

Questions for the Record for B. Douglas Hoey, RPh, MBA

United States House of Representatives Energy and Commerce Committee Subcommittee on Health

Hearing: *"Lowering Health Care Costs for All Americans: An Examination of the Prescription Drug Supply Chain"*

May 4, 2025

Questions from The Honorable H. Morgan Griffith (R-VA)

1. I have heard from pharmacies in my district that wholesalers increase the price of generic medicines to offset the discounts they give on brand medicines. This hurts the bottom line for pharmacies and increases costs for patients paying cash price. Does this align with your perspective?

Answer: Thank you for your question. The drug distribution chain is largely opaque to those outside the system, and as such understanding the market can be a challenge. Wholesalers earn most of their profit from generic drug sales, even though generics typically represent only about 10% of total sales dollars. Brand-name drugs carry thin margins of roughly 1–3%, while generics generate substantially higher margins, often in the range of 15–40%. As a result, wholesalers structure contract terms to incentivize pharmacies to source generics directly from them, even when those generics may be priced higher than options available in secondary markets. These incentives are commonly tied to a Generic Compliance Ratio (GCR). A higher GCR improves the pharmacy's access to more favorable brand-name pricing, effectively linking brand discounts to generic purchasing behavior. Brand pricing is offered to the pharmacy in tiers, whereby the higher the GCR tier achieved the better brand pricing becomes, and if your generic compliance drops so does the rate pharmacies buy at.

Questions from The Honorable Earl L. "Buddy" Carter (R-GA)

1. We both know that PBM reform has been a long time coming. Last week's passage was a cause for celebration, but we know it is only the first step. How will CMS requiring reasonable and relevant contract terms for Medicare Part D pharmacy contracts help your members?

Answer: When three health care giants control step-by-step the patient's journey through the healthcare system, they can manipulate it to force competition out. Practices such as PBMs offering contracts to their pharmacy networks that are neither reasonable nor relevant result in inadequate reimbursement for pharmacy competitors, which stifles healthy competition, reduced consumer access to pharmacies, and increases health care costs.

This is why we were so encouraged to see the passage of the recent legislation in the appropriations bill earlier this year. Requiring reasonable and relevant pharmacy contracts in Medicare Part D will finally make PBMs play by the rules. We hope that this will mean fewer to no underwater prescription drug reimbursement claims and actual dispensing fees. Additionally, we as an industry hope this puts an end to their methods that attempt to trap pharmacies into undesirable contracts, like opt-out contracts that are faxed in with tight turnaround times.

a. Additionally, what impact will this have for patients?

Answer: For patients this means that if pharmacies are getting paid reasonable rates, there will be fewer pharmacies that will go out of business. Hopefully halting the trend of pharmacy deserts and leading to improved access to care for patients.

Also included in the PBM reforms in consolidated appropriations bill passed earlier this year was a “de-linking” provision. This provision should directly lower the cost of drugs for patients by requiring PBMs to only take a service fee instead of a percentage of the drug profit, therefore helping to remove the perverse incentive of putting higher drugs on the formulary.

2. How do the transparency policies that were passed last week, including the new study into essential retail pharmacies, help create affordability in our health care system?

Answer: Transparency in the system means that everyone, policy makers, employers, and patients will be able to realize the anticompetitive tactics that have been used in the creation of their pharmacy benefits so far and truly show how much these companies have been driving up the cost of medication over the years. We look forward to moving to a more transparent and even playing field.