ASSESSMENT OF PHARMACEUTICAL PURCHASING METHODS

DMOLLER ASSOCIATES CONSULTANT PRESENTATION - PHASE I PRELIMINARY DRAFT FINDINGS

NOVEMBER 28, 2023

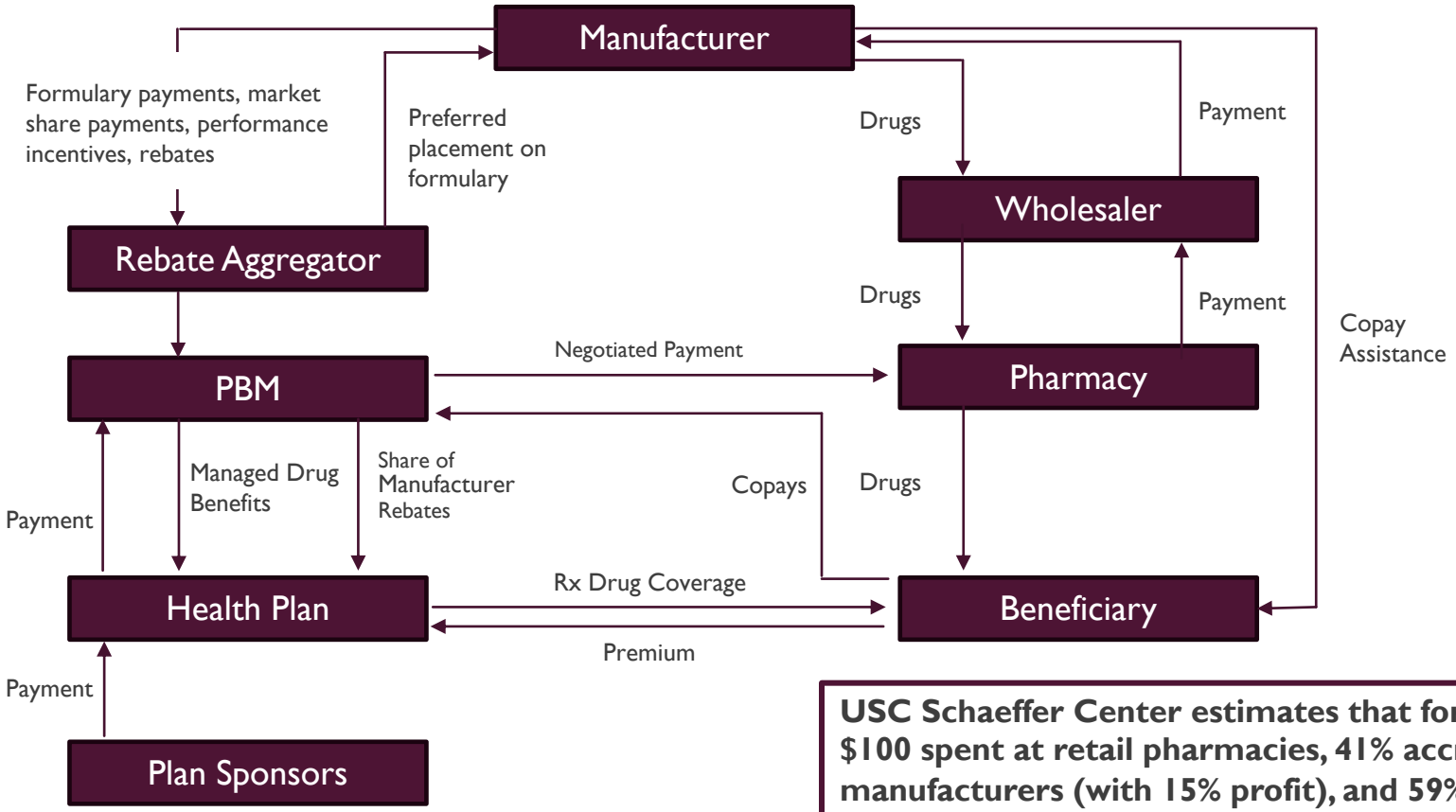
Draft – For Review and Discussion

- **23%** of prescriptions had copayment requirements that are greater than the cost of the drug to the PBMs
- "**Spread pricing**" by PBMs in Ohio resulted in pharmacies being paid 31% less than the PBM charged Medicaid
- Between 2014 and 2018 insulin prices for patients increased 40%, while manufacturer prices fell 31%. **During this period PBM charges for insulin went up 155% for every $1 paid to manufacturers**
- Intermediary rebates lead to "**circular pricing**" and higher costs
  - PBMs demand higher rebates and manufacturers increase prices to cover
  - Higher rebate drugs often result in preferential formulary placement
  - Patients pay more

