



WHAT IS SPREAD PRICING, AND WHY SHOULD YOU CARE?

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SPREAD PRICING: HOW DID THIS HAPPEN?

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Press Releases · Ohio Auditor of State

Auditor's Report: Pharmacy Benefit Managers Take Fees of 31% on Generic Drugs Worth \$208M in One-Year Period

Geographic Price-Spread Disparities Found in Medicaid Pharmacy Payments

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Thursday, August 16, 2018

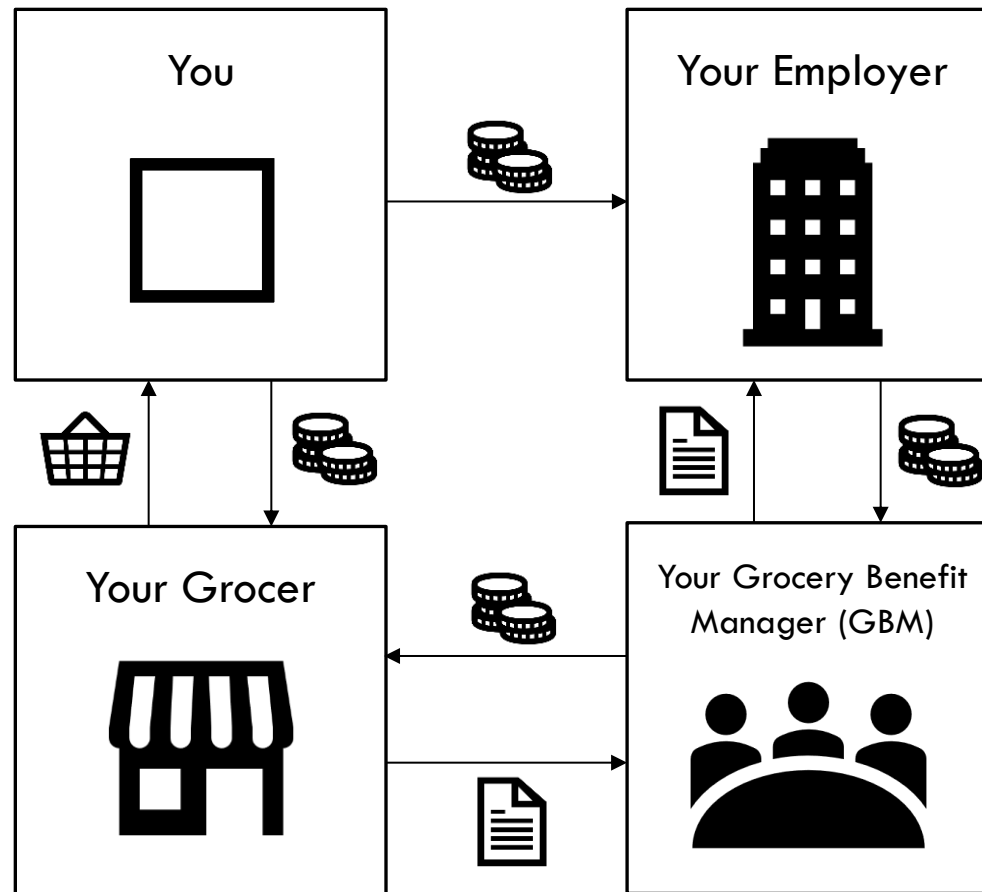
Columbus - Ohio's Pharmacy Benefit Managers (PBMs) charged the state a "spread" of more than 31 percent for generic drugs – nearly four times as much as the previously reported average spread across all drugs, according to a new report by Ohio Auditor of State Dave Yost.

An analysis conducted by Auditor Yost's staff found PBMs collected \$208 million in fees on generic Medicaid prescriptions, or 31.4 percent of the \$662.7 million paid by managed care plans on generics during the one-year period April 1, 2017 through March 31, 2018.

