PCMA

April 29th, 2025

The Honorable Donna Bailey
The Honorable Kristi Mathieson
Members, Committee on Health Coverage, Insurance and Financial Services
Cross Building, Room 220
100 State House Station
Augusta, ME 04333

RE: LD 1580 An Act to Prohibit Pharmacy Benefit Managers from Imposing Certain Fees and Pricing; Opposed

Chair Bailey, Chair Mathieson and Members of the Committee,

On behalf of the Pharmaceutical Care Management Association (PCMA), we wish to share our opposition to LD 1580. PCMA is the national association representing pharmacy benefit managers (PBMs), which administer prescription drug plans for millions of Americans with health coverage provided through large and small employers, health plans, labor unions, state, and federal employee benefit plans, and government programs.

PBMs exist to make drug coverage more affordable by aggregating the buying power of millions of enrollees through their plan sponsor/payer clients. PBMs help consumers obtain lower prices for prescription drugs through price discounts from retail pharmacies, rebates from pharmaceutical manufacturers and using lower-cost dispensing channels. Though employers, health plans, and public programs are not required to use PBMs, most choose to because PBMs help lower prescription drug coverage costs.

PBM Compensation – Will Increase Health Insurance Premiums by $64 Million Annually

In Maine, a delinking provision will lead to $64 million in cost increases on health care premiums in year one. The concept of delinking itself would ban market-based incentives for PBMs from successfully securing rebates through negotiations with drug companies. This concept seeks to prevent PBMs from being paid from rebates and discounts. Counterintuitively, pharmaceutical companies would reap a $32 billion financial windfall nationwide while increasing health care premiums nationwide by more than $39 billion annually, according to research by University of Chicago Professor of Economics Casey Mulligan and founder and CEO of Matrix Global Advisors Alex Brill.

Despite rhetoric to the contrary, rebates help drive down healthcare costs and are uncorrelated to high list prices set by drug manufacturers. Anthony LoSasso, Professor and Chair of the Department of Economics at DePaul University, emphasized the importance of rebates in a recent congressional hearing: "Rebates are a good thing because they represent price decreases. And price competition is a good thing for consumers."

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Furthermore, research from Dennis W. Carlton, Ph.D., the David McDaniel Keller Professor of Economics Emeritus at the University of Chicago Booth School of Business, concluded that the manufacturer rebates - passed through by PBMs or distributed by PBMs as discounts - are not the driver of increased drug costs. Specifically, the data showed that across the nation, PBMs pass through over 95% of manufacturer rebates and fees.

Additionally, the Carlton report found no basis for the claim that the growth in drug companies' list prices is higher for rebated drugs than non-rebated drugs. Between 2018 and 2022, the average wholesale price (adjusted in real terms for inflation) on rebated branded drugs increased by two percent, while it increased by three percent on non-rebated branded medications during this time.

PBMs remain focused on solutions to increase competition and make prescription drugs more affordable. Unfortunately, delinking would undermine their ability to foster such competition and result in more profits for manufacturers at the expense of patients.

Ban on Spread Pricing – Limiting Plan Options

Another plan design option for employers and plan sponsors is called a pass-through pricing arrangement. Under a pass-through pricing arrangement, the plan sponsor is responsible for the full cost of the drug. Any discounts or rebates negotiated by the PBM are passed on to the health plan. In this pricing arrangement, the PBM collects a fee from the client as reimbursement for the services performed. This approach may involve more variation in cost along with drug price fluctuation due to drug shortages, patent expirations, and other market pressures.

The Pharmaceutical Strategies Group (PSG) released a 2023 Trends in Drug Benefit Design report, which details plan design trends and strategies. The survey results showed that 34% of employers, the majority of which were small employers, choose spread pricing arrangements because they value the stability and predictability that this pricing strategy provides.[1] A ban on spread pricing would remove the option for a plan to design their benefit to best fit the needs of their beneficiaries.

