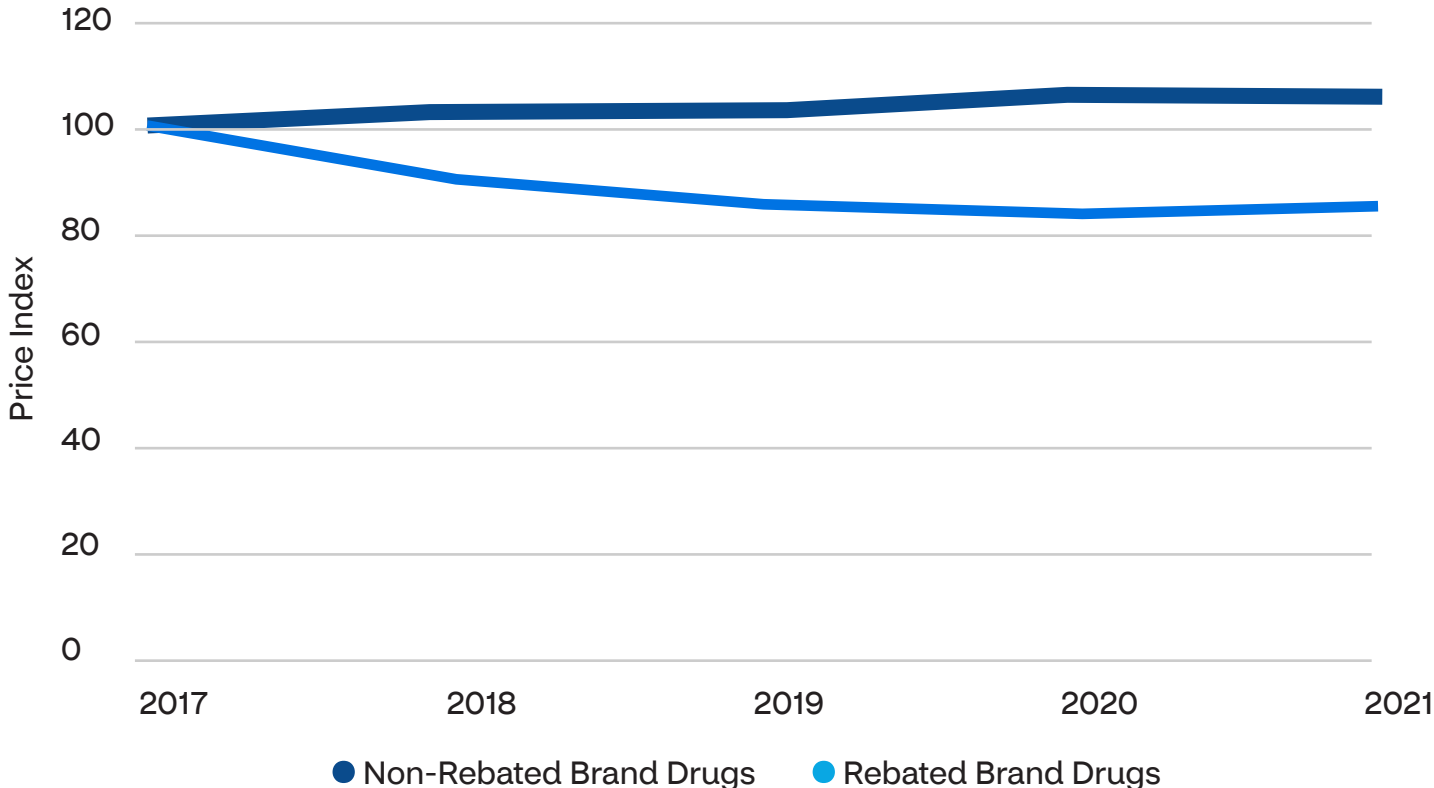


# Formulary Management Has Driven Rebated Drug Prices Down

Net Prices Paid by Caremark Clients: Rebated vs. Non-Rebated Brand Drugs



Sources: Rebate and reimbursement data submitted in response to FTC 6(b) Study (indexed for inflation using CPI).

