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Testimony

HB 1150 – State Health and Welfare Benefits Program - Maryland Competitive Pharmacy Benefits Manager Marketplace Act Health & Government Operations February 27, 2020 Support

AFSCME Council 3 supports HB 1150. This legislation would alter the process used by the state to purchase prescription drugs for state beneficiaries, instituting a “reverse auction” process whereby pharmacy benefit managers (PBMs) would compete on price to win the state’s contract to be the pharmacy benefit provider.

The prescription drug supply system is an opaque, complex tangle of multiple players with highly technical and obscure contract agreements, rebates, favored placement on formularies and incentives that ultimately come to bear on consumers. Manufacturers, wholesalers, pharmacy benefit managers, retailers and insurers all play roles in the supply chain, all grabbing a piece of the drug pricing pie.

PBMs are the middlemen, serving as the administrators of prescription drug coverage for large purchasers. After years of practice, PBMs are experts at charging fees and negotiating rebates that at times benefit their bottom line more than their clients. Because their process is so opaque and complex, clients of PBMs often do not recognize those complexities and therefore do not realize all the potential savings that could be had.

Enter the process of “reverse auctions.” Instead of having PBMs submit bids in response to a Request For Proposal (RFP), this process would instead use de-identified claims data to help create an ideal template for the purchaser – in this case, the state – to share with prospective PBM bidders with the question “How much would you charge us to deliver on this?” PBMs then bid against their competitors, *lowering* their cost proposals until a contractual agreement is reached between the state and the winning PBM.

New Jersey first employed this for prescription drug purchases for their state beneficiaries in 2017 (reverse auctions have been used for construction, supply and power purchases for years), and when the bidding was done, they anticipated saving \$1.6 billion over the next three years.

While this is not a silver bullet for drug cost savings, HB1150 is an important strategic component for the state to achieve true prescriptions drug cost savings while maintaining quality of benefits.

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