

New Report Highlights Role of Pharmacy Benefit Managers in Manipulating Drug Costs for Michigan Patients, Pharmacists and Taxpayers

As Generic Drug Prices Declined from 2016-2018, Estimates Show PBMs Overcharged Michigan Medicaid By At Least \$64 Million

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Lansing, MI – A new report released today by the Michigan Pharmacists Association and 3 Axis Advisors raises new questions about the role of Pharmacy Benefit Managers (PBMs) in Michigan, specifically the extent to which these companies have unfairly profited off of pharmacists, patients and taxpayers.

The study collected data from 451 community pharmacies across Michigan, representing nearly 20% of the 2,356 retail/community pharmacies in the state to analyze PBM spread pricing – the difference between what a PBM pays a pharmacy for a medication and what it charges Michigan Medicaid. The spread pricing analysis is based on nearly two million prescriptions dispensed for generic drugs by pharmacies to Michigan Medicaid managed care beneficiaries over a two-year period.

PBMs serve as middlemen for pharmacies and insurance companies, determining which drugs will be covered by insurance companies and setting reimbursement rates paid to pharmacies for filling prescriptions. With spread pricing, PBMs may bill insurers for medication coverage at a higher cost than they reimburse pharmacies for the same drugs.

Between Q1 2016 and Q1 2018, Michigan pharmacies received 95% below state "break-even" benchmarks, which amounted to pharmacies receiving just \$0.49 above National Average Drug Acquisition Cost (NADAC), a reference-based pricing benchmark created and tracked by the Centers for Medicare & Medicaid Services (CMS). Despite a decline in NADAC ingredient costs and pharmacy reimbursements, generic drug costs in Michigan Medicaid managed care increased. This discrepancy is directly linked to PBMs' manipulation of drug prices.

"This report demonstrates the dire need for reforms in our health care system," said Michigan Pharmacists Association CEO Larry Wagenknecht. "Based on this data, we can infer that our state has spent at least \$64 million more than necessary on prescriptions. This money was funneled back to PBMs, rather than helping poor, underserved, or disabled patients receiving Medicaid managed care. We need to address the spread pricing problem and ensure that these large, Fortune 500 companies can no longer take advantage of pharmacists and patients who depend on a fair system."

Other major findings from the report, include:

- Spread margin for generic prescriptions rose from only 2% of managed care's cost in Q1 2016 to 34% of managed care's cost in Q1 2018.
- In just two years, the annualized PBM spread margin on generic drugs rose from 6% of managed care's cost to 34%.
- When compared to national-average managed care unit costs for behavioral health medications, Michigan saved over \$20 million between Q2 2017 and Q1 2018 by carving out behavioral health medications to the Medicaid fee-for-service program.

PBMs continue to face pressure from Capitol Hill as Committees in the House and Senate drill down on the many issues surrounding PBM practices. Most recently, U.S. Senate Finance Committee members sent a letter to the Office of the Inspector General at the U.S. Department of Health and Human Services calling for an investigation into PBM practices as it relates to Medicaid. In their letter, they reference a variety of state reports related to spread pricing and PBM profiteering.

PBM's role in increasing prices and creating inefficiencies in the system is evident across the country. Ohio recently found PBM spread pricing between Q2 2017 and Q1 2018 reached more than \$224 million.¹ Kentucky discovered hidden fees accounted for nearly \$124 million.² PBMs charged the Illinois Medicaid program 23% more for generic drugs than they paid pharmacists for dispensing the same medications.³ In New York, PBMs overcharged taxpayers more than \$300 million between April 2017 and March 2018.⁴

The new Michigan report also analyzes the concept of "Average Wholesale Price," which is used by PBMs to establish the cost to public and private insurers but does not reflect actual drug costs. It is estimated that AWP's can be priced at more than 350 times a drug's market-based NADAC, and despite the fact that they are so detached from the real price of medications, the report raises concerns over PBMs using this arbitrary benchmark as a means to take advantage of payers like the state of Michigan.

"The financial strain that PBMs have placed on community pharmacies like mine becomes greater every day," said John Gross, pharmacist and owner of three independent pharmacies, Clare County, Michigan. "The status quo simply isn't acceptable. These practices are predatory and only put the patient-pharmacist relationship at risk."

Michigan Pharmacists Association CEO Larry Wagenknecht recently testified on the role and impact of PBMs regarding Michigan pharmacists and patients. The MPA anticipates state legislators to soon work on drafting legislation aimed at curbing some of these adverse PBM practices.

To read the full report, [click here](#).

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ABOUT MICHIGAN PHARMACISTS ASSOCIATION

Michigan Pharmacists Association (MPA) was established Nov. 14, 1883. and represents nearly 9,000 pharmacists and 15,000 pharmacy technicians in Michigan. For more than 130 years, MPA has strived to provide its members with the tools, resources and support needed to advance the profession of pharmacy and provide quality patient care. For more information, please visit our website at MichiganPharmacists.org.

¹ https://ohioauditor.gov/auditsearch/Reports/2018/Medicaid_Pharmacy_Services_2018_Franklin.pdf

² https://chfs.ky.gov/agencies/ohda/Documents1/CHFS_Medicaid_Pharmacy_Pricing.pdf

³ <https://static1.squarespace.com/static/5c326d5596e76f58ee234632/t/5c89319fa4222f13f0bad852/1552495013594/3AA+Illinois+Medicaid+managed+care+analysis+FINAL+03.13.19.pdf>

⁴ <https://static1.squarespace.com/static/5c326d5596e76f58ee234632/t/5c4b5961aa4a99273237adf9/1548441960404/NY+Managed+Care+Study+Drug-Level+Detail+Supplement.pdf>