



# Wisconsin Task Force Reducing Prescription Drug Prices

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## The Role of Pharmacy Benefit Managers in the Health Care System

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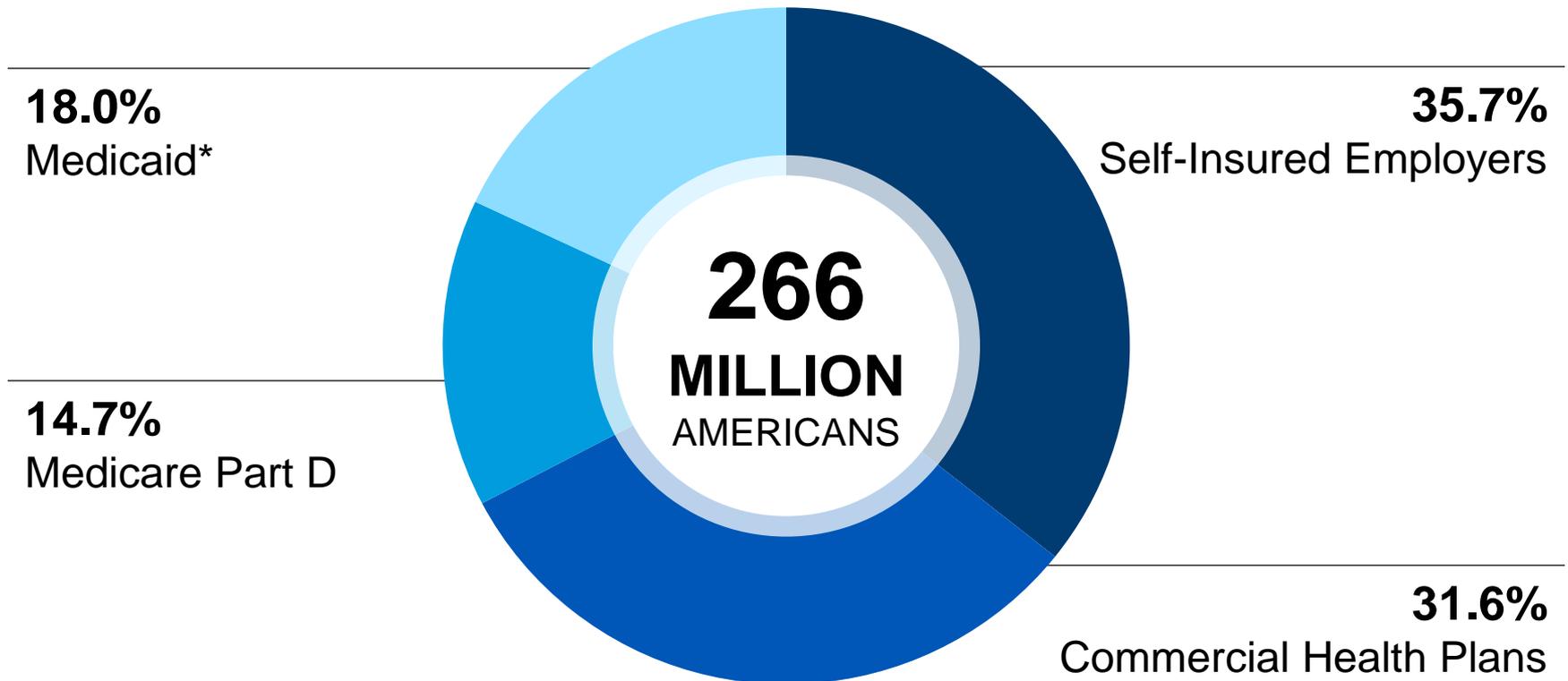
February 19, 2020

# What Is a PBM?

- A pharmacy benefits manager (PBM) is a health care company that contracts with insurance carriers, employers, and government programs to administer the prescription drug portion of the health care benefit
- PBMs work with their clients 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 costs for prescription drugs.

# PBMs' National Footprint

More than **266 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.

# Who Are PBM Clients?



# Why Do Plans Hire PBMs?

- PBMs help save plans 40-50% over unmanaged benefit, increase adherence.<sup>1</sup>
- Reduce medication errors through use of drug utilization review programs.
  - Over next 10 years, PBMs will help prevent 1 billion medication errors.<sup>2</sup>
  - Improve drug therapy and patient adherence, notably in the areas of diabetes and multiple sclerosis.<sup>3</sup>
- Manage programs to address opioid use issues.

