

The **PBM** Story

WHAT THEY
SAY...



WHAT
THEY
DO...

AND WHAT
CAN BE DONE
ABOUT IT.



Decades ago, insurance companies expanded their coverage to include prescription drugs. They turned to a new kind of middleman, a sort of middleman, to process prescription drug claims.

For just a small fee per claim, these processors took care of all those prescription claims, not only for insurers, but also for self-insured employers and even certain state and federal government agencies—“plan sponsors” for short.



Everyone was happy: Plan sponsors had someone else to administer all those prescription claims, the claims processors made money providing the service, and patients had easy access to their medications at their neighborhood pharmacies.

As time passed, the middlemen began to exert more and more control over the consumer's prescription drug benefits. They developed formularies and told doctors and pharmacists which drugs they were allowed to give consumers and under what circumstances. They had morphed from something good and useful into large corporations intent on pursuing profits at the expense of quality patient care. They began to concentrate their power. Many smaller PBMs were gobbled up by larger ones. Others were purchased by plan sponsors themselves, or even by large drugstore chains.



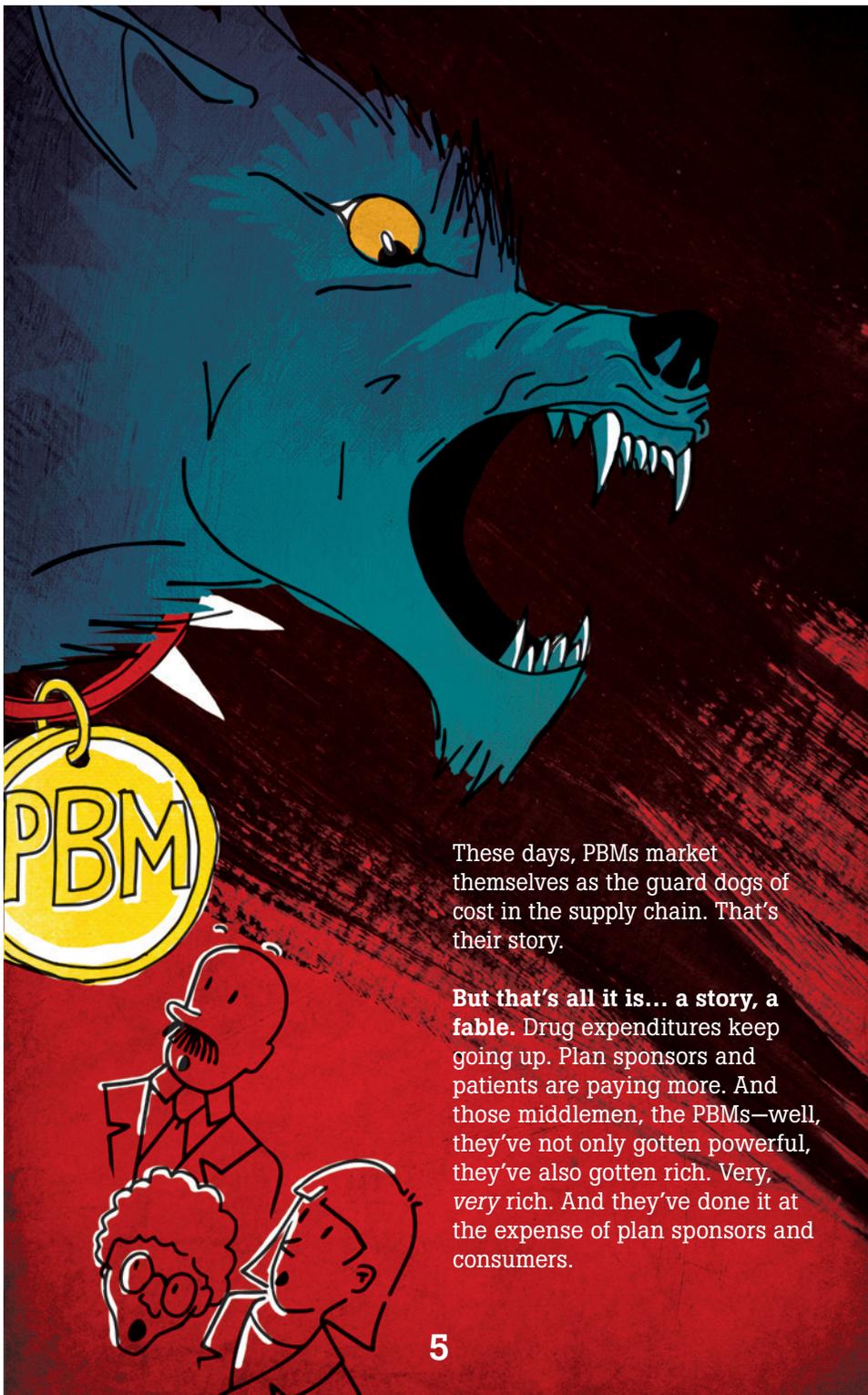
Pharmacists, patient groups, and policymakers expressed concern that all that consolidation and vertical integration was reducing competition and limiting patient choices. And they were right....

