

Highmark Inc.

Testimony on Senate Bill 616

Mail-Order Pharmacy Restrictions

Pennsylvania Senate Banking and Insurance Committee

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Good morning, Chairman White, Chairman Stack and members of the Committee. My name is Robert Wanovich, and I am the vice president of pharmacy affairs at Highmark Inc. I would like to thank the committee for allowing Highmark to be represented here today. I am joined today by Michael Warfel, vice president of government affairs.

I have been with Highmark for 14 years. In my current position, I am responsible for managing and overseeing Highmark's prescription drug benefit and specialty pharmacy programs. My area consults with our group customers to develop pharmacy benefit designs to meet their individual needs.

In this role, I regularly meet with our group customers of all sizes, leaders of trade groups or associations that offer group health insurance programs with prescription drug benefits to small employers, and brokers and agents that assist small employers in attempting to purchase health insurance.

Based on these discussions, it has become abundantly clear that employers are expecting and demanding that health insurers act decisively to hold down increases in prescription drug costs to help them maintain affordable health care benefits. Specifically, here are some of the current, pressing issues that health benefit administrators repeatedly bring to my attention.

- 1) They want to obtain guaranteed, predictable pharmaceutical costs that include competitive drug discounts.
- 2) They want to know exactly what their health plan is doing to control the spiraling costs of very expensive specialty drugs for individuals with conditions such as hepatitis C, multiple sclerosis and cancer. Specialty pharmacy care, such as high-cost injectable drugs that require special handling and refrigeration, represents a large and growing part of drug spending.
- 3) And finally, they want to know what their health plan is doing to encourage people to use lower-cost medications, such as generic drugs, where it is clinically appropriate.

As I will discuss in greater detail, Senate Bill 616 is in direct conflict with what the marketplace is expecting and demanding of Highmark and other health plans to manage prescription drug benefits.

As you may know, the rising cost of prescription drugs continues to be one of the most critical issues affecting the affordability of health insurance. Since 1990, spending on retail prescription drugs has increased more than six times, surpassing the growth rate for other types of health care.

While spending on prescription drugs generally accounts for about 10% of total health care spending in the United States, drug costs during this decade have been a primary contributor to a steady rise in overall health costs. Underlying health cost increases are the main reason that annual health insurance premiums continue to rise, on average, at double-digit levels for many employers. The combination of rising medical costs and the current recession have had a major impact on employer-sponsored health insurance: more and more small employers are dropping employee health insurance altogether, while mid-sized and larger employers are exploring ways to keep drugs affordable and accessible for their workers.

Rising drug costs also have hit public insurance programs, including Medicaid. For instance, Medicaid spending on outpatient drugs increased by an average of almost 7% per year from 2004 to 2007. Similar to activities by health plans and employers in the private sector, many state lawmakers are taking steps to contain or moderate their state and consumers' drug costs.

Over the past few years, Highmark has been able to better control drug costs through a mix of strategies, while recognizing that our customers still prefer the convenience of buying their medicines through an outlet of their choice, whether a retail pharmacy or a mail-order pharmacy.

We have encouraged the use of generic drugs, when appropriate, through physician and member educational campaigns and a program which provides free samples of certain generic drugs to physicians to give to their patients. With more medications losing patent protection, Highmark can realize considerable drug cost savings for our customers as highly priced brand drugs become available over the counter or in generic form. These efforts have had a tangible impact. In 2008, Highmark's generic dispensing rate was 65%, compared to 48% in 2003.

We are striving to control the cost of specialty pharmaceuticals through an arrangement with a specialty pharmacy distribution company to help obtain better prices on these drugs for our customers and to reduce the burden on medical practices that may not be able to purchase and stock higher-cost specialty pharmaceuticals. Our program also helps to ensure that patients use these drugs appropriately to achieve the best health outcomes.

As a result of our various activities to manage prescription drugs, we are seeing more moderate annual increases in Highmark's pharmacy costs. In 2007 and 2008, Highmark drug spending increased approximately five percent annually, compared to nearly a 20 percent increase in 2002.

Although our total annual pharmaceutical claims expenditures have grown to almost \$2.5 billion in 2008, we have not seen any major changes in the buying preferences of our customers. On average, Highmark's under-65 subscribers are filling 13 prescriptions a year, and that number has continued to increase over the past few years. In 2008, mail-order pharmacy represented about 9% of the more than 36 million total prescriptions for our subscribers.

