Mandating Pharmacy Reimbursement Will Increase Prescription Drug Spending

The core mission of pharmacy benefit managers (PBMs) is to reduce prescription drug costs for health plan sponsors so that patients have affordable access to their prescription drugs. PBMs offer a variety of services to their health plan sponsor clients and patients that improve prescription adherence, reduce medication errors, and lower drug costs. PBMs also negotiate more affordable dispensing fees that are paid to pharmacies for filling prescriptions for patients, which cover pharmacists' services and facility operating costs.[1] Legislation requiring PBMs to reimburse pharmacists at a mandated level has recently been considered in some states.

Requiring PBMs to reimburse pharmacies at mandated levels will cause spending on prescription drugs to soar. Studies have found that reimbursement mandates do not save states money, because they act as "guaranteed profits" for pharmacies,[2] often through high dispensing fees.[3]

Mandating policies leading to higher costs would do nothing to lower drug costs or improve value for patients; rather, high dispensing fees would maximize profits for pharmacies at the expense of patients, employers, health plans, and taxpayers.

The current average dispensing fee in the commercial market is **less than $2**. Some states have been considering legislation to mandate pharmacy reimbursement rates with dispensing fees more than three times current rates. If all states adopted this type of policy, at a hypothetical mandated dispensing fee of $10.50 on every commercial prescription filled, **prescription drug spending nationwide would increase by over $16 billion in a single year**.

$10.50
dispensing fee =

$16 billion
increase in a single year

Estimated 1-Year and 5-Year Increases in Prescription Drug Dispensing Fee Spending in the National Commercial Insurance Market Due to Adopting Proposed Policy of $10.50 Dispensing Fee:

All States	Commercial Prescription Drug Fills	1-Year Increased Costs	5-Year Increased Costs
Increased Spending due to Higher Dispensing Fee	1,940,630,275	$16,500,000,000	$81,700,000,000

A state that implements this type of legislation could increase drug costs by up to $150 per commercially-insured patient in that state. In populous states or those with a high number of prescription drug fills, this mandate could cost patients and payers as much as $1.9 billion in the first year and over $7 billion in the next five years.

Source:
[1] KFF. January 2020. "Pricing and Payment for Medicaid Prescription Drugs"
[2] Hyman, David. 2016. "The Adverse Consequences of Mandating Reimbursement of Pharmacies Based on Their Invoiced Drug Acquisition Costs."
[3] Ippolito, Benedic, Joseph F. Levy, and Gerard Anderson. 2020. "Abandoning List Prices In Medicaid Drug Reimbursement Did Not Affect Spending."

