NAVITUS
PHARMACY BENEFITS REINVENTED

Prepared Testimony: **Brent Eberle, R.Ph, MBA**
Chief Pharmacy Officer, Navitus Health Solutions

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Chairwoman Eshoo, Ranking Member Burgess and members of the Health Subcommittee, thank you for the opportunity to come before you and share with you how Navitus Health Solutions ("Navitus") — a 100% pass through and fully transparent pharmacy benefit manager (PBM) — provides value to its customers and lowers the overall cost of care.

My name is Brent Eberle, and I am the Senior Vice President and Chief Pharmacy Officer at Navitus, where I have worked since 2004, shortly after Navitus was formed. Navitus was formed in response to frustration at the State of Wisconsin's Employee Trust Fund related to the lack of transparency in the existing, traditional PBM models. Most PBMs use a traditional or "spread" PBM model, where the PBM retains some of the payments from manufacturers and they charge their clients additional margin or "spread" above the amounts that they pay pharmacies. Two Wisconsin health plans, Dean Health Plan and Touchpoint Health Plan worked together to form Navitus as a fully transparent, 100% pass through PBM as an alternative to the traditional model, and that has been Navitus' business model ever since.

Navitus' mission, which we live by every day, reads:

> ***Navitus Health Solutions is a 100% pass-through pharmacy benefit company committed to lowering drug costs, improving health and providing superior customer service in a manner that instills trust and confidence.***

Navitus is headquartered in Madison, Wisconsin, and we have approximately 820 employees located in offices in Wisconsin, Texas and Arizona. Since the founding of our company in 2003, Navitus has relentlessly worked to reduce the overall drug costs paid by our clients, while improving member health, providing superior customer service, and ensuring regulatory compliance. Navitus administers pharmacy benefits for over six million members across our commercial, ACA/Exchange, Medicaid, Medicare Part D, and discount card lines of business. As a pass-through, transparent PBM, Navitus has a different business model than most PBMs.

The term pass-through means that we pass-through to our clients all of the payments that we receive from drug manufacturers in the form of rebates, incentives, administrative fees, data fees, and any other amounts that we receive from drug manufacturers. We also pass-through to our clients all of the discounts that we negotiate with pharmacies and any other amounts that Navitus may receive from pharmacies, such as audit recoveries. We believe that this ensures that there is no conflict of interest or confusion about who we are working for. Navitus is always working on behalf of the benefit plans that are our clients and their members, and never working on behalf of

drug manufacturers or pharmacies. Instead of taking money from drug manufacturers, Navitus charges our clients a reasonable, fully disclosed administrative fee, usually on a per member per month basis.

Navitus believes that it is critical for benefit plan sponsors to have all relevant information so that they can make good decisions related to the plans. As a transparent PBM, we provide our clients with information about all amounts that we receive from drug manufacturers and the discounts we receive from pharmacies, so that they have all of the relevant information that they may need when making decisions about the benefits that they provide and the costs that they pay.

In today's complex and costly health care system, plan sponsors are seeking greater transparency, accountability and affordability. Many do not believe they are getting it from their PBM. In fact, 63% of employers stated in a recent survey that their PBMs aren't transparent, especially when it comes to revenue streams.[1] However, plan sponsors aren't alone. Patients are looking for greater transparency and affordability, too, which is understandable when one in four people can't afford their medications.[2] With an outcry from plan sponsors and patients, calls for reforms have become louder.

The Role of PBMs

In spite of the negative attention that PBMs have been getting recently, PBMs perform several critical functions in getting people the medications that they need at prices that they can afford. PBMs act as consolidators of market power for health benefit plans, acting as a counter balance to the massive market power of drug manufacturers and pharmacy chains. By representing all of the benefit plans that are their clients, PBMs are able to combine the buying power of many individual plans and negotiate with manufacturers and pharmacies to obtain lower prices than any individual plan could obtain on their own. This helps to lower the overall costs of health care.

PBMs also perform numerous other important tasks, like providing population health programs to improve the quality of care and developing systems for the standardized processing of claims and coordination of benefits that has drastically improved the speed and ease that patients can get medications. In addition, PBMs process and maintain eligibility, develop and manage formularies, develop and recommend plan designs, perform retrospective and prospective drug utilization review, monitor quality and implement quality and improvement programs, as well as auditing and investigating fraud, waste and abuse to reduce unnecessarily expenses, improve quality of care and help law enforcement prosecute fraudulent activities.

