

States Set Up Nonprofit to Cut Drug Costs

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NEW YORK - Nine states and the District of Columbia are organizing a nonprofit group to purchase medicines so they can eliminate the corporate middlemen they allege inflate drug prices and drive up health care costs.

The National Legislative Association on Prescription Drugs hopes to have the nonprofit operational by next year to buy drugs for both state employees and Medicaid patients, according to its chairman Peter E. Schumlin.

The move is the latest in a series of efforts by states, which are facing some of their worse deficits in years, to curb health care costs. In a study released on Monday, the Kaiser Family Foundation found that 32 states were cutting their Medicaid programs because of rising costs and shrinking revenues.

Some states use for-profit pharmacy benefit management companies to purchase drugs. Critics charge these firms don't pass enough of saving they negotiate with drug companies onto clients, choosing instead to increase their own profits.

"Pharmacy benefit managers charge their clients millions but they have their secret sweetheart deals with the pharmaceutical companies to prescribe certain drugs," said Schumlin. "We guarantee one thing. There will be no secret deals and any savings gets passed back to the member."

Steve Littlejohn, a spokesman for pharmacy benefit manager Express Scripts, said his company doesn't have any secret arrangements and that clients are welcome to audit its contracts with pharmaceutical firms.

"We look forward to the new competition and believe we will be able to be competitive with them," Littlejohn said.

Medco Health Solutions declined comment and AdvancePCS said in a statement that it viewed the proposed nonprofit as a validation of its business model.

Some states maintain it is just easier to extract tougher deals from pharmacy benefit managers instead of trying to beat them at their own game. Last year, West Virginia, New Mexico, Missouri, and Delaware reached an agreement with Express Scripts to manage their pharmaceutical purchases for their state employees. The deal requires Express Scripts to pass on any rebates from drug companies to the states.

"We were trying to develop capacity within the states to do it (purchasing) but we thought it would take too much time so we went to the PBMs," said Phil Shimer, West Virginia's deputy director of the Public Employee Insurance Agency.

Schumlin said he approached PBMs about passing on more savings to states but was unsuccessful.

States have been very creative in trying new ways to limit costs but often the pharmaceutical industry is challenging their efforts in court. The pharmaceutical industry has brought suits against Florida, Michigan, Vermont and Maine for their efforts to control costs. The case against Maine, which involves attempts to extend Medicaid drug discounts to those not eligible for the program, will be heard by the Supreme Court next week.

Pharmaceutical Research and Manufacturers of America spokesman Bruce Lott said the trade group has no problem with states trying to pool their employees to gain purchasing power as long as Medicaid patients aren't included in the mix. By law, drug companies must give Medicaid the best prices. Lott said it is unfair and illegal for states to use Medicaid patients to force larger discounts from drug companies.

Schumlin anticipates a suit from the drug industry. "I'll judge my success by how many times the pharmaceutical industry sues us," Schumlin said.

The states included in the latest effort are: Connecticut, Hawaii, Maine, Massachusetts, New Hampshire, Pennsylvania, Rhode Island, Vermont, and the District of Columbia.

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