**DRUG CHANNELS**  
Expert insights on Pharmaceutical Economics and the Drug Distribution System

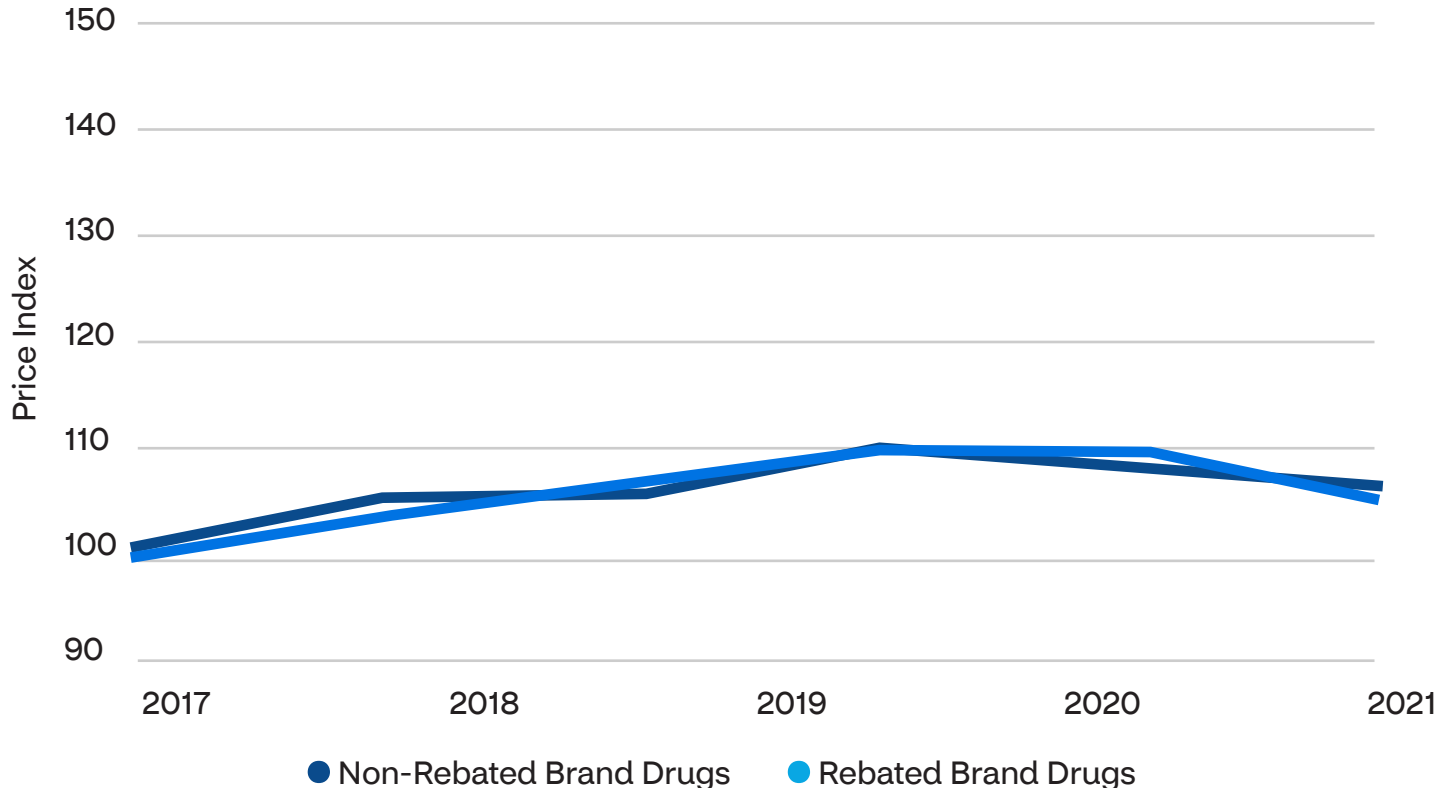
Wednesday, January 03, 2024

Tales of the Unsurprised: U.S. Brand-Name Drug Prices Fell for an Unprecedented Sixth Consecutive Year (And Will Fall Further in 2024)

Drug Channels, Net Drug Price Analysis (Jan. 3, 2024), <https://www.drugchannels.net/2024/01/tales-of-unsurprised-us-brand-name-drug.html>.

