

HOOD ROBIN

by Scott McGohan, CEO, McGohan Brabender

We're all familiar with the story of Robin Hood. The English folk hero has been widely portrayed in books, films and television. Wearing green tights and wielding his bow and arrow, Robin Hood and his Merry Men lived in Sherwood Forest and roamed Nottingham "robbing from the rich and giving to the poor."

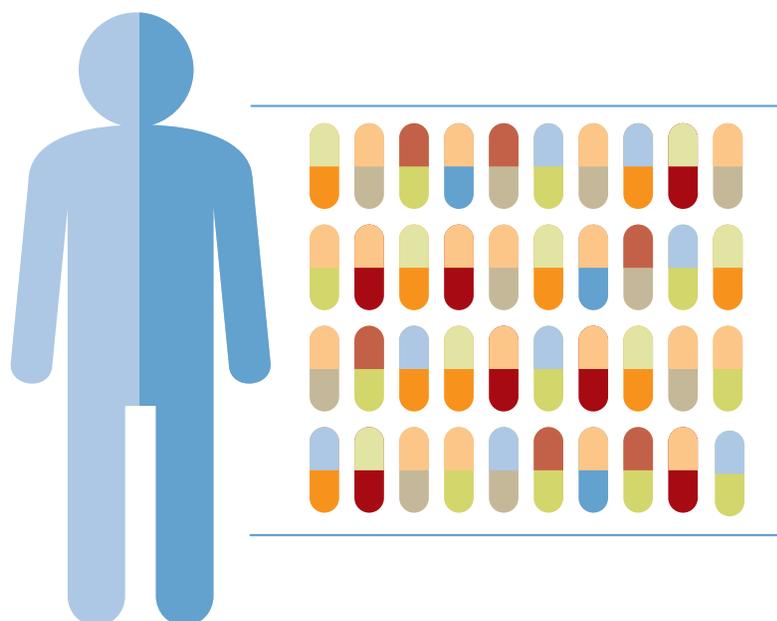
SO WHAT DOES ROBIN HOOD HAVE TO DO WITH HEALTH CARE, AND WHY AM I REFERRING TO THIS FOLK HERO IN REVERSE, "HOOD ROBIN?" LET ME EXPLAIN ...

There are many elements of health care that are confusing, one of the largest being cost. Recent strategies have brought elements of cost transparency to the hospital physician charges. That has driven the real payers of health care - employers and employees - to search for new solutions to address both quality and cost.

One element that has been blind to both employers and employees is the impact of prescription drugs. Rx cost in the U.S. grew to **\$364 billion in 2015, up 12% over 2014**. The number of prescriptions grew from **3.9 billion to more than 4 billion**, and it's worse than that when you unpack the impact of mail-order drugs normally dispensed in a 90-day supply. When we normalize that data to a 30-day fill rate, it equates to America filling over 5 billion prescriptions annually.

To put that into context the United States has a population of **318 million people**. That means every "belly button" would consume 39 pills per month, or over **156 billion pills**. We account for 5% of the world's population and consume **75% of all prescription drugs** manufactured on Earth.

PRESCRIPTION INTAKE



AMERICANS ACCOUNT FOR 5% OF THE WORLD'S POPULATION.



AMERICANS CONSUME 5 BILLION PILLS ANNUALLY WHICH EQUATES TO 75% OF ALL PRESCRIPTION DRUGS MANUFACTURED IN THE WORLD...



OK, we are obsessed with prescription drugs, and in their defense many are reducing the health care spend and changing the lives of people, but for the most part Americans make poor lifestyle choices and want an easy fix. That easy fix is an economic engine that will bankrupt our economy. Worse than that, who pays for this, how much does it really cost, how much money is transferred over-the-counter and the amount of money that goes under-the-counter is astounding, if not embarrassing, and blatantly the reason why I referred to this transaction as “Hood Robin.”

Is this a new phenomenon or an examination of this industry that has run unchecked?

Recently investors are curious how PBMs (pharmacy benefit managers) have increased in value over four times the industry norms.

