Michigan Proposed House Bill 4348 Will Cost the State Almost $7 Billion In Increased Prescription Drug Costs

The core mission of pharmacy benefit managers (PBMs) is to reduce prescription drug costs for health plan sponsors so that consumers have affordable access to needed prescription drugs. PBMs offer a variety of services to their health-plan-sponsor clients and patients that improve prescription adherence, reduce medication errors, and manage drug costs. The proposed legislation will undermine the ability of PBMs to control drug costs, and as a result drug spending in will soar. Although some of the provisions are subject to interpretation, enacting the provisions below could cost the state **$535 million in excess drug spending** in the first year alone, and **$6.6 billion** over the next 10 years.

Adopting Disclosure Mandate for Manufacturer Rebates and Pharmacy Contracts Could Increase Costs $4 Billion

Both the CBO and the FTC have stated that mandatory disclosure will "compress" PBM negotiated rebates and discounts, and could lead to tacit collusion among manufacturers. Confidentiality of contract terms is also vital to encourage competition among PBMs as they bid to win contracts with their clients (plan sponsors).

Bill Could Create an Any Willing Provider (AWP) Environment, Which Could Increase Costs $2.4 Billion

Allowing the Director of the Department of Insurance and Financial Services to approve PBM pharmacy networks could lead to a de-facto AWP environment. According to the FTC, AWP requirements significantly reduce providers' incentive to engage in price competition. Academic analysis concluded that AWP legislation leads to less competition and higher prices for consumers while providing no compensating benefits. Another academic analysis specific to state AWP laws found that such legislation "is associated with increased pharmaceutical expenditures. And applied to specialty pharmacies, the consequences of AWP legislation is even greater, because specialty drugs are dispensed in such low volumes and target rare conditions, it is infeasible for most retail drugstores to stock these medications and provide the specialized services patients require.

In addition, accreditation and credentialing are key aspects of PBM pharmacy network requirements. Specialty pharmacy accreditation and credentialing are among the baseline requirements a pharmacy must meet for inclusion in a plan's network. Of the roughly 64,000 pharmacies in the U.S., only about 400—less than 1%—are accredited as specialty pharmacies by the Utilization Review Accreditation Commission. In addition, PBMs utilize credentialing to evaluate a pharmacy's ability to implement plan design, encourage formulary compliance, and meet other contractual obligations.

Restrict Use of Utilization Management Tools Could Increase Costs $1 Billion

Utilization management tools like "refill-too-soon edits" and "quantity limits" are widely used by more than 90% of plan sponsors, and deliver significant cost savings to plan sponsors, translating into lower premiums and more affordable prescription benefits for consumers.

Projected 10-Year Increases in Prescription Drug Spending In Michigan Insurance Markets Due to Adopting Proposed Policies, 2022–2031 (Billions)

	Self-Insured Employer Market	Fully Insured Employer Market	Individual Direct Purchase Market	Medicaid Managed Care	Total
Adopt Disclosure Mandate	$2.0	$1.2	$0.3	$0.5	**$4.0**
Adopt Any Willing Provider (AWP) Provisions	$1.2	$0.7	$0.2	$0.3	**$2.4**
Restrict Use of Utilization Management Tools	$0.5	$0.3	$0.1	$0.1	**$0.9**
Maximum Costs – Three Provisions[1]	**$3.3**	**$2.0**	**$0.5**	**$0.8**	**$6.6**

Methodology: The methodology used to create these cost projections was that used by Visante in the April 2020 paper "Increased Costs Associated With Proposed State Legislation Impacting PBM Tools."

1. Numbers do not sum to totals due to some overlap in the effects of different types of legislation. For example, savings associated with utilization management are negatively affected by an Any Willing Provider applied to specialty pharmacies, as well as a "direct" restriction. We adjust the totals to avoid double counting of this cost impact.