Testimony of

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"Lowering Health Care Costs for All Americans: An Examination of the Prescription Drug Supply Chain"

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The Pharmaceutical Care Management Association (PCMA) represents the nation's pharmacy benefit managers (PBMs), which operate in a highly competitive market to help employers, unions, and government health plan sponsors provide prescription drug coverage to more than 289 million Americans.

Key Points

- **Each year, PBMs save patients, employers, health plans, and taxpayers more than $333 billion, saving an average of $1,154 per patient per year**, by negotiating discounts and rebates with drug manufacturers and pharmacies, encouraging the use of lower-cost generics and biosimilars, and offering services that improve safety and convenience, such as coordinated home delivery and drug interaction management.
- **PBMs Continue to Innovate Their Business Models.** Across the market, PBMs have introduced more transparent contracting models, cost-plus pharmacy reimbursement, expanded payments for pharmacist services, full rebate pass-through options, and programs that bring savings directly to patients at the pharmacy counter.
- **Competition within the Supply Chain is the Best Medicine.** Policymakers should focus on stopping patent abuse, reserving exclusivity for true innovation, ensuring fair competition among drugs, promoting generic and biosimilar entry, and evaluating the roles of all supply-chain participants, including wholesalers and Pharmacy Services Administrative Organizations (PSAO).
- **Recent legislative mandates will increase costs, not lower them.** Recent legislative mandates risk increasing costs rather than lowering them. Policies such as delinking PBM compensation in Medicare Part D, mandating rebate pass-through in the commercial market, and imposing overly prescriptive transparency requirements reduce employer flexibility, weaken negotiation leverage, and increase administrative costs.

Introduction

PCMA appreciates the opportunity to testify at today's hearing on competition in the drug supply chain. The Pharmaceutical Care Management Association (PCMA) is the national association representing America's pharmacy benefit managers (PBMs). PBMs operate in a highly competitive environment and are constantly innovating to meet the needs of their customers and provide savings on prescription drugs. PBMs are hired by employers, unions, and government health plan sponsors to help provide prescription drug coverage to more than 289 million people in the United States.[i]

PBMs Makes Prescription Drugs Affordable

No one has to hire a PBM. Employers, unions, and health plans do so for one primary reason: prescription drug benefits are expensive, and they need someone to help hold down those costs. Every year, PBMs will save employers, patients, health plans, labor unions, and state and federal governments more than $333 billion.[ii] Competition allows PBMs to reduce prescription drug costs for patients, employers, and other health plans by:

- Negotiating discounts from brand drug companies and from drugstores to reduce costs for patients, their families, and health plans – saving an average of $1,154 per patient per year.[iii] Without PBMs, these are costs patients and health plans would be forced to cover.
- Encouraging the use of more affordable alternative drugs, such as lower-cost brands, generics, and biosimilars. Over 90% of prescription fills in the US are for generics and prescriptions are dispensed as generics 97% of the time when they are available.[iv]
- Offering new services to health plans that directly benefit patients, such as home delivery of all a patient's medications safely at one time.

- Rooting out fraud, reducing waste, and preventing doctor-shopping to reduce unnecessary prescriptions.
- Promoting patient safety by identifying potentially harmful drug interactions before prescriptions are dispensed and preventing over 1 billion medication errors over the next ten years.[v]

For the Committee to understand what drives drug costs higher year over year, it must look at the entire supply chain, including drug companies, wholesalers, and pharmacies. Drug prices themselves remain a critical issue, especially for specialty drugs: while they account for only 2.2% of dispensed drugs,[vi] they now account for 54% of total prescription drug spending.[vii] Further, drug companies repeatedly game the patent system to delay generic drugs and biosimilars from competing on price and reaching patients, so people have to pay these prices for even longer. These efforts allow manufacturers to maintain higher profit margins than nearly any other industry, at the expense of patients. At the same time, drug wholesalers exert enormous influence over generic drug pricing, by locking pharmacies into exclusive contracts.[viii] As the Committee assesses how best to improve the prescription drug market, we encourage review of all these entities and their business models, profit incentives, influence over drug prices, and underlying motives for pushing or attempting to block certain pieces of legislation.

