

Mandated Reimbursement Reduces Competition And Raises Costs for Patients and Payers

Private Market Interference Will Raise Costs

- State-mandated contract terms on private market agreements would impede the health plans' and employers' ability to dictate favorable terms through bid and contract negotiations.
- State legislation that mandates reimbursement for pharmacies effectively function as "guaranteed profits". No matter how much a pharmacy spends to acquire a drug, they are guaranteed they will be repaid at least that amount, and likely more.
- Invoiced prices **may not** reflect actual drug acquisition costs because of rebates and discounts – further inflating the guaranteed profits.

Inefficient Cost-Based Procurement Is a Bad Deal For Consumers

- The inflationary consequences of similar cost-based reimbursement systems are well known. For many years, the federal government relied heavily on cost-based procurement for defense contracts, only to discover that this approach resulted in large cost over-runs, because defense contractors knew their costs would be reimbursed, however much they were.
- In the pharmaceutical setting, cost-based reimbursement legislation, similar to government cost based-based procurement systems, is likely to have a number of specific undesirable consequences, including:
 - Increased spending on prescription drugs and costs to employers and other plan sponsors providing pharmacy benefits;
 - Reduced market competition at the wholesaler and manufacturer level;
 - Increased use of off-invoice discounting, thereby decreasing transparency of pharmaceutical pricing and reducing pricing competition;
 - Guaranteed profits for pharmacies, irrespective of their actual efficiency or ability to deliver value-based care; and
 - Reduced patient welfare.

When the Government Picks Winners & Losers the Consumer Pays More

- Legislation being considered that mandates pharmacy reimbursement for employers and other plan sponsors, is designed to benefit pharmacies, at the expense of patients, taxpayers, employers, and other plan sponsors.
- The proponents' goal of price protections is to increase reimbursements and profitability for pharmacies. While some believe that enriching a specific set of private businesses is a laudable goal, these increases in reimbursements will ultimately be funded by someone: in this case, payers—employers, unions, and individual health care consumers.