RX PRICING IS TOO COMPLICATED. LET'S GO GROCERY SHOPPING INSTEAD

Item	Units	Qty	Market Price per Unit	Total
Bananas	ea.	6	\$0.20	\$1.20
Apples	ea.	4	\$1.00	\$4.00
Cheerios	box	1	\$3.50	\$3.50
Salmon	lb.	1	\$8.99	\$8.99
Pepsi	cans	6	\$0.50	\$3.00
Wine	bottle	1	\$12.00	\$12.00
Ice Cream	pint	1	\$4.50	\$4.50
Almonds	lb	½	\$10.00	\$5.00
Spinach	box	1	\$4.00	\$4.00
Seltzer Water	ea.	6	\$0.35	\$2.10
Overall				\$48.29

WHAT IF WE BOUGHT OUR GROCERIES LIKE WE BUY OUR DRUGS?



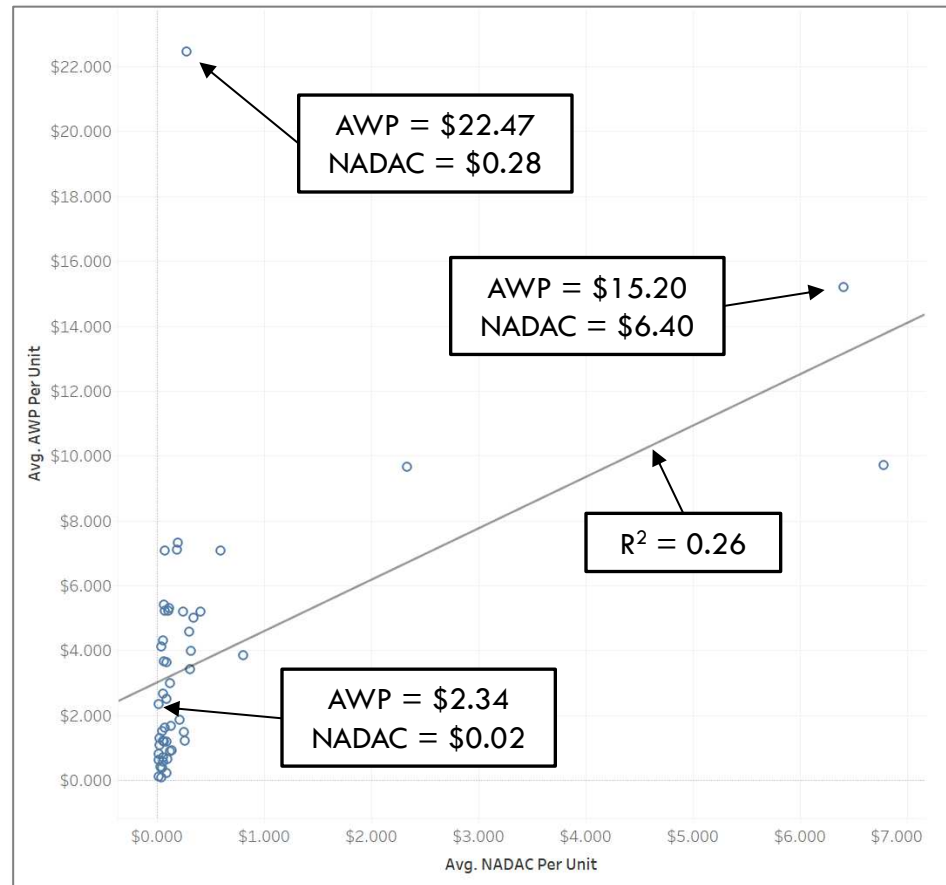
TRUTH #1: PRICE OF ANY PRODUCT IS BASED ON A DISCOUNT OFF OF A BENCHMARK CALLED AVERAGE WHOLESALE PRICE (AWP)

Item	Units	Qty	AWP per Unit	Discount off of AWP	Total
Bananas	ea.	6	?	80%	?
Apples	ea.	4	?	80%	?
Cheerios	box	1	?	80%	?
Salmon	lb.	1	?	80%	?
Pepsi	cans	6	?	80%	?
Wine	bottle	1	?	80%	?
Ice Cream	pint	1	?	80%	?
Almonds	lb	1/2	?	80%	?
Spinach	box	1	?	80%	?
Seltzer Water	ea.	6	?	80%	?
Overall					?