PBMs Operate in a Competitive Market and Are Responsive to Patients, Employers, Unions, and Government Programs

There are more than 70 full-service PBMs in the market, which is an 18% increase in the total number of PBM businesses over a five-year period.[ix] PBMs compete aggressively to win and retain contracts with employers, unions, and other private plan sponsors. These contracts are awarded through formal Requests for Proposals (RFPs), consultant-led procurement processes, and periodic rebidding. Plan sponsors routinely compare PBMs on price, service quality,

formulary strategy, rebate guarantees, clinical programs, pharmacy network offerings, data reporting capabilities, and transparency commitments.

Importantly, employers and unions have significant power. They determine the structure of their pharmacy benefits, including formularies, cost-sharing designs, preferred pharmacy networks, mail-order requirements, and specialty pharmacy arrangements. PBMs do not impose or dictate benefit designs; rather, they offer a range of options and compete to provide a combination of savings, service, and flexibility that best meets a sponsor's workforce needs. A survey of over 1,000 employers across the country, conducted last month by Healthsperian, found that employers are overwhelmingly satisfied with their PBMs. Specifically, 94% percent of employers surveyed said they are satisfied with the level of transparency their PBM provides, and 93% percent responded they're satisfied with their PBM's ability to negotiate discounts from drug manufacturers and generate savings on prescription drugs.

PBMs also provide support to nearly all government-sponsored health plans, including Medicare Part D. GAO, HHS OIG, and CBO have all found that PBMs create value by negotiating with drug companies and pharmacies for networks, generating significant savings for patients and taxpayers.[x] These savings are what keep premiums low, which Medicare beneficiaries and members of this Committee greatly value.

By leveraging scale, managing formularies, promoting generic and biosimilar utilization, and operating pharmacy networks, PBMs help government plan sponsors stretch limited taxpayer resources while maintaining access to needed medications.

PBMs Continue to Innovate Their Business Models

The work to lower drug costs and increase affordable access requires the ability to constantly innovate and adapt to changing market conditions. PBMs have not waited for government interventions or unnecessary mandates to address these market demands. Recently, PBMs across the industry, from big to small, have rolled out new, innovative programs to help plan

sponsors tackle high drug costs, allowing patients to access the drugs they need. These include:[xi]

- To more fairly and transparently pay pharmacies and pharmacists, implementing programs that reimburse using “cost plus” metrics, pay pharmacists for clinical services delivered, and expand reimbursement for rural independent pharmacy locations.
- To clearly demonstrate their value, instituting changes that pass through all manufacturer rebates to clients and implement transparent pharmacy pricing metrics.[xii]
- To better bring PBM savings to patients at the pharmacy counter, offering $0 drug lists for which there is no cost-sharing even when there’s a deductible, and integrate discount card programs into point-of-sale pricing at pharmacies to reduce patient costs.

Competition Within the Supply Chain is the Best Medicine

The most effective way to lower drug costs is by increasing competition. This Committee should ensure that patent protections and market exclusivities meant to balance rewarding innovation with securing affordable access for patients do not block competition and keep prices high for far too long. To enhance competition and enable PBMs to further drive down drug costs, PCMA encourages policymakers to do the following:

1. **Stop patent abuse**. Addressing drug companies’ abuses of the patent system that allow them to block competition by extending monopoly pricing well beyond their products’ original patent expirations would increase access to lower-cost generics and go a long way toward reducing drug costs for patients and families. Examples of patent shenanigans include pay-for-delay deals, wherein companies pay for potential generic competitors to postpone entering the market. Manufacturers also create patent thickets by filing numerous overlapping patents around a single drug, making it extremely difficult for generic drugs to enter the market.

2. **Reserve market exclusivity for true innovation**. Addressing extended exclusivity periods for biologics and orphan indications will speed up competition and lead to lower overall drug costs for patients and health plans.
3. **Ensure that drugs can compete fairly**. Preventing practices like “shadow pricing” and abuses of the U.S. Food and Drug Administration’s citizen petition process will improve the competitive market.
4. **Promote generic and biosimilar competition**. The most effective way to reduce prescription drug costs is to increase competition in the marketplace. Congress should eliminate regulatory obstacles to bringing safe medicines to market. This includes removing the barriers to interchangeability designation which hold back biosimilar substitution.
5. **Evaluate the entire supply chain.** Scrutinizing the roles of other supply chain participants, such as the powerful, yet little-understood, drug wholesalers.