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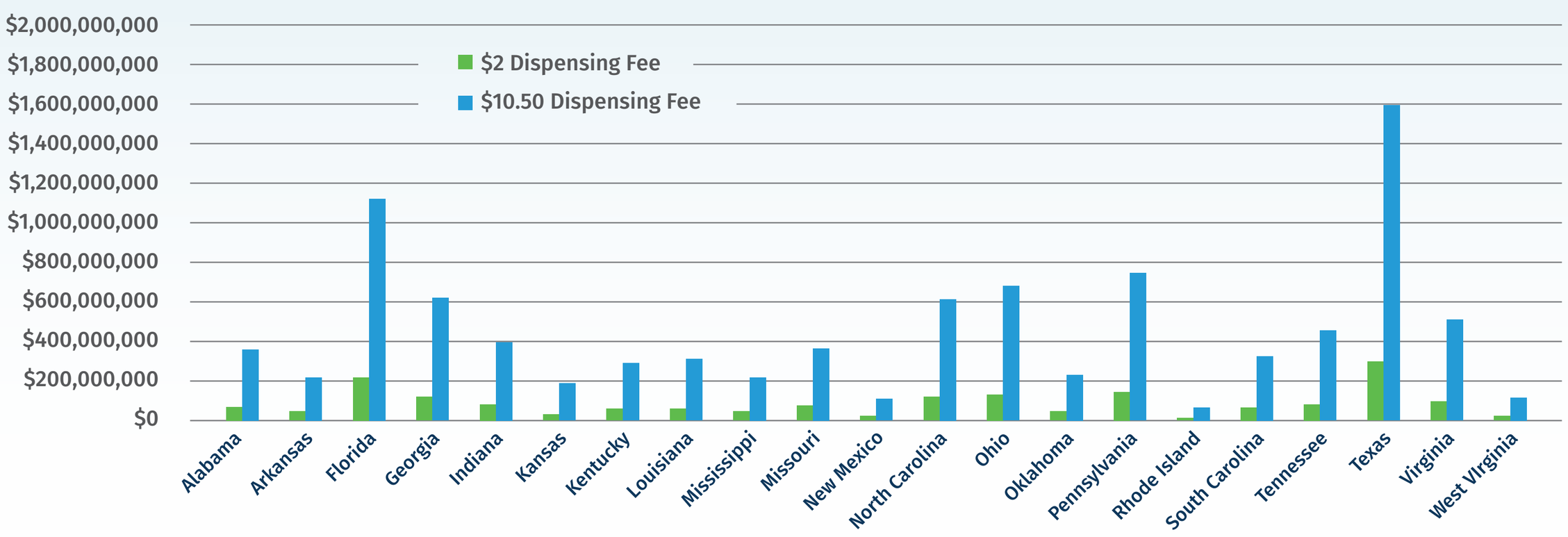
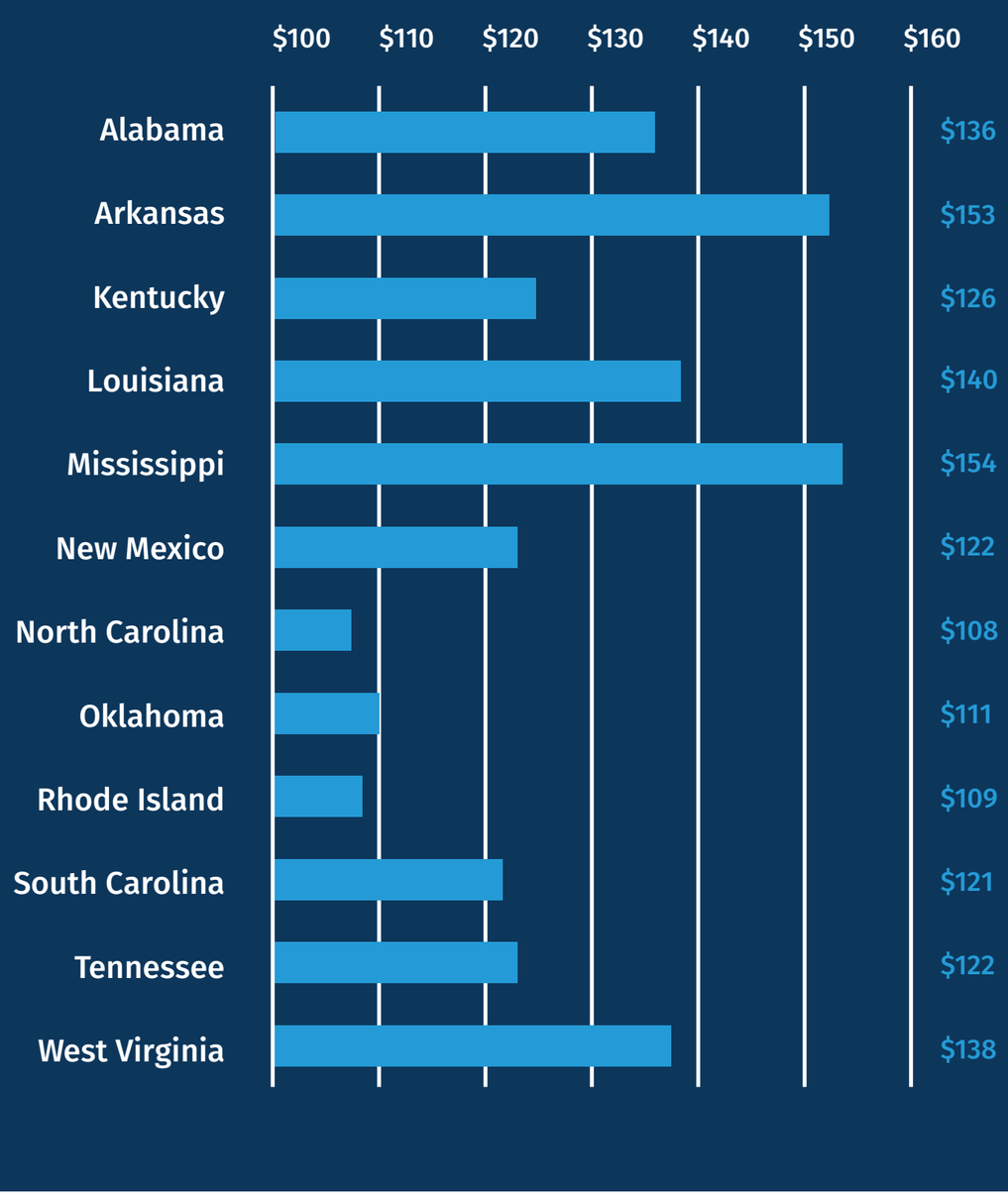
Estimated Prescription Drug Dispensing Fee Costs