Today

PBMs control the pharmacy benefits of more than **253 MILLION Americans.**

*After numerous acquisitions and consolidations, Just **3 PBMs** now **CONTROL 78%** of prescription drug benefit transactions in the U.S.¹*

¹ Health Strategies Group, "Research Agenda 2015: Pharmacy Benefit Managers," http://www.healthstrategies.com/sites/default/files/PBM_Research_Agenda_PBM_RA101513.pdf. Similar figures come from "Prescription Medicines: Costs in Context," August 2016, available at <http://phrma-docs.phrma.org/sites/default/files/pdf/prescription-medicines-costs-in-context-extended.pdf>.



These days, PBMs market themselves as the guard dogs of cost in the supply chain. That's their story.

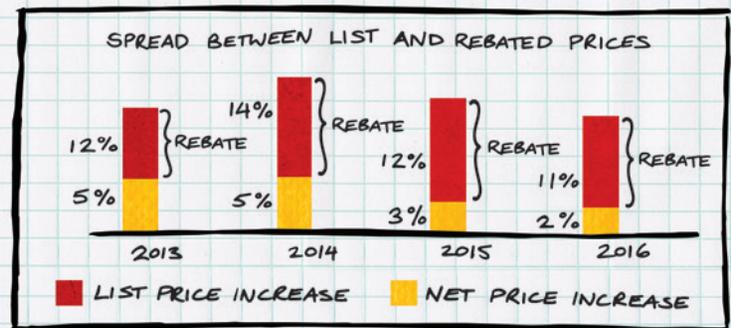
But that's all it is... a story, a fable. Drug expenditures keep going up. Plan sponsors and patients are paying more. And those middlemen, the PBMs—well, they've not only gotten powerful, they've also gotten rich. Very, very rich. And they've done it at the expense of plan sponsors and consumers.

Here's how they make money.

The main ways PBMs extract their profits is via rebates, administrative fees, and spread.

A **rebate** is a discount on a medication a drug *manufacturer* gives a PBM in return for the PBM agreeing to cover the drug manufacturer's product. Sometimes that means eliminating a less expensive, comparable medication from the formulary. Usually, only a portion of those rebates are shared with the plan sponsor. The PBM pockets the rest.

In recent years, rebates have exploded in magnitude. Today, roughly a third of the net price paid for medications is attributable to those rebates.² **In other words, a consumer's prescription may cost a good third more than it should due to rebates alone.**



Source: IMS Health, National Sales Perspectives, Mar 2016

"The problem is that our current system provides incentives for companies to push list prices higher, only to rebate the money later on the back end. Yet the rebates don't benefit consumers equally and they don't necessarily help offset the costs paid by those who need a particular drug."

- FDA COMMISSIONER-DESIGNATE SCOTT GOTTLIEB IN OCTOBER 2016 TESTIMONY TO THE SENATE COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS

² Derived from IMS Institute for Healthcare Informatics' April 2016 Report, "Medicines Use and Spending in the U.S. - A Review of 2015 and Outlook to 2020."

