

**Written Statement of  
Auditor General Eugene A. DePasquale  
Wednesday, March 13, 2019**

**For the House Health Committee  
The Honorable Kathy Rapp, Majority Chairwoman  
The Honorable Dan Frankel, Democratic Chairman**

**Regarding Pharmacy Benefit Managers (PBMs)**

Chairwoman Rapp, Chairman Frankel, and members of the House Health Committee: Thank you for this opportunity to provide a statement regarding the role and impact of pharmacy benefit managers and the issues brought to light as a result of the multiple special reports I have released on this matter.

**Background**

In 2018, I became aware of the effects “pharmacy benefit managers,” or PBMs, are having on the state’s Medicaid system and independent pharmacies. Essentially, PBMs are middlemen between the state and its Medicaid patients. PBMs contract with health care managers to provide prescription drug benefits, and they contract with pharmacies to administer those drug benefits.

After discovering their impact on state tax dollars and looking at the results of investigations into PBMs in other states, I took it upon myself to develop a special report on their impact here in Pennsylvania.

After conducting public hearings across the state and receiving input from state legislators, pharmacists, academics, PBMs, physicians and other stakeholders, I released my first special report on this issue called last December **“Bringing Accountability and Transparency to Prescription Drug Pricing”**.

To say the least, this is a complicated issue and a multi-faceted one as well.

In 2017, Pennsylvania taxpayers paid \$2.86 billion to PBMs for Medicaid enrollees, according to the state Department of Human Services. That marked an increase of 100 percent in just four years, up from \$1.41 billion in 2013.

I have heard from dozens of pharmacists that large PBMs, many of which are in business with insurance companies, have consistently shortchanged local pharmacies by reducing reimbursement rates without warning, pushing consumers towards more expensive pharmacies, and hiding behind a veil of secrecy.

My original goal, as I stated when I began working on the first special report, was to find out why this was all happening so I could identify ways the state could provide a fair playing field for all pharmacies to compete in the market. I believe a major part of that process is transparency in pricing and the PBMs right now are totally failing on that front.

They have, to their credit, supported prior legislation to ban “gag clauses” in contracts with pharmacies and PBMs that prevented pharmacists from informing patients. However, gag clauses continue to be an issue. It has recently been brought to our attention that PBMs are using new methods in contracts to further inhibit transparency.

Additionally, I believe that a bill Representative Doyle Hefley introduced to address the inadequate reimbursement rates for independent pharmacies was a great starting point for reforms. Again, while

these bills were introduced in a prior session, it is our understanding that legislation of this nature is once again being drafted this session.

In February, I released a follow-up special report, **“Bringing Transparency and Accountability to Drug Pricing”**, examining the behind-the-scenes rebates that take place every time someone gets a prescription filled.

Rebates are paid from a drug manufacturer either directly to government-funded programs, such as Pennsylvania’s Medicaid program, or through PBMs to third-party payers such as Pennsylvania’s Medicaid program or private insurers. They do not get passed back to the consumer directly.

The ultimate purpose of rebates is to lower the cost of prescription drugs. But, my research shows that is not always happening.

Rebates can actually drive up the cost of prescription drugs by as much as 30 percent, meaning a brand-name heart medication, for instance, is likely almost a third more expensive than it needs to be.

In short, manufacturers who are required to offer a rebate on a drug simply set a higher starting list price in order to maintain their profit. It’s virtually the same thing as a store marking up the price of an item before putting it ‘on sale’ – the actual savings are illusory, at best.

Making matters worse, the situation may actually keep pharmacy benefit managers from placing lower-priced medications on insurers’ approved drug lists, meaning only higher-priced drugs are covered.

Part of the problem is that instead of getting a flat fee per prescription, pharmacy benefit managers get a percentage of the total cost of the drug. This means that the more expensive the medication, the more profit the pharmacy benefit manager gets to keep. No wonder they aren’t exactly rushing to add lower-cost drugs to their approved lists – they’re rewarded for doing the opposite, and patients are paying the price.

Rebates were originally designed to help government insurance programs such as Medicaid save money – which does happen. In 2017, Pennsylvania spent nearly \$3.5 billion for outpatient Medicaid prescriptions and received just over \$2 billion back through rebates.

Without federally mandated rebates, taxpayers could be spending nearly twice as much to help Pennsylvania’s 2.8 million Medicaid recipients get their medications. But, for those with private insurance, rebates do not save money and ultimately increase the cost of prescription drugs.

Among the recommendations I am offering to protect consumers include

- The General Assembly should mandate that pharmacy benefit managers receive a flat fee for service for providing administration of each prescription drug claim, regardless of the drug price, rather than being paid a percentage of the drug price as a rebate.
- The General Assembly should pass legislation allowing the state to perform a full-scale annual review or audit of subcontracts with pharmacy benefit managers.

## **Conclusion**

I believe a fair playing field for all independent and chain pharmacies is needed in Pennsylvania to protect both our small businesses and our taxpayers. Pharmacy benefit managers need to provide more evidence they are working to reduce drug costs to protect taxpayers which also means working in an equal manner with pharmacies. I commend the cooperation I received from stakeholders throughout the report processes. I hope the legislature can take the public information from my hearings as well as my two reports and provide some reforms that will help ensure pharmacy customers and taxpayers are getting the best deal possible on prescription drugs.

Chairwoman Rapp, Chairman Frankel, members of the committee, I thank you again for the opportunity to present this statement to you today. This is simply a snapshot into the multiple reviews I have conducted on pharmacy benefit managers. I am happy to provide further information and answer any questions you have might have.

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