One of the most critical and unique functions that we perform for our clients is negotiating pass-through arrangements to reduce their pharmacy costs. When negotiating with pharmacies, we obtain market competitive prices to ensure our clients receive the lowest net costs. In these negotiations, we develop both broad and limited networks for our clients and their members depending on their needs. Broader networks provide access to a larger range of pharmacy choices and limited networks provide adequate access, but also result in lower prices when implemented. When negotiating with drug manufacturers, we determine the overall product value by evaluating

clinical efficacy and the net cost. We then prefer the products with the best overall value resulting in a lowest net cost formulary. We fully leverage our pass-through model in these negotiations, so the manufacturers and pharmacies know that all of the benefits go to our clients to help lower their overall pharmacy benefit cost.

Part of my role at Navitus is to oversee the clinical aspect of the organization. Since PBMs are in the unique position to impact pharmaceutical care at a macro level, our teams design products and services that are targeted to improve population health in a number of different areas. These areas include helping to ensure medications are used appropriately and according to current practice guidelines, increase medication adherence through patient education and engagement, and prevent the overuse or misuse of medications through our opioid management efforts. Our clinical teams are passionate about improving patient care, and our business model based in financial and operational transparency helps to ensure the programs we develop provide value and optimize the dollars our clients make available for pharmacy. We play an active role in being stewards of the pharmacy benefit for our clients and their members.

In addition to our population health programs, our clinical teams are charged with developing formularies that appropriately balance clinical quality and the lowest overall net cost. This is core to what we have done from day one. As part of our commitment to the approach, we have strategically aligned the Formulary and Drug Information teams alongside the Industry Relations (or Rebates) team to ensure our goals and objectives around quality and lowest net cost are aligned across the organization. Through this approach and our overall business model, we have been able to remove any incentive to add a product to the formulary simply to garner rebate discounts.

Our lowest net cost approach combined with a full pass-through of all rebate dollars and zero spread has consistently delivered industry-leading drug trend management. While PBMs are often evaluated by those in the industry on specific pricing metrics that can be difficult to compare and often result in higher costs, we direct our focus on managing our client's per member per month net drug spend. In 2018, our net drug spend was nearly flat and nearly half of our clients actually saw their pharmacy spend decrease from the previous year. These positive results not only benefited our clients, but their members also saw a 2% decrease in their out of pocket pharmacy costs. Additionally, this approach can be applied across all lines of business including commercial, Medicare Part D, and Managed Medicaid.

The continued evolution of our business model is to extend transparency to our providers and members through innovative technology that is focused on improving the provider and patient experience. We are accomplishing this in numerous ways including the expansion of electronic prior authorization, the use of real time benefit checks, and mobile applications that let's members see where the lowest cost pharmacy is in their area. Additionally, the growth of the Internet of Things (IoT) creates numerous opportunities for us to develop and collaborate on tools and services focused on improving drug treatment adherence. We know that adherence is key in ensuring patients have the best chance for their treatment plan to be successful. Our vision is that these investments will continue to enhance patient engagement resulting in improved health and lower overall drug costs.

Recommendations for First Steps

As with all parts of healthcare, transparency and aligned incentives can play a significant role in improving quality and reducing cost. We strongly believe in these principles and that is why we have created a full pass-through PBM so that every dollar in rebates and incentives from the manufacturers are passed through to our clients to reduce the cost of healthcare premiums. Every year we have a third party audit our books and validate our process and we invite every client to look at our books to see what we are doing. Our model works and our clients appreciate how we are able to reduce the cost of healthcare.

As the Administration, Congress and even state legislatures undertake efforts to reduce the cost of pharmaceuticals through regulation of PBMs, we advise caution to avoid inadvertently increasing the cost of prescription drugs to the consumers. Even though our fully transparent pass-through model gives all of the rebates back to our clients, we believe that removing rebates may take away a useful tool for reducing costs for our clients.

Any effort to reform the PBM industry should start with increasing transparency so that the decision-makers in benefit plans, and in governmental entities for government-sponsored plans, have all of the information that they need to make the best decisions they can. In the current system, too many of the decisions being made, including proposed regulation, are based on partial information. By making the necessary information available to the individuals and entities making decisions, with enough detail to support those decisions, the entire system can be made more efficient and much better decisions could be made, improving care and lowering costs.