Competition is Essential for PBM Negotiations with Drugmakers

PBMs are working in a system where other players in the drug supply chain benefit when competition is low. Without competition, big drug companies determine the price, decide when to increase the price, and increase sales by spending billions of dollars each year advertising high-priced products to consumers and providers. Between 2008 and 2021, new drugs launched at prices that increased by 20% each year,[xiii] with the median list price for new drugs launched in 2024 exceeding $370,000. Drug companies also continue to increase prices on existing products.[xiv]

Brand drug manufacturers always exercise full control over the pricing of their products. The clearest evidence of this is in their actions following major legislative changes. For example, when insulin manufacturers assessed the effect of Congress’s repeal of the maximum Medicaid rebate in 2024, they dropped their prices by 70–80%.[xv] Prior to these moves, even though

insulin accounted for a significant percentage of rebates in Medicare Part D,[xvi] PCMA applauded this move, but we also encouraged other manufacturers to follow suit. Competition among insulins for PBM formulary coverage, including newly introduced biosimilars, forced the drug companies to rethink their brand pricing strategies. Ultimately, PBMs and these other market dynamics brought significant savings to consumers.

Understanding the Roles of Wholesalers and PSAOs in Pharmacy Negotiations

Health plans rely on PBMs to build pharmacy networks so that the plan's enrollees have access to a wide range of pharmacy types and services. These networks are established through fair, market-based negotiations to meet patient needs and support strong health outcomes.

As the Committee considers the factors impacting the competitiveness and affordability within the drug supply chain, it is important to understand the roles of pharmacy services administrative organizations (PSAOs). PSAOs negotiate pharmacy network contracts and reimbursement rates with PBMs and they often perform fundamental back-office operations for the pharmacies they contract with. Approximately 89 percent of independent pharmacies use PSAOs to negotiate favorable contracts with PBMs.[xvii]

Unlike PBMs, PSAOs operate with no state or federal regulation or oversight. The largest PSAOs are subsidiaries of the three largest wholesalers, which can significantly affect the abilities of independent pharmacies to buy low-cost prescription drugs.[xviii] Wholesalers also play an outsize role in the "buy and bill" physician-administered drug market, where practices and hospitals charge highly inflated prices to patients and payers.[xix] Some of these infusion centers and specialty practices are even owned by the wholesalers themselves. Congress should examine all players in the supply chain that have a direct impact on the prices people face for prescription drugs.

Consequences of Recent Legislative Mandates

Congress has passed and the President has signed an appropriations bill that included several major PBM reform provisions. These changes impose new federal mandates in three areas of major concern: (1) delinking PBM compensation in Medicare Part D; (2) requiring mandatory rebate pass-through in the commercial market; and (3) establishing transparency requirements that are overly prescriptive and restrictive.

Although framed as cost-saving measures, these provisions do nothing to bring down drug costs. Instead, they limit employer flexibility, disrupt competitive market dynamics, and risk increasing premiums and taxpayer costs.

<u>"Delinking" in Medicare Part D</u>

Big drug companies have been feeding you a narrative for several years that basing discounts on the prices of drugs is what is leading to higher drug prices. This is plainly false. If a brand drug is included in a formulary over a generic alternative, that is because the PBM was able to negotiate the brand drug to a lower price than it could the generic. This is a good thing, and a demonstration that competition is crucial to lowering prices. Drug companies are pushing "delinking" policies here and in the states, so they can charge higher prices. As one paper notes, "pay for performance is one of the most cited conclusions in economics, where it is frequently noted that 'incentives matter.'"[xx] Thus, "delinking" would not correct misaligned incentives as alleged; instead, it would shift incentives away from driving down drug costs – PBMs' mission. Lawmakers should be wary of this policy, as it "has the potential to significantly (i) increase drug prices, (ii) reduce drug utilization, and (iii) redistribute billions of dollars annually from patients and taxpayers to pharmacies and drug manufacturers."[xxi]

