

The Honorable Michael C. Burgess, M.D.

1. What are Pharmacy Benefit Managers doing to ensure that patients are seeing the benefits of lower list prices when they reach the pharmacy counter?

Navitus Response: While many PBMs do not operate the way we do, as a full pass-through PBM, Navitus ensures that our clients are receiving all of the benefits of the discounts and rebates we are able to achieve on their behalf. This approach results in an overall lower net per member per month drug cost and our clients use the associated savings to reduce their employees / members premiums and cost sharing. Navitus employs several strategies that directly benefit the member at the pharmacy counter.

Some examples of our efforts to make sure that patients receive the benefit of lower list pricing include:

- a. Lower-of-Logic: In all of our pharmacy network agreements, the cost of the claim is based on the lower of our contracted discount, maximum allowable cost (MAC), or the pharmacy's usual and customary price. This ensures the member is receiving the lowest cost we were able to negotiate with that pharmacy.
- b. Cost Compare Tools: We have also developed a cost compare tool that enables the member to search for the lowest cost pharmacy in their geographic area as well as provide access to the formulary so that they are aware if there are other lower cost options available on the formulary.
- c. Plan Design Modeling: We work with our clients in helping them determine the benefit plan design that works best for them and their members / employees. An example of this is our point of sale rebate plan design, which adjusts the cost of the claim down based on the expected rebate amount reducing the patient's costs to reflect the rebate.

2. Something I find particularly concerning about our drug supply chain is the possibility of drug shortages. These can occur because of natural disasters, manufacturing issues, or business decisions. What are each of your respective companies doing to prevent drug shortages?

Navitus Response: We share your concern on drug shortages and the impact they can have on our patients. In order to help address potential drug shortages and excessive price swings, our parent company, SSM Health, has joined a consortium of other concerned entities to form a new not-for-profit generic drug manufacturer, Civica Rx, which is intended to both help with reducing drug shortages and lower generic drug by building. Civica's mission is to ensure that essential generic medications are accessible and affordable to everyone, and while it is just getting started we have a hope that it will make a significant difference in a market dominated by pharmacy manufacturers driven completely by profits.

As a PBM, Navitus is somewhat limited in what we can do to directly address this issue, because we are not involved in the manufacturing process. However, when shortages occur, we do the following:

- Help our member find out if this product is available at another pharmacy. If that pharmacy is not in the network, we will make an exception to allow that member to use the out of network pharmacy.
- Determine if there is another formulary option that may be appropriate and work with the member and their prescriber. If the other formulary option is non-preferred, we will often lower the copay to match the copay of the drug that is on shortage.
- Communicate any information we have from the manufacturer and/or wholesaler as to when the shortage is expected to be resolved.

The Honorable John Shimkus

1. Given that most of the witnesses on the panel have referenced the role of creating value in the health care supply chain, please comment on: Existing areas where Congress or the Administration may have needlessly added to the cost that patients or the government pays for a particular product, service, or intervention. For example, do you have recommendations on how reforms to existing laws like Stark and the Anti-Kickback Statute could accelerate value-based contracting within Medicare and Medicare Advantage?

Navitus Response: Our experience has been that regulations, in general, tend to increase costs for both the businesses being regulated and for the customers of those businesses as costs of compliance are passed through. Generally, we support reductions in regulations, and believe that this year's proposed changes related to the Anti-Kickback Statute's Safe Harbor would not have had the intended effect of lowering drug costs. As an alternative to revising the Stark Law and the Anti-Kickback Statute, if Congress wanted to encourage value-based contracting for Medicare, it could directly require value-based contracting as a requirement for managed care plans providing coverage to Medicare beneficiaries.

2. How do we ensure that these value-based reforms benefit patients and protect taxpayers?

Navitus Response: Navitus recognizes the difficulties in legislating the details around value-based contracts and believe that this area likely requires long-term agency oversight with general goals and direction being provided by Congress.

The Honorable Susan W. Brooks

1. During the hearing, I asked Navitus Health Solutions about how the company determines the lowest net cost for a product. Navitus Health Solutions responded that, very generally, Navitus Health Solutions takes the list price less any discount that is offered by the manufacturer to determine the lowest net cost—although there are differences for generic medicines and brand medicines. Does Navitus Health Solutions consider administrative fees when determining the lowest net cost for a product?

