Pennsylvania Pharmacists Association

Testimony on Prescription Drug Costs

Banking and Insurance Committee Hearing

October 25, 2016

Good Morning Chairman White, Chairman Wiley and the honorable members of the Pennsylvania Senate Banking and Insurance Committee.

My name is Pat Epple and I am the CEO of the Pennsylvania Pharmacists Association (PPA). I am accompanied today by PJ Ortmann, a Lancaster County pharmacist with almost 40 years of varied pharmacy experience in Military, Hospital, Managed Care, the Pharmaceutical Industry and Community Practice. He is also president of MedVisors, an independent advisor helping employers identify and eliminate unnecessary high-cost prescription claims.

We appreciate the opportunity to participate in this hearing and your concern with looking for opportunities and possible solutions to the increasing problem of dramatically increasing prescription medication prices – both for those who pay for drug benefits, such as insurers, employers and government, as well as the patients.

Senate Bill 841

PPA generally supports Senate Bill 841 which would cap co-payments for the out of pocket cost for specialty tier prescription medications.

Currently, we are seeing co-pays and/or co-insurance or benefit deductibles for specialty drugs ranging from $0 to over $13,000, with the average being approximately $80. The higher amounts particularly occur when a patient's income is too high to qualify for assistance. At these out of pocket amounts to the consumer, there is no question that this legislation could be beneficial to many patients who need these life-saving drugs.

There is also no question that the Pennsylvania Pharmacists Association supports ensuring and improving patient access to prescription medications, including keeping the costs reasonable and affordable. Our concern is what would happen with the cost-sharing and who would ultimately bear the costs. Right now, if you assume the price to be at a specific level and the co-pays by patients are lowered, who covers the differential? The insurance premium portion paid by the consumer? The employer or union paying that premium for their employees/members? The Government on certain programs? Or are pharmacies, already struggling with low reimbursement, going to be expected to bear that cost?

As you will learn in a moment – pharmaceutical pricing is complex. Lowering costs at one point may simply push it out in another place. As pharmacists, we would like to see a focus on the root causes of pricing and trust that efforts to address pricing to the consumer would not be done on the back of community pharmacy, where the profit margins are extremely small. PPA would support adding language to the bill that would specifically state that Pharmacy Benefit Managers (PBMs) and other third-party payers are prohibited from setting pharmacy reimbursements, such that it would require pharmacies to make up the cost sharing differentials.

Senate Bill 893

PPA supports the concept behind Senate Bill 893, legislation which would create a Pharmaceutical Transparency Commission. As I previously stated, pharmaceutical pricing is a quirky, complex system not easily explained or understood, and in fact, even those involved in one aspect of it may not even be able to explain other parts in totality. My intent today is to probably leave you with more questions than answers, unfortunately. I also want you to clearly understand that the pharmacy pricing world that we are discussing today is focused on community or retail delivery. There are different models for distribution and allowable pricing in hospitals and other care delivery institutions. I also want you to completely forget about "typical retail" pricing that occurs in department stores and other retail establishments, they are not the same at all.

Again, we do appreciate the intent of the bill, and that as an organization we would be involved through the appointment of a pharmacist designated by our association for a seat on the commission. One of our main questions is which costs and prices of prescription drugs would manufacturers be required to report. There are a significant variety of different prices in the marketplace that include various concessions and some distinction between classes of trade. How does the "best price" Medicaid law apply? What specifically is involved in the review of pharmaceutical retail pricing? Is this the price at which national and/or regional wholesalers purchase the medications? Is this the reimbursement price paid to pharmacies by PBMs? Of great concern to us is that role of the PBM, which provides little actual value particularly to patient care but makes significant profits, simply serving as the middleman.

Prescription Drug Costs and Pricing

Now that I have put some questions in your minds, let me backtrack and see if on a very simplistic level, we can walk through the basics of pricing in the community/retail environment. To illustrate this, the chart attached to our testimony, titled *"The U.S. Pharmacy Distribution and Reimbursement System for Patient-Administered, Outpatient Drugs"* illustrates the flow for patient-administered, outpatient drugs. Please note that the chart is purely illustrative and is not intended to be a complete representation of every type of financial, product flow, or contractual relationship in the marketplace.

