid plans, which are primarily administered by pharmacy benefit administrators (PBAs), who function to administer the drug benefit only, and pass through rebates to payers. It is important to note that pricing under Medicaid for rebates from pharmaceutical manufacturers are very transparent, as rebates are set by the Federal government at a flat rate. Rebates under Medicaid make possible a 26% reduction in prescription drug costs -- three times as much as the rebates that are negotiated under PBM-administered Medicare Part D plans. The largest PBMs only provide transparency related to rebates reluctantly and often at higher cost. Recent Congressional testimony before a House Oversight and Government Reform Subcommittee on June 24, 2009, documented how PBMs prevent plans from securing transparency and performing adequate audits.

6. Transparency will end the long history of PBM abuse.

In the past 5 years alone, the top 3 PBMs have faced over 6 multidistrict or major Federal cases over allegations of fraud to patients and plan sponsors, resulting in out of court settlements of over \$370 million. Many of these cases concerned the practice of PBMs allegedly switching patients illegally onto more expensive drugs in order to secure greater rebates.

7. PBM transparency will help to end the promotion of more expensive brand name drugs through PBM-owned mail order pharmacies.

Mail order pharmacies are owned by PBMs which receive rebates from pharmaceutical manufacturers on brand name drugs. This creates a significant incentive for promotion of these expensive products. Based upon data collected from the financial statements of CVS Caremark and Medco Health Solutions Inc., community pharmacies that do third party business with these PBMs have consistently outperformed mail order pharmacies in filling a much higher percentage of generic prescription drugs (see graphic below*). Data for Express Scripts, Inc. is not available, although their annual reports consistently state that generic fill rates are higher in their retail pharmacy network than through their mail order pharmacies. It is important to note that a study commissioned by the Generic Pharmaceutical Association shows the American health system saved over \$734 billion in the past 10 years through the use of generic drugs, a savings that can be increased through PBM transparency.



*Data regarding generic fill rates are from the 2006, 2007, and 2008 annual reports from CVS Caremark and Medco Health Solutions, Inc. Contact: NCPA Government Affairs at 703-683-8200