



The Retirement Systems of Alabama

Jo Moore, Deputy Director for Administration

David G. Bronner, CEO

Marc Green, Deputy Director for Investments

February 19, 2025

Via Hand Delivery

Members of the Senate Banking and Insurance Committee
11 South Union Street
Montgomery, Alabama 36130

RE: SB 93 and SB 99

Dear Members of the Senate Banking and Insurance Committee:

The Public Education Employees' Health Insurance Plan (PEEHIP) covers approximately 350,000 active and retired education employees and their dependents. PEEHIP currently works with a pharmacy benefit manager (PBM) called Express Scripts to help manage our drug formulary and to provide critical price negotiations so that we can offer the highest quality prescription drug benefit to our members at the lowest possible cost. To do this, PEEHIP has diligently negotiated and partnered very favorably with Express Scripts to deliver excellent value in terms of rebate revenue and lowest overall net drug cost.

Unlike in spread pricing, PEEHIP's cost on every individual prescription is the exact same cost as what Express Scripts reimburses in-network pharmacies on PEEHIP's behalf for its non-Medicare population. Additionally, PEEHIP has a 100% rebate pass through arrangement with Express Scripts so that all rebates and dollars received by Express Scripts that are related to PEEHIP prescription drug claims are then completely passed on to PEEHIP. PEEHIP has control procedures in place to verify this on an ongoing basis. In FY24, the total of discounts and rebates provided by Express to PEEHIP was over \$751 million dollars. PEEHIP pays Express Scripts an administrative fee for the services they provide. This administrative fee totaled less than 1% of the savings provided by Express Scripts.

Alternatively, spread pricing is standard practice for fully insured pharmacy contracts such as PEEHIP's Medicare Advantage Prescription Drug Plan. In these contracts, the plan pays a set fee, and the vendor assumes all of the risk of the prescription drug claims. This is often financially advantageous for the plan and its members. If spread pricing were prohibited in Alabama such as called for in SB93 and SB99, it is unclear if these current contractual arrangements would have to change, potentially resulting in significant cost shift or increases.

Simply put, PEEHIP would not be able to achieve the same favorable net pricing without the capabilities and economies of scale provided by a PBM like Express Scripts.

Due to increasing healthcare costs, primarily for Medicare-eligible retirees, PEEHIP has requested an increase of approximately \$124 million in funding for fiscal year 2026. This is the first requested increase in nine years. In addition to the requested funding increase, the PEEHIP Board has also authorized PEEHIP to use up to \$119 million from the Alabama Retired Education Employees' Healthcare Trust Fund.

Both SB93 and SB99 mandate a change in how PEEHIP must reimburse pharmacies. SB93 requires that PEEHIP reimburse pharmacies at the average acquisition cost, which is defined in the bill as the amount compiled by Alabama Medicare as the average acquisition cost for each drug, plus the dispensing fee set by Alabama Medicaid, currently at \$10.64.¹ 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.

However, many drugs do not have an average acquisition cost available. In these instances, the bills require reimbursement at wholesale acquisition cost, or WAC, which is significantly higher than the cost PEEHIP is paying for these drugs today.

Due to the wide range of changes within the bills that would impact the economics of many points within the supply chain, it is difficult to measure the final net impact to our plan and to our members without having significant more time to properly study the newly redefined cost and resulting shifting of dollars.

Our preliminary estimated cost increases are \$31 million for SB93 and \$36 million for SB99; however, these do not include any other potential cost increases such as the loss of current contract financial guarantees from the PBM to the plan, which are highly valuable.

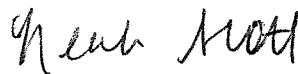
For these reasons, PEEHIP is opposed to SB93 and SB99. Thank you for your consideration of PEEHIP's concerns regarding these bills. If you have any questions, please do not hesitate to let us know.

Sincerely,



Jo Moore

Deputy Director for Administration



Neah Scott

Legislative Counsel

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.