The industry was knocked upside the head when Anthem claimed in a lawsuit that Express Scripts PBM overcharged them by \$3 billion a year, yes that’s annually. This has resulted in a \$15 billion lawsuit that addresses the future of this negotiated contract. That’s right, not what happened but what could happen. Stay tuned!

PBMs typically offer a host of remedies for employers. PBMs use their aggregate volume to host discounts, steer members from brand name drugs and mail order utilization.

This strategy is a huge source of profits for PBMs. They will navigate brand name drugs on and off of a formulary, grab huge discounts on generics and keep drugstores in or out of a network. These efforts result in deep discounts, huge rebates that are hidden or “under the counter” transactions that PBMs are keeping.

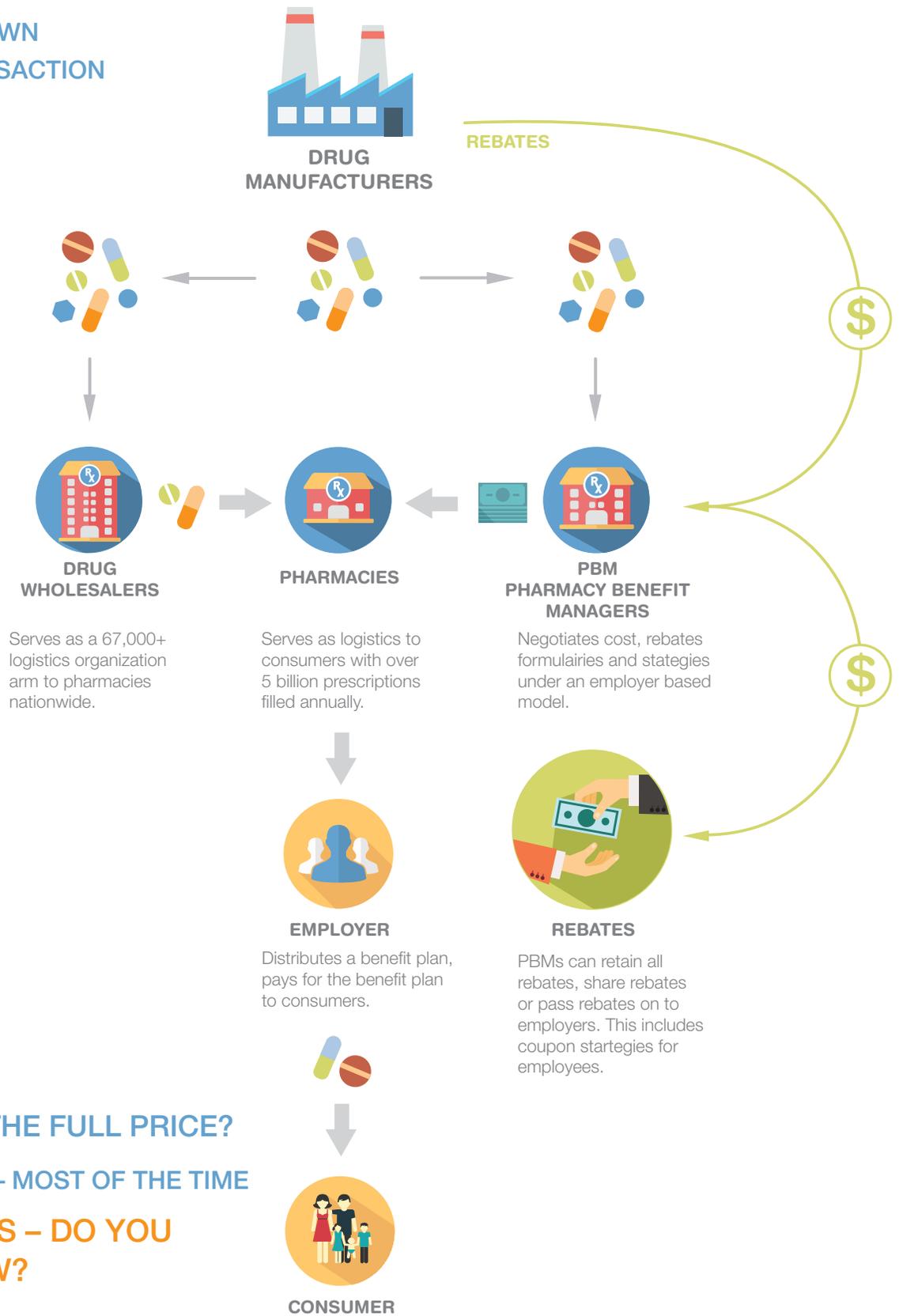
You see, if the folklore of “Robin Hood” was to rob from the rich and give to the poor, then this economy is the reversal, robbing from the poor to give to the rich. ***The transaction is a mystery and often cloaked in complexity, disguised as good health.***