Over the past five years, we have seen a negligible increase in the percentage of our prescriptions filled through mail-order pharmacies, which shows that they do not represent a major competitive threat to the continued viability of retail pharmacies and independents.

Generally, we have found that almost all of our customers prefer to give their employees the choice of purchasing drugs through retail or independent pharmacies or a mail-service pharmacy. While retail and independent pharmacies are an integral delivery channel for most prescriptions, the convenience and potential savings of mail-service pharmacies have become more widely accepted for patients with chronic conditions.

In addition, in today's challenging economic times, the most cost-sensitive employers want more choices to control prescription drug costs, including the mail-order pharmacy option. Highmark's health benefit programs permit our customers to use both options.

Our data does show that our customers can achieve potential cost savings when drugs are dispensed through mail-order pharmacies compared to retail pharmacies. In 2008, if Highmark had paid its mail order claims at retail pharmacy rates, the total cost of these drugs would have been \$37 million higher.

In view of the tremendous pressures on employers and health plans to control prescription drug costs, Highmark believes that Senate Bill 616 represents misguided public policy – and will actually increase drug costs for businesses that already are financially challenged. It seeks to mandate certain anti-mail-service pharmacy provisions that would restrict the use of a variety of strategies to help Highmark and our customers manage the cost of prescription drugs.

Let me explain several specific sections that we believe are problematic.

First, we are concerned that section 1 of the provision that describes unfair methods of competition and unfair business practices would prevent Highmark's customers from trying to lower drug costs through the prudent use of mail-order pharmacies. If employers have their hands tied, the Commonwealth runs the risk that they will drop or sharply curtail health benefits, or simply shift even more health insurance costs to employees.

Second, we have similar concerns about the copayment mandate in section 2. It removes the potential for savings that can be achieved through a mail-service pharmacy.

Generally, our customers have three copayments for a 90-day supply at a retail pharmacy.

In contrast, we typically recommend that two-and-a-half copayments cover a 90-day supply at a mail-order pharmacy, **resulting in cost savings for both the employer and the employee.**

Section 3 would sharply restrict Highmark's ability to manage our pharmacy networks to achieve cost savings for our customers. For example, this provision would undermine our efforts to reduce specialty pharmaceutical costs through an exclusive distribution arrangement. These drugs represent the fastest-growing part of drug spending for health plans. The bill would eliminate important tools to control specialty drug costs and to better ensure that our subscribers appropriately take these drugs. In 2008, Highmark's specialty pharmacy programs saved \$18 million for our customers.

Finally, section 4 would result in higher pharmacy costs for employers. This provision would make it harder for Highmark, and other health plans as well, to offer guaranteed prescription drug costs based on the fixed payment arrangement we negotiate with our pharmacy benefits manager (PBM) for a variety of administrative and network management services.

Eliminating the payment arrangements between PBMs and health plans will not produce lower pharmacy costs for employers. The onerous disclosure requirements in section 4 would likely signal the end of drug manufacturer rebates that produce substantial savings for employers and their employees. It would also stifle fair competition among health plans and restrict innovation in cost-effective drug benefit design that can be developed when health plans negotiate mutually beneficial pricing arrangements with their customers.

We also have concerns that the bill seems to apply only to fully insured health plans and not to self-insured plans covered under the federal Employee Retirement Income Security Act of 1974, known as ERISA. This would result in preferential treatment for large employers while penalizing small employers who generally rely on fully insured programs for their employee health benefits.

In conclusion, we are fast approaching an important milestone for health care in our country. Momentum is building for national health care reform. There is an emerging consensus that in addition to expanding coverage to all Americans, controlling the rising costs of health care services must be a focal point of reform. Rising costs have been the primary driver of higher insurance premiums, which have deeply affected American families and businesses.

Highmark opposes Senate Bill 616 because it would penalize health plans, employers, and employees who are seeking more cost-effective ways to manage these prescription drug costs. State lawmakers should support those efforts in the private sector that encourage the use of proven cost-saving alternatives while preserving choice in the purchase of medications. These goals should be the cornerstones of health care reform. This bill does not further those important health policy goals.

Thank you. I would be happy to answer any questions you may have at this time.