Need to know how AWP compares to market-based pricing!

TRUTH #2: AWP HAS NO RELATIONSHIP TO MARKET-BASED PRICING FOR GENERIC DRUGS

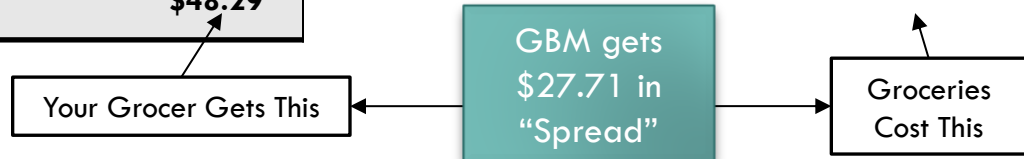
AWP versus NADAC* for top 50 Medicaid Generic Drugs
Pricing Snapshot from mid-September 2018



* NADAC = National
Average Drug
Acquisition Cost

APPLYING THE FIRST TWO TRUTHS TO OUR GROCERY LIST

Item	Units	Qty	Market Price per Unit	Total (Market)
Bananas	ea.	6	\$0.20	\$1.20
Apples	ea.	4	\$1.00	\$4.00
Cheerios	box	1	\$3.50	\$3.50
Salmon	lb.	1	\$8.99	\$8.99
Pepsi	cans	6	\$0.50	\$3.00
Wine	bottle	1	\$12.00	\$12.00
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Spinach	box	1	\$4.00	\$4.00
Seltzer Water	ea.	6	\$0.35	\$2.10
Overall				\$48.29



KEY LEARNINGS FROM THE FIRST TWO TRUTHS


System is extremely complicated – but...

It's not necessarily a bad deal! It completely depends on what's on your grocery list.

We have to do a lot of math to figure out if we are getting a good deal, and hard to get information we need to do this

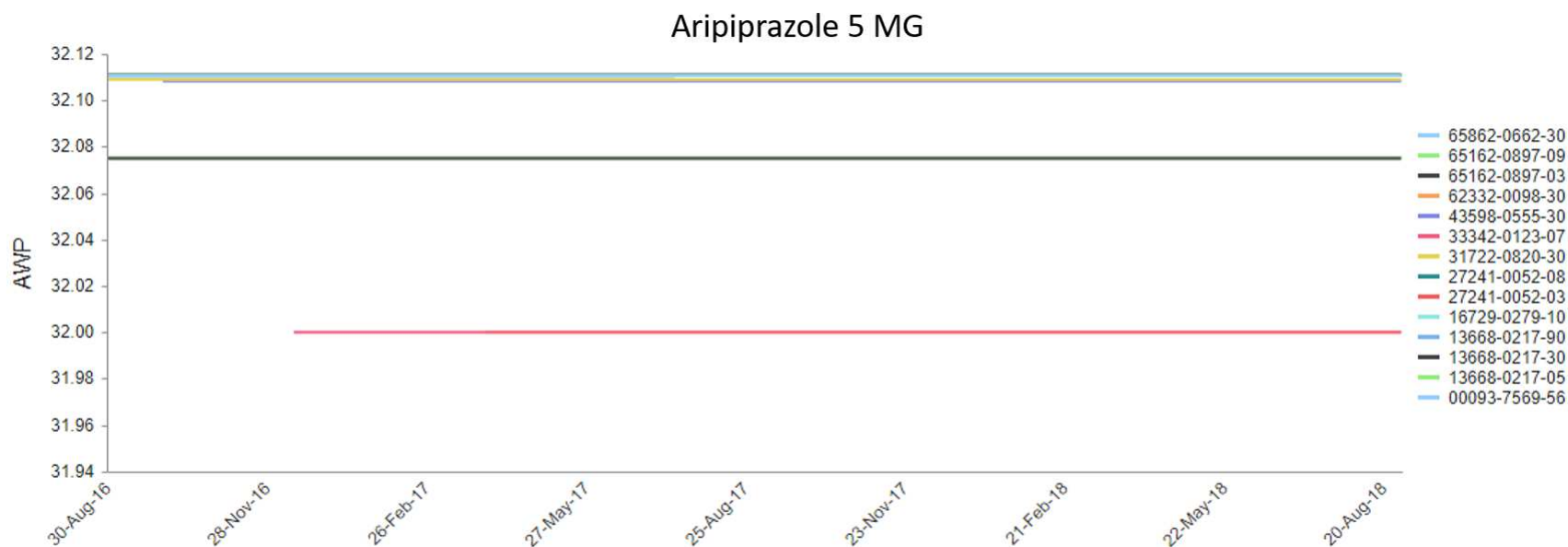
Shifts the balance of power (information = power) to the GBM