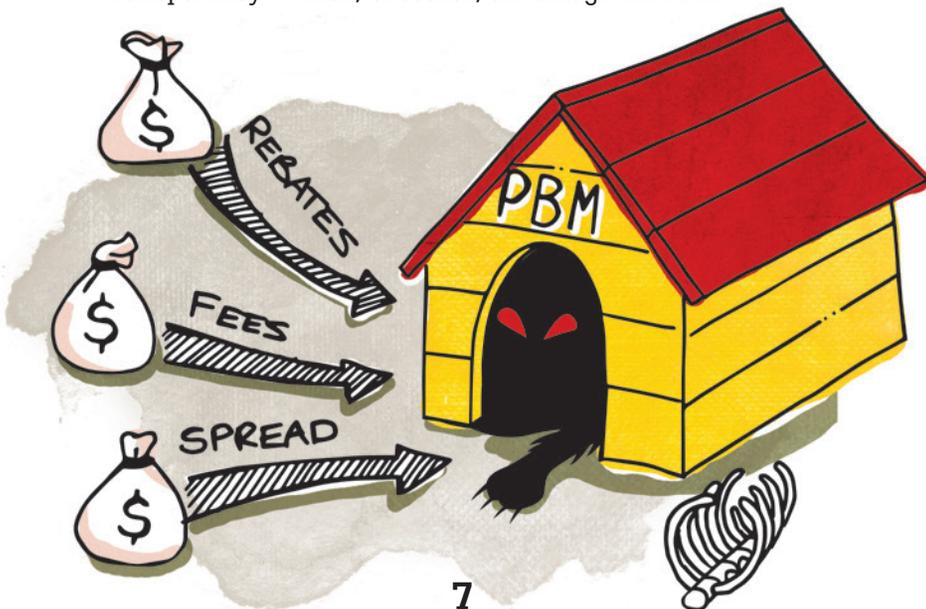
"I have never met, in this entire experience, a PBM or a payer outside of the Medicaid segment that preferred a price of \$50,000 over \$75,000 and a rebate back to them."

- EXECUTIVE WITH PHARMA MANUFACTURER GILEAD SCIENCES, INC., AS QUOTED IN BLOOMBERG NEWS, MARCH 3, 2017

Rebates aren't the only charges PBMs extract. Often, they charge manufacturers and plan sponsors additional **fees and payments** that the PBM keeps for itself. Without full transparency, drug pricing is so complex that even the savviest of plan sponsors may not know all of the charges buried in their contracts. Those fees work to further drive up drug prices, too.

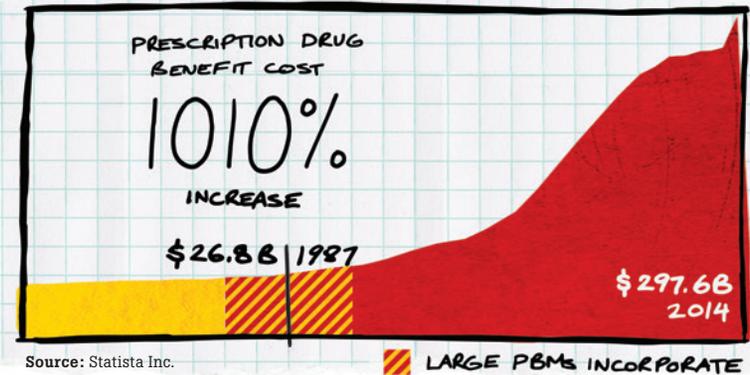
PBMs also make money on what's called "the spread." That's the practice of reimbursing the pharmacy one amount for a medication, charging the plan sponsor a higher price for the same drug, and pocketing the difference.

Often, plan sponsors don't know exactly how much more they are being billed for a drug than the pharmacy was reimbursed for it. They don't know this because of the complexity of pharmacy pricing and the lack of appropriate transparency—which, of course, advantage the PBM.