In addition to transparency, we recommend taking out the conflicts of interest plaguing the PBM industry. Most PBMs accept money from drug manufacturers in the form of rebates, administrative fees, data fees, and other financial incentives with numerous designations. We believe that when PBMs retain payments from drug manufacturers, it creates misaligned incentives, where the PBM is actually working for the drug manufacturers, and not just for the benefit plans and their members. To avoid such a conflict of interest, at a minimum PBMs should be required to fully disclose to their clients all amounts retained from drug manufacturers, in detail, so that the true costs of medications are known to the plans paying for them.

Similarly, we believe that the actual amount paid to pharmacies by each PBM, along with any claw backs, claim recoveries, or other amounts paid to the PBM by the pharmacy, should be disclosed to the PBMs' benefit plan clients. If such amounts are not fully disclosed (or passed through) to the PBMs' clients, then the PBM has an incentive to maximize the financial incentives received from drug manufacturers and the "spread" added to pharmacy to maximize the PBMs' profits at the expense of their clients.

CMS Proposed Change in Safe Harbor Rule for Rebates

As you know, CMS proposed a new rule for the Medicare Part D and Medicaid managed care programs, on January 31, 2019, that would "remove the safe harbor exemption for rebates applied

after the point-of-sale and establish a new safe harbor that would enable a pharmaceutical manufacturer to offer reduced prices on a prescription pharmaceutical product (referred to as chargeback discounts) when they are applied at the point-of-sale."[3] At Navitus, we agree with the Department of Health and Human Service's stated goal of trying to lower prescription drug costs for the millions of Americans who desperately need medications and trying to increase transparency in drug pricing, as these goals have been part of our corporate mission from the start of our company. We also agree that traditional PBM business models may drive up drug expenses by promoting higher cost agents in their quest to secure higher rebates from drug manufacturers because traditional PBMs often keep a portion of the rebates that they negotiate. In contrast, however, Navitus discloses the amount of all rebates it receives from manufacturers and passes 100% of all these rebates back to our clients.

While we understand and admire CMS' intent to reduce the cost of prescription drugs, we believe it is essential to understand that not all PBMs are alike. Reforms meant to impact spread pricing and non-pass-through rebate models will impact PBMs like Navitus and its clients. We also do not believe that the proposed rule will solve the issue of increasing drug prices. Additionally, we are concerned that the proposed rule will have unanticipated negative consequences for beneficiaries and health plans.

Navitus agrees that rebates from drug manufacturers warp the incentives that PBMs are operating under, creating a market dysfunction where the goals of CMS and the Part D plans are not aligned with those of the PBMs providing services to the plans. For PBMs, the amount of rebates that are paid to Part D plans are often used as a rough measure of performance by the plans and their consultants. However, higher rebates are not necessarily a good proxy for lower costs. When PBMs choose drugs with higher rebates, but also higher overall costs, then the total costs can be significantly higher for the plans and CMS in spite of the higher rebates.

The proposed rule appears to assume that all PBMs use traditional "spread" pricing, where a percentage of rebates is retained by the PBM, and assign blame for high drug prices to all PBMs and rebates provided by drug manufacturers. However, transparent, pass-through PBM models that align to the best interest of payers that purchase their services are already being employed in the industry.

As noted above, Navitus uses a transparent, pass-through model and passes all rebates it receives back to its clients. As a transparent PBM, Navitus also provides its clients with all of the information they need to make benefit decisions necessary to achieve the lowest possible overall costs. Our model removes the incentives to make decisions that result in higher drug costs. When combined with our focus on delivering the lowest-net-cost medications, our clients experience lower year-over-year drug trend, decreased per-member-per-month (PMPM) drug expenses, and reduced overall pharmacy costs. We believe that this model already achieves what the proposed rule intends to make happen and propose that if both (a) transparency and (b) the passing through of all drug manufacturer payments to Part D plans or CMS were required, that would solve most of the issues that result from the current rebate structure in drug pricing.

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Conclusion

Thank you for the opportunity to share with you our pass-through PBM model and our recommendations for moving forward. Even though the pass-through PBM model covers a small portion of overall lives across the country, Navitus and its smaller peers such as Independent Health (Buffalo, NY) and SelectHealth (Murray, UT) have played an important role in driving down the overall cost of prescription drugs for our clients.

