

# The Role of Health Plans in the Prescription Drug Supply Chain

Montana Economic Affairs Interim Committee

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## About AHIP

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AHIP is the national trade association representing the health insurance industry. AHIP's members provide health care coverage, services and solutions to more than 200 million Americans. We are committed to market-based solutions and public-private partnerships that make high-quality coverage and care more affordable, accessible and equitable for everyone.

Visit [AHIP.org](https://www.ahip.org) to learn how working together, we are Guiding Greater Health.

## Drug Maker



**Sets List Price**



Drug Makers negotiate with PSAOs to distribute their drugs to Pharmacies

## PSAO/Wholesaler



PSAOs sell & distribute drugs to their Pharmacy clients

## Pharmacy



# The Drug Supply Chain



PBMs negotiate discounts with Drug Makers  
Drug Maker effectuates negotiated prices with PBM, typically through a rebate

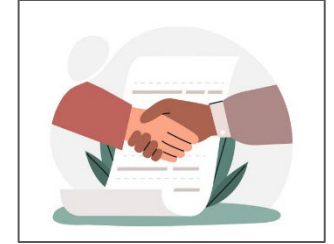


PSAOs Negotiate Drug Reimbursement on behalf of their Pharmacy clients with PBMs  
PBMs pay pharmacy for drugs dispensed



Pharmacy sells drugs to Patient for cost sharing (copay, etc.)

## PBM



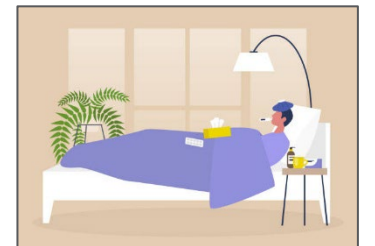
PBMs negotiate discounts on behalf of Health Plan or Large Employer clients

## Health Insurer



Health Insurance Plans cover our Enrollees' drug costs

## Patient





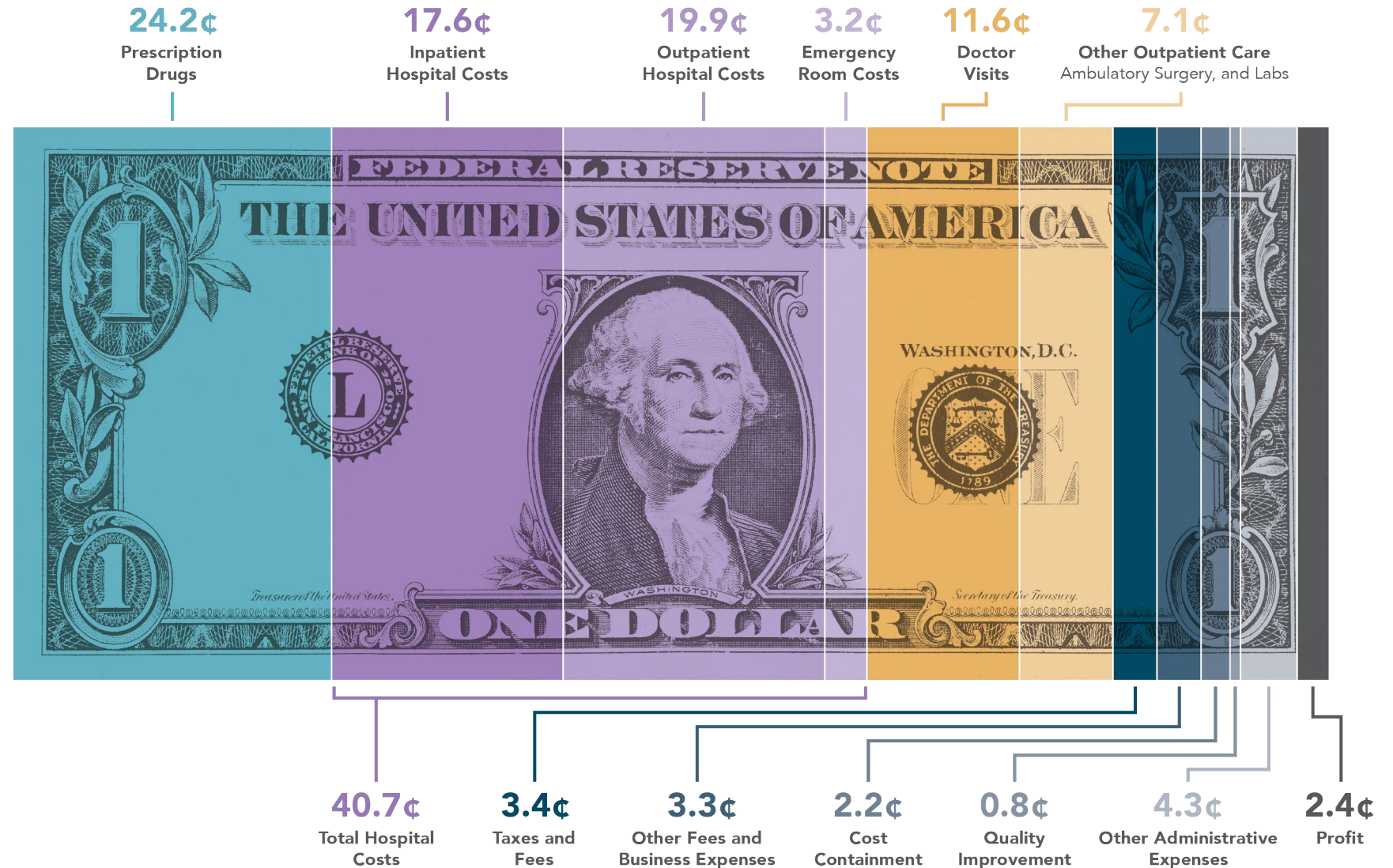
# Where Does Your Health Care Dollar Go?

