

United States Health, Education, Labor and Pensions Committee
Subcommittee on Primary Health and Aging

Why Are Some Generic Drugs Skyrocketing in Price?

Testimony of Rob Frankil, Independent Pharmacist and Member of the National
Community Pharmacists Association (NCPA)

November 20, 2014

Chairman Sanders, Ranking Member Burr and Members of the Subcommittee:

Thank you for conducting this hearing and for providing me the opportunity to share my thoughts and observations regarding the recent skyrocketing costs of many common generic medications. My name is Rob Frankil, pharmacist and owner/president of Sellersville Pharmacy, Inc., DBA as two locations: Sellersville Pharmacy, a traditional community pharmacy, and Sellersville Pharmacy at Penn Foundation, a closed door pharmacy serving a mental health foundation. Both locations serve primarily elderly, needy and underserved patients. I am also a member of the National Community Pharmacists Association (NCPA) that represents the pharmacist owners, managers and employees of nearly 23,000 independent community pharmacies across the United States that provide approximately 40 percent of all community-based prescriptions. I am also the past president of the Pennsylvania Pharmacists Association (2012-2013), and serve on many boards in Pennsylvania including the Philadelphia Association of Retail Druggists, Bucks-Mont Pharmacists Association, and the PA State Board of Pharmacy.

Generic Price Spikes and NCPA Survey

The IMS Institute for Healthcare Informatics recently reported that approximately 86% of all prescriptions filled in the United States are for generic drugs. Historically, generic drugs have provided significant cost savings to payers and consumers alike by providing safe and effective alternatives to typically more costly brand name drugs. Therefore it was extremely concerning when about a year ago, pharmacies began noticing a rash of dramatic price increases for many

common, previously low-cost generic drugs. In response, NCPA conducted a member survey on this issue in January of this year to try to gauge the prevalence of generic price spikes. NCPA received an overwhelming response from more than 1,000 members who reported instances of generic drugs that had spiked by as much as 600%, 1000 %, and even 2000% in some cases.

Seventy-seven percent of pharmacists reported 26 or more instances of a large upswing in a generic drug's acquisition price over the past six months. Nearly all (86 percent) said that it took the pharmacy benefit manager (PBM) or other third party payer between two to six months to update its reimbursement rate to pharmacies (putting these critical health care providers "underwater" on these medications). In other words, pharmacists are filling prescriptions and are being reimbursed significantly less than what it cost them to acquire the drug. In addition, 84 percent of pharmacies said that the acquisition price spike and associated lagging reimbursement trend was having a "very significant impact on their ability to remain in business to continue serving patients." In some instances, community pharmacies were faced with having to refrain from filling prescriptions that would have resulted in losses of \$40, \$60, \$100 or more per prescription filled.

The generic drugs most frequently cited in the survey included drugs from virtually every therapeutic category and included Benazepril (high blood pressure); Clomipramine (antidepressant); Digoxin (controls heart rate); Divalproex (treats seizures and psychiatric conditions); Doxycycline (antibiotic); Budesonide (asthma); Haloperidol (psychotic disorders); Levothyroxine (hypothyroidism); Methylphenidate (ADHD); Morphine (pain); Nystatin/Triamcinolone (fungal skin infections); Pravastatin (high cholesterol); and Tizanidine (muscle relaxant).

The prevalence of these generic drug price spikes has not abated since the initial survey was completed. In fact, a recent, unofficial poll of NCPA members indicates that about one in every twenty prescriptions administered by a PBM is being reimbursed to pharmacies below their acquisition cost. NCPA has been unable to identify any definitive cause for these price increases. There has been speculation that these spikes may be due to manufacturing delays,

production problems, shortages of raw materials and a dwindling number of manufacturers of these products.

Impact of Generic Price Spikes on Patient Cost and Access to Medication

These severe disruptions in the market are having a profound effect on patients—particularly the elderly and those that are either uninsured or are enrolled in a prescription drug plan with a high deductible. Medicare Part D beneficiaries enter the coverage gap or “donut hole” when the accumulated costs of both their co-pays and the charges to their drug plan reach a certain threshold. After a Medicare beneficiary exhausts the initial coverage of the prescription drug plan, the beneficiary is financially responsible for a higher cost of prescription drugs until he or she reaches the catastrophic-coverage threshold. Precisely because of this dynamic, many pharmacist responders to the NCPA survey reported instances in which Part D beneficiaries were either refusing to refill their prescriptions or were planning to take less than the prescribed dose of their medication in an attempt to “stretch” their remaining supply and in order to avoid having to go into the donut hole.

Patients without prescription drug coverage are solely responsible for the entire cost of the drug and also may ultimately decide not to fill needed prescriptions. Patients with a high deductible prescription drug plan are in a similar situation as they are solely responsible for the cost of medications until such time as they reach a certain monetary threshold. Patient non-adherence to prescribed medications for any reason can often trigger more serious health conditions that may require emergency room visits or hospitalizations—that are ultimately more costly to both the patient and health care system as a whole. Ultimately, everyone pays for these cost increases, now or later. Insurance plans aren’t likely to simply just absorb these higher costs, so even those with generous insurance plans will pay the price in higher future premiums.