# List Price Increases Not Correlated With Rebates

List Prices: Rebated vs. Non-Rebated Brand Drugs



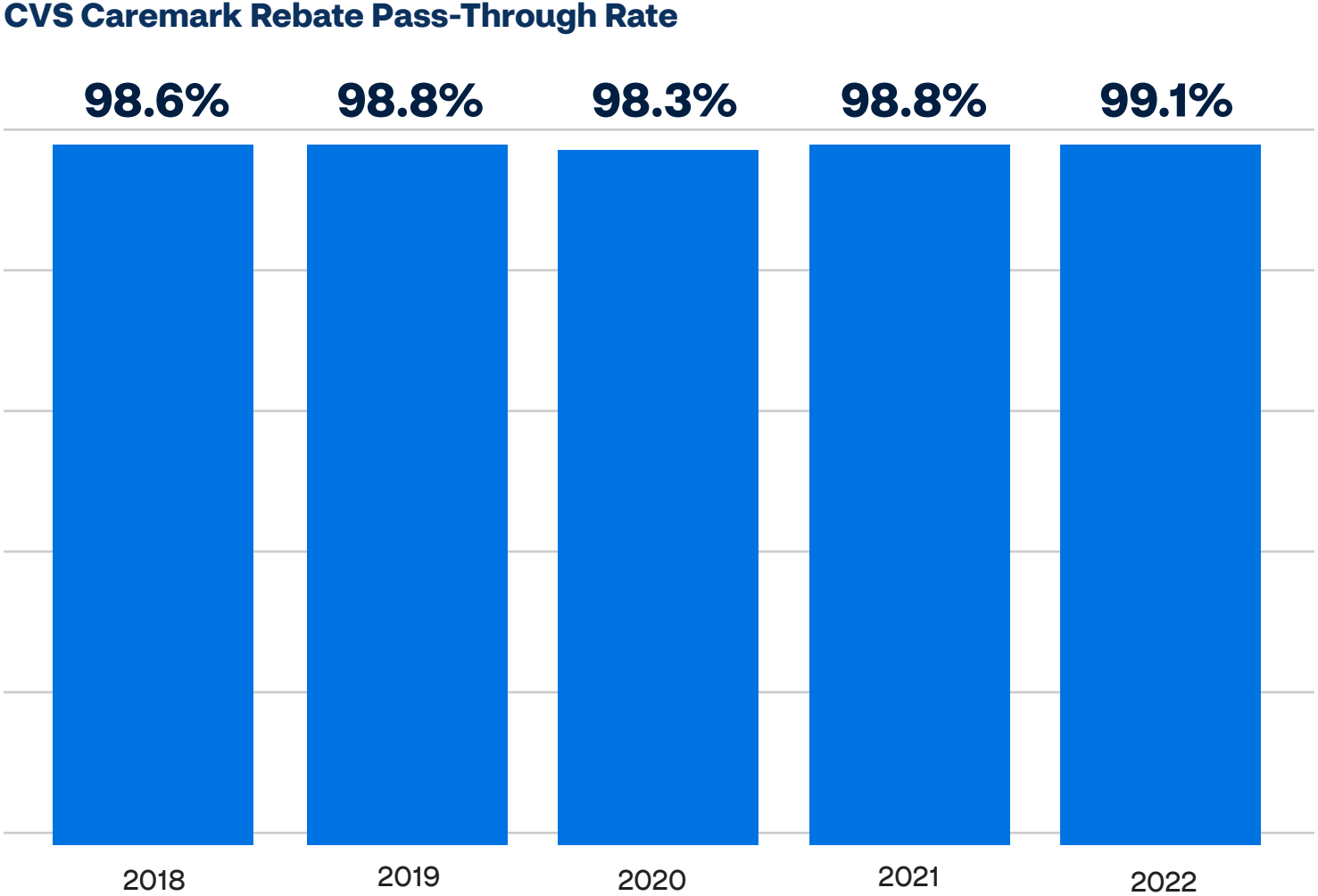
**Total % List Price Change:  
2017-2022**

↑ **7%**  
Brand Non-Rebated Drugs

↑ **6%**  
Brand Rebated Drugs

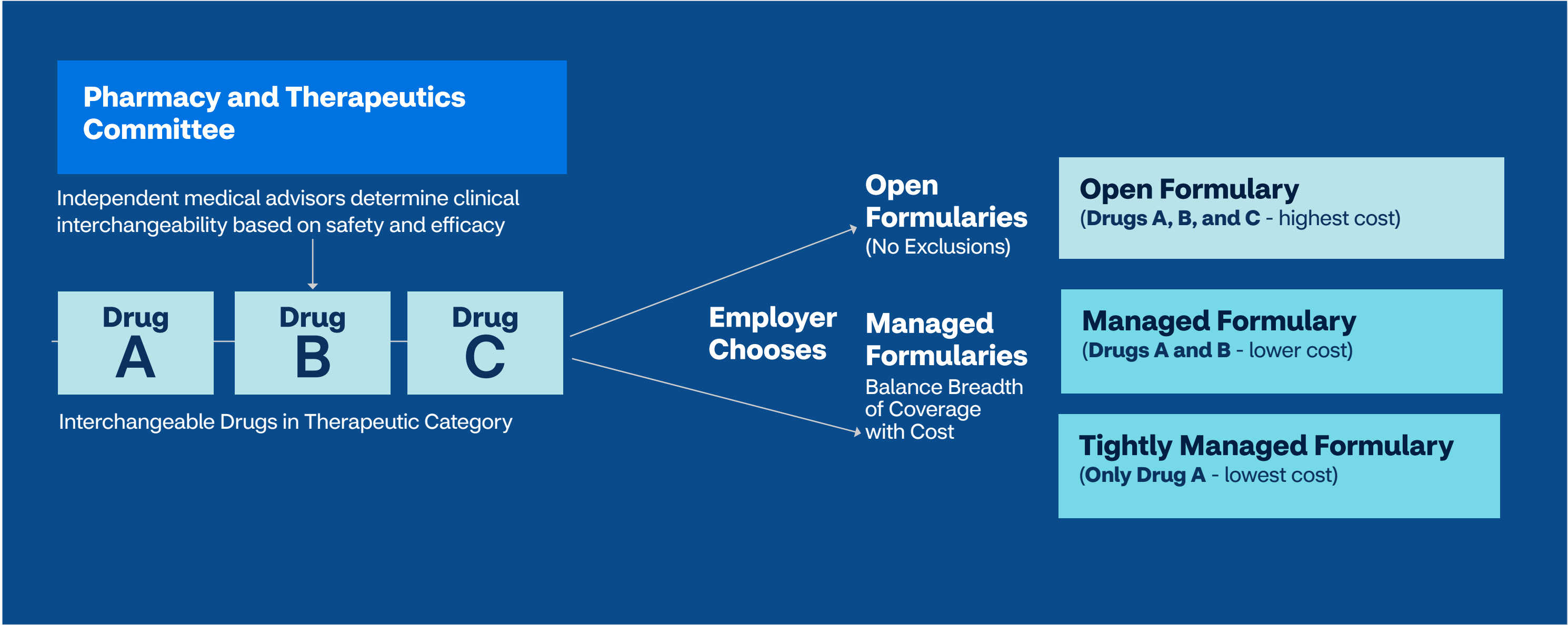
Sources: Rebate and reimbursement data submitted in response to FTC 6(b) Study (indexed for inflation using CPI).

