October 7, 2021

The Honorable Senator Bob Casey, Jr.
393 Russell Senate Office Building
United States Senate
Washington, DC 20510

Dear Senator Casey,

As the United States begins to turn the corner in the fight against COVID-19, there's a pressing need to address rising out-of-pocket costs for millions of Pennsylvanians. To do this, it's important to determine what's driving up these costs and how we can deliver savings that people across the state and the nation can realize at the pharmacy counter. We'd urge you to look at the role of pharmacy benefit managers (PBMs) in shaping the final cost of medicines and what can be done to put savings back in the pockets of hard-working Pennsylvanians.

While PBMs originally intended to use their buying power to negotiate drug prices with manufacturers and pass the savings on to consumers, it is no longer the reality. In fact, it's just the opposite.

Over time, PBMs have consolidated their industry and drastically increased their influence in controlling the healthcare marketplace. Today, three major PBM companies control about 89 percent of the market and serve more than 270 million Americans.[1] By fighting transparency of their practices at every turn that would require disclosures of rebates and fees, these middlemen are no longer serving consumers but instead have become focused on increasing company profits – they're some of the most profitable companies in the United States.

Fighting consolidation and the lack of transparency in our healthcare system are two things that President Biden has made a priority[2].

While we are led to believe that PBMs pass down full rebates and discounts to consumers, the fact is that PBMs do not. Further, rebates are often based on a percentage of the medicine's list price; therefore, with the current rebate model PBMs are perversely incentivized to choose a more expensive medication for the formulary, or inflate the list price and steer patients to drugs where they can increase their profit margins.

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[1] National Association of Insurance Commissioners. Pharmacy Benefit Managers. Last updated March 16, 2021. Available online https://content.naic.org/cipr_topics/topic_pharmacy_benefit_managers.htm#:~:text=Background%3A%20When%20insurance%20companies%20began,formularies%20and%20administered%20drug%20claims

[2]Morse, Susan. "Biden Executive Order TARGETS Healthcare Consolidation." Healthcare Finance News. Last updated July 9, 2021 Available online www.healthcarefinancenews.com/news/biden-executive-order-targets-healthcare-consolidation

Note that insulin net prices have declined by 53% since 2012, while list prices have increased over 141%[3]. PBM rebates now exceed $150 billion per year, but that increase has not resulted in lower prices for patients. Sadly, the result is patients not accessing needed meds, which up to 40% of patients admit.[4] In its most recent study, Pew Charitable Trust analyzed that PBMs nearly quadrupled fees, which are separate from rebates and also not transparent, as they charged biopharmaceutical companies between 2014 and 2016.[3]

For state and federal governments, lack of transparency or conflicts of interest leads to overcharge of services and failure to pass along discounts at the cost of taxpayers. Earlier this year, the controller for Lehigh County, Pennsylvania, released a report detailing how the country could have saved $1.4 million in 2019 if local officials had been aware of the extensive rebates Highmark Blue Cross Blue Shield pocketed. Instead, Express Scripts, the PBM hired by Highmark, wasn't transparent in its dealings with Lehigh County.

States are stepping up. In 2017, leading labor unions worked with stakeholders in New Jersey to change how the state contracts with its PBM for public sector employees and retirees. Democrats and Republicans joined together, and the state now is saving $2.5 billion over five years. Other states, including Colorado, Louisiana, Maryland, Minnesota and New Hampshire have enacted similar legislation.

For many patients, PBM practices are taking away pragmatic treatment options by requiring that they first try a "cheaper" treatment option in their formulary for their condition before covering a more complex medicine that was determined as the best course of action by a health care provider.

For community pharmacies, PBMs' hidden methods of increasing revenue streams are detrimental to their businesses, often forcing them to close their doors due to spread pricing and claw back claim practices.[5] Growth in alternate PBM revenue streams, such as spread pricing and administrative fees, increased from $5.9 billion in 2012 to $16.6 billion in 2016.

Thank you for your continued leadership to address the challenges that Pennsylvania patients and small businesses are experiencing while focusing on reducing health care spending. As you consider additional policy solutions, we urge you to prioritize opportunities to drive savings for patients and ensuring that PBMs are helping to make it possible.

Signed,

David Balat
Executive Director
Free2Care Coalition

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[3] Grant, Charley. Pharma Giants Get Their Pennies Pinched on Drug Pricing. Wall Street Journal. Last updated Mar. 12, 2021. Available online https://www.wsj.com/articles/pharma-giants-get-their-pennies-pinched-on-drug-pricing-11615545006

[4] Leonhardt, Megan. Americans Are Skipping Medically NECESSARY Prescriptions Because of the Cost. CNBC. Last updated Feb. 27, 2020. Available online www.cnbc.com/2020/02/26/people-skipping-medically-necessary-drugs-because-they-cost-too much.html

[5] WHYY. The hidden players putting independent pharmacies out of business. February 12, 2021. Available online https://whyy.org/segments/the-hidden-players-putting-independent-pharmacies-out-of-business/