NACDS NATIONAL ASSOCIATION OF CHAIN DRUG STORES

Prescription Drug Pricing

Background — Along the prescription drug supply chain, retail community pharmacies are closest to the patient. In a January 2018 survey of registered voters conducted by *Morning Consult* and commissioned by NACDS, eight-in-ten respondents said that pharmacists are credible sources of information about how to save money on prescription drugs – the highest rating of healthcare professionals tested. NACDS shares the goal of reducing the cost of prescription drugs and believes retail community pharmacies are ideally situated to help through services designed to improve medication adherence and the promotion of generic drugs as safe, cost-effective alternatives. In many cases, pharmacists are not directly paid for the services they provide – these services are included in the "cost of dispensing."

The following facts should be considered in dissecting the cost of a prescription drug:

- About 80 percent of the average retail prescription price represents the pharmacy's costs of purchasing the product from the manufacturer and the wholesaler.
- About 20 percent of the average retail prescription price represents the pharmacy's gross margin on the prescription.
- More than 14 percent of that gross margin is consumed by pharmacy operational costs, including salaries, rent, utilities, the costs of maintaining and transferring inventory, and computer systems infrastructure.
- One to two percent of the pharmacy's gross margin goes to pay state and federal taxes.
- After all expenses, the remaining net pharmacy profit on the average retail prescription price is about 2 percent.

Retail pharmacies cannot control the purchase price and have little to no control over the price at which prescriptions are sold. Manufacturers determine the product cost, and third-party payers (Medicare, Medicaid, TRICARE, etc.) or pharmacy benefit management companies (PBMs) set the reimbursement to the pharmacy and the price to the patient.

To keep prescription drug prices to a minimum, NACDS recommends beneficial policies, such as:

- **Generic Utilization:** Increasing the use of generic drugs is one of the most effective ways to reduce prescription costs**.** For every one percent increase in generic utilization, the Medicaid program could save $558 million. For example, if all other states could match the generic utilization rate of Hawaii (82.7%), the Medicaid program could save $6.56 billion annually. Community pharmacies have a higher generic dispensing rate – 71% – than any other practice setting. CMS and FDA should adopt more policies that encourage the use of lower cost generic medications.

- **Biosimilars:** Without robust generic competition, brand biological products could cost the United States healthcare system $120 billion by 2024 according to projections from Express Scripts. This is something to be mindful of as the biosimilar market develops. A 2014 report published by the Rand Corporation found that biosimilars will lead to a $44.2 billion reduction in direct spending on biologic drugs over the next ten years. CMS and FDA should look at policies that encourage the use

of lower cost biosimilar medications, such as adopting naming policies for biosimilar drugs and biologics that are consistent with the naming conventions for brand and generic small molecule drugs. Special naming policies for biosimilar drugs (and other biological drugs) that deviate from the traditional naming scheme can undermine prescriber and patient confidence in biosimilar products, thereby impacting the rate of use and jeopardizing the savings.

- **Reform Medicare Part D (DIR) Fees:** Reforming the treatment of pharmacy direct and indirect remuneration (DIR) fees used by Part D plans would be beneficial to the program as a whole and would help lead to a better understanding of their use and impact on the program, both in terms of cost and access. Such reforms could lower out-of-pockets costs for beneficiaries, lead to greater transparency in the use of fees and make medicine more accessible, leading to greater adherence and better health outcomes.

- **Improved Medication Adherence and MTM:** Poor medication adherence costs the U.S. healthcare system $290 billion annually. Pharmacist-provided services such as medication therapy management (MTM) are important tools in the effort to improve medication adherence, patient health, and affordability. Greater utilization of pharmacists in the CMS Innovation Center's Enhanced MTM Model Pilot would maximize medication adherence, leading to improved health and lower costs.

- **FDA Risk Evaluation and Mitigation Strategy (REMS):** An analysis by Matrix Global Advisors found that manufacturers' utilization of REMS loopholes to prevent generic competition costs the health care system $5.4 billion annually, including $1.8 billion to the federal government. Also, it could result in approximately $140 million in lost savings for every $1 billion in biologics sales. NACDS supports federal legislation to close existing loopholes to boost generic medication access and lower costs. However, we have not been able to support current legislation in the 115th Congress because of provisions unrelated to closing loopholes that would allow brand and generic manufacturers to have separate REMS for the same molecule, thus imposing unnecessary burdens on pharmacies that would have to comply with multiple different REMS for brand and generic versions of the same medications.