# Rebates Are Passed Through to Clients and Patients



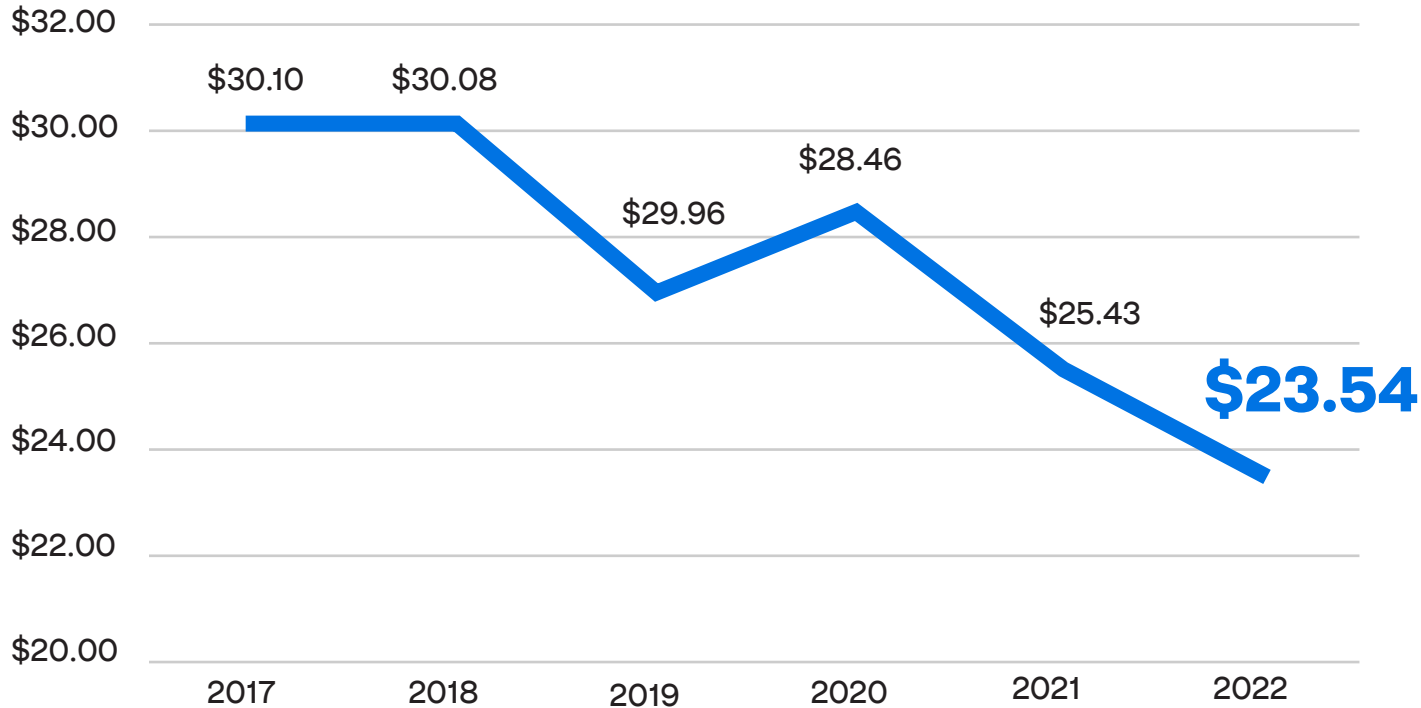
Source: Internal CVS Caremark Data Analysis (Oct. 19, 2022).

# Formulary Management Creates Competition to Lower Costs



# Case Study: Insulin Costs Have Declined Substantially Since 2017

**CVS Caremark Member Out-of-Pocket Cost Per 30-Day Supply of Insulin (2017-2022)**



- PBM services are **deflationary** – while the **CPI inflated 22%**, **member insulin costs decreased 22%** over the same period
- Clients overwhelmingly adopt CVS Caremark member cost-saving programs, either a preventive drug list, point-of-sale rebates, or fixed insulin copays, including all top 50 commercial clients
- Members enrolled in employers’ HDHP plans paid \$0.15 less on average than members in non-HDHP plans in 2023

Source: CVS Caremark Claims Data FTC Production (2017-2022).

## CVS Health provides options to help improve patient affordability

**With an HDHP, add a preventive drug list**



Members pay \$0 or standard copay/insurance, including during the deductible phase

**RxZero:**

**\$0 OOP costs for diabetes medications**



New plan design from CVS Health eliminates cost as a barrier to medication adherence without raising costs for plan sponsor or increasing premiums

**Use point-of-sale rebates to reduce OOP costs**



POS rebates align members’ OOP cost with net drug costs; can be implemented through mail, retail, network and specialty pharmacies.