- GBM doesn't necessarily have to pay out market rates to the grocer
- **AWPs may not track changes in market price going forward**



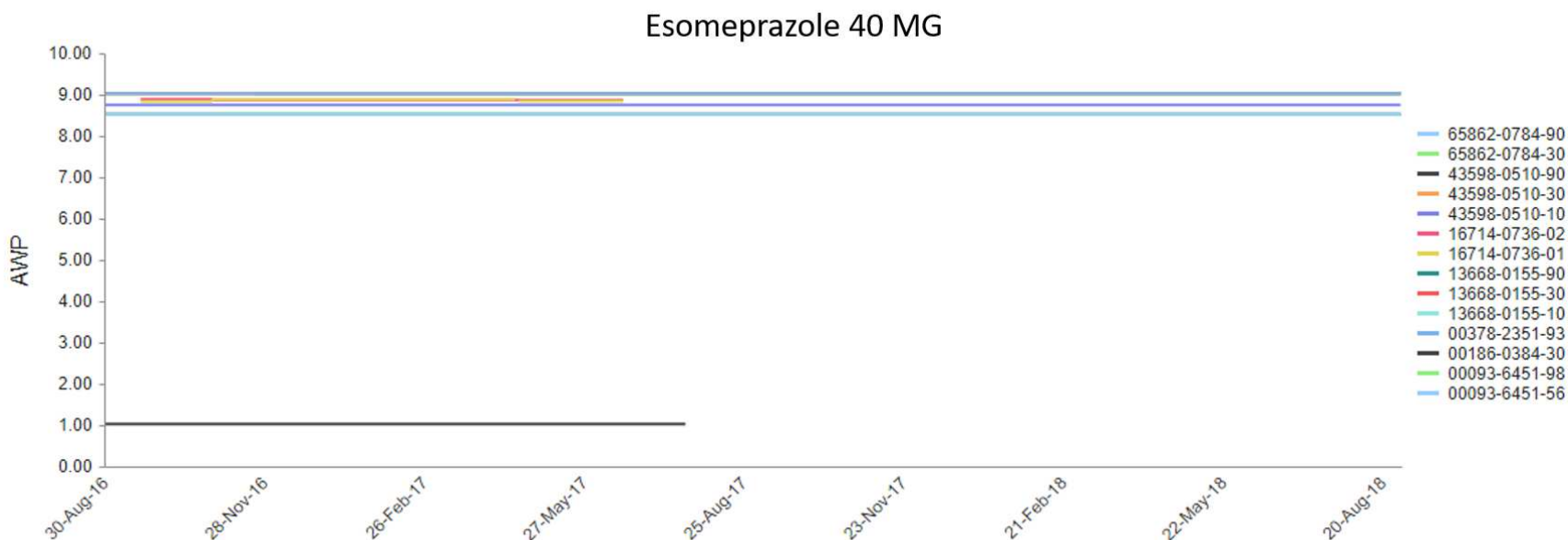
If this is true, the model would make no logical sense