Your premium is how much you pay for your health insurance coverage each month. It helps cover the costs of the medications and care you receive and improves health care affordability, access and quality for everyone. **Here is where your health care dollar really goes.**

This data represents how your commercial health plan premiums pay for medical care, as well as related services and essential operations. This data includes employer-provided coverage as well as coverage you purchase on your own in the individual market. Data reflects averages for the 2020-22 benefit years. Totals may not add up to 100% due to rounding.

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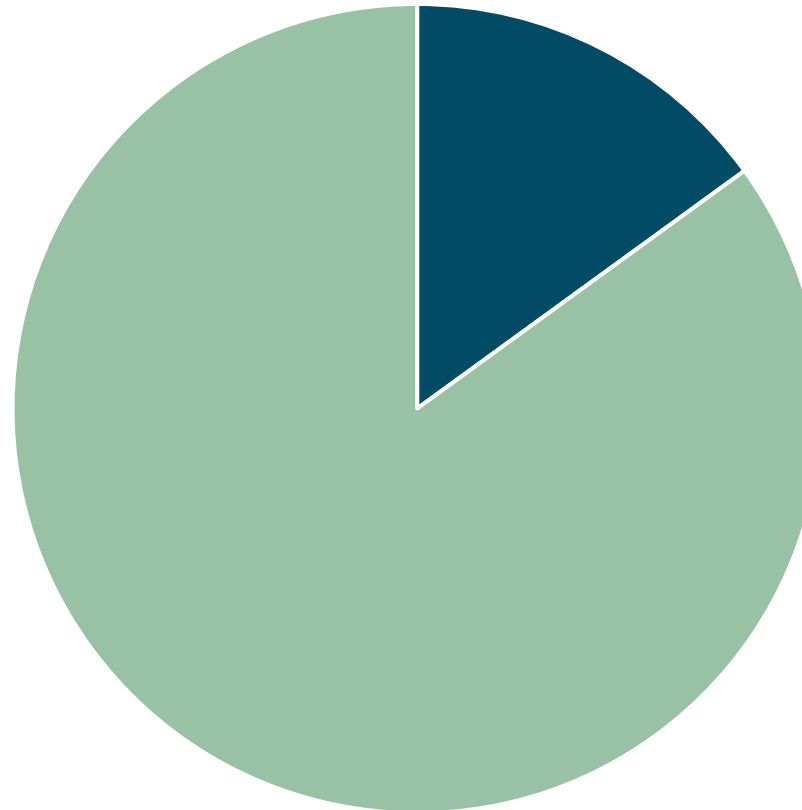
# Medical Loss Ratio (MLR)