When you consider the math, the numbers are even more staggering if you are a consumer and have a Health Savings Account (HSA). Assume the retail cost of your prescription was \$175. After the negotiated discount, the price you pay is \$131. You and your employer assume the drug cost was \$131 because that was the price that you paid. However, there is a missing piece. The actual cost of the drug was \$89.11.

For those with a copay structure, the impact can be even greater. Let’s assume you have a tier 2 drug copay of \$30 for this drug. Picking up the same prescription, you pay \$30 (and you are insulated from the full cost.) However, your employer is billed \$101. Don’t forget - the actual price is still \$89.11. So either way, payers are overpaying.

OK, let’s try to make this even simpler. Now, before I make this analogy let me say I am all about entrepreneurship and capitalization. It is the engine of our economy; it creates jobs and keeps jobs. The issue I have with this transaction is the amount of money that is transferred to various parties that is blind to the real payers of prescription drugs in the United States.

BREAKING DOWN A DRUG TRANSACTION



WHO PAYS THE FULL PRICE?
CONSUMERS – MOST OF THE TIME
EMPLOYERS – DO YOU EVEN KNOW?



THE \$364 BILLION TRANSACTION

So let's take this \$364 billion transaction and drive it down to \$364. Let's assume we own a transportation company that includes truck, material and a driver. As an employer we teach our employees to be prudent in purchasing gas. We give them a credit card and ask them to spend it wisely. In other words, please try to fill-up at a competitive filling station.

- 1 OUR EMPLOYEE NOTICES HE NEEDS FUEL AND FILLS UP THE TRUCK AT A GAS STATION FOR \$364.
- 2 HE USES A CREDIT CARD TO PAY FOR THE FUEL.
- 3 THE CREDIT CARD COMPANY SENDS THE EMPLOYER A BILL FOR THE PRICE OF THE FILL-UP - \$364
- 4 THE EMPLOYER PAYS THE BILL - \$364 - AND THE TRANSACTION IS COMPLETE. **NOT SO FAST...**
- 5 YOU FIND OUT THAT THE CREDIT CARD COMPANY NEGOTIATED THE PRICE OF THE FUEL AND PAID 33% LESS FOR THE FUEL, OR \$243.88, AND BILLED THE ENTIRE AMOUNT OF \$364 TO YOU.
- 6 YOU FIND OUT THAT THE CREDIT CARD COMPANY SENDS THE GAS STATION PART OF THE SPREAD: \$364 MINUS \$243.88 EQUALS \$120.12 DIFFERENCE, AND THE CREDIT CARD COMPANY KEEPS THE REST.
- 7 YOU ARE FURIOUS AND YOU FIND A BETTER WAY TO BUY FUEL!

THAT'S ROBBING FROM THE REAL PAYER OF HEALTH CARE, THE EMPLOYERS, OUR GOVERNMENT AND PEOPLE. THAT'S THE EVOLUTION OF THE NEW "HOOD ROBIN."

Robin Hood was folklore, this is not folklore and this is happening to over 300 million people and 4 billion prescriptions every single day.

McGohan Brabender's greatest asset is **knowledge**. That's a "neck up" asset! We understand the mechanics of this transaction. Our relationship with C2 and Rx Benefits drives this to the surface. We can put the discounts where they belong, the rebates where they should go, with the employer and their employees. That's what we do best: Empower Businesses, Empower People and, ultimately, Empowering Healthier Living for business, people and the communities we serve!

*"THE GREATEST ENEMY OF KNOWLEDGE IS NOT IGNORANCE;
IT IS THE ILLUSION OF KNOWLEDGE."*

