

October 18, 2022
Rep. Brad Barrett
Chairperson
Indiana General Assembly
Interim Study Committee on Public Health, Behavioral Health, and Human Services
200 West Washington Street, Suite 301
Indianapolis, IN 46204-2789

Re: Meeting on Market Concentration in the Pharmacy Benefit Manager (PBM) Industry

Dear Chairperson Barrett and Members of the Interim Study Committee:

The National Association of Chain Drug Stores (NACDS) appreciates the opportunity to provide comments to the Interim Study Committee on Financial Institutions and Insurance as you study market concentration of the health insurance industry, hospital industry, health care practitioners, retail pharmaceutical industry, pharmacy benefit manager industry (PBM), and pharmacy services administration organization industry (including its relationship to pharmaceutical wholesalers). Our comments focus on market concentration in the PBM industry.

Background on Retail Community Pharmacies

Retail pharmacies are critical health care access destinations for patients. A poll of adults conducted March 4-6, 2022, by Morning Consult and commissioned by NACDS found that retail pharmacies received the highest ratings for ease of access among the destinations tested. Of note, 79 percent of those surveyed support pharmacists helping patients prevent chronic diseases.

In addition, the following facts should be considered in dissecting the cost of a prescription drug:

- About 80 percent of the average retail prescription price represents the pharmacy's costs of purchasing the product from a manufacturer or wholesaler.
- About 14 percent of the average retail prescription price is consumed by pharmacy operational costs, including salaries, rent, utilities, the costs of maintaining and transferring inventory, and computer systems infrastructure.
- One to two percent of the average retail prescription price goes to pay state and federal taxes.
- After all expenses, the remaining net pharmacy profit on the average retail prescription price is about 2 percent or less.

Retail pharmacies cannot control the purchase price and have little to no control over the price at which prescriptions are sold. Manufacturers determine the product cost, and third-party payers (Medicare, Medicaid, TRICARE, etc.) or pharmacy benefit management companies (PBMs) set the reimbursement to the pharmacy and the price to the patient.

The Pharmacy Benefit Manager Marketplace and Impact on Pharmacies

Prescriptions filled by patients who are paying cash without any form of insurance or discount card account for only about 3% of the total volume of prescriptions.¹ While approximately 91% of prescriptions filled have a payment component coming from Medicare Part D, Medicaid, or a commercial insurance plan, these plans are ordinarily administered by PBMs. The top three PBMs manage about 80% of the volume.² The top six PBMs and plans manage about 96% of the volume.³ Five of those six PBMs are owned by large national health insurers. This business environment makes it very difficult for pharmacies to negotiate equitable business practices and transparency because the PBMs and health insurers have more commercial market power and leverage in the relationship due to their size and scale.

Retail pharmacies are in crisis, facing unsustainable financial pressures as they are increasingly reimbursed by payers below the cost of buying and dispensing prescription drugs. Dire financial pressures have caused an alarming number of pharmacies to shut their doors. Payers have increasingly reduced reimbursements; in many cases pharmacies dispense prescriptions below cost. Retroactive fees and claw backs often occur weeks or months after a transaction closes, when a payer decides to recoup a portion of the pharmacy's reimbursement. These fees have made the economic viability of community pharmacies increasingly difficult, due to the unpredictability of reimbursement and the increased damage to bottom lines.

A study commissioned by the PBMs' own trade association, the Pharmaceutical Care Management Association (PCMA), recognizes that retail community pharmacies, and particularly chain pharmacies, are in trouble.⁴ PCMA concludes over the last ten years (2012-2022) the total number of chain pharmacies decreased by 5.2%, and decreased 6.7% over the last five years (2017-2022).⁵ PCMA's chart from the study shows an accelerating decline in chain pharmacies since 2017.⁶ While PCMA does not suggest why chains are closing pharmacies, in a recent Supreme Court filing, PCMA agreed it is "undisputed" that "reimbursements below cost are approximately 10% of prescriptions filled."⁷

The epidemic of pharmacy closures is reducing access to vital healthcare services, especially in rural areas where options are already limited. Recent polling by Morning Consult confirmed that patients heavily rely on retail pharmacies among all health care destinations. However, patients' access to retail pharmacies is increasingly threatened as more pharmacies go out of business. A recent study published in the *Journal of the American Medical Association* found that pharmacy closures led to a significant drop in medication adherence for older adults taking cardiovascular medications,⁸ which has obvious implications for patient health.

¹ Source: IQVIA, National Prescription Audit & RxInsight, June 2022; Approximately 5.4% of patients use a discount card to assist with payment.

² <https://www.drugchannels.net/2022/04/the-top-pharmacy-benefit-managers-of.html>

³ Id.

⁴ See <https://www.pcmnet.org/the-independent-pharmacy-marketplace-is-stable/>

⁵ Id.

⁶ Id.

⁷ *Rutledge v. Pharmaceutical Care Management Association*, [18-540](#), 1 App. 341 (petition granted Jan. 10, 2020) (referring to the joint appendix in the case now pending before the Supreme Court of the United States).

⁸ Qato, Dima M., PharmD, MPH, PhD; Alexander, G. Caleb, MD, MS; Chakraborty, Apurba, MBBS, MPH; et al.; *JAMA Network Open*. 2019;2(4):e192606. doi:10.1001/jamanetworkopen.2019.2606; April 19, 2019.

Conclusion

NACDS appreciates the opportunity to share with the Interim Study Committee our perspectives on market concentration in the PBM industry and its impacts on retail community pharmacies and patient health. For any follow up, please feel free to contact Mary Staples, NACDS State Director at mstaples@nacds.org.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven C. Anderson". The signature is fluid and cursive, with a long horizontal stroke at the end.

Steven C. Anderson, FASAE, CAE, IOM
President and Chief Executive Officer
National Association of Chain Drug Stores

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NACDS represents traditional drug stores, supermarkets and mass merchants with pharmacies. Chains operate over 40,000 pharmacies, and NACDS' over 80 chain member companies include regional chains, with a minimum of four stores, and national companies. Chains employ nearly 3 million individuals, including 155,000 pharmacists. They fill over 3 billion prescriptions yearly, and help patients use medicines correctly and safely, while offering innovative services that improve patient health and healthcare affordability. NACDS members also include more than 900 supplier partners and over 70 international members representing 21 countries. Please visit NACDS.org.