



THE TEXAS POLICY VOICE FOR HEALTHCARE AND BIOSCIENCE

Opinion Editorial

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Ford: Texas can take action to lower prescription drug costs

Picture this next time you visit a restaurant. The kitchen makes the food and a waiter delivers the dish to your table, but with an added complexity: the waiter negotiated the cost of your enchilada plate with the kitchen, and you'll learn the price when you receive the check.

It's hard to imagine a scenario where customers would be content with this arrangement. Yet, in the pharmaceutical industry, this takes place daily.

Pharmacy benefit managers are hired by health insurers to negotiate prices for prescription drugs and perform other tasks like deciding which drugs a health plan will cover. Rebates and other price concessions from drug manufacturers totaled over \$187 billion in 2020 – but these financial savings aren't making it to patients' wallets. Operating as middlemen in an opaque system, pharmacy benefit managers are often compensated based on the difference between the rebate they negotiate and the list price of a drug. This practice creates misaligned incentives that could result in the managers favoring medicines with higher list prices. Collecting honest compensation for services is understandable, but pocketing savings intended for patients and driving up costs is wrong.

A new analysis found nonmanufacturer stakeholders – pharmacy benefit managers, governments, health plans, hospitals and others – received more than half of total spending on brand medicines. A part of a trend, as biopharmaceutical companies that develop and manufacture medicines retain a smaller share of total spending, while the rebates and discounts negotiated with pharmacy benefit managers and other supply chain middlemen are steadily increasing.

Industry consolidations and mergers are making the issue worse; almost 80% of all equivalent prescription claims are processed by the three largest pharmacy benefit managers. Compounding the problem, the biggest pharmacy benefit managers are also affiliated with some of the largest health insurers and pharmacies in the nation. This lack of competition harms one party the most: the consumer; or, in the case of health care, sick patients in need of drugs.

Texas has begun to step up to protect patients and establish transparency among pharmacy benefit managers. Recent legislation added a new chapter to the Texas Health and Safety Code titled "Drug Cost Transparency." The code requires pharmacy benefit managers and health benefit plans to submit annual reports on prescription drug costs in Texas, which are then published on the Texas Department of Insurance website. The 2020 report is revealing:



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according to data from the 2020 calendar year, drug manufacturers paid 24 reporting pharmacy benefit managers a combined \$2.3 billion. Pharmacy benefit managers kept more than \$476 million as revenue (20.6%); \$1.8 billion (78.95%) was passed to issuers and the remaining 0.45% was passed to enrollees.

This action is a move in the right direction, but more work can be done – and must be done to help Texans. Patients should not struggle to afford the medicines they need because middlemen have decided patients paying for medicines should not benefit from discounts. Pharmacy benefit managers should be required to pass on the discounts and rebates from drug manufacturers to patients – for whom they are intended – at the pharmacy counter.

A law passed in West Virginia provides a solid framework from which Texas can work. The law requires pharmacy benefit managers pass drug discounts to consumers at the point of sale. Texas has an opportunity to lead here, using the solid starting point provided by the West Virginia law. To further protect patients and correct the misaligned incentives present in today's supply chain, Texas could also prohibit pharmacy benefit managers from profiting off of the difference between the rebates they negotiate and the list price of a medicine.

With research showing 30% of Americans who have insurance still face a financial barrier to care, like having out-of-pocket costs that are more than they can afford, we must address what is really driving up costs for patients at the pharmacy counter. We are calling on state officials, as well as others in the health care system, to join us in supporting common sense reforms to ensure that patients can access and afford the medicines their doctors prescribe.