A recent example from my own experience is the price of Digoxin—a drug used to treat heart failure. The price of this medication jumped from about \$15 for 90 days’ supply, to about \$120 for 90 days’ supply. That’s an increase of 800%. One of my patients had to pay for this drug

when he was in the Medicare Part D coverage gap in 2014. Last year, when in the coverage gap he paid the old price. This year he paid the new price. Needless to say, the patient was astounded, and thought I was overcharging him. The patient called all around to try to get the medicine at the old, lower price, but to no avail. This caused him lots of stress and time, and caused us lots of stress and time in explaining the situation, reversing, and rebilling the claim. This example is typical of how these price spikes put consumers and pharmacists in a bad position, often grasping at straws for explanations. And all the while, everyone pays more, including the patient, the pharmacy, and the insurer (often the federal government).

Impact of Generic Price Spikes on Federal Government Costs

In addition to the potential negative effects that this situation is having on health outcomes for the nation's seniors, the financial impact to the federal government itself cannot be ignored. The federal government pays for more than a third of all prescription drug costs in America. In fiscal year 2014, the Centers for Medicare and Medicaid (CMS) will serve almost 116 million Medicare, Medicaid and CHIP beneficiaries, more than one-in-three Americans. In addition to CMS, other federal prescription drug programs impacted by this situation include the Department of Defense TRICARE program, the Veterans Health Administration (VHA), the OPM Federal Employees Health Benefit Plan (FEHBP) and the Indian Health Service (IHS). These generic drug price spikes that we are seeing are perhaps one of the most egregious examples of hyperinflation in the United States health care system at the present time and must be addressed.

Negative Impact of Generic Price Spikes and Reimbursement Lags on Community Pharmacy

When the price of these common generic medications increase so dramatically and insurance middlemen known as pharmacy benefit managers (PBMs) do not correspondingly update their reimbursement rates to pharmacies-- community pharmacies are put in the untenable position of having to absorb the difference between the large sums of money that they spent to acquire the drugs and the lower amounts that they are paid by the PBM (that are still "stuck" on the lower (pre-spike) prices).

In this era of instant communication, it is indefensible for PBMs to wait weeks or even months before updating their pharmacy payment benchmarks in the wake of these price spikes—without reimbursing pharmacies retroactively. Pharmacists’ appeals to PBMs are consistently denied or ignored, and this situation is untenable particularly for small business community pharmacies. According to a recent unofficial NCPA poll, pharmacists are reporting that when they do appeal to the PBMs to adjust the pharmacy reimbursement rates, the vast majority of the time (about 70 percent) they are either ignored or simply denied with no further explanation. This trend raises a troubling fiscal question for employers, government agencies and health plan sponsors. Are PBM middlemen taking advantage of these price spikes by reimbursing pharmacies low, charging health plans high and pocketing the difference? This practice of “spread pricing” was examined in a recent *Fortune* magazine article entitled “*Painful Prescription.*”¹

On a practical level, when I process a claim and am reimbursed at below my cost, the computer flags it and I have to approve it in order for the prescription to be filled. In my pharmacy this happens in about 1 out of every 10 prescriptions. With independent pharmacies on average producing over 90% of their revenue from prescription sales, this really hurts. I have a file about two inches thick of unresolved underpaid claims (appeals with PBMs) where we lost money. I do not send in appeals where we lose less than \$50. If I did, I would not have time to take care of patients. Specifically, Carbamazepine used for seizure disorders, spiked in price about 6 months ago. One of the largest PBMs in the country is still reimbursing at the old price (new price is \$60 per 100 tablets; old price was \$4 per 100 tablets). I appealed this price and got an answer last week. The PBM refused to make an adjustment, and offered no explanation.

In recognition of this problem, earlier this year CMS finalized a provision in the Part D Final Rule that will require PBMs to update generic pricing benchmarks (otherwise known maximum allowable cost (MAC) lists) in the Medicare Part D program beginning in plan year 2016. However, this rule does not address any of the other federal health care programs or any of the many commercial health plans currently in operation in the United States. I feel strongly that

¹ <http://money.cnn.com/2013/10/10/news/companies/pbm-pharma-management.pr.fortune/#sthash.osxYRm7O.dpuf>

pharmacists deserve to be fairly compensated for the medications and associated patient counseling that they provide. To that end, I urge your support for the bipartisan legislation known as The Generic Drug Pricing Transparency Act, H.R. 4437, introduced by Reps. Doug Collins (R-Georgia) and Dave Loebsack (D-Iowa). The proposal would allow a pharmacy to know how its individual maximum allowable cost (MAC) reimbursement rates for multisource generic drugs would be determined and would also require that payments be updated more frequently to keep pace with actual market costs. To date, sixteen states have passed similar legislation recognizing the value of ensuring that critical pharmacy care providers are able to provide needed medications and related patient care services to patients.

Conclusion

Thank you for inviting me to testify today on this critical issue. The current situation in which unprecedented spikes in previously inexpensive generic medications are becoming commonplace is one that cannot be allowed to continue. These prices are wreaking havoc on patients, pharmacists and health care payers alike. In addition, the associated payment lags on these medications are jeopardizing the ability of small business pharmacies to remain viable and continue to provide critical medications and related care to patients. I am pleased to answer any questions that you may have.