# After Many Years of List and Net Price Increases by Manufacturers prior to 2012, Insulin Formulary Exclusions Substantially Increased Competition and Reversed Trend

“

Since 2012, the net price of Sanofi insulins has declined by

**54%**

”

Source: Sanofi, 2022 Report on Prescription Medicine Pricing at 10 (2022).

Novo Nordisk data shows the net price of Novolog fell more than

**50%**

between 2014-2019 to hit lows last seen in 2003

Source: Novo Nordisk, Q3 2020 Investor Presentation at 99 (2020)

“

[E]ven before our recently announced price reductions, our net price for Humalog . . . was about the same as when we launched it in 1996, adjusting for inflation.

”

Source: David Ricks, CEO, Eli Lilly, Testimony before the Senate Health, Education, Labor and Pensions Committee at 3 (May 10, 2023)

## Democrats' House Oversight and Reform Committee Majority Report reached similar conclusions:

- Manufacturers' internal documents and data “undermine[d] industry claims that price increases are primarily due to increasing rebates and discounts paid to PBMs.”
- Manufacturers steadily increased both list prices and net prices on consumers for many years prior to when Caremark began offering clients formulary exclusion options in 2012.
- Manufacturers' “documents show that PBMs secured contractual [price protection] provisions that disincentivized drug companies from raising list prices. Without those provisions secured by PBMs, drug companies likely would have raised list prices more.”

Source: Drug Pricing Investigation – Majority Staff Report, U.S. House of Rep. Committee on Oversight and Reform (Dec. 2021), <https://oversightdemocrats.house.gov/sites/evo-subsites/democrats-oversight.house.gov/files/DRUG%20PRICING%20REPORT%20WITH%20APPENDIX%20v3.pdf>.

# Clients — Not PBMs — Make Benefit Design and Cost-Sharing Decisions



## Formulary Choices

- CVS Caremark administers hundreds of different formularies chosen by employers
- Clients can design custom formularies to address their unique patient mix and preferences



## Plan Design Choices

- Clients determine cost-sharing for premiums, co-pays, co-insurance, and deductibles
- CVS Caremark often does not have full information about plan benefit structures



## Member Choices

- Plans typically offer members multiple options to address different needs
- Practically all plans with High Deductible Health Plan (HDHP) options also have non-HDHP options

“

Drug manufacturers . . . submit bids to PBMs which reflect a variety of different rebate offers that manufacturers are willing to pay depending on where the drug is placed on a health plan's formulary. However, it's important to note that the final agreement does not guarantee a product's placement. Instead, health insurers make the final decision with regard to formulary placement and the patient's cost-sharing responsibility for the product.

”

United States Senate Finance Committee Report, Insulin: Examining the Factors Driving the Rising Cost of a Century Old Drug 67 (Jan. 14, 2021)

**90%**

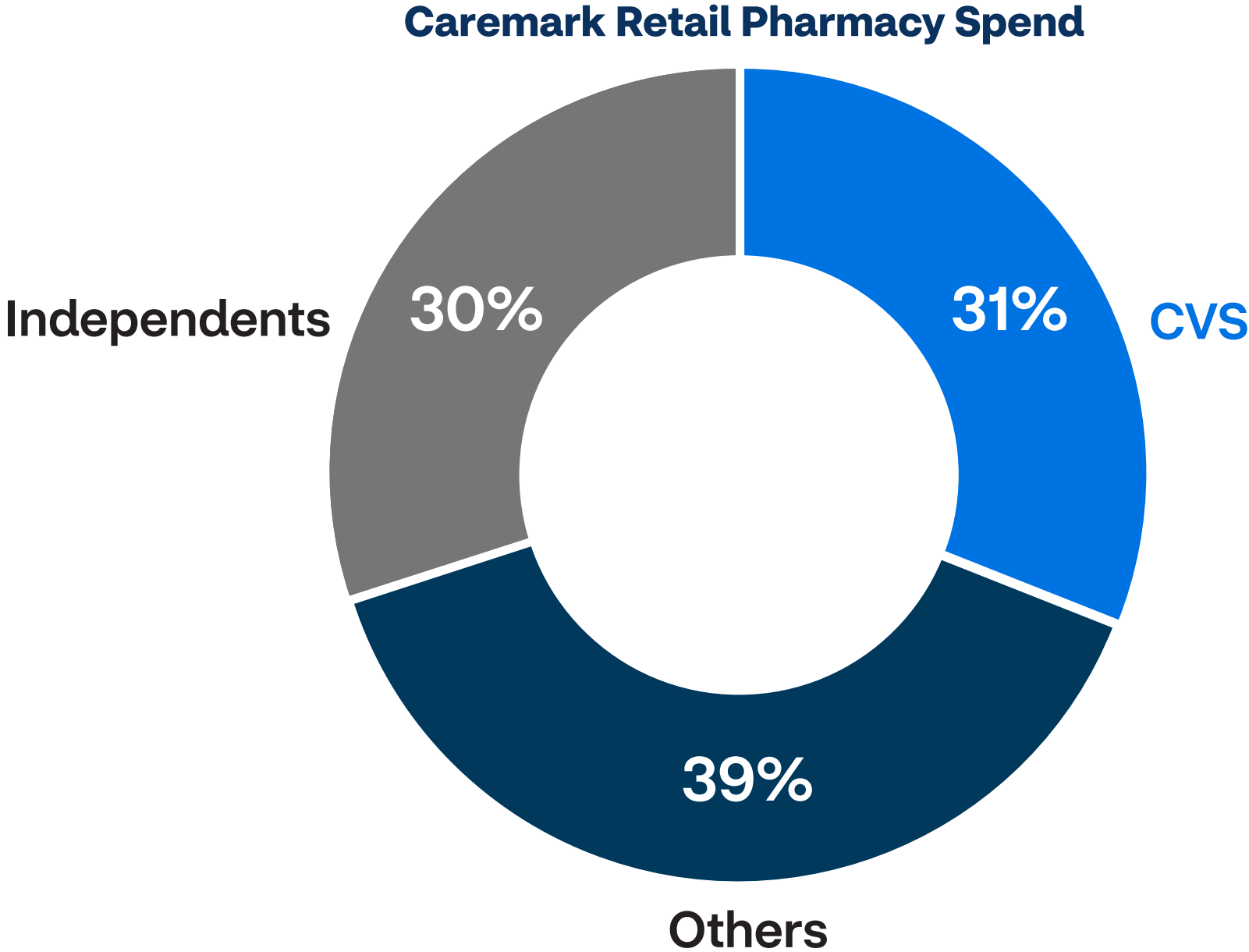
of prescriptions are generics or biosimilars

