Iowa HF 729 Will Cost the State More Than $1 Billion In Increased Prescription Drug Costs

The core mission of pharmacy benefit managers (PBMs) is to reduce prescription drug costs for health plan sponsors so that consumers have affordable access to needed prescription drugs. PBMs offer a variety of services to their health-plan-sponsor clients and patients that improve prescription adherence, reduce medication errors, and manage drug costs.

The proposed Iowa legislation will seriously undermine the ability of PBMs to control drug costs, and as a result drug spending in Iowa will soar. Although some of the provisions are subject to interpretation, enacting just the bill provisions discussed below could cost the state of Iowa $100 million in excess drug spending in the first year alone, and $1.2 billion over the next 10 years.

HF 729 would institute Any Willing Provider (AWP) rules and restrict the use of preferred pharmacy networks, specialty pharmacies and mail-order pharmacies.

According to the Federal Trade Commission (FTC), AWP requirements significantly reduce providers' incentive to engage in price competition.[1] Academic analysis concluded that AWP legislation leads to less competition and higher prices for consumers while providing no compensating benefits.[2] Another academic analysis specific to state AWP laws found that such legislation "is associated with increased pharmaceutical expenditures."[3] Legislation that prevents PBMs from creating preferred networks for retail and mail-order pharmacies will negatively impact the performance of formulary management, utilization and care management programs.

When applied to specialty pharmacies, the consequences of AWP legislation are even greater. Because specialty drugs are dispensed in such low volumes and target rare conditions, it is infeasible for most retail drugstores to stock these medications and provide the specialized services patients require. States do not legally differentiate specialty pharmacies from traditional pharmacies, so essentially any licensed pharmacy can market itself as a specialty pharmacy. PBMs actively work with payers to identify specialty pharmacies that can best serve patient and healthcare provider needs. These payer-aligned specialty pharmacies must meet payers' terms and conditions to be included in preferred pharmacy networks. Terms and conditions focus on quality clinical care, performance, and cost-saving criteria.

Projected 10-Year Increases in Prescription Drug Spending In Iowa, 2022–2031 (Millions)

	Self-Insured Group Market	Fully-Insured Group Market	Direct Purchase Market	Total
Restricting the use of pharmacy networks[4]	$710	$400	$100	**$1,200**

Methodology: The methodology used to create these cost projections was that used by Visante in the April 2020 paper "Increased Costs Associated With Proposed State Legislation Impacting PBM Tools."

1. "Contract year 2015 policy and technical changes to the Medicare advantage and the Medicare prescription drug benefit programs,"," FTC letter to CMS, Mar. 7, 2014.
2. Klick, Jonathan and Wright, Joshua D., "The Effect of Any Willing Provider and Freedom of Choice Laws on Prescription Drug Expenditures," Am. L. & Econ. Rev. 192 (2015)
3. Durrance, C., "The impact of pharmacy-specific any-willing-provider legislation on prescription drug expenditures," Atlantic Economic Journal, 2009.
4. Iowa may already use some form of AWP rules. Estimated cost increases are based on comparing "with vs without AWP."

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