Estimated Costs of Prescription Drug Dispensing Fees Per Insured



Methodology: A $2 dispensing fee was assumed as a baseline for all prescription fills.[4] Projected increases in costs for dispensing fees are the difference between all prescriptions filled with a $2 dispensing fee and all prescriptions filled with a $10.50 dispensing fee. Count of prescription fills in each state was held constant at 2019 levels, the most recent year for which fill data is available.[5] Given the increasing trajectory of prescription drug fills, this is likely an undercount of the number of drug fills and therefore an underestimation of the costs associated with dispensing fee mandates. The upper dispensing fee limit of $10.50 is used because it is a common dispensing fee in many states' fee-for-service (FFS) Medicaid programs, and many of the reimbursement mandate bills have set the proposed dispensing fee at the FFS rate. The commercial market includes prescriptions covered by commercial payers (group fully-insured, group self-insured, and individual direct purchase) as well as some government programs, such as the Children's Health Insurance Program (CHIP), Veterans Administration (VA) and Indian Health Service (IHS).

Source:
[4] The Menges Group. "Pennsylvania Medicaid MCO Prescription Drug Repricing: Cost Impacts of Using NADAC Payment Structure"
[5] KFF. 2021. "Number of Retail Prescription Drugs Filled at Pharmacies by Payer."

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Case Studies

Mandating dispensing fees on every prescription filled using commercial insurance will lead to skyrocketing costs. As illustrative case studies, and using the methodology described above, we consider two examples from West Virginia and Illinois of recently considered legislation that would mandate dispensing fees in the commercial insurance market. West Virginia's bill was enacted and mandates dispensing fee reimbursement at $10.49, and Illinois' bill is still pending and would mandate the dispensing fee reimbursement at $8.85. Both bills would create hundreds of millions of dollars in payouts for pharmacies with no benefits passed to employers or patients.

West Virginia House Bill 2263

Section 33-51-9 of West Virginia House Bill 2263 sets reimbursement to pharmacies at mandated levels of the National Average Drug Acquisition Cost (NADAC) plus a $10.49 dispensing fee. Enacting just the dispensing fee mandate component of the bill could cost the state of West Virginia over $111 million in increased dispensing fee spending in the first year alone, a 425% increase for West Virginia's patients and health plan sponsors. Over the next five years, these increased costs for dispensing fees alone could be in excess of $550 million.

	Commercial Prescriptions	1-Year Increased Costs	5-Year Increased Costs
Increased Spending Due to Higher Dispensing Fee	13,160,787	$111,700,000	$558,700,000

Illinois House Bill 3630

Section 513b1 of Illinois House Bill 3630 requires PBMs to reimburse pharmacies at mandated levels of the NADAC plus a dispensing fee at least equal to the Medicaid FFS rate of $8.85. Enacting just the dispensing fee mandate component of the bill could cost the state of Illinois over $500 million in increased dispensing fee spending in the first year alone, a 300% increase for Illinois' patients, employers, labor unions, and health plans. Over the next five years, these increased costs for dispensing fees alone could be in excess of $2.5 billion.

	Commercial Prescriptions	1-Year Increased Costs	5-Year Increased Costs
Increased Spending Due to Higher Dispensing Fee	73,619,807	$504,300,000	$2,521,500,000