Let's focus on the blue lines and the center/left of the illustration with the blue and gray boxes, which are the movement of product – the drugs. The manufacturers make and sell their product to Drug Wholesalers, who in turn sell those drugs to pharmacies, who then dispense the prescription to the patient. Additionally, as to be expected those are done through contracts (the red lines) and payment is made accordingly through the green lines.

But here is where it gets tricky. The pharmacy at the bottom of the chart does not, and I repeat, does not set the price at which they "sell" the drug to patients.

So now I turn your attention to the right and the green boxes. You see something called Pharmacy Benefit Managers. These are the middlemen who manage prescription drug benefits for insurers and other third party payers (see other green boxes). They generally do not actually buy or physically distribute drugs. However, they do have contracts with manufacturers for rebates and formulary arrangements which provide significant financial compensation. But their most

significant role is contracting with pharmacies, unfortunately sometimes in restricted, limited, or preferred networks, for the reimbursements they will provide to pharmacies for dispensing the drugs they "allow," less the co-payment amounts those pharmacies receive from patients at the point of service. In the simplest of terms, the PBMs set the prices at which the pharmacies "sell" the drugs which is completely different from typical retain operations. It is also important to note that some PBMs also own pharmacies, both mail order and retail ones, which are competitors. So it hardly seems fair that they can set prices for their competition.

As you are well aware, there have been many recent instances when the cost of medications increases drastically. In some cases, these have been explained and reasonable shortages but other cases have left all of us, understandably perplexed. EpiPens, which are used to prevent anaphylaxis related to severe allergic reactions, is one of the most recent notable examples. We also recently heard about insulin. Several federal Congressional committees have held investigative hearings to examine the cause of these extreme fluctuations and its impact on patient care.

A recent report issued by the U.S. Government Accountability Office (GAO) examined prices of generic medications and revealed that more than 20% of the drugs studied (315 out of 1,441) experienced a price hike of at least 100% over the course of a year between 2010 and 2015. During this time frame, 35 drugs experienced multiple price hikes of 100% or more. While GAO stated in most cases prices increased between 100-200%, it discovered that in 63 instances they rose more than 500%, with 15 of these rising more than 1000%. The study further found that these price increases generally persisted for more than a year, and most experienced no price decrease after the initial price spike.

The report goes further to show that on average generic drugs do help lower prices, which is why community pharmacists have promoted their use for years. Additionally, through multiple surveys, the National Community Pharmacists Association has received numerous examples of price spikes for generic medications, as well as information about the effects these price spikes have had on both patients and pharmacies. For patients, these price increases may make medications unaffordable, particularly for those with limited or no insurance coverage or with increased cost sharing levels. Moreover, those on Medicare Part D may be forced into the coverage gap prematurely due to these increases.

While plan sponsors, patients, and pharmacies are paying more for prescription drugs, pharmacies are facing an additional challenge: the uncertainty of whether reimbursements for prescription drugs will cover the higher costs of purchasing them. Typically, reimbursement increases lag significantly behind the immediate increases pharmacies see on the purchasing end. So there are times when the spread between what is charged a plan sponsor and what is paid to the pharmacy can be quite significant. That spread is pocketed by the PBM.

PPA's Views on Prescription Drug Costs

We believe the reasons for the rise in prescription drug costs are complex, with many overlapping and interconnected moving parts. Middlemen growth and influence is emerging nationally as a root cause for pricing dysfunction and cost inequities for the consumer.

As we have shown, addressing the multitude of issues surrounding prescription drug costs may not be as straightforward as you may think or wish. There is no easy or single fix to the entire problem; as there are many factors that go into

prescription drug prices. Fixing prescription drug pricing and reimbursement will require comprehensive efforts and give and take, not only by federal, state, and local governments but by manufacturers, insurers, employers, unions, physicians, pharmacists, other health care providers, and patient advocacy groups.

Finding ways to improve efficiency in drug delivery and pricing while increasing competition in the marketplace is an option that should not be overlooked. Today, there is a focus on manufacturing brand-name drugs, biologics and specialty drugs by companies with few competitors. But the market for generics is becoming more consolidated; with some generic medications now being manufactured by a single company or disappearing altogether. Increases in prescription drug prices are not only occurring in these newer entrants in the market, but also on "older" drugs and those that may be generic particularly single-source generics.