[1] PSG (2023). 2023 Trends in Drug Benefit Design Report. http://rxss.com/wp-conent/updloads/2023/06/PSG_Benefit_Design_Report_2023.pdf

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PCMA appreciates the opportunity to submit comments in opposition to LD 1580. The proposed bill does nothing to lower the cost of a drug set by drug manufacturers. In fact, we believe many of the policies mentioned above will raise costs at the expense of Maine patients. PCMA looks forward to working with members of the committee to address high drug prices while protecting the tools that allow PBMs to keep downward pressure on the high cost of drugs.

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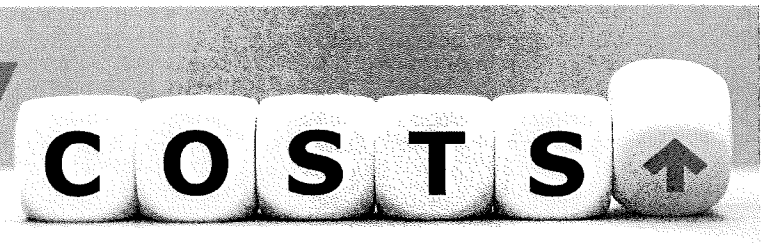
What Would "Delinking" Do to Employers?



Prohibiting employers from selecting specific pharmacy benefit company (PBM) compensation models amounts to government interference in private contracts. Specifically mandating a prescribed contracting structure is broad government overreach that will disrupt the functionality of the market and produce unintended consequences. Recent proposals in Congress would prohibit employers from choosing to compensate PBMs based on a drug's list price or utilization, barring a pay-for-PBM-performance model that has effectively delivered prescription drug savings to employers and plan sponsors for years. **This drastic change in how PBMs work will cost employers, taxpayers, and patients exorbitantly—and will provide a massive financial windfall for drug companies who will be able to discount their products less and pocket more profits.**

"Delinking" would eliminate plan sponsors' choice in how to compensate PBMs for the clinical and administrative services they provide in managing drug benefits—from negotiating with manufacturers and managing pharmacy networks, to formulary management, clinical counseling, and claims adjudication—greatly adding to the administrative cost of plans offering prescription drug benefits. Further, employers would no longer benefit from a pay-for-performance incentive for PBMs to press drug companies to get the lowest cost for drugs, as "delinking" PBM compensation from the drug company-set price would:

- Significantly increase drug prices, reduce drug utilization, and redistribute billions of dollars annually from health plan sponsors and their enrollees to pharmacies and drug companies.
- Reduce the negotiated rebates and discounts PBMs pass along to employers and health plans to lower drug costs for patients and payers, which could lead plans to raise premiums to finance drug benefits.
- Reduce insurance coverage and appropriate drug utilization as costs for patients rise.[1]

Drug rebates are used to lower drug costs.

- When a PBM can capitalize on a competitive drug market and negotiate higher rebates, that results in lower prescription drug costs for patients and plan sponsors.
- The ability to pay a differential for exceptional performance encourages better performance.
- Preventing PBMs from being rewarded for doing a better job runs counter to efforts made to shift the health care system toward paying for value.

"Delinking" would increase costs.[2]

- "Delinking" in the commercial market would give big drug companies up to an additional $22 billion per year.
- "Delinking" in the commercial market would cause an increase in premiums of up to $26.6 billion. This estimate does not include the increased nondrug health costs and the cost of reduced innovation that would likely also occur.

Throughout the U.S. economy, people and businesses are incentivized to perform well through the opportunity to benefit from the effects of their efforts. "Delinking" would work in a manner contrary to established economic principles known to produce better outcomes.

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1 Mulligan. 2023. https://www.nber.org/papers/w31667.

2 Brill. 2023. https://getmga.com/the-economics-of-delinking-pbm-compensation/.

ABOUT PCMA

PCMA is the national association representing America's pharmacy benefit companies. Pharmacy benefit companies are working every day to secure savings, enable better health outcomes, and support access to quality prescription drug coverage for more than 275 million patients. Learn more at www.pcmanet.org.