Source: USC Schaeffer Center Congressional testimony

IMPACT ON COSTS AND WASTE

The USC Schaeffer Center Congressional testimony (attached) perfectly summarizes the effect of our unique approach to drug purchasing.



Source: Adapted from USC Schaeffer Center Publication: The Flow of Money Through the Pharmaceutical Distribution System

USC Schaeffer Center estimates that for every $100 spent at retail pharmacies, 41% accrues to manufacturers (with 15% profit), and 59% accrues to intermediaries (combined 8% profit)

COMPLEX MARKET

In addition to manufacturers, intermediaries and distributors include wholesalers, rebate aggregators, PBMs, insurers, retail, mail order, specialty, and provider pharmacies.

- The **PBM market is increasingly concentrated**, with 3 companies controlling 80% of that market, although concentration varies by state and locality
- Significant **vertical and horizontal integration** largely driven by insurance company acquisitions is increasing that concentration and has recently attracted interest from antitrust enforcement agencies
- **Newer product sellers and distributors** (mail order, provider specialty pharmacies) are also often owned by insurers or other intermediaries
- **Pharmaceutical wholesaler market** concentration is low at 8%, with 4 companies controlling 40% of that market
- Difficult to assess **manufacturer concentration** since companies are global, with less than 30% located in the U.S.

GROWING INTERMEDIARY CONCENTRATION

Drug distribution is increasingly controlled by consolidated organizations that own most stages from manufacturer to patient.

- **Highly fragmented** purchaser market
  - The federal government controls 44% of drug spend but, Medicare, Medicaid, VA, DoD each have **separate procurement** processes, purchasing models, and pricing methods
  - **CBO analysis shows Medicare paid 190% more than Medicaid for the same drugs**
  - State/local government and commercial markets are **even more fragmented**, with limited large purchasing groups to provide operational scale and negotiating leverage
- **Purchaser information asymmetry** limits purchaser leverage due to legal, regulatory and contractual limitations on cost, pricing and other product information
- **Program management complexity** requires deep expertise that few smaller purchasers possess or can afford to build/buy, making it difficult to compete with large, sophisticated sellers

DISADVANTAGED PURCHASERS

The drug purchasing market is characterized by significant imbalances between sellers and purchasers

- **Federal action**
  - **Inflation Reduction Act** Medicare price negotiations, caps on specific drugs (insulin, vaccines), and limits on annual price increases
  - Federal Trade Commission (FTC) study of **PBM and intermediary market and updated guidance** for accepted practices under antitrust guidelines
- **State regulation and legislation**
  - **Change purchasing processes** (purchasing coalitions and publicly owned PBMs, internal, domestic and international reference pricing, foreign drug importation, direct purchasing, bidding reform including reverse auction)
  - **Intermediary market regulation** (contract and price transparency, formulary design, least cost alternative, allowable cost components, pharmacy spread pricing and claw backs)
  - **Controlling expense trend** (affordability reviews, consumer cost sharing, limits on new product pricing and annual price increases)