As this Committee looks at ways to reduce the overall cost of prescription drugs, we believe that transparency in the market is the most important first step that can be made to truly understand the cost of drugs. Transparency is what our clients want and transparency is what we provide. We firmly believe that transparency should be the norm, not the exception.

Thank you again for this opportunity.

Brent J. Eberle, RPh MBA
Senior Vice President, Chief Pharmacy Officer

Navitus Health Solutions, LLC is a wholly owned subsidiary of SSM Health, an integrated health system headquartered in St. Louis, Missouri that is a not-for-profit entity originally founded by Catholic nuns in 1872. SSM Health currently has over 40,000 employees in Missouri, Wisconsin, Illinois and Oklahoma. SSM Health also operates Dean Health Plan, a provider sponsored health plan in Wisconsin, which serves the individual, commercial, Medicaid and Medicare market. SSM Health is also one of the founding members of Civica Rx, a non-profit drug manufacturer whose mission is to reduce drug shortages and ensures that essential generic drugs are available and affordable to everyone. Dean Health Plan is also a member of the Alliance of Community Health Plans, which also includes PBMs with similar models to Navitus, including SelectHealth and Independent Health.

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Appendix: Background on Different PBM Models

Given that the PBM industry is not well known to individuals outside the industry, we believe it may be helpful to understand the three PBM models generally in use—traditional, hybrid and pass-through.

Traditional PBMs

Traditional models earn "spread" or revenue through various pharmacy dispensing channels such as retail, mail, and specialty. Spread occurs when the pharmacy is paid one price and the plan sponsor is charged a different—most often higher—price. The difference is often referred to as "spread."

Traditional pricing models also generate spread by retaining a portion of the negotiated rebates from pharmaceutical manufacturers. This incentivizes the PBM to create more spread revenue by driving up costs through formulary product selection. In turn, this leads PBMs to promote products that have higher rebates, creating an incentive for manufacturers to price products higher and deeply rebate the products back to the PBMs. As a result, plan sponsors and members end up paying more than they need to. This might be why 69% of employers in a recent survey stated that they would welcome an alternative to rebate-driven approaches to managing pharmacy costs.[4]

To earn more revenue, traditional PBMs agree to dollar-for-dollar-guarantees that are locked into the contract with the plan sponsor. Over the course of a typical three-year agreement, the PBM may negotiate better contracts with pharmacy networks and pharmaceutical manufacturers. Any improvements in those contracts become additional revenue for the PBM.

Because PBMs operating under this model produce significant margin on spread pricing of drugs, they typically charge a significantly reduced administrative fee for services rendered as the majority of their revenue comes from the non-disclosed fees. Visibility into actual market prices and the actual true-net cost (net of rebates) are significantly obscured, if not invisible to plan sponsors.

The traditional model is the most popular of the PBM approaches and accounts for about 94% of overall PBM business and transactions across the industry.[5] Although the other models may seem less popular, fewer plan sponsors choose these because they are unaware other options exist. However, these alternative models are gaining traction.