TRUTH #3: AWP DOES NOT TRACK WITH CHANGES IN MARKET PRICE



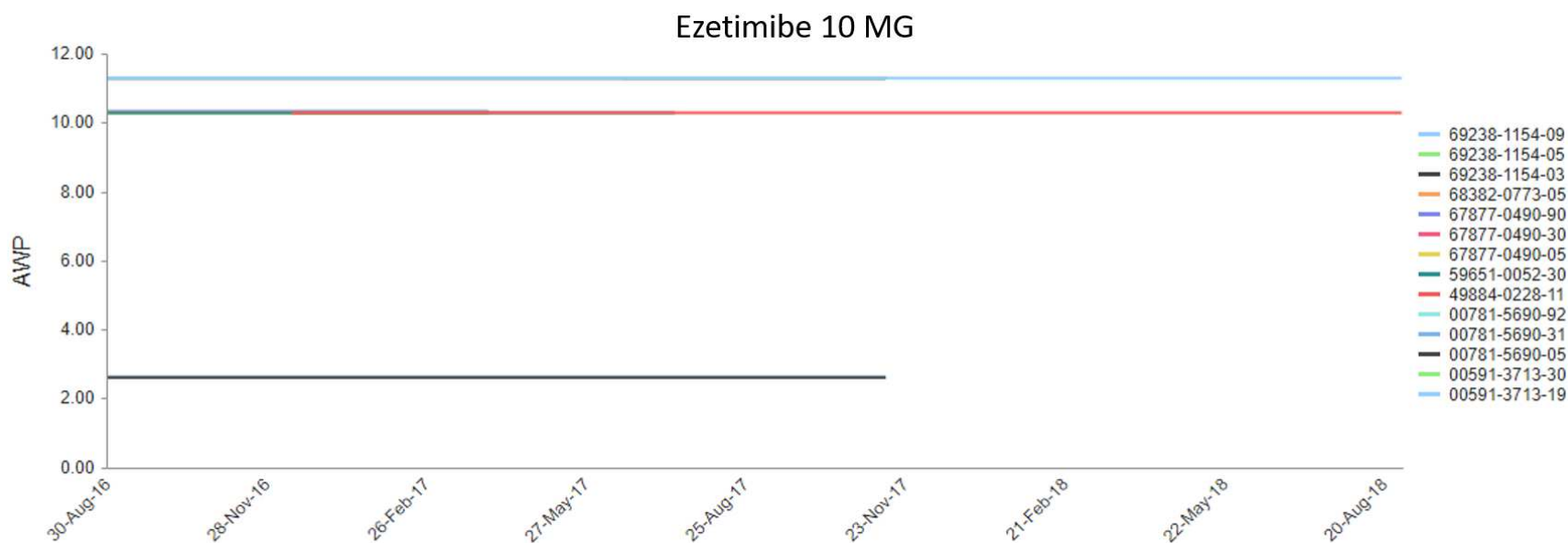
NADAC down **90%** from Aug-16 through Aug-18

