

**STUDY FINDS PBMs' CONFLICT OF INTEREST WILL ADD
MORE THAN \$14.5 BILLION TO MEDICARE DRUG BENEFIT COSTS**

NOTE TO EDITORS: A conference call with the report authors will be held this afternoon, Sept. 9, at 2 p.m.(EDT). Reporters who will join the call should reserve a phone line by contacting Tim Smith of Midwest Public Affairs Group at 312-654-8817.

WASHINGTON, D.C., Sept. 9, 2003 – Medicare prescription drug benefit bills currently under consideration would allow pharmacy benefit managers (PBMs) to participate in a clear conflict of interest that would cost taxpayers more than \$14.5 billion over 10 years, and possibly as much as \$29 billion, according to a study released today.

The conflict of interest arises when PBMs are allowed to both administer the benefit *and* sell drugs to the plan through their own mail order pharmacies. “Given the increased costs associated with PBMs owning mail order houses, PBMs should be prohibited from fulfilling both roles under Medicare, just as doctors are prohibited from owning pharmacies,” said James Langenfeld, director at LECG LLC. and adjunct professor at Loyola University (Chicago) Law School, who authored the study with Robert Maness, senior managing economist at LECG.

Each of the four largest PBMs operates a mail order division, and these businesses are more profitable to PBMs than administering a plan. That gives PBMs strong incentive to direct prescriptions through their own mail order pharmacies, where they can switch patients to more expensive brand-name medications that are more profitable to the PBM but increase costs to the government and seniors through their copayments.

The study, funded by three of the leading pharmacies in America, found that switching happens more often at mail order pharmacies operated by the PBM administrator than at independent mail order pharmacies.

Following are key findings from the Langenfeld & Maness study:

- While PBMs can be excellent plan administrators, they should be prevented from both administering the plan *and* selling drugs to the plan through their own mail order pharmacies. This requirement would be consistent with current Medicare regulations that prevent doctors from referring patients to their own labs. It's also similar to regulations that prevent doctors from owning pharmacies.
- If PBMs are allowed to both administer *and* sell drugs to the plan, conservative estimates put the cost of this clear conflict of interest at more than \$14.5 billion, and possibly double that amount (\$29 billion), over a 10-year period. The exact amount depends on the degree of risk assumed by the PBM. As the Congressional Budget Office has recognized, anything less than full risk bearing “weaken(s) the plans’ incentives to control cost.”
- Each of the four largest PBMs operates a mail order division, and these operations are more profitable to PBMs than administering a plan. That gives the PBMs strong incentive to direct as many prescriptions through their own mail order pharmacies as possible.
- Once a prescription is being filled by the PBM’s mail order pharmacy, the PBM has incentive to sell newer and higher-priced drugs, even if it’s more costly to the payer (which, under the Medicare plan, would be the government and seniors through their copayments).
- By switching the patient to a newer, more expensive medication that treats the same illness (which is referred to as therapeutic switching), the PBM can collect a substantial rebate from the drug’s manufacturer (rebates that aren’t available if an older, less expensive generic medication is used). Much of that rebate is kept by the PBM, rather than sharing it with the payer.
- The study found that therapeutic switching occurs more often at mail order pharmacies operated by the PBM administrator (called “captive” pharmacies) than at independent mail order pharmacies.
- The magnitude of therapeutic switching by captive mail order pharmacies is reflected in the generic utilization rates (how often a prescription is filled with a less expensive, generic medication when one is available for the patient). The study found that captive mail order pharmacies had a generic utilization rate of only 29 percent, while independent mail order pharmacies’ generic utilization rate was 39 percent, 10 percentage points higher.
- A PBM doesn’t need to use its own mail order house to operate efficiently. A number of successful PBMs don’t own captive mail order houses.