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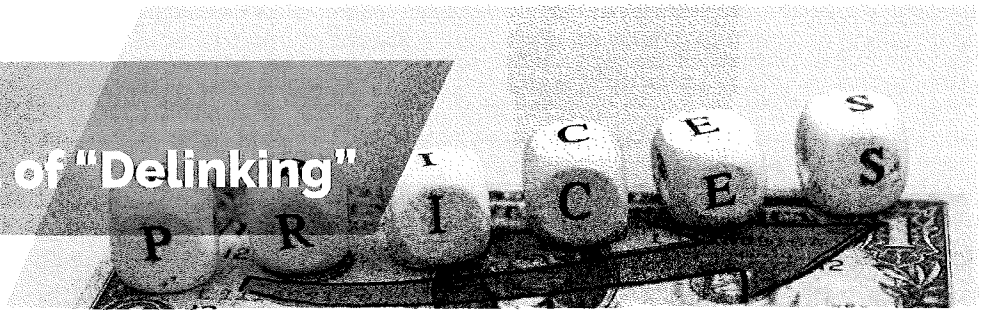
The Economic Impact of "Delinking"



Recent proposals in Congress recommend prohibiting pharmacy benefit companies (PBMs) from being compensated based on a drug's price or utilization ("delinking"), which would end the pay-for-PBM-performance model that has effectively delivered savings to employers and plan sponsors for years. Throughout the U.S. economy, people and businesses are incentivized to perform well through the opportunity to benefit from the effects of their labor. Delinking would work in a manner contrary to established economic principles known to produce better outcomes. **This drastic change in how PBMs extract discounts would cost employers, taxpayers, and patients exorbitantly—and would provide a massive financial windfall for drug companies that are able to avoid discounting their products, keeping what otherwise would be rebates as profit.**

Paying for Value

- Manufacturer rebates are used to lower drug costs. When a PBM can capitalize on a competitive drug market and negotiate higher rebates, patients and plan sponsors pay less for drugs. The ability to pay more when performance is exceptional encourages better performance. Preventing PBMs from being rewarded for doing a better job runs counter to efforts made to shift the health care system toward paying for value.
- Recent research indicates that "The advantage of pay for performance is one of the most cited conclusions in economics, where it is frequently noted that 'incentives matter.'"[1]
- Delinking would shift incentives away from driving down drug costs—the PBM's stated mission. Congress should be wary of this policy as it "has the potential to significantly (i) increase drug prices, (ii) reduce drug utilization, and (iii) redistribute billions of dollars annually from patients and taxpayers to pharmacy companies and drug manufacturers."[2]
- "Delinking" provisions would not save patients or taxpayers any money. Instead, they would increase profits for pharmaceutical manufacturers, while adding significant costs and administrative burdens.[3]

Part D Impact[4]

- "Delinking" would result in a financial windfall for big drug companies, with up to an additional $10 billion every year for them.
- "Delinking" would cost patients and payers up to $18 billion.
- "Delinking" would lead to taxpayers paying more for Medicare, higher premiums for seniors in Medicare Part D, and reduced PBM competition.

Commercial Market Impact[5]

- "Delinking" in the commercial market would give big drug companies up to an additional $22 billion per year.
- "Delinking" would increase premiums in the commercial market by up to $26.6 billion.
- "Delinking" would also result in increased nondrug health costs and reduced innovation.
- "Delinking" PBM compensation in the commercial market would be even costlier to health plan sponsors and patients than implementing the proposal in Part D.

"Delinking" would result in higher costs, not health care savings.

1 Mulligan, 2023. https://www.nber.org/papers/w31667.
2 Ibid.
3 Ibid.
4 Ibid.
5 Brill, 2023. https://getmga.com/the-economics-of-delinking-pbm-compensation/.