The result is a financial windfall for drug companies, at the expense of beneficiaries and taxpayers: "Annual federal spending on Medicare Part D premiums would increase $3

billion to $10 billion, plus any concomitant increase in Medicare subsidies for out-of-pocket expenses. … [And additional] Medicare spending would require the federal government to tax more, spend less outside of Medicare, and/or borrow more, which has additional effects on the broader economy."[xxii]

In addition to substantial economic harm, "delinking" PBM compensation from a drug's list price singles out one drug supply chain participant, while all others continue to be paid based on that long-standing standard. Drug companies, wholesalers, and pharmacies would continue to be paid on a list price basis. This type of inconsistency can introduce new inefficiencies and perverse incentive structures into the supply chain.

Rebate Pass-Through in Commercial Plans

The recent House-passed bill also includes a provision that would significantly restrict the ability of PBMs to offer private-sector employers the flexibility to design pharmacy benefits tailored to their workforces. Employers rely on PBMs to negotiate drug prices, structure formularies, and create benefit designs that reflect the clinical and financial needs of their employees. Imposing a one-size-fits-all federal mandate on these private arrangements would not only disrupt longstanding market-based negotiations, but it could also increase premiums for employers and employees alike. Furthermore, by weakening the negotiating leverage of PBMs, the policy risks emboldening pharmaceutical manufacturers to set even higher list prices, ultimately driving up overall prescription drug spending.

Finally, forcing all PBMs to use the same contracting flat fee-based model would decrease competition among PBMs, eliminating the abilities of PBMs to distinguish themselves from others based on unique contracting models. Legislation that decreases competition should be taboo for this subcommittee. Congress should carefully consider the consequences of intervening in private-sector contracting.

Commercial Transparency

We agree that transparency that supports patient and payer decision-making is necessary across the entire prescription drug chain. But the legislation just passed by Congress is unnecessary and imposes costly new burdens on PBMs and employers, particularly smaller ones. In reality, PBMs already provide employers, health plans, and patients accurate and actionable information on price and quality to make efficient purchasing decisions. PBMs' customers can set their own terms for the transparency and information they want to receive, as well as their audit rights, as part of their contracts.

PCMA is a Longtime Collaborative Partner to this Committee

Our industry has been proud to work with this Committee to enact meaningful steps to improve safety, transparency, and affordability in the prescription drug space over the past several years. For example, in 2018, we worked with you in the 21st Century Cures Act to strengthen prescription drug monitoring programs through Congressman Bilirakis' Patient Safety and Prescription Drug Abuse Prevention Act and in the SUPPORT Act to combat opioid abuse and prevent doctor and pharmacy shopping through then-Congressman Mullin's Every Prescription Conveyed Securely (EPCS) Act. We supported Congressman Carter's efforts to prevent pharmacies from sharing lowest cost information with patients at the pharmacy counter. We've worked with you on the adoption of real time benefit tools in Medicare, enacted in 2020 and implemented by CMS. We worked with the Committee to ensure that Congressional support agencies, including MedPAC and MACPAC have access to Medicare rebate and payment data under the Payment Commission Data Act. We supported Dr. Joyce's efforts to expand access to biosimilars by allowing for mid-year formulary changes under the Expanding Seniors' Access to Lower Cost Medicines Act. We worked with Chairman Guthrie on the Pre-Approval Information Exchange Act so payers would have information in advance of a product's launch, to expedite access. We've worked with you to ensure that plans can exchange claims information among

Medicare Parts A, B and D to ensure access to appropriate clinical data, including implementation through CMS. We hope to continue this work with you to see enactment of the Equitable Community Access to Pharmacist Services Act in this Congress.

Conclusion

PBMs exist to reduce drug costs for employers and other plan sponsors and, most importantly, for the patients our companies serve. Our members do a very good job at this. Much of this value is generated by the savings PBMs negotiate with pharmaceutical manufacturers and pharmacies, which get passed to patients in the form of lower premiums and reduced out-of-pocket. PBMs negotiate most effectively when there is a competitive prescription drug market, throughout the supply chain. PCMA looks forward to working collaboratively with Congress and other stakeholders to build on the existing private market framework to address prescription drug affordability challenges and improve functionality for patients.

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