



## Memorandum

**To:** Assembly Member Lorena Gonzalez, Chair  
Members, Assembly Appropriations Committee

**From:** April Alexander, Senior Director State Affairs  
Pharmaceutical Care Management Association

**Date:** August 1, 2016

**Subject:** SB 1010 (Hernandez)

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SB 1010 by Senator Ed Hernandez is an attempt to deal with the increasing cost of prescription drugs. In the course of the debate on the bill, there have been some misconceptions regarding the role of pharmacy benefit managers (PBMs) in the health care system and their relationships with their payer clients. In short, **PBMs reduce the cost of drugs to payers** and have helped slow the rising trend of drug expenditures from prior years, despite an environment of ever-increasing drug prices. CVS Health reports that drug expenditures dropped to 5 percent from a high of 11.8 percent in 2014 in its commercially insured population,<sup>1</sup> and Express Scripts reports that overall drug spending in the commercially insured population increased only 5.2% in 2015—half the rate seen in 2014.<sup>2</sup>

### **PBMs reduce the cost of pharmaceutical benefits.**

Using innovative tools and techniques, PBMs have supported their clients—health plans, self-insured employers, union-sponsored plans, and public purchasers—to extend prescription drug benefits to the vast majority of American workers and retirees, as well as their families. Today, more than 266 million Americans nationwide receive drug benefits administered by PBMs.

PBMs aggregate the buying clout of the millions of enrollees of their separate clients, enabling client health plan sponsors and individuals to obtain lower prices for their prescription drugs, using a variety of tools. PricewaterhouseCoopers estimates “that, on average, pharmacy benefit management reduces prescription drug costs by 29 percent compared to retail purchases with no pharmacy benefit management support.” The research firm Visante supports this conclusion, indicating PBMs save plan sponsors and consumers an

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<sup>1</sup> CVS Health, 2015 Drug Trend: Tackling Rising Drug Costs, available at <https://cvshealth.com/thought-leadership/cvs-health-research-institute/2015-drug-trend-tackling-rising-drug-costs>.

<sup>2</sup> Express Scripts 2015 Drug Trend Report, available at <http://lab.express-scripts.com/lab/drug-trend-report>.



average 30% compared to expenditures made without pharmacy benefit management (i.e. spending by the uninsured).<sup>3</sup>

One tool PBMs have in bending the cost curve for pharmaceuticals is negotiating discounts or rebates from manufacturers when there are competing drugs available. For example, in 2013, a new medication that was expected to be a cure for certain hepatitis C patients was FDA-approved and sold for \$1,000 a tablet—a minimum of \$84,000 for a course of treatment. When the FDA approved a clinically equivalent hepatitis C drug manufactured by a competitor the following year, one PBM was able to leverage this market competition to negotiate an agreement for a substantially lower price for the competitor's drug. This negotiation resulted in a savings for that PBM's clients of **\$1 billion in 2015 alone**. Another market entrant and the resulting PBM-induced competition resulted in dramatic price concessions by manufacturers, bringing the costs of treating hepatitis C in line with costs in European countries.

Another cost-saving tool that PBMs recommend to their clients is home delivery of medications. PBMs provide highly efficient mail-service pharmacies that supply home-delivered prescriptions with great accuracy and safety at a substantial savings. In a 2005 report, the FTC determined that PBM-owned mail-service pharmacies (1) offer lower prices on prescription drugs than retail pharmacies and non-PBM owned mail pharmacies; (2) are very effective at capitalizing on opportunities to dispense generic medications; and (3) have incentives closely aligned with their customers: the third-party payers who fund prescription drug care.<sup>4</sup>

Negotiating lower prices through rebates and discounts and offering mail-service pharmacy are only two of the many tools PBMs use to manage prescription drug benefits. Additional tools include promoting the use of lower-cost alternative brand name drugs and generic drugs through formulary design, managing high cost specialty medications, reducing waste and increasing adherence to improve health outcomes, and creating networks of affordable and high quality retail pharmacies. The level of PBM services utilized—and thus the savings associated—ultimately depends on how the client health plan, union, or large employer wants to structure the contract.

### **PBM clients control pharmacy benefit design and selection of PBM tools.**

All PBMs offer a core set of services to manage the cost and utilization of prescription drugs and improve the value of plan sponsors' drug benefits. PBM clients are sophisticated purchasers of health care and dictate the terms and conditions of the services they want the PBM to perform. This process is typically done by the client purchaser identifying in a Request for Proposal (RFP) what they want, what options are available to them, what resources they have available, and how much involvement they want to have in setting the benefits and policies.

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<sup>3</sup> Visante estimates prepared for the Pharmaceutical Care Management Association, 2016, available at <http://www.pcmnet.org/images/stories/uploads/2016/pbm%20savings-%20final.pdf>.

<sup>4</sup> Federal Trade Commission, "Pharmacy Benefit Managers: Ownership of Mail-Order Pharmacies," August 2005, available at <http://ftc.gov/reports/index.htm#2005>.



Since PBMs operate in an extremely competitive marketplace, multiple PBMs will bid on an RFP, offering varying models based on the purchaser's needs. PBMs will construct the level of coverage or type of services their client wants to provide. The client RFP requests detail from the PBM about the types of pharmacy distribution channels offered, the use of clinical programs such as formulary development, disease management, step therapy, prior authorization, and a number of other services in addition to administering the benefit, such as claims processing, data access, and audits. One of the key elements a client considers is pricing arrangements, which can include the treatment of manufacturer discounts and rebates, and the level of information that the client wants to receive from the PBM about these payments.

Clients review and evaluate each RFP response before narrowing the pool of eligible PBMs and awarding a contract to the PBM that best meets the plan goals and objectives. The purchaser always has the final say when creating a drug benefit plan. There is no one-size-fits-all model because each client has unique needs and is free to negotiate the best plan at the best available price. Purchasers protect their interests in providing a robust pharmacy benefit while being mindful of available options that will provide cost savings. PBM-client negotiations and contracts are complex, highly competitive, and remain confidential to maintain the highest degree of cost and quality competitiveness among PBMs.

**PBMs are essential to a sustainable health care system.**

PBM tools provide significant savings to plan sponsors and consumers, and focused management has helped slow the rising drug expenditure trends. The continued ability for PBMs to leverage their clients' purchasing power to obtain affordable drugs is essential to a cost-conscious, sustainable health care system.

If you have any questions please contact me at 202-756-5743, or our Sacramento-based advocate, John Caldwell of Public Policy Associates, at 916-441-0702. Thank you.