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AN

**ESSAY**

CONCERNING

**Pharmacy Benefit Managers**

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# The Power of the Purchase:

# How Lehigh County Can Support Small Businesses, Reform the Healthcare System Locally and Stand Up to Pharmacy Benefit Managers

State and local governments spend a significant sum of tax revenue on healthcare, putting increased pressure on their budgets and often sending local tax dollars well outside their own boundaries. Over the last 25 years, the amount of state and local government spending has nearly doubled, rising to $475 billion. This amounts to 18% of national healthcare consumption, 24% of total state and local spending and 35% of all state and local tax revenue according to the Brookings Institution.[[1]](#footnote-1)

This trend shows no signs of abating with state and local government spending expected to nearly double as a share of the economy overall by 2060 according to Pew Trusts.[[2]](#footnote-2) This will place even greater downward pressure on local budgets and force governments to make even tougher decisions about allocation of increasingly scarce resources.

At the epicenter of these rise in prices is a middleman industry you’ve never heard of that is more profitable than Disney and wields more influence over the drugs you take than your own doctor.

Pharmacy Benefit Managers (PBMs) are middlemen that manage prescription drug benefits on behalf of health insurers, and have a significant impact on the cost of drugs.

According to the Pennsylvania Pharmacists Association, PBM’s are part of the reason drug prices have risen 1010% since 1987. To get an idea of scale, two major PBMs Express Scripts and CVS Health which owns the chain store pharmacy CVS are worth $278 billion dollars, while Disney is worth $55 billion.[[3]](#footnote-3)

These unseen middlemen are deciding which drugs you have access to. They’re making that decision based on a combination of clinical data and a financial reimbursement scheme provided by pharmaceutical companies. PBM’s create formularies which essentially rank medications into 4 therapeutic tiers, with Tier 1often consisting of generic drugs at little to no cost and Tier 4 being the most expensive.[[4]](#footnote-4)

PBMs will regularly accept rebates or reimbursements for drug costs from pharmaceutical companies enabling them to move their drug to a lower Tier. This results in a lower co-payment, but often higher expenses for the insurer who pays for the drug. It is important to note that while the co-pay may go be reduced, the true cost of the medication is hidden from the patient. The insurer (in our case Lehigh County) pays for the majority of the cost of the medication.[[5]](#footnote-5)

PBM’s are plagued by a lack of transparency and hold tremendous, unchecked power over the healthcare markets. While in theory the manufacturer rebates should translate to savings for the insurer or the patient, PBM’s can choose to keep as much of the rebate as they want adding to their profit.[[6]](#footnote-6)

Their power has been most felt by independent pharmacies, small businesses that often serve rural communities and provide tailored care to their customers. In the last fifteen years, roughly 16% of independent pharmacies have shutdown. [[7]](#footnote-7) These are locally-run, family-owned pharmacies are often the sole means of receiving drugs, vaccinations and personalized medical care in many rural communities.

This has led to the proliferation of so-called pharmacy deserts which according to the Institute for Local Self-Reliance stated impacts both rural and small cities. [[8]](#footnote-8) This means that many low-income Americans in cities are rural areas are increasingly cut-off from high quality and personalized care that is provided by independent pharmacies.

A 2018 Consumer Reports evaluation of customer preferences found that consumers gave high scores to independent pharmacies. The report acknowledged that independent pharmacies were deemed more courteous, helpful and pharmacists had more knowledge and accuracy.[[9]](#footnote-9)

Right now, the Pharmacy Benefit Managers that Lehigh County contracts with operate their own mail service pharmacy that directly compete with independent pharmacies. Lehigh County’s employees could be incentivized to order or use local pharmacies that directly serve their local community or continue to use express scripts operated by a multi-billion-dollar corporation.

Fortunately, there are a number of things that Lehigh County and the State of Pennsylvania could undertake to better protect patients and consumers, while supporting small businesses and saving money.

## **Local Recommendations**

1. Lehigh County currently gives preferential treatment to a single pharmacy by mail company. This pharmacy exists outside of the county. This arrangement takes tax payer money which could be spent within the county and spends it with a third party outside the county. The Lehigh County Government should evaluate if local independent pharmacies can match the pricing that is provided by the pharmacy by mail. If the costs are comparable or less, than the county should give preferential treatment to local independent pharmacies that keep tax payer money inside the county. Lehigh County Government would then be harnessing its purchasing power to support local small businesses over massive corporate chains.
2. Lehigh County could add a provision in our vendor contract that prevents PBMs from unfairly compensating local pharmacies. Based on our research PBMs sometimes pay below what it cost local pharmacies to procure brand name prescription drugs. This means a local pharmacy has to sell their medication at a loss.
3. Lehigh County could also place in its future contract provisions protections against “spread pricing”. The County is self-insured, this means that the county is paying the costs of all medical and pharmacy expenses rather than an insurance company paying. The county uses an intermediary administrator that has the doctor and pharmacy network. The administrator pays the bill and then the county reimburses the administrator for this payment.

 In “spread pricing” the administrator pays the pharmacy less than what they charge the county, for example, the intermediary will pay the pharmacy $10 but then charge the county $12. The intermediary then takes the $2 spread as profit. The intermediary is already being paid an administrative fee. There is no reason for addition spread pricing.

## **State Recommendations**

1. Institute Pharmacy Ownership Laws. North Dakota requires pharmacies to be owned and operated by a licensed pharmacist or a company majority owned by licensed pharmacists. This prevents the expansion of corporate chain pharmacies. These laws have increased access to independent pharmacies in North Dakota. It is estimated that without this law about 70 independent pharmacies would close and the state would lose as high as $29 million a year in economic loss. That’s out of 177 total pharmacies.

North Dakotans also have more pharmacies per capita than the national average, there are only six chain pharmacies in the state that were there before the 1963 Pharmacy Law was passed.

North Dakotans in rural census tracts are 51% more likely to be served by a pharmacy than those in similarly populated parts of South Dakota. North Dakotans also enjoy some of the lowest prices’ prescription drugs in the country, their 13th out of 50 states in terms of price over the last five years.[[10]](#footnote-10)

1. Utilize the West Virginia model employing a fee for service model where each service or prescription has one rate attached to it. This model enabled West Virginia to save $38 million in its first year. [[11]](#footnote-11) This legislative change would eliminate PBMs as middle men as it relates to state healthcare costs.
2. Institute greater transparency laws regarding PBM pricing including the price rate of drugs and their reimbursement for each. PBM’s currently have tremendous power over healthcare information which limits the ability of pharmacies and employers to fully understand their total costs. PBMs should be required to publish the price of drugs that they’re paying for.

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