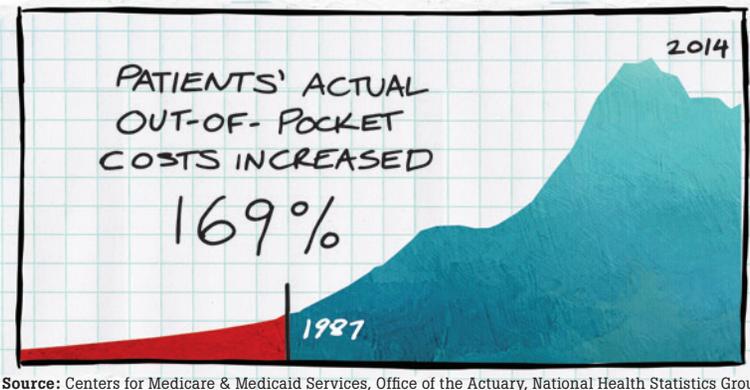


Here are some real numbers.

Today's largest PBMs say they lower prescription drug benefit costs for plan sponsors. Yet, since 1987, total spending on prescription drugs in the U.S. has increased 1,010 percent, from \$26.8B to \$297.6B. Overall price inflation in the U.S. only grew 125.9 percent in that same period.



PBMs point out that patients' out-of-pocket expenses (copays, etc.) as a *percentage* of total prescription drug spend have been falling for decades. That's misleading, because total drug spend in *dollars* has risen precipitously in the same period. And in fact, the amount of money consumers themselves are paying for prescriptions has grown, not fallen. Indeed, actual *patient out-of-pocket costs* have increased 169 percent since 1987!



There's more.

Per-patient spending on prescription drugs has *continued* to rise dramatically—especially since 2014, when costly specialty drugs sky-rocketed and high-deductible insurance plans took off. Oddly, PBMs have been unable to control specialty drug spending, even while the two largest specialty pharmacies are owned by—you guessed it—PBMs. They fill specialty prescriptions at those PBM-owned pharmacies, and often *require* patients to use those pharmacies. The PBM-owned specialty pharmacy comes out all right in that transaction. But the plan sponsor and the patient? Not so much.

Generic medications saved
\$1.68
TRILLION
from 2005-2014.³

TODAY
generics account
for **88%**
of prescriptions
dispensed,³ up
from **56%** in 2005⁴



Yet prescription drug spending overall continues to rise, not fall.

MORE RESULTS OF PBMS' "COST CONTROL"

- Employers have seen a 1,553 percent increase in per-employee prescription drug benefit costs since 1987.⁵
- In the U.S., prescription drugs now account for nearly 10 percent of all national health care expenditures, up from 5.2 percent in 1987.⁵



³ Generic Pharmaceutical Association. 2015 Annual Report.

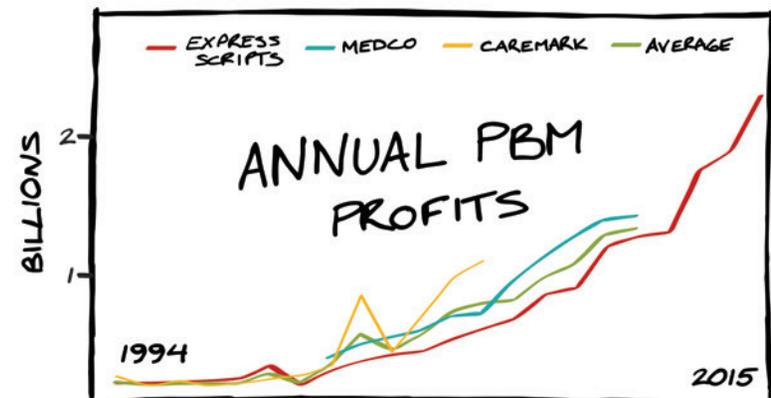
⁴ 2006 NCPA Digest.

⁵ Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group.