## Administrative Costs

- Customer service lines
- Websites & online consumer tools
- Provider engagement
- Pharmacy benefits management
- Fraud & abuse prevention
- Accreditation costs & compliance with state laws
- Agent & broker commissions
- Operating costs (staff salaries, facilities, IT)
- Marketing and enrollment
- Claims administration

## Medical Costs

- Doctor's visits
- Other health care provider visits (i.e. physical therapy)
- Hospital stays
- Prescription drug costs (net rebates)
- Medicaid equipment and supplies
- Quality Improvement activities

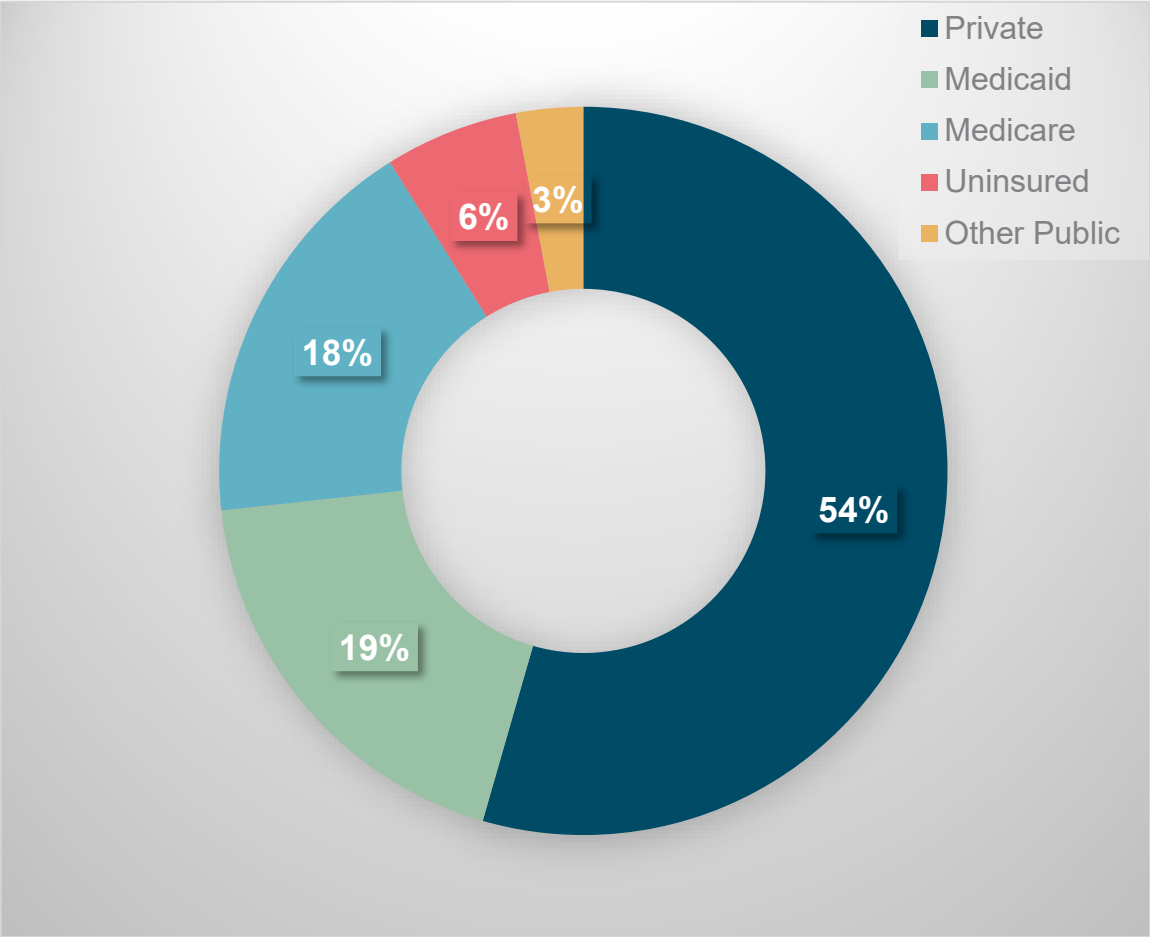


■ Large Group Admin Costs (15%) ■ Medical Costs (85%)

