

# Federal Pharmaceutical Purchasing

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# Private Market Refresher

- Manufacturer
- Wholesaler
- Pharmacy
- PBM / Insurer
- Consumer

*Federal Government can engage at any point on the “chain”*

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# Federal Market: Many Actors, Many Prices

- VA (FCP, FSS, +)
- DoD (FCP, FSS via MOA, DAPA, +)
- PHS, USCG (FCPs, FSS via MOA)
- Medicaid (Rebates)
- PHS Grantees (340B)
- FEHBP (Private PBMs)

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# Federal Ceiling Prices and the Federal Supply Schedule

- Vets Healthcare Act, 1992, Section 603
- Negotiated by VA with manufacturers
- PHS (e.g., IHS), USCG, DoD, VA
- FCP generally 76% non-federal AMP
- Full FSS often ~40% non-federal AMP
- Price increases for branded < CPI-U
- No limit on increases for generics

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# FCP & FSS, Continued

- Manufacturers must offer all products to participate in Medicaid
- FCP, FSS exempted from “Best Price”
- Relatively low volume of product
- FSS often comparable to PBM
- *Implications:*
  - ◆ *FSS tempting for Medicare (Allen)*
  - ◆ *VA seeks to protect FSS*

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# DoD's Distribution and Pricing Agreement (DAPA)

- DoD can access FSS through MOA
- DAPA is another, similar pricing system
- Available for federal facility purchasing
- Conversion to FSS currently underway
- TRICARE uses commercial market

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# VA, DoD Often Pay Less Than Scheduled Prices

- National contracts: Alt. to FSS, DAPA
- P&T Committee reviews new, existing Rx
- Focus on competitive categories with ability to switch patients
- Categories include ACE, CCBs, SSRIs
- Large reported discounts (> 50% AMP)
- Currently 19% of Rx purchased

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# ***VA and DoD: A Powerful Combination***

- **Joint national purchase contracts**
- **Current: 18 contracts, 2% of sales**
- **Projected (GAO): 30 classes, 66% of sales**
- **Reported discounts: 50-85% AMP**

***Interagency Issues and other factors will  
slow progress towards GAO goal.***

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# Medicaid Pays More than VA

- Authority: OBRA 1990, 1993
- Rebate (branded): 15.1% AMP or AMP-BP
- Generic and OTC: 11% AMP / MAC
- Prices > FSS, strong PBM/HMO
- Virtually all products “on”; low co-pays
- CPI provision on branded, not generics
- Problems with price disclosure

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# PHS Grantees (340B)

- Public Health Service Act, Section 340B
- Entities include DSH hospitals, FQHCs
- Discount by formula, similar to Medicaid
- Bergen Brunswick awarded “prime vendor” contract, 10/99 for distribution
- Open issue: authority to engage in “PBM” type activities

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# FEHB: Private Sector Analogy

- Rely on PBMs associated with plans
- GAO has reported success
- Currently does not rely on FSS
  - ◆ However, watch SAMBA
- Currently does not pool purchasing power
  - ◆ However, watch dental proposal

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# Medicare Rx Design Decisions That May Affect Price

- **Federally Administered Pricing**
  - ◆ Explicit price schedule (FSS)
  - ◆ Federal review of prices, mandatory rebates
- **PBM Market Structure**
  - ◆ Number of PBMs per region
  - ◆ Federal selection of PBMs
  - ◆ Regional or national competition
  - ◆ Cap on PBM market share

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# Medicare Rx Price, Continued

- **PBM Activities**
  - ◆ Open or restricted formularies
  - ◆ Pharmacy network flexibility
  - ◆ Limitations on pricing schedule
- **Other Design Decisions**
  - ◆ Exempt from FSS calculation
  - ◆ “Novel Rx Financing”

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# Closing Thought: It's Not Just About Price

- Medicare drug benefit offers tremendous promise in quality and access
- American people want a drug benefit
- Differences between parties is small

*Do Members of Congress and the President really want to enact a benefit?*

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