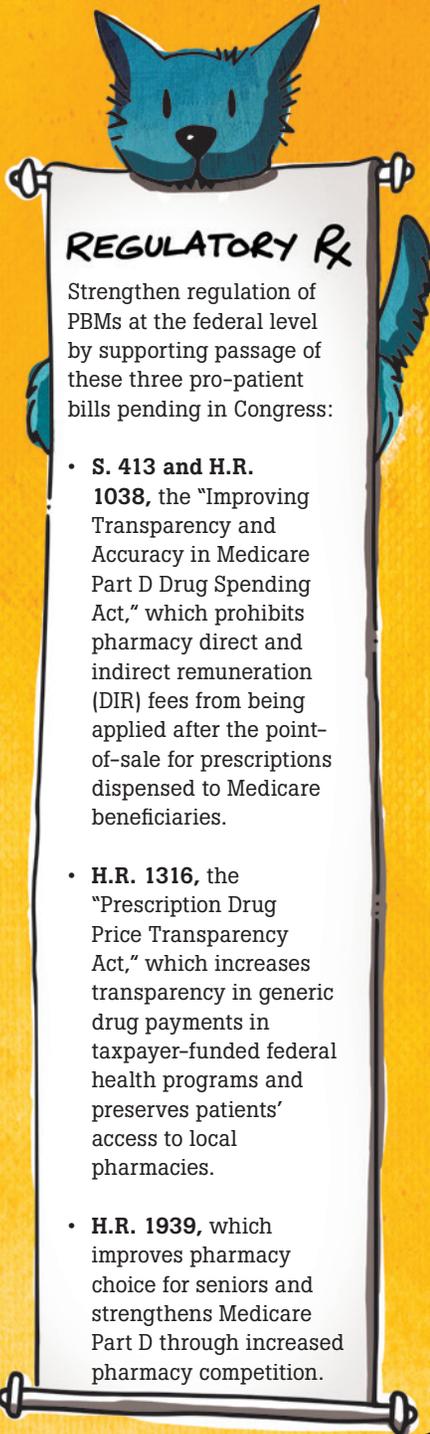
The largest PBM experienced an increase in net income of 70 percent in just two years, while the Bureau of Economic Analysis shows that after-tax corporate profits by other U.S. businesses remained virtually unchanged. According to one estimate, PBMs fail to pass \$120 billion back to consumers, and retain another \$30 billion in additional out-of-pocket costs.

— "YOU CAN BLAME PHARMACY BENEFIT MANAGERS FOR HIGHER DRUG PRICES,"
REAL CLEAR HEALTH, MARCH 28, 2017

And the most damning fact of all: Thanks to the massive savings in newly available generic drugs, thanks to enormous increases in manufacturer rebates, and thanks to increased plan costs to employers and consumers, **PBM profits have increased exponentially.** The profits PBMs extract from the prescription drug supply chain actually increase prescription drug costs—*just the opposite of what PBMs claim.*



Source: Medco was owned by Merck from 1994-2003 and purchased by Express Scripts in 2012. Publicly available income statements are reported from 2001-2011. Caremark was purchased by CVS in 2006. Net income from publicly reported statements are reported from 1994-2006. Reported net income excludes negative values from discontinued operations reported on 10-K forms from 1995-2000. Express Scripts has been the sole independent major PBM with publicly available income statements since 2012.



REGULATORY Rx

Strengthen regulation of PBMs at the federal level by supporting passage of these three pro-patient bills pending in Congress:

- **S. 413 and H.R. 1038**, the "Improving Transparency and Accuracy in Medicare Part D Drug Spending Act," which prohibits pharmacy direct and indirect remuneration (DIR) fees from being applied after the point-of-sale for prescriptions dispensed to Medicare beneficiaries.
- **H.R. 1316**, the "Prescription Drug Price Transparency Act," which increases transparency in generic drug payments in taxpayer-funded federal health programs and preserves patients' access to local pharmacies.
- **H.R. 1939**, which improves pharmacy choice for seniors and strengthens Medicare Part D through increased pharmacy competition.