**\$8**

average member out-of-pocket cost per 30-day drug supply

Source: CVS Health, The Value of PBMs, <https://www.cvshealth.com/campaigns/value-of-pbm.html>

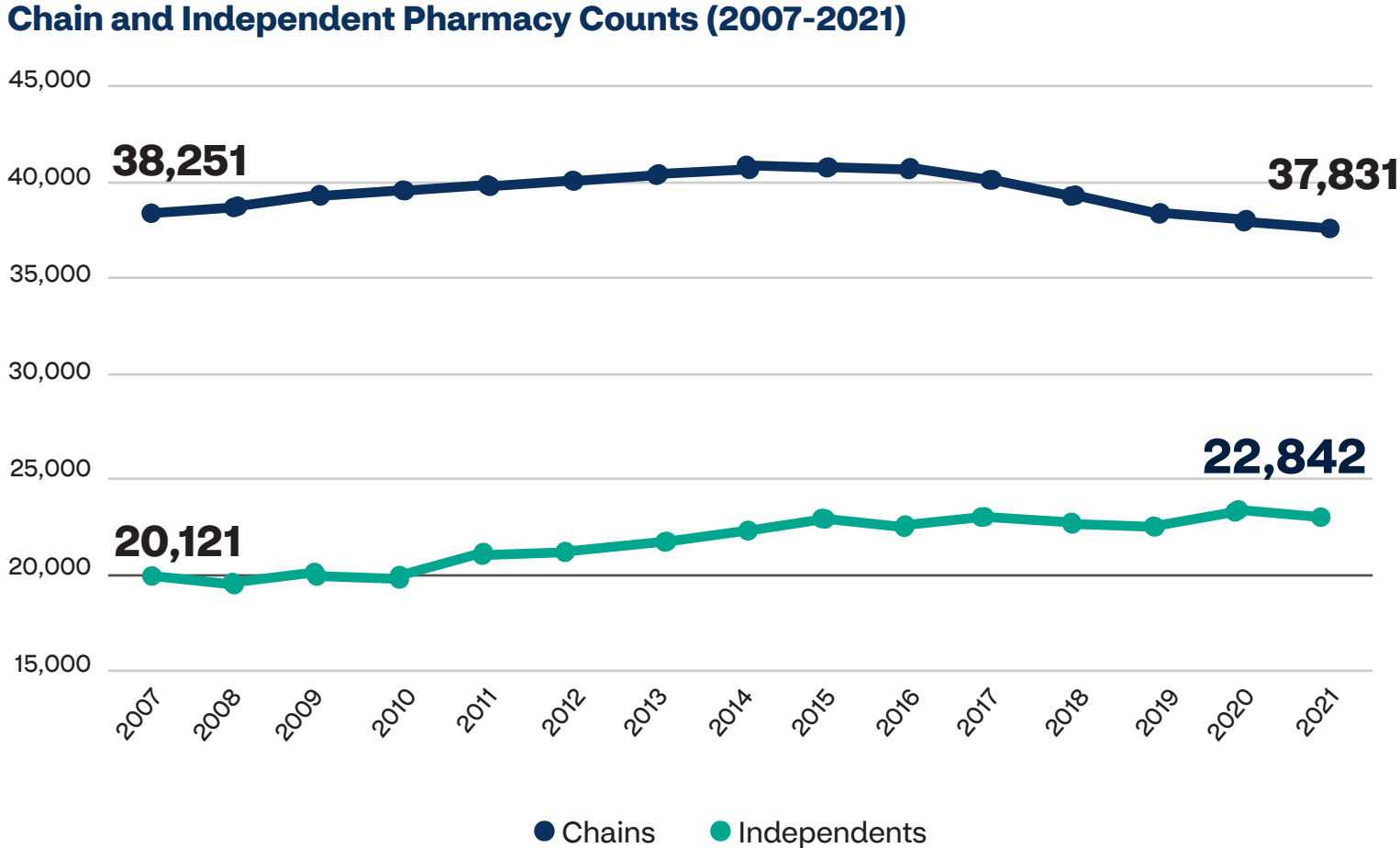
# Independent Pharmacies Are Substantial in Caremark's Networks



Source: Internal Analysis of CVS Caremark Retail Network (Feb. 22, 2021).