Small Group & Individual MLR is 80:20

**If MLR is not met,  
health plans must  
provide rebates to  
policyholders**

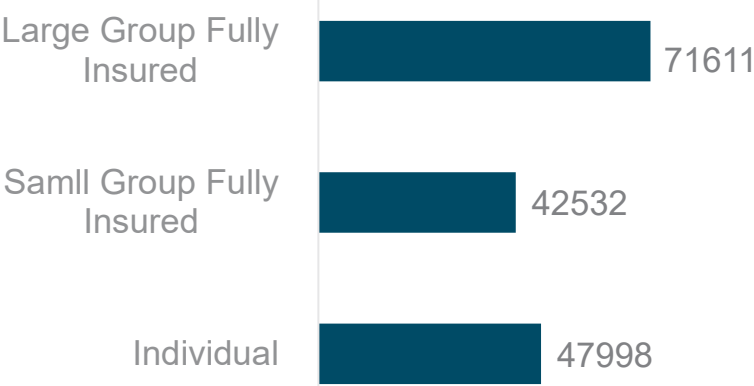
# Health Insurance Coverage of Montana Residents



## Individuals Covered by Federally Regulated Insurance Plans



## Individuals Covered by State Regulated Insurance Plans



Source: Data compiled by America's Health Insurance Plans (AHIP), Center for Policy and Research, [April 2023](#).

# Montana Has a Role in Lowering Drug Costs

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## Overall Cost to the Health Care System

- Any policy proposal must consider both the individual consumer perspective AND the overall cost to the health care system.

## Avoid Barriers to Accessing Cheaper Drugs

- Ensure that substitution laws do not create barriers to accessing more affordable drugs, such as biosimilars.

## Support Transparency Across the Supply Chain

- Advance notification of drug cost increases and launch prices.
- Ensure drug representatives include prices when marketing to physicians.
- Increase scrutiny of existing patient assistance programs.

## Prevent Harmful Markups

- Protect the use of specialty pharmacies to prevent harmful markups and increased costs for patients.

## Additional AHIP Solutions



## AHIP released a study that analyzed the cost of 10 physician-administered drugs.

- The study reviewed average markup amounts for a single treatment for drugs administered in hospitals and physician offices over pharmacies (2019 - 2021)

## AHIP's findings confirm similar studies by other well-respected publications:

- [JAMA Internal Medicine](#) (2021): The median negotiated prices for the 10 drugs studied ranged from 169% to 344% of the Medicare payment limit.
- [Bernstein](#) (2021): Some hospitals mark up prices on more than two dozen medicines by an average of 250%.
- [The Moran Company](#) (2018): Most hospitals charge patients and insurers more than double their acquisition cost for medicine. The majority of hospitals markup medicines between 200-400%.

## Average Markup for a Single Drug Treatment is \$8,200

Drug	Indication	Physician Office Markup	Hospital Markup
Darzalex	Cancer	\$2,498	\$10,023
Keytruda	Cancer	\$2,309	\$10,582
Lucentis	Diabetic Retinopathy	\$394	\$1,520
Ocrevus	Multiple Sclerosis	\$4,937	\$22,078
Opdivo	Cancer	\$1,072	\$7,802
Orencia	Rheumatoid Arthritis	\$1,013	\$3,193
Prolia	Osteoporosis	\$651	\$2,795
Remicade	Crohn's Disease & Psoriasis	\$277	\$5,496
Rituxan	Rheumatoid Arthritis	\$579	\$8,030
Tecentriq	Cancer	\$1,860	\$11,258
Average		\$1,559	\$8,278

Source: Data compiled by America's Health Insurance Plans (AHIP), Center for Policy and Research, [April 2023](#)



# Thank you!

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