1 Visante, Return on Investment on PBM Services, Nov. 2016.

2 Visante estimates based on IMS Health data and DUR programs studies.

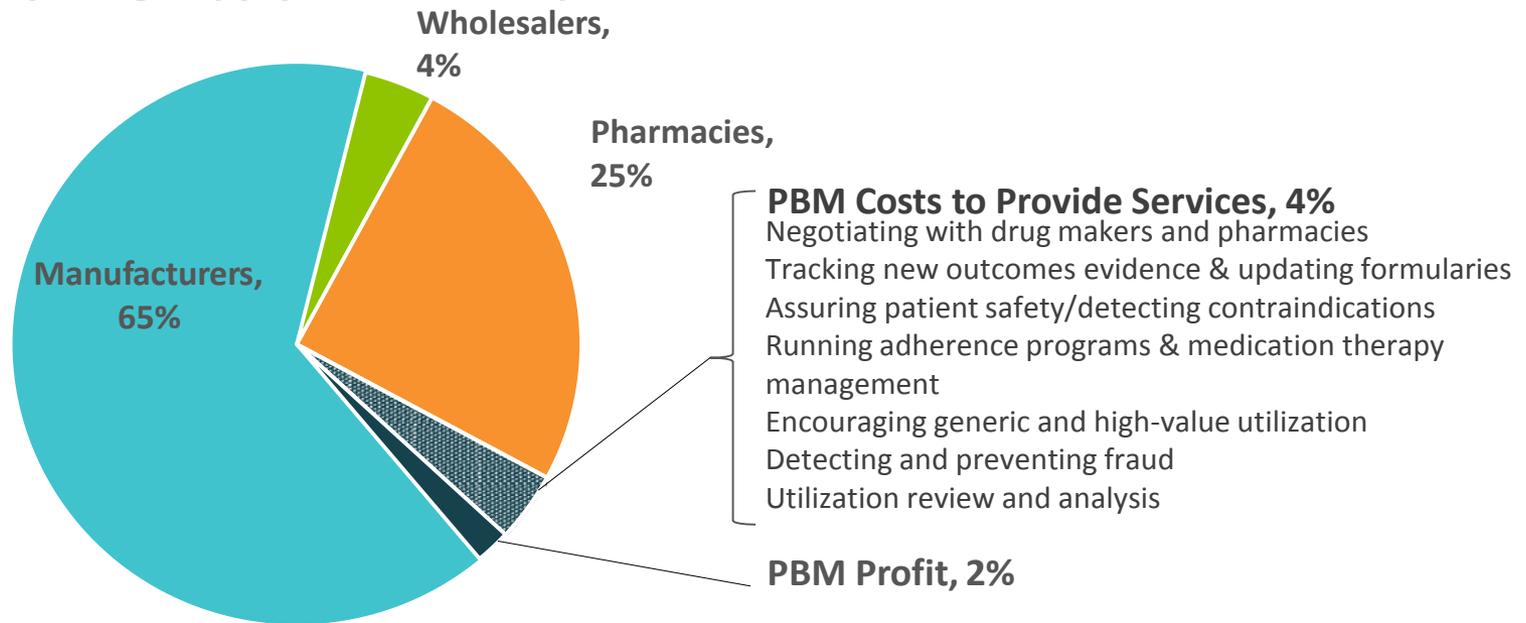
3 Visante estimates based on CDC National Diabetes Statistics Report 2014 and studies demonstrating improved adherence by 10+%).

# PBM – Plan Contracts

- PBMs offer various design models depending on a plan sponsor's specific needs:
  - Plan sponsors choose how to compensate PBMs.
  - Performance guarantees and audit rights protect plan sponsors and ensure transparency.
- The plan sponsor always has the final say when creating a drug benefit plan.
- Things not determined by a PBM: benefit design, cost sharing levels, deductibles, etc.