REFORMS BEING TESTED

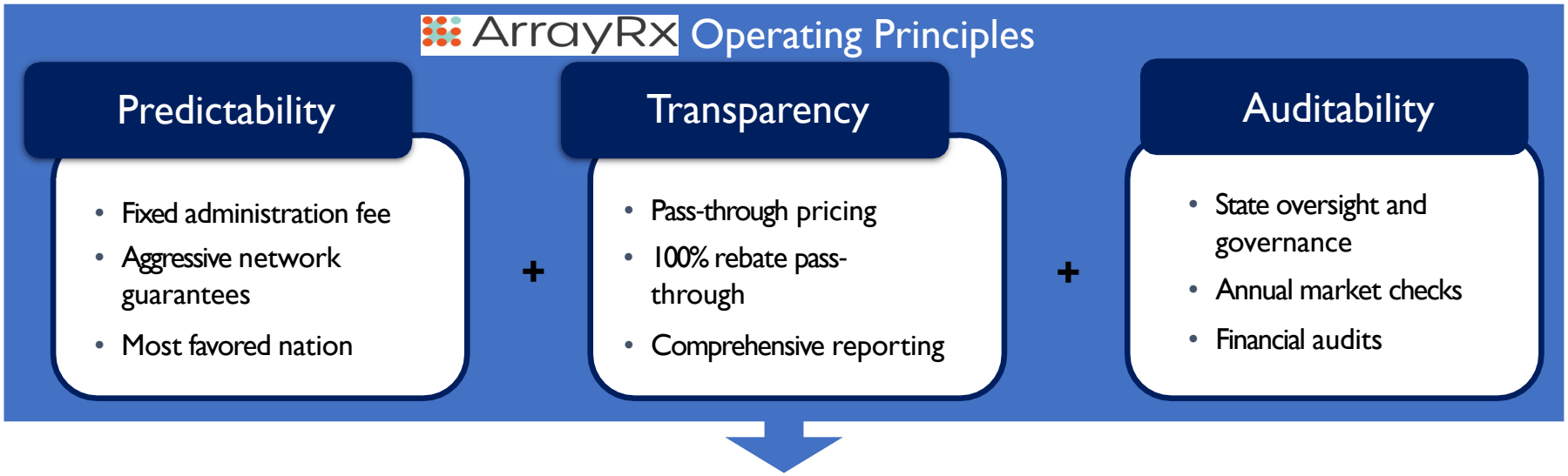
The numbers and types of policy initiatives has grown significantly, providing New Mexico with many examples for what may and may not be effective.

- Common features of international drug purchasing models:
  - Direct drug purchasing, with limited use of market intermediaries
  - Centralized and coordinated drug price negotiation across all insurance programs
  - **Reference pricing based on "least cost alternative" within therapeutic classes allowing formulary placement for all approved drugs with patient cost differential**
  - **Negotiated product discounts based on concepts of value-based reimbursement rather than volume sensitive rebates**
  - Broad availability of new drugs and all drugs within a therapeutic class and fewer formulary or prescribing limitations
  - Unlimited year-one pricing on all new drugs, with required negotiation or arbitration for following years
  - **Limitation on periodic/annual price increases**
  - **Cost information sharing and cost and price transparency**

MIRRORING INTERNATIONAL MODELS

Many reform proposals focus on mirroring international drug purchasing models with program design features – some of which are used in the U.S. – but which largely differ from the U.S.

- State and local consolidation and purchasing consortia
- State-owned PBMs such as ArrayRx, created by the states of Oregon and Washington to collaborate and provide solutions to organizations experiencing increasing costs for Rx and the lack of transparency in the pharmaceutical supply chain.



COALITIONS AND STATE-OWNED PBMS

Array is owned and operated by its state sponsors and is focused on transparency and value for taxpayers.

ArrayRx

PBM Services	Discount Card	Voucher Programs	ASO Rebate Services	Medicaid Programs
Group Rx Benefits	State Discount Cards	Corrections	Group Rx Benefits	Managed Medicaid
Workers Comp		State Hospitals	Workers Comp	FFS Medicaid
		Local Health Departments	Medicaid Programs	

ARRAY CAPABILITIES

Array is a full service PBM with the capability to support multiple state programs.

- Evaluation of proposed bill
- Specific actions that can be taken to enhance rural/private pharmacies
- Base policy approaches for New Mexico
  - Transparency
  - State consolidation of drug purchasing agencies
  - Reference pricing
  - Elements of international approaches
  - ArrayRx and/or consortium recommendations

NEXT STEPS

The second phase of our project will focus on defining reform alternatives, and assessing potential policy solutions for New Mexico