Arizona SB 1161 Will Cost the State Almost $6 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 Arizona legislation will seriously undermine the ability of PBMs to control drug costs, and as a result drug spending in Arizona will soar. Although some of the provisions are subject to interpretation, enacting just the bill provisions discussed below could cost the state of Arizona **$460 million in excess drug spending** in the first year alone, and **$5.8 billion** over the next 10 years.

SB 1161 would reduce the savings from preferred pharmacy networks and increase costs for Arizona's jobmakers and patients.

PBMs create networks of pharmacies that offer savings to clients and beneficiaries. Creation of these pharmacy networks are popular with employers and helps save money on drug costs. Nationally, 76% of employers report using some type of narrowed pharmacy network, and their employees can save 38% out-of-pocket using the in-network pharmacies versus out-of-network pharmacies.[1] Preferred pharmacies offer deeper discounts in return for higher prescription volumes, which are often generated by providing lower copays to patients who use the preferred pharmacies. Barring PBMs from incentivizing use of preferred pharmacies with lower copays would reduce the ability of plans to obtain that price discount. Forcing PBMs to eliminate the benefits of preferred networks puts patients at risk and increases costs for patients as they reduce usage of cost-efficient specialty pharmacy and preferred pharmacies that previously provided the deepest discounts no longer will as they can no longer count on getting added volume in exchange.

SB 1161 would prohibit "White Bagging," a safe, effective, and cost saving tool, to supplement hospital incomes and forces Arizona employers to pick up the tab.

Physician-administered drugs are those administered through injection or infusion, typically in a hospital outpatient setting or a provider's office. Often high priced, these drugs represent a growing share of all prescription drug spending nationally. Under a white bagging model, a specialty pharmacy ships the drug for a given patient directly to the health care provider rather than the provider buying the drug and billing the insurer. The cost of these drugs through specialty pharmacies is lower than through the traditional "buy-and-bill" model. White bagging has real benefits for patients, providers, and payers. Legislation that restricts white bagging will seriously undermine the ability of health plans and PBMs to manage their medical specialty pharmacy expenditures.

Projected 10-Year Increases in Prescription Drug Spending In Arizona Insurance Markets Due to Adopting Proposed Policies, 2023–2032 (Millions)

	Self-Insured Group Market	Fully-Insured Group Market	Individual Direct Purchase Market	Medicaid	**Total**
Adopt Anti-steering Provision	$1,006	$1,239	$259	$779	**$3,283 (5.4% increase)**
Restrict White Bagging	$742	$914	$191	$638	**$2,485 (9.1% increase)**
Maximum Costs – Two Provisions	**$1,748**	**$2,153**	**$450**	**$1,417**	**$5,768**

Methodology: The methodology used to create these cost projections for adopting pharmacy network restrictions was that used in the April 2020 paper "Increased Costs Associated With Proposed State Legislation Impacting PBM Tools." The methodology used to create the white bagging cost projections is described in "Appendix: White Bagging Dispensing."

1. PBMI, 2020. "2019 Trends in Drug Benefit Design."

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