



THE RETIREMENT SYSTEMS OF ALABAMA


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MEMORANDUM

TO: PEEHIP Board Members

FROM: Jo Moore, Deputy Director for Administration 

DATE: February 27, 2025

RE: Opposition of Proposed PBM Legislation

As you have seen in the weekly RSA legislative updates, there are two separate pieces of legislation that have been introduced regarding pharmacy benefit managers (PBMs). The two pieces of legislation, SB93 and SB99, place certain pricing restrictions on PBMs. As you are aware, PEEHIP uses a PBM to manage its prescription drug benefit for members. Both pieces of legislation seek to increase prescription prices, decrease or eliminate any savings, and pass the cost on to the PEEHIP member. Two problems are presented:

Problem 1 – SB93 and SB99

SB93 and SB99 will change how PEEHIP must reimburse pharmacies, resulting in a much greater cost to PEEHIP.

The first bill, SB93, requires that PEEHIP reimburse pharmacies at the average acquisition cost, which is defined in the bill as the amount compiled by Alabama Medicaid as the average acquisition cost for each drug, plus the dispensing fee set by Alabama Medicaid, currently at \$10.64.¹ Just this dispensing fee alone is troublesome. As proposed, this \$10.64 dispensing fee is charged for every single filling of every single drug. For example, a member may need 3 different drugs in month of June, the cost of filling those drugs will have increased by \$31.92 (3 drugs x \$10.64) just for that month. Every single time the member has a drug filled or even re-filled, the additional cost will be \$10.64 per drug.

PEEHIP estimates that **SB93 will increase PEEHIP's costs by at least \$31 million**. To fund this cost, we estimate that either the **Legislature will have to increase PEEHIP's funding by \$24 per active member per month or the non-Medicare PEEHIP members will have to pay additional premiums of approximately \$26 per month**.

¹ PEEHIP's analysis of this reimbursement methodology in HB238 from the 2024 Legislative Session revealed that reimbursements to independent pharmacies would actually decrease while reimbursements for chain pharmacies would increase. This is because PEEHIP has had a longstanding policy favoring independent pharmacies over chain pharmacies in its reimbursement policies and practices.

The second bill, SB99, requires that PEEHIP reimburse pharmacies at national average drug acquisition cost, which is defined as the average acquisition cost as determined by the Centers for Medicare & Medicaid Services (CMS), plus a dispensing fee of 2% of that cost or \$25, whichever is less. PEEHIP estimates that **SB99 will increase PEEHIP's costs by at least \$36 million**. To fund this increase, we estimate that either the **Legislature will have to increase PEEHIP's funding by \$28 per active member per month** or the non-Medicare PEEHIP members will have to pay additional premiums of approximately \$30 per month.

So the question presented by both SB93 and SB99 is who will fund the increased costs? If it is the PEEHIP members, premiums could increase by \$26-\$30 per month.

Problem 2 – The Elimination of the PBM

PEEHIP currently uses Express Scripts as its PBM to provide prescription drugs to its members at the lowest possible cost. Express Scripts helps PEEHIP manage its drug formulary and negotiate prices. To do this, PEEHIP has diligently negotiated with Express Scripts to receive rebate revenue and reduce the overall net drug cost. PEEHIP estimates that by using a PBM, it derived a cost savings of at least \$751 million in FY2024. A PBM has capabilities and economies of scale that PEEHIP alone simply does not. **If PEEHIP were to try to provide prescription drugs without a PBM, we estimate that either the Legislature will have to increase PEEHIP's funding by \$601 per active member per month** or the non-Medicare PEEHIP members will have to pay additional premiums of approximately \$638 per month.

Although the current legislation does not seek to eliminate PBMs, both bills seek to limit PEEHIP's ability to contract with PBMs for the most favorable prices and savings. It is our understanding that a consolidation of these bills is being considered and the cost could possibly be even greater.

PEEHIP does not have the financial reserves to absorb any increased costs. Thus, such increases will have to be paid either by the Legislature or by the PEEHIP members.

So again the question is presented, who will fund the increased costs? If it is the PEEHIP members, premiums could increase by up to \$638 per month depending on how restrictive the PBM legislation is.

Conclusion

Based upon this increase in cost, PEEHIP opposes SB93, SB99, and any bill that interferes with PEEHIP's ability to contract with a PBM. Many advocates of these bills have argued that the change in pharmacy reimbursement is needed to save independent pharmacies. What they have not shared however, is that the bills are not limited to changing reimbursement for independent pharmacies but instead apply to all pharmacies, such as CVS, Walgreens, and Walmart. Thus, these increased costs are applicable to every prescription you fill in Alabama. We think it is wrong to force PEEHIP members or the Legislature to subsidize the pharmacies' income, be it CVS, Walgreens, Walmart, or any independent pharmacy. Any legislation that seeks to increase prescription prices, decrease or eliminate any savings, and pass the cost on to the PEEHIP member should be opposed.