Before I conclude, I would like to ask PJ to briefly explain another chart we have provided for you.

Conclusion

We leave with you today four critical considerations as you work to find solutions in escalating prescription drug costs:

1. The current U.S. system around drug pricing is very complex and involves many parts which must be looked at comprehensively not singularly. Any productive discussion regarding prescription drug prices must also include consideration of the middleman impact as demonstrated by PBM formulary

control and their influence over contracted pharmacy reimbursement at the point of patient care.

2. Branded and increasingly more generic drug prices include many pieces, including rebates, co-pay assistance to patients, other "pay-to-play" or hidden fees. Driving for more clarity and transparency in drug pricing from manufacturer to patient can go a long way in making a positive change in the marketplace for the consumers and purchasers of prescription medications.

3. Hopefully, this has served to open your eyes a bit more to the complexity of the problem and perhaps start by raising more questions than answers.

Thank you again for the time this morning to present this testimony and we look forward to working with you on these bills and addressing prescription medication costs.

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The U.S. Pharmacy Distribution and Reimbursement System for Patient-Administered, Outpatient Prescription Drugs

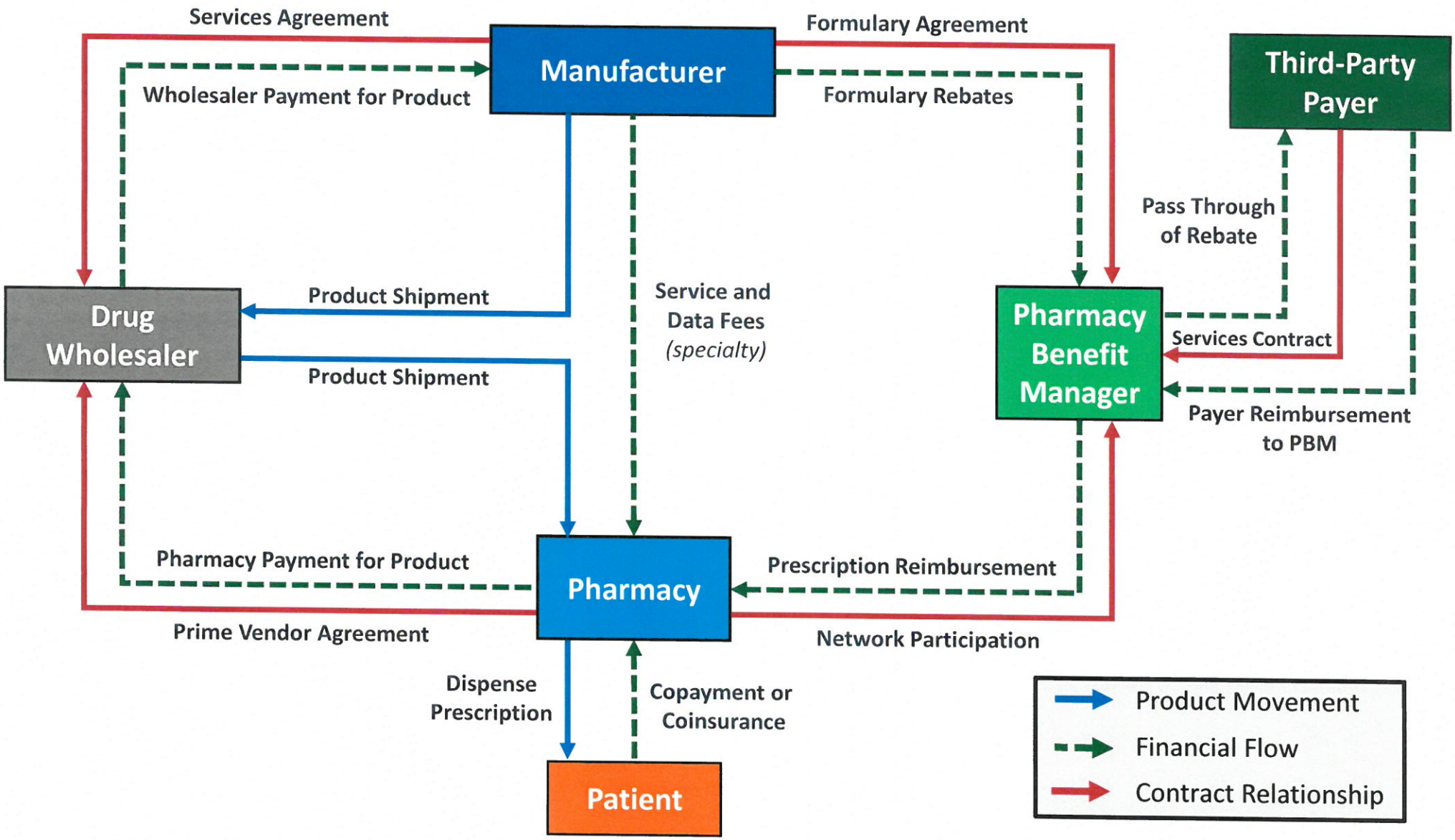

Chart illustrates flows for patient-administered, outpatient drugs. Please note that this chart is illustrative. It is not intended to be a complete representation of every type of financial, product flow, or contractual relationship in the marketplace.

