BLOG | CONSUMER TIPS / HEALTH | ISSUES

New report on Oregon pharmacy reimbursement abuses reaffirms need for industry reforms

By Nate Scherer December 1, 2022

A recent report out of Oregon found “significant disparities in reimbursement” between retail pharmacies in the study and all other pharmacy providers, as reported to the Oregon Medicaid program.

This month, the Oregon State Pharmacy Association (OSPA), in conjunction with 3 Axis Advisors, released a new report called Understanding Pharmacy Reimbursement Trends in Oregon. The 155-page report describes how Oregon Pharmacy Benefit Managers (PBMs) have routinely abused their power as the middleman of the health insurance industry to over-inflate prescription drug prices at the expense of local pharmacies, taxpayers and patients.

The report analyzes reimbursement data between payers and retail pharmacies for the years 2019 through 2021 to discover whether "differential pricing" in payment or "spread pricing" are common among Oregon Medicaid retail pharmacy networks. The presence of either explains why so many small pharmacies have struggled to stay in business due to inadequate reimbursement from PBMs.

For instance, the report found that retail pharmacies have up to 24 percent lower gross margins. In addition, for every 100 prescriptions filled at a typical Oregon retail pharmacy, the majority of state reimbursement claims (75 out of 100) provide insufficient compensation, meaning the amount of reimbursement is not enough to cover basic pharmacy expenses such as labor and drug costs. Only two out of every 100 pharmacy state Medicaid claims receive any significant type of reimbursement – defined as revenues that exceeds costs. These findings indicate that PBMs are leveraging their monopoly on concealed information to set prices and push unsavory business practices.

Another noticeable finding from the report is that retail pharmacies tend to profit more in high-income areas than low-income areas. Oregon pharmacies have a strong incentive to serve wealthier communities at the expense of poorer communities due to a better return on investment. The result is unequal access to care and higher out out-of-pocket costs for those patients residing in poor communities lucky enough to still have a pharmacy. Not only do PBMs' current business practices disincentivize equality, they actively promote inequality by forcing pharmacies to set higher prices elsewhere.

In one particularly egregious example, PBMs marked up the price of a popular Multiple Sclerosis drug called *Dimethyl Fumarate* by 800 percent. While the average list price of the drug is only $350, the average price PBMs charged Oregon Medicaid was $2,928. In

total, the state of Oregon paid $1,920,889 more for the drug than it was worth. Other examples are similarly questionable.

These findings are in line with other academic research on the matter. For instance, a paper published in May by the University of Southern California found that PBMs routinely use "arcane pricing practices" such as copay clawbacks, spread pricing and profit-oriented formulary designs to pad their earnings. The result is that consumers, employers and the government alike overpay for drugs. Some research suggests that purchasers may overpay for drugs by as much as 13 to 20 percent. This overpayment comes in spite of the fact that cheap generics represent the overwhelming majority of drugs that are dispensed each year in the United States. Unfortunately, any cost savings generated from these low prices are being funneled into the pockets of PBMs.

Overall, the report provides another worrying account of how PBMs abuse their unique position as a third-party administrator to inflate drug prices at the expense of taxpayers and consumers who must spend an ever greater share of their income on basic health care. According to a 2021 survey of Oregonians, 55 percent of residents already report having problems acquiring access to the care they need due to existing financial barriers. PBMs are only making this problem worse. As a result, state residents are increasingly making the difficult decision to cut medications in half, skip dosages or, in some cases, even decline prescription refills. These conditions are unacceptable and demonstrate the need for industry reforms.

Just a few changes would go a long way toward improving access and affordability.

First, lawmakers should require greater transparency from PBMs. This could entail allowing regulators and other outside observers to see where the money goes in PBM transactions. In addition, lawmakers could require "formulary tier placement of generics" so that consumers know the true cost of medications. This opportunity would empower consumers to choose the cheaper medication, thereby saving the health care system substantial money.

Second, lawmakers should establish policies that improve the PBM consumer market. For example, "audit rights" could be provided to employers and the government allowing them to determine the true price of drugs that PBMs and insurers

pay to pharmacies. This system would create an additional check on PBM business practices that encourage better behavior and the sharing of cost savings with consumers.

Countless other reforms can and should be made to begin reining in the anticompetitive behavior of PBMs in states like Oregon. The key is for lawmakers to implement at least a few reforms so that consumers can begin to see some financial relief. In time, a more equitable health care industry will develop that will not only expand access, but also reduce the steep price of prescription drugs that millions of Americans are currently forced to pay.

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