Here's a better story.

Think of it as a handful of prescriptions for what's ailing prescription health care costs in the U.S.

DEMAND TRANSPARENCY...

Sunlight, as they say, is the best disinfectant. In the short run, plan sponsors—employers, unions, and federal and state governments—deserve better cost control. They must require complete transparency from PBMs when it comes to direct and indirect revenues that the PBMs receive for administering that plan sponsor's prescription benefit plan.

CHANGE THE MODEL...

Another option for plan sponsors is to look at changing the model entirely: paying PBMs a simple flat fee (in total or per prescription) to administer the plan sponsor's chosen services. Properly structured, that model would eliminate hidden costs for plan sponsors and patients—costs that are at the heart of the continuing increases in prescription benefit spending. Another route some large self-insured employers have taken—Caterpillar, Inc., for instance—is for the company to act as its own prescription coordinator. Caterpillar has cut its annual prescription drug spend by tens of millions of dollars using this approach.

LEAVE THE MIDDLEMAN, TAKE THE PHARMACIST...

Some companies are negotiating directly with pharmacy networks for prescription dispensing, as well as for patient care services. Working with community pharmacists to provide medication therapy and chronic disease management and wellness coaching, plan sponsors have seen extraordinary results in:

- Reducing emergency room visits
- Reducing hospital readmissions
- Evaluating for cost-effective options to lower patient prescription costs
- Identifying and preventing adverse drug interactions and side effects
- Increasing patients' medication adherence

Such plan sponsor-pharmacy partnerships are a two-fer. They've been proven to reduce not only the plan sponsor's prescription drug spend, but its overall health care costs as well.

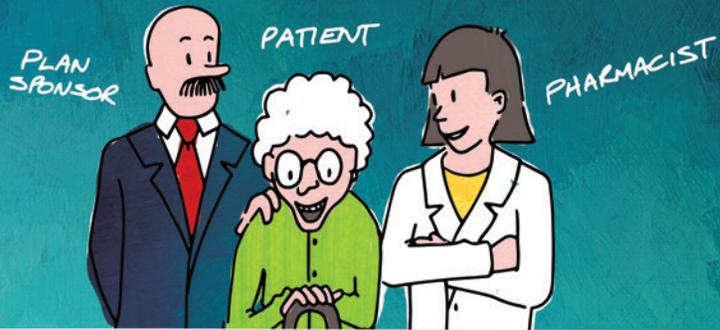
A 2010 systemic review of 298 studies found that pharmacist-provided services positively impacted patient outcomes and reduced health care spending across health care setting and disease states.

"One of the most evidence-based decisions to improve the health system is to maximize the expertise and scope of pharmacists and minimize expansion barriers of an already existing and successful health care delivery model."

- THE 2011 REPORT TO THE US SURGEON GENERAL FROM THE OFFICE OF THE CHIEF PHARMACIST

One community pharmacy in Iowa saved an insurer \$2.4 million over 12 months for the care of just 600 patients.

Pharmacists decreased total direct medical costs by \$1,200 to \$1,872 per patient per year for employees of the city of Asheville with chronic diseases.



"Caterpillar's move away from benefit managers started when it suspected that as much as a quarter of its \$150 million drug spending was wasted. The company devised its own list of drugs to offer its U.S. health-plan members and negotiated deals with pharmacies. It promoted generics and discouraged use of expensive heartburn and cholesterol medicines. The changes have saved the company \$5 million to \$10 million per year on cholesterol-lowering statins alone.... Drug spending at Caterpillar... has dropped per patient and per prescription since the company started the program."

- "DRUG COSTS TOO HIGH? FIRE THE MIDDLEMAN," *BLOOMBERG NEWS*, MARCH 3, 2017



When it comes to prescription drug prices, there's a better story than the one America has been told—and sold—by PBMs over the past quarter century.

By embracing appropriate transparency and new payment and patient care models, we can rewrite the story—so we can all live happier—and healthier—ever after.