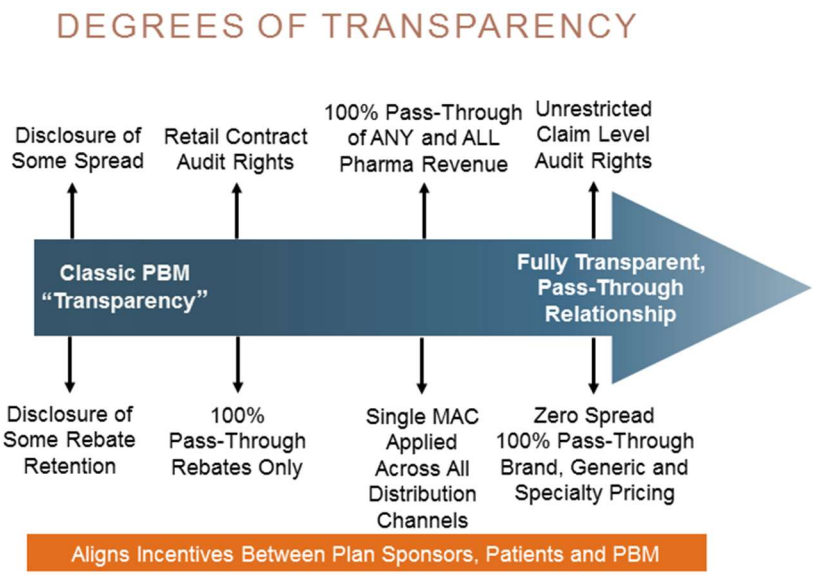
Hybrid PBMs

Hybrid pricing models offer some combination of the traditional and pass-through models for a slightly more transparent option, allowing visibility into some pricing and revenue practices. A hybrid model may disclose the portion of rebates it retains and takes spread in only one or two channels such as mail and specialty. However, transparency is limited, leaving little visibility into how much the PBM retains. Hybrid PBMs may charge a minimal administrative fee or none at all.

Pass-Through PBMs

On the other hand, pass-through pricing models offer the most transparency. As the result of a pass-through PBM's transparent financial and operational processes, 100% of rebates and discounts are passed back to the plan sponsor. Because spread is not involved from any distribution channel, the plan sponsor is billed the same amount the pharmacy is paid. This takes the unnecessary costs out of pharmacy benefits, making prescriptions more affordable for plan sponsors and their members. A pass-through PBM's only revenue source is an administrative fee for services agreed to by the plan and PBM up front. This model offers visibility down to the claim and invoice level for complete transparency and full disclosure. Ultimately, the plan sponsor has complete visibility into the true claims cost and knows what it is paying for PBM services.

It is important to note that some traditional PBMs are claiming to offer a "pass-through" model. However, plan sponsors should be aware that this might be their version of a pass through. A 100% pass-through PBM does not retain any dollars from pharmacies or pharmaceutical manufacturers.



Impact of the Proposed Changes Related to Rebates in each PBM Model

Most of the traditional model PBMs are publicly traded companies and must answer to shareholders. Historically, they have performed well and delivered a high gross profit per claim. Without revenue from rebates, these organizations will likely have to find other revenue streams, from both new and existing sources. This may occur as higher administrative fees or increased pharmacy network spread, negatively impacting plan sponsors.

Hybrid PBMs may follow suit as well. Although some of these organizations may not be publicly traded, they will still need to replace lost revenue.

Pass-through PBMs tend to be smaller, privately held organizations so they likely will not be negatively impacted by the removal of rebates. They operate with full financial disclosure and transparency and charge an administrative fee to earn revenue. Since revenue streams are not impacted under the pass-through model, this may provide plan sponsors with an option that is more predictable from a cost standpoint and can continue to deliver the desired savings for greater affordability. [6]

Specialty Pharmacies

Like many PBMs, Navitus owns a specialty pharmacy, Lumicera Health Services, which employs an industry-unique, transparent, cost-plus model. In a typical specialty pharmacy model, the pharmacy is paid on a percentage basis for each prescription dispensed. This percentage can range from 6 to 15 percent, which can amount to substantial additional cost due to the high acquisition price of specialty medications. In contrast, Lumicera's transparent, 100% pass-through business model operates by charging clients the actual drug-acquisition cost, cost of shipping**,** and a fixed patient management fee to cover dispensing and patient care, based on the handling and clinical counseling needs of the drug and its disease state.

Sources:

[1] Toward Better Value: Employer perspectives on what's wrong with the management of prescription drug benefits and how to fix it, National Pharmaceutical Council, 2017, page 8, https://www.npcnow.org/system/files/research/download/npc-employer-pbm-survey-final.pdf

[2] Kaiser Family Foundation Health Tracking Poll – February 2019: Prescription Drugs, March 1, 2019, https://www.kff.org/health-reform/poll-finding/kff-health-tracking-poll-february-2019-prescription-drugs/

[3] https://www.cms.gov/Research-Statistics-Data-and-Systems/Research/ActuarialStudies/RxSafeHarbor.html

[4] Toward Better Value: Employer perspectives on what's wrong with the management of prescription drug benefits and how to fix it, National Pharmaceutical Council, 2017, page 8, https://www.npcnow.org/system/files/research/download/npc-employer-pbm-survey-final.pdf

[5] Navitus analysis, 2014-2017 and SEC filing from traditional PBMs, 2014-2017.

[6] See *The 2018 Economic Report on U.S. Pharmacies and Pharmacy Benefit Manager*, Drug Channels Institute, 2018.