TRUTH #3: AWP DOES NOT TRACK WITH CHANGES IN MARKET PRICE



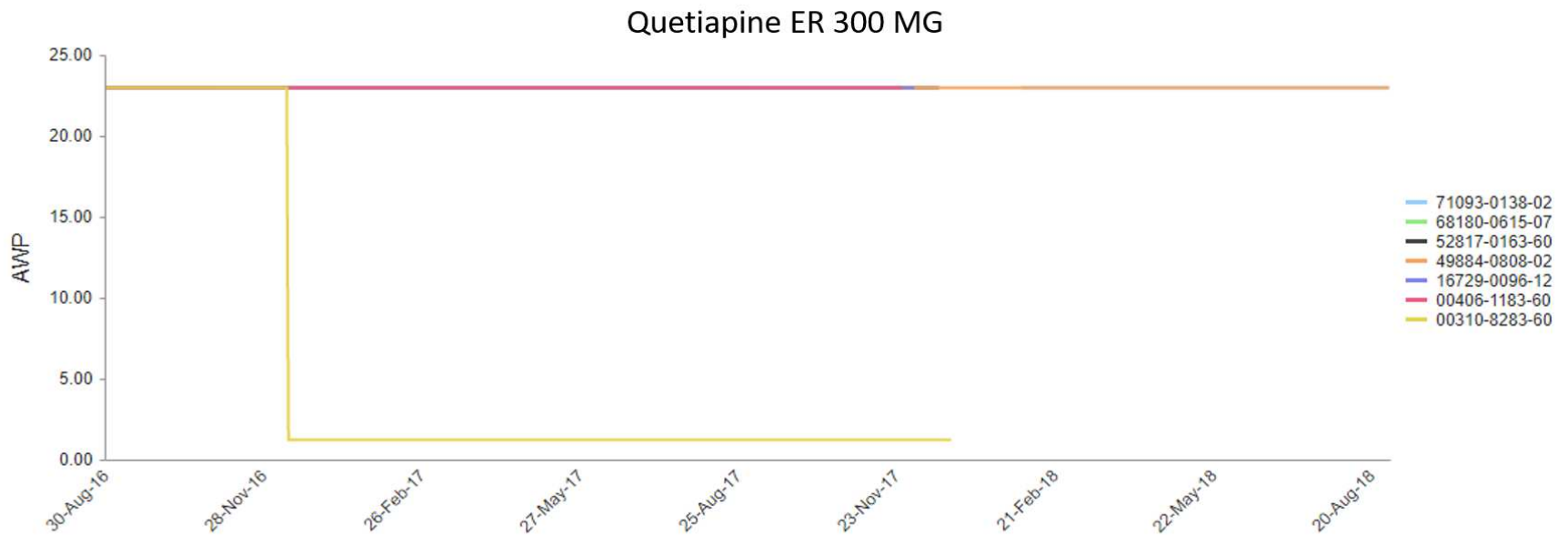
NADAC down **81%** from Aug-16 through Aug-18

TRUTH #3: AWP DOES NOT TRACK WITH CHANGES IN MARKET PRICE



NADAC down **97%** from Apr-17 through Aug-18

TRUTH #3: AWP DOES NOT TRACK WITH CHANGES IN MARKET PRICE



NADAC down **95%** from Apr-17 through Aug-18

APPLYING ALL THREE TRUTHS — ITS BEEN A BUMPER HARVEST! WHERE ARE THE SAVINGS?

Item	Units	Qty	Market Price per Unit	Total (Market)
Bananas	ea.	6	\$0.10	\$0.60
Apples	ea.	4	\$0.50	\$2.00
Cheerios	box	1	\$2.50	\$2.50
Salmon	lb.	1	\$8.99	\$8.99
Pepsi	cans	6	\$0.50	\$3.00
Wine	bottle	1	\$12.00	\$12.00
Ice Cream	pint	1	\$4.50	\$4.50
Almonds	lb	½	\$5.00	\$2.50
Spinach	box	1	\$2.00	\$2.00
Seltzer Water	ea.	6	\$0.35	\$2.10
Overall				\$40.19

17%
savings!

Your Grocer Gets This

\$35.81 in
Spread

You Pay This

NO
Change

SUMMARY AND RECOMMENDATIONS

The root cause of this problem is the three truths

1. Price of drugs are set based on Average Wholesale Price, or AWP
2. AWP has no relationship to market price for drugs
3. AWP does not track with changes in market price over time

When a PBM charges an employer a discount off of AWP and pays a pharmacy based on market price, the difference is “spread”

This complexity is not in the best interest of the employer or patient

- **Employer:** It shifts the information / power to the PBM
- **Patient:** It creates warped incentives and unintended consequences

Several PBM functions (e.g. prior authorization, step therapy, formulary management) are vital when performed in the employer’s best interest

- But is the PBM always executing these functions in the employer’s best interest?
- Employers need the benefits of the important PBM functions, without the smoke and mirrors when it comes to how much they are paying for these services!