# PBMs Take Only 6% Of Rx Drug Dollar: 4% Pays for PBM Services, 2% Profit

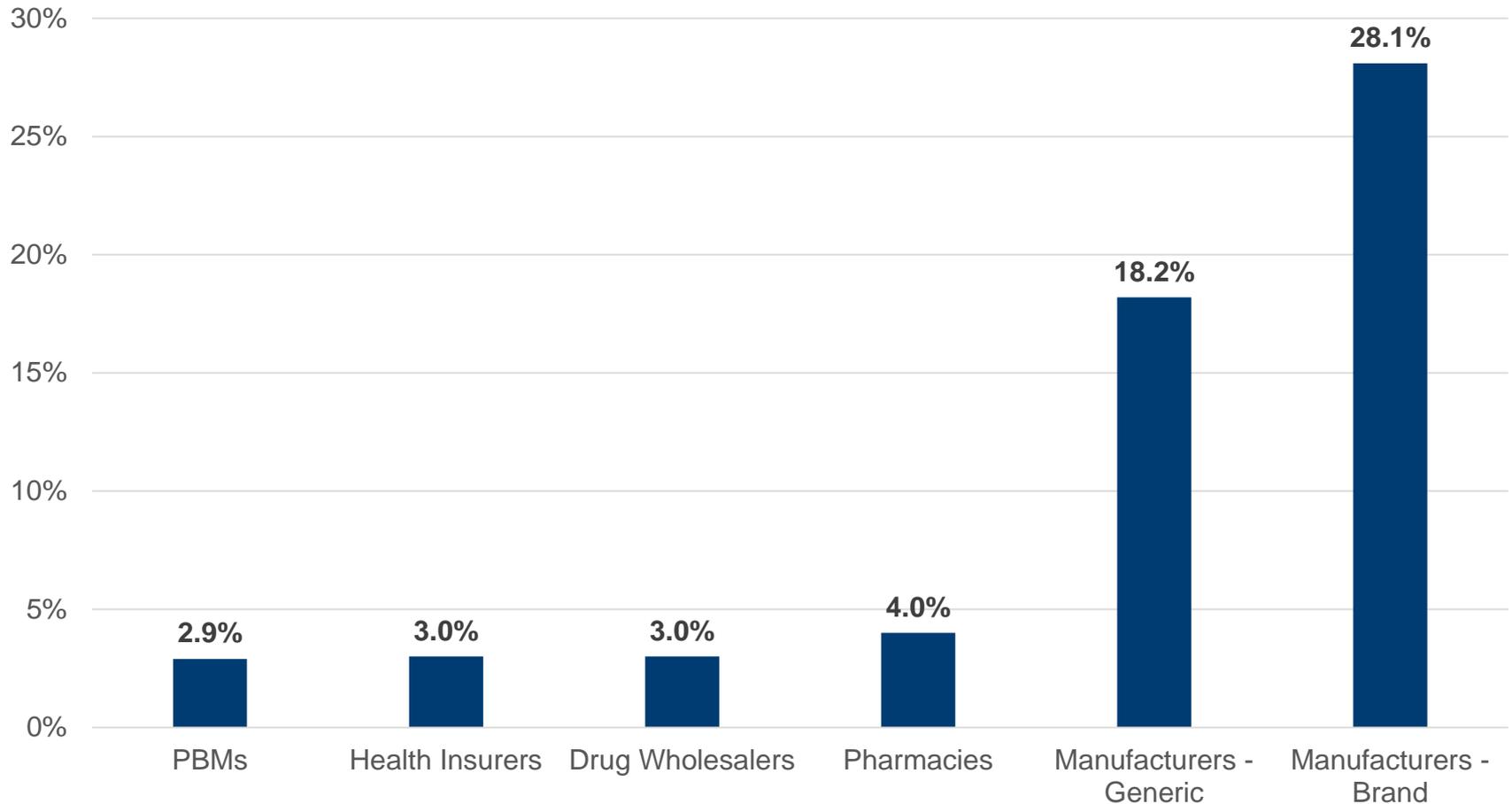
## Share of Drug Dollar Retained by Drug Supply Chain Participants



Source: Visante estimates, 2019; based on data published by IQVIA, Pembroke, Altarum, USC Schaeffer, and Health Affairs. Figure displays estimated total net expenditures (after rebates), both brands and generics. Includes only traditional PBM services, and excludes prescriptions filled by PBM-owned mail/specialty pharmacies, which cost less than retail but provide added margins to PBMs who own mail/specialty pharmacies.

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# 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

# PBMs Take Only 6% Of Rx Drug Dollar: 4% Pays for PBM Services, 2% Profit

- Negotiating with drug makers and pharmacies
- Tracking new outcomes evidence & updating formularies
- Assuring patient safety/detecting contraindications
- Running adherence programs & medication therapy management
- Encouraging generic and high-value utilization
- Detecting and preventing fraud
- Utilization review and analysis

# 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

# Tackling High 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.
- **Insurance carriers 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.

# PBMs Pass Through Rebates

- In Medicare Part D, rebates must be used to benefit beneficiary
- In Medicaid, states may negotiate above 23.1% statutory rebates and collect supplemental rebates
- In private insurance, disposition of rebates is up to the plan sponsor
  - On average, 90 percent of rebates are passed through to plan sponsor
- Use of rebates by plan sponsor depends on plan design
  - Most use rebates to reduce premiums, cost sharing

# 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

# Eliminating Rebates Will Lead to Higher Prices

Restricting rebates will introduce the wrong kind of transparency into the program and thus significantly hamper negotiating leverage, leading to **higher drug costs**

- “[i]f pharmaceutical manufacturers learn the exact amount of rebates offered by their competitors ... then tacit collusion among manufacturers is more feasible ... Whenever competitors know the actual prices charged by other firms, tacit collusion — **and thus higher prices** — may be more likely.” Letter to Assembly Member Greg Aghazarian, U.S. Federal Trade Commission Comments on AB 1960 (September 7, 2004)

# PBM Innovations

- For Physicians
  - ePrescribing
  - ePrior Authorization
  
- For Patients
  - Real time benefit checks

# How Would the World Look Without PBMs?

- Without management of benefit, 40-50% more in costs<sup>1</sup>
  - No one to make drug manufacturers compete with each other
  - No competition on price or quality in the pharmacy space
  - No auditing of pharmacies for fraud, waste, and abuse
  - No utilization controls that reduce waste and increase adherence
  - Paper claims, longer claims processing times, inability to have real-time reimbursement and coverage information for consumers at the pharmacy counter
  - Less utilization of generic drugs

<sup>1</sup> Visante, *The Return on Investment (ROI) on PBM Services*. (November 2016).

**Thank you!**