

**Healthcare Distribution Alliance (HDA)
Testimony for Maryland Senate Finance Committee
Prescription Drug Affordability Board & Fund
HB1095
March 5, 2020**

Dear Chairwoman Pendergrass, Vice Chair Pena-Melnyk and honorable members of the Health and Government Operations Committee,

Introduction:

Thank you for the opportunity to provide comments at today's hearing. My name is Matt DiLoreto and I am the Vice President of State Government Affairs at the Healthcare Distribution Alliance (HDA). HDA is the national trade organization representing primary pharmaceutical wholesale distributors — the vital, logistics focused link between the nation's pharmaceutical manufacturers and more than 200,000 dispensing locations nationwide. HDA's members include 36 national, regional and specialty primary distribution companies who are distributors, technology innovators, information management experts and security specialists focused on improving efficiency involving getting medications and medical supplies to dispensing locations.

Background:

I offer this testimony today to explain the unique role of wholesale distributors and request that this role be taken into consideration as HB1095 continues through the legislative, and ultimately implementation process. HDA feels that our members limited impact on the cost of medications be taken into consideration as the finer details of this legislation are formalized.

Every day HDA members work around the clock to safely and efficiently ship 15 million healthcare products (medicines, medical supplies, durable medical equipment, et al.) to pharmacies, hospitals and other dispensing locations. Distributors are unlike any other supply chain participants — their core business is not manufacturing, and they do not prescribe medicines or dispense medications to patients. Wholesale distributors do not set the list price (WAC) of pharmaceutical products and they do not influence a patient's benefit design including out of pocket costs. Their key role is to serve as a conduit for medicines to safely and securely travel from manufacturer to dispensing location as efficiently as possible.

Without pharmaceutical distributors, pharmacies and providers would have to carry weeks of inventory and undertake the time-consuming process of placing individual orders with each manufacturer for products needed by the healthcare provider on a daily basis. This would be essentially an impossible task for most dispensing locations as there are thousands of manufacturers serving the marketplace. By working with primary wholesale distributors, providers can maintain a one-stop-shop, just-in-time inventories ultimately saving pharmacies and hospitals the expense and staff necessary to carry extensive inventories or have large storage facilities. Because distributors provide this logistical, inventory and other service support which manufacturers and pharmacies would otherwise have to perform themselves, the pharmaceutical supply chain is more efficient, reliable and secure, and dispensers are able to get the medicines they need in a timely fashion, saving our healthcare system approximately \$33 billion each year.¹

Role in Drug Pricing:

For purposes of the hearing today it's important that members of the committee understand the role wholesalers play specifically regarding the pricing of pharmaceuticals. The primary pharmaceutical distribution industry is a very high-

¹ The role of distributors in the US health care industry (2019) <https://www2.deloitte.com/us/en/pages/life-sciences-and-health-care/articles/the-role-of-distributors-in-the-us-health-care-industry.html>

volume, yet very low-profit margin industry – like most wholesale industries. In fact, overall industry profitability for the primary distribution sector shows little notable change over the past several years, even during recent market volatility. Wholesalers have consistently reported operating profit margins just over 1 percent for multiple years (1.3 percent in 2019).²

Traditional pharmaceutical wholesale distributors purchase pharmaceuticals from manufacturers based on the Wholesale Acquisition Cost (“WAC”), a publicly available figure reported for each pharmaceutical product by the manufacturer to various compendia such as Medi-Span and RedBook, which publish such prices. WAC represents the manufacturer’s list price. Manufacturers set the WAC price for their products. Wholesale distributors are not privy to how such WAC pricing decisions are made. Wholesale distributors typically purchase pharmaceuticals from manufacturers based on WAC and they also charge those manufacturers distribution fees related to their services, as previously discussed.

Wholesalers then typically sell branded drugs to downstream customers based on the WACs established solely by pharmaceutical manufacturers. Wholesalers may purchase generic drugs at a manufacturer’s list price but often they are able to use their market power, and bulk purchasing to negotiate discounted prices on generic drugs with pharmaceutical manufacturers. This model results in benefits for the entire supply chain and the patients it serves. Their market power allows wholesalers to offer discounted pricing on generic drugs to downstream customers in certain instances. In 2019, nine out of every ten prescriptions in the U.S. were dispensed using generic medicines. However, generics account for only 22% of prescription drug spending.³ Wholesalers are uniquely positioned to continue negotiating discount arrangements on generic drugs with pharmaceutical manufacturers further lowering the cost of generic drugs to downstream customers. This, and other non-medication related services wholesalers may provide to pharmacies, result in some medications being sold at a lower than list price cost to dispensing locations.

As for the patients out of pocket costs, wholesale distributors are simply not a part of any negotiations on the “pay side” of the supply chain, rather this is the role of health insurers and pharmacy benefit managers (PBMs). Wholesale distributors simply purchase medical products in bulk and sell to hundreds of thousands of points of care across the country and do not have data on a per pill or per dose basis. Put simply, wholesalers do not interact with the patient end of the supply chain.

Conclusion

Traditional pharmaceutical wholesale distributors’ goal in the pharmaceutical supply chain is a simple one: add efficiency, security and timely delivery of products so providers can concentrate on patient care and ensure their patients have regular access to the medications they need. Historically, HDA distributor members have effectively achieved this goal and have had a positive effect on the supply chain and patients while actually reducing costs for the pharmaceutical supply chain. HDA respectfully requests that due to their very limited impact on medications costs, and virtually no impact on patient costs, that any future specifics surrounding distribution of funding responsibility take such role into consideration.

If you have any questions or would like to discuss these issues further, please contact Matt DiLoreto at (703-885-0236 or mdiloreto@hda.org).

² Data obtained from Annual HDMA/HDA Factbook, compiled and compared across multiple years.

³ Tracking Who Makes Money on Brand-Name Drug, Kaiser Health News, October 2016. <https://khn.org/news/little-known-middlemen-save-money-on-medicines-but-maybe-not-for-you/>