# Independent Pharmacies Have Increased Since 2007



Source: University of Iowa Summary of NCPDP Data (2007-2021).

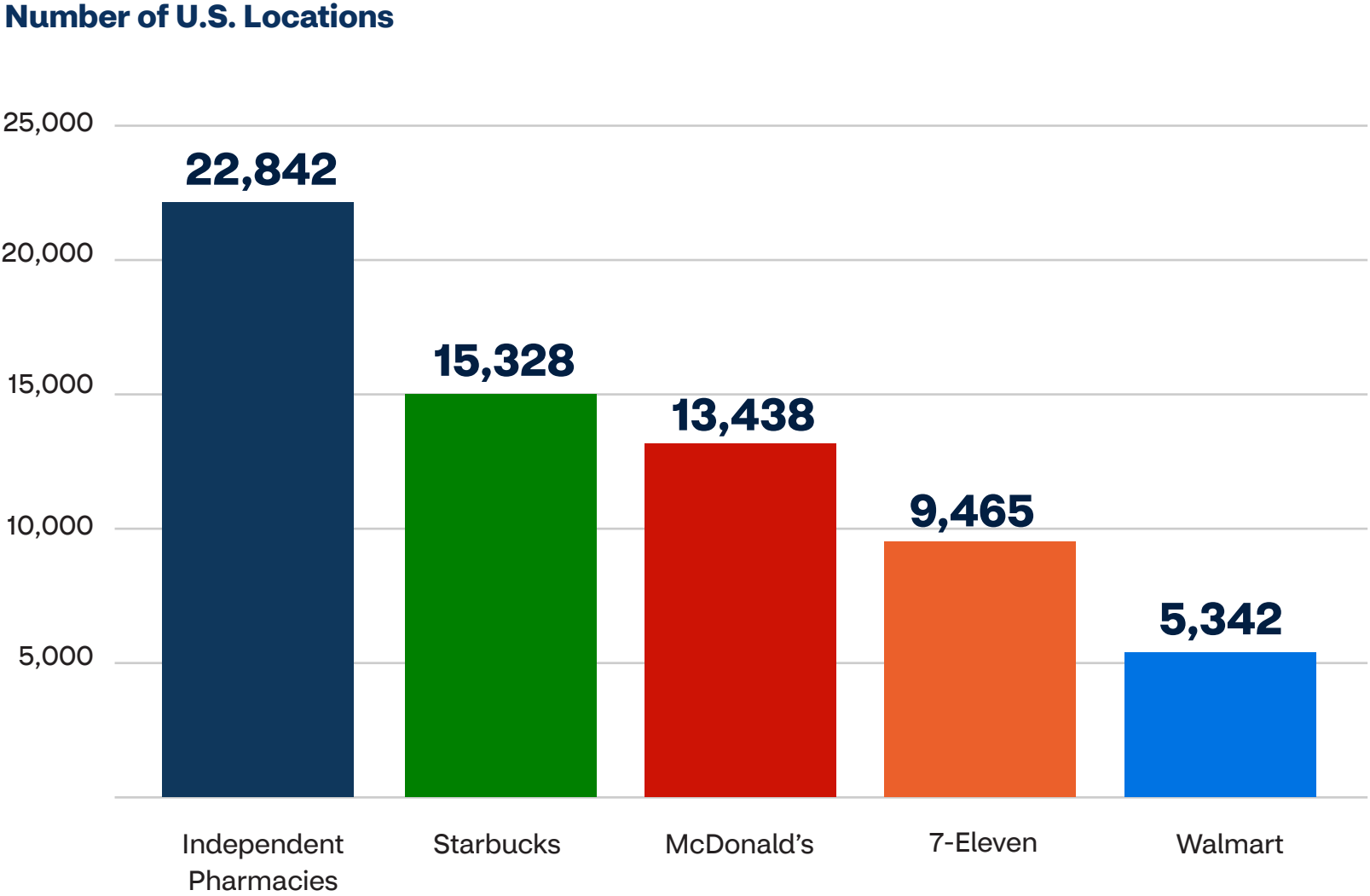
- The National Council for Prescription Drug Programs (NCPDP) maintains data relied upon for processing claims within the healthcare system
  - FTC 6(b) data requests rely on NCPDP standards
  - Latest 2024 NCPDP count of independents is 23,384\*
- IQVIA data also show independent pharmacy counts have been stable over the past 20 years
  - IQVIA maintains prescription drug sales data that the FTC has described as the “gold standard”

\* PCMA, The State of the Pharmacy Market, <https://www.pcmamet.org/the-state-of-the-pharmacy-market> (analyzing NCPDP data for 2024)

“ IQVIA data show that the total number of independent pharmacy locations has held relatively stable over the past 20 years.\*\* ”

\*\* Adam J. Fein, Five Things to Know About the State of Independent Pharmacy Economics, *DRUG CHANNELS* (Feb. 15, 2022).