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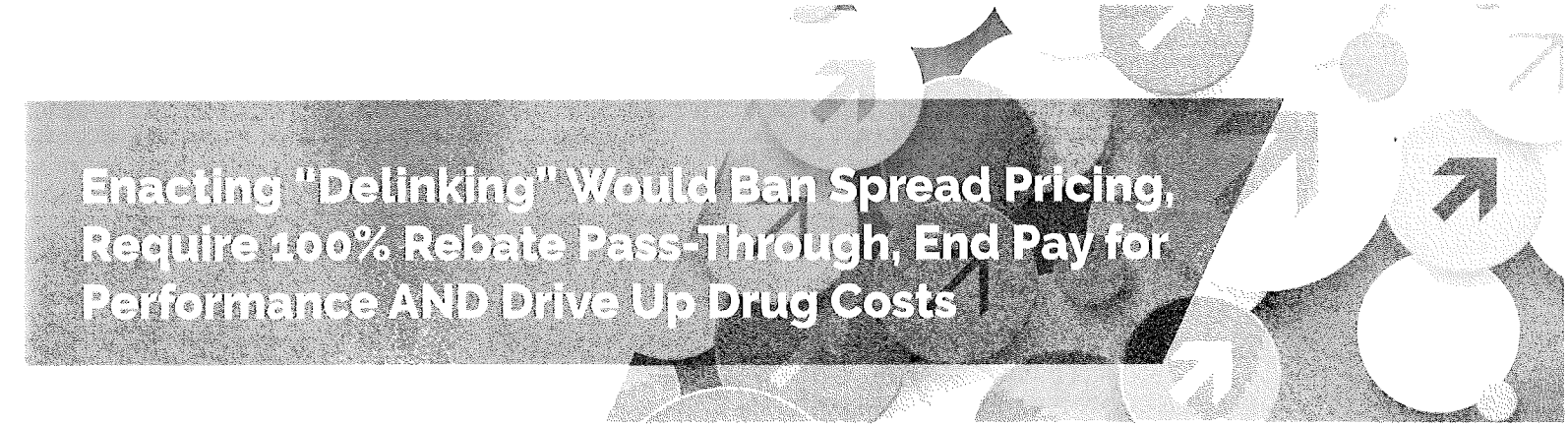

Enacting "Delinking" Would Ban Spread Pricing, Require 100% Rebate Pass-Through, End Pay for Performance AND Drive Up Drug Costs

Drug companies are advocating "delinking" PBM compensation from the drug's list price, any pricing standard (such as average wholesale price (AWP) or average manufacturer price (AMP)), the volume of drugs dispensed, and sometimes from the premium costs or number of plan enrollees. Under "delinking," PBMs could only charge health plan sponsors—employers, health insurers, unions, Medicare Part D plans—a flat fee.

» **"Delinking" would ban spread pricing arrangements.** Under spread pricing, a PBM charges the health plan the same regardless of which pharmacy an enrollee uses. If the pharmacy charges more than the PBM charges the plan, the PBM loses money. If the pharmacy charges less than the PBM charges the plan, the PBM makes a margin. Many employers, particularly small employers, prefer spread pricing for its predictability, as the PBM holds the risk that enrollees will choose costlier pharmacies. Because spread pricing is based on the price of the drug, it would be banned under "delinking."

» **"Delinking" would require 100 percent rebate pass-through.** Currently, many health plans compensate their PBMs by contracting for the PBM to retain a small portion of the rebates (discounts) it negotiates with drug companies. This gives the PBM an incentive to negotiate as hard as possible to get the greatest discount for the client. Under "delinking," keeping any amount of rebate would be banned and forces clients to chose "pass-through" models. PBMs could not be rewarded for getting the extra deep discounts (because that would be basing compensation on the drug's price).

» **"Delinking" would disincentivize value-based contracting.** PBMs are compensated based on the value they provide employers and health plans by lowering drug costs. Flat-fee arrangements would prevent PBMs from being rewarded for doing a better job, which runs counter to the current shift in the health care system toward value.

» **"Delinking" would also make it harder to manage very expensive specialty drugs, where a PBM ordinarily would try to contract not to pay for the drug if it did not work.** Without reassurance that it would be compensated for undertaking these negotiations with drug companies, PBMs would likely abandon them. Drug companies would also not be responsible for evaluating the effectiveness of their drugs once released to the general population.

» **"Delinking" that also included bans on compensation based on premium or number of prescriptions or enrollees would leave PBMs with little method of compensation.** If PBMs could not be paid for managing prescription drugs benefits based on the volume of enrollees or prescriptions managed—in other words, the amount of work they are doing—**It would add tens of billions of dollars to drug company profits.**

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