Source: Source: Fein, Adam. J., *The 2016 Economic Report on Retail, Mail and Specialty Pharmacies*, Drug Channels Institute, January 2016. (Available at http://drugchannelsinstitute.com/products/industry_report/pharmacy/)

	Pharmacy Name	Pharmacy NPI Number	Pharmacy Phone	Date - Serviced	NDC-11	Drug Name	Drug Strength	Quantity	Dispensing Fee	Ingredient Cost	Plan Cost
Example #1	RITE AID #246	1366531097	(717) 533-2941	7/23/2016	68180033801	METFORMIN HCL ER	500 MG	60.000	$1.00	$1,601.06	$1,592.06
	RITE AID #246	1366531097	(717) 533-2941	6/19/2016	68180033801	METFORMIN HCL ER	500 MG	60.000	$1.00	$1,601.06	$1,592.06
	RITE AID #246	1366531097	(717) 533-2941	5/20/2016	68180033801	METFORMIN HCL ER	500 MG	60.000	$1.00	$1,601.06	$1,592.06
	EXPRESS SCRIPTS	1417376765	(800) 283-8609	7/29/2016	53746017801	METFORMIN HCL ER	500 MG	180.000	$0.00	$9.99	$0.00
	CVS #08979	1558698027	(717) 657-1149	7/27/2016	00093726710	METFORMIN HCL ER	500 MG	60.000	$1.00	$2.65	$0.00
	EXPRESS SCRIPTS	1417376765	(800) 283-8609	7/26/2016	53746017801	METFORMIN HCL ER	500 MG	180.000	$0.00	$9.99	$0.00
Examle #2	EXPRESS SCRIPTS	1417376765	(800) 283-8609	12/22/2015	68180033707	METFORMIN HCL ER	1000 MG	90.000	$0.00	$1,726.95	$1,711.95
	EXPRESS SCRIPTS	1417376765	(800) 283-8609	12/2/2015	68180033707	METFORMIN HCL ER	1000 MG	90.000	$0.00	$1,726.95	$1,711.95
	RITE AID PHARMACY #00866	1932298676	(717) 233-5344	10/16/2015	00591272060	METFORMIN HCL ER	1000 MG	30.000	$1.00	$171.59	$162.59
	RITE AID PHARMACY #04284	1184713810	(717) 545-8183	8/25/2015	00591272060	METFORMIN HCL ER	1000 MG	30.000	$1.00	$160.36	$151.36
	RITE AID PHARMACY #00866	1932298676	(717) 233-5344	7/31/2015	00591272060	METFORMIN HCL ER	1000 MG	30.000	$1.00	$160.36	$151.36
Example #3	EXPRESS SCRIPTS	1417376765	(800) 283-8609	10/13/2015	68180033607	METFORMIN HCL ER	500 MG	360.000	$0.00	$948.42	$933.42
	EXPRESS SCRIPTS	1417376765	(800) 283-8609	10/9/2015	53746017801	METFORMIN HCL ER	500 MG	180.000	$0.00	$6.84	$0.00