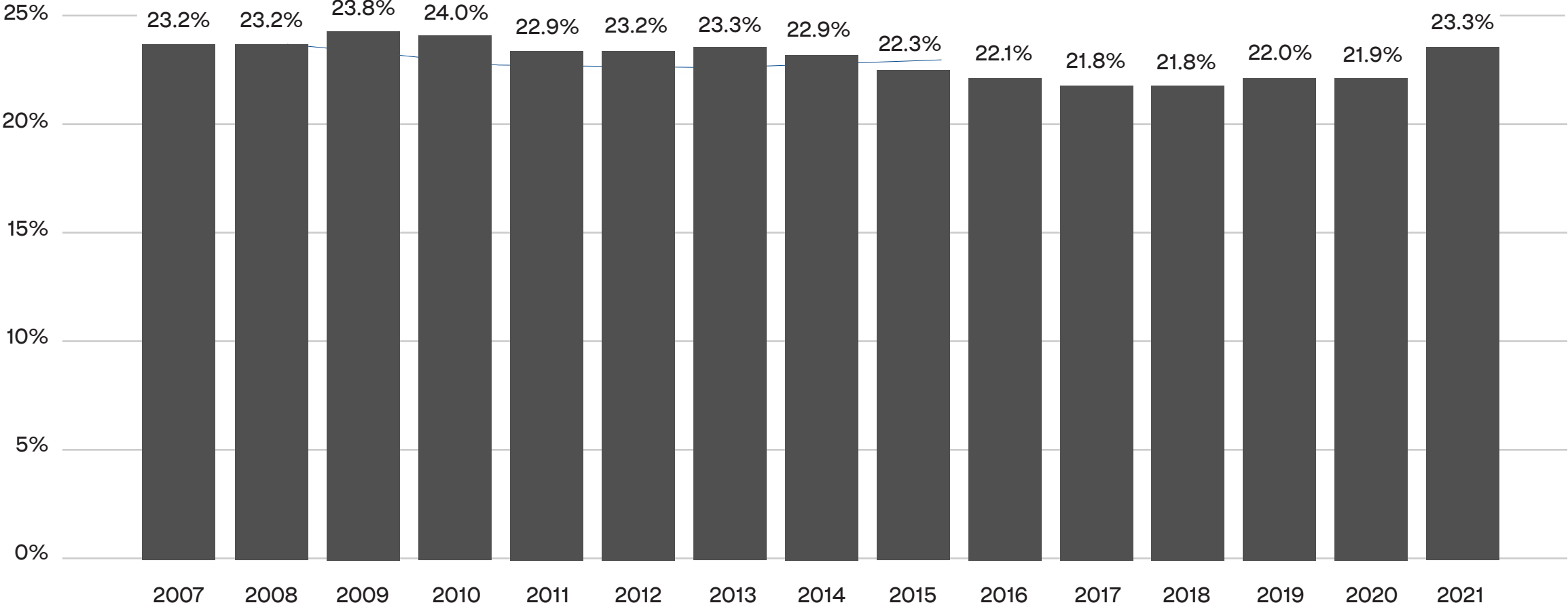
# Independent Pharmacies Outnumber Many Ubiquitous Retailers



Sources: University of Iowa Summary of NCPDP Data (independent pharmacies, 2021); Starbucks, 2021 Form 10-K (Oct. 3, 2021); McDonald's Corp., 2021 Form 10-K (Dec. 31, 2021); Seven & i Holdings Corporate Outline FY2021 (Jan. 12, 2022); Walmart 2022 Form 10-K (Jan. 31, 2022).

# NCPA's Own Data Show Independent Pharmacy Margins Stable

**NCPA Data: Independent Pharmacy Average Gross Margins**



Source: Data collected by the National Community Pharmacists Association (NCPA) from its own members. NCPA Annual Digests (2008-2022).

# Independent Pharmacies Charge Higher Prices

The impact to Caremark’s commercial customers of independent pharmacies’ higher prices is **\$340 million** annually.

Source: CVS Caremark Internal Data Analysis (Feb. 22, 2021)

State	Year	Finding
Florida	2020	Chains charged <b>12.5%</b> less than independents
Arkansas	2019	To the extent there were differences, “Independent Pharmacies were paid significantly more than the [chain]”
Ohio	2018	Independents charged <b>3-4%</b> more than chains for both brands and generics

Sources: Arkansas Ins. Dep’t, Limited Scope Examination of Pharmacy Benefit Managers at 20-21 (Jul. 27, 2022); FL Agency for Health Care Admin., Pharmacy Benefit Manager Pricing Practices in Statewide Medicaid Managed Care Program at A-1 (Dec. 1, 2020); Ohio Department of Medicaid, Executive Summary, Report on MCP Pharmacy Benefit Manager Performance at 19 (June 15, 2018).