Overview

• 2018 State Legislative Session: Pharmaceutical Manufacturer Transparency Legislation

• The Pharmaceutical Supply Chain

• Policies to Improve Patient Prescription Drug Affordability
## Advance Notification of List Price Increases

<table>
<thead>
<tr>
<th>Provides No Tangible Benefit to Patients or Government Payers</th>
<th>Could Incentivize Speculative Purchasing between Distributor and Dispensers — Leading to Stockpiling and Shortages</th>
</tr>
</thead>
</table>
Advance Notification of List Price Increases

Advance Price Notification Will Not Save Money for Consumers or Government Payers

These policies would provide minimal to no benefit to patients and increase the administrative burden on state agencies responsible for enforcement.

Patients: A patient’s out of pocket cost for a medicine is determined by insurance benefit design; therefore, mandatory price reporting of a medicine’s list price (i.e. Wholesale Acquisition Cost) has little bearing on what customers actually pay for a medicine.

Government Payers: State and federal agencies would need to contend with the administrative burdens of constant price revisions and would not realize any benefits from speculative purchasing.
Advance Notification of List Price Increases

HOW SECONDARY DISTRIBUTORS PROFIT FROM ADVANCE PRICE NOTIFICATION

- Manufacturer sells to distributor
- Distributor sells to point of sale
- Point of sale

Normal pharmaceutical purchasing pattern

Knowledge of advanced price notification leads to stockpiling

Normal purchasing pattern

Distributors have knowledge of new price

Disrupted purchasing pattern

DAY 1

DAY 10

DAY 90

Advanced price notification
Advance Notification of List Price Increases

How Speculative Purchasing Creates a Medicine Shortage

**Pharmaceutical Manufacturer**
- Medicine manufacturer sells product to the primary wholesaler/distributor

**Distributor / Wholesaler (Primary Distributor)**
- The primary wholesaler/distributor sells the product to a secondary distributor

**Secondary Distributors**
- Instead of distributing the product to the end user/point of sale (normal purchasing pattern), the product “leaks” into a longer supply chain of secondary distributors

**Point of Sale**
- (End User)
  - Providers and dispensers could face shortages based on this longer supply chain comprised of speculative purchasers

*This graphic is based on a Congressional investigation into drug shortages which resulted in a bicameral report titled, “Shining Light on the Gray Market.”*
CO HB 18-1009: Diabetes Drug Pricing Transparency Act

- Proposals to mandate disclosure of proprietary information by biopharmaceutical companies would neither benefit patients nor decrease their healthcare costs.

- “List Prices” are often what is mentioned in the media, however list prices for insulin do not reflect the substantial discounts and rebates negotiated by payers, but not often passed on to patients.

- Accounting for these discounts and rebates, net prices for insulin have been flat or declining in recent years.
Pharmaceutical Supply Chain
Distribution and Financial Flow

FOR RETAIL BRAND DRUGS

1. Manufacturer sells medicine to wholesaler
2. Wholesaler sells to pharmacy
3. Pharmacy dispenses medicine to patient and is responsible for collecting patient copay/coinsurance at the point of sale
4. Pharmacy benefit manager (PBM) pays pharmacy negotiated ingredient cost of medicine, plus dispensing fee
5. Health plan pays PBM negotiated ingredient cost of medicine, plus dispensing fee
6. Manufacturer pays rebate and admin fee to PBM
7. PBM typically returns majority of rebate to health plan

Source: Adapted from Pembroke Consulting
Insurers and PBMs have a lot of leverage to hold down medicine costs.

Negotiating power is increasingly concentrated among fewer pharmacy benefit managers (PBM).

Note: OptumRx and Catamaran merged in 2015. Their 2014 shares are shown combined.
Source: Drug Channels Institute.
LESS THAN HALF OF NET SPENDING on Prescription Medicines Goes to Brand Biopharmaceutical Companies

More than a quarter of net prescription medicine spending goes to supply chain entities

- **Brand Companies**: 47%
- **Generic Companies**: 27%
- **Supply Chain Entities**: 23%
- **Other Retrospective Rebates and Fees**: 4%

**$469 Billion**
- Represents about 7% of Total 2015 Health Care Spending

**$3.2 trillion**
- Percent of 2015 National Health Expenditures

**$469 Billion**
- Realized Percent Distribution

*Note: Includes any rebates and fees not shared with the end payer
Source: PhRMA analysis of Berkley Research Group Pharmaceutical Supply Chain Report, CMS National Health Expenditures Report
In fact, after discounts and rebates, brand medicine prices grew just 3.5% in 2016.

And too often negotiated savings do not make their way to patients.

More than half of commercially insured patients’ out-of-pocket spending for brand medicines is based on the full list price.

Cost sharing for nearly 1 in 5 brand prescriptions is based on list price.

- Copay: 48%
- Deductible: 39%
- Coinsurance: 13%

Source: Amundsen Consulting Group study.
Flow of Payment for a $400 Insulin
(Patient Is in Deductible Phase)

This graphic is illustrative of a hypothetical product with a WAC of $400 and an AWP of $480. It is not intended to represent every financial relationship in the marketplace.
Thank You!

Dana Malick
dmalick@phrma.org