Navitus Response: Yes, Navitus considers all discounts and payments available from manufacturers when determining the net cost of a product. Navitus does not retain any “administrative fees” paid by manufacturers, and passes all of the payments from manufacturers on to its clients. As, rebates provided by drug manufacturers are normally paid months after drugs are dispensed by pharmacies.

For purposes of clarifying how Navitus determines the reimbursable price at a pharmacy for a drug versus the lowest net cost for a benefit plan, after taking into account rebates, Navitus determines the price for a drug at a pharmacy by employing “lower of” logic, which selects the lower: (1) the maximum allowable cost (or “MAC”) as determined by Navitus, plus a dispensing fee, if applicable (MAC is normally for generics rather than brand drugs); (2) each Participating Pharmacy’s respective contracted price for the applicable product, including a discount, plus a dispensing fee; (3) such pharmacy’s usual and customary price as reported by the pharmacy; or (4) the amount submitted by the pharmacy. This calculated price is then used to determine how much the benefit plan and how much the patient will pay at the point of sale based on the plan’s benefit and patient co-insurance and/or co-pay amounts. Normally, the benefit plan later receives rebates, including “administrative fees” when they are paid months later by drug manufacturers. We also offer a program where some plans reduce the amount paid by patients based on the amount of anticipated rebates, but most plans opt to receive the rebates after they are paid by manufacturers and use those amounts to reduce premiums or otherwise lower overall expenses.

If so, please answer the following questions:

- a. What is an administrative fee?

Navitus Response: A rebate administration fee is typically a fee that a manufacturer provides to a PBM/Managed Care Organization (MCO) for access to the formulary and for activities the PBM / MCO is providing to the manufacturer. This can include providing utilization data necessary to calculate the rebate payment.

- b. Why is an administrative fee considered a discount?

Navitus Response: Rebate administration fees are typically calculated as percent off the Wholesale Acquisition Cost (WAC). We consider it another discount available to our clients, reducing their overall costs.

- c. Are there any other fees or reductions of list price that are not considered a discount by Navitus Health Solutions? If so, please explain.

Navitus Response: No.

- d. Why are “administrative fees” considered separate and distinct from “rebates” if they are also considered a discount? Please include information about any ways in which rebates and administrative fees are considered differently by Navitus Health Solutions.

Navitus Response: At Navitus, we structure our agreements in a way that allows all of these discounts to be passed onto our clients. This is a key differentiator, as we do not use this term as a way to retain a portion of the discount. We strongly recommend that any change to the drug supply chain not limit our ability to pass through this discounts to our clients, directly or indirectly.

- e. Are all administrative fees passed through to Navitus Health Solutions’ clients? If so, how much of the administrative fee is passed through to your company’s clients?

Navitus Response: Yes, all discounts we receive from manufacturers are passed through to our clients.

- f. When Navitus Health Solutions discusses the lowest net cost drug, does it mean the lowest net cost for Navitus Health Solutions or the lowest net cost for the company’s clients—the health plan? If the administrative fee is indeed considered in determining the lowest net cost drug, could it be the case that the lowest net cost drug to Navitus Health Solutions is different than the lowest net cost drug to a Navitus Health Solutions client?

Navitus Response: When discussing “lowest net cost drugs,” we always mean the lowest net cost for our client health plans, because Navitus passes through all pricing and rebates (including rebate administrative fees) to its clients. As a 100% pass-through PBM, Navitus does incur a “lowest net cost,” as the costs are paid by the clients, not Navitus. Navitus negotiates prices on behalf of plans and then facilitates the payments from the plans to the pharmacies. Navitus also does not retain any rebate administration fees, and those amounts are all passed

through our health plan clients as well. There is no difference between Navitus negotiates and the amount our health plan clients pay.

Since Navitus does not retain any of the discounts, there is never a situation where the lowest net cost determination would be different for Navitus. We have worked hard to develop a model that removes any conflict of interest from our decision making process.