Pharmaceutical Industry
Labor-Management Association

Supply Chain: Reality vs. Rhetoric

OVERVIEW

The Pharmaceutical Industry Labor-Management Association (PILMA) is a coalition of unions in the building construction trades and biopharmaceutical companies that are committed to supporting medical innovation to cure disease and create union construction jobs.

Over the years, the pharmaceutical industry has made enormous strides to improve, extend and save our lives. The medicines they produce have reduced hospital admissions and length of stay by better managing chronic conditions, cured deadly and debilitating diseases, and restored health and quality of life for millions. These advances are made possible through decades of research and development and represent a significant investment. On average, it costs $2.6 billion to bring a drug to market.

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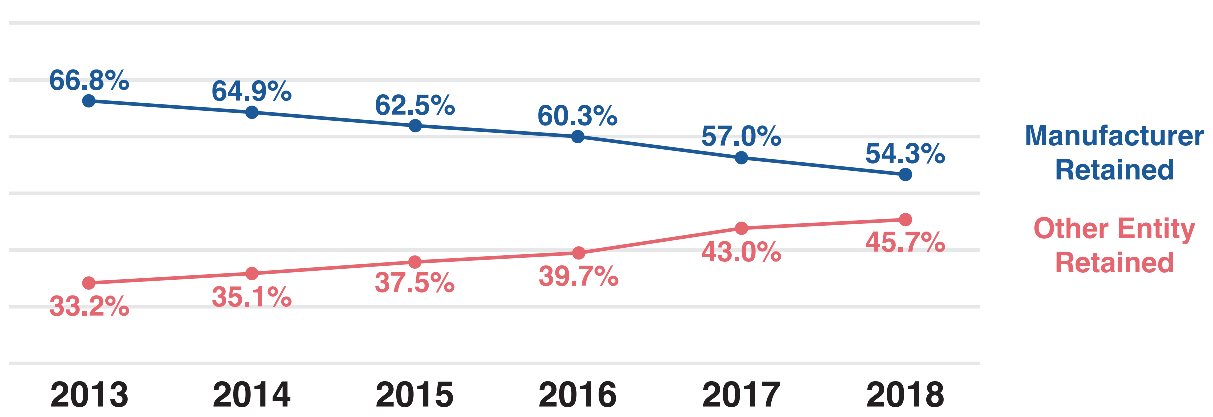
Medicines are researched and developed in state-of-the-art facilities in the U.S. Pharmaceutical companies rely on the construction trade unions to build these facilities, representing a significant source of steady income for skilled union craft workers. According to a PILMA-commissioned study, the industry supported $454 million in union construction wages from 2012 – 2017 across 11 states, a number that was projected to grow in the future.

$454 million in union construction wages

Across the country, the cost of medicines is a top concern of patients, payers, lawmakers, regulators and the industry itself. PILMA has a longstanding position of removing barriers to access for patients, including bringing down the cost of medicines for patients and union plan sponsors.

PERCENTAGE OF TOTAL SPENDING ON BRAND MEDICINES RETAINED BY MANUFACTURERS AND OTHER ENTITIES, 2013-2018

Although total brand medicine spending at the point of sale increased from $269B in 2013 to $440B in 2018, **the share of spending retained by manufacturers declined by 12.5 percentage points**



Revisiting the Pharmaceutical Supply Chain: 2013-2018

UNDERSTANDING SUPPLY CHAIN INCENTIVES

Last year, PILMA commissioned a white paper "An Understanding and Implications of the Cost Drivers in the Drug Supply Chain," authored by union health care and benefits expert Randy DeFrehn, to better understand the dynamics in the pharmaceutical supply chain that contribute to the cost of medicines.

As drug classes become more crowded, manufacturers must provide steeper and steeper discounts to PBMs and health insurers to remain competitive and have their medicines covered favorably by plans. However, **these rebates, fees, and other price concessions often go to stakeholders in the supply chain, rather than lower out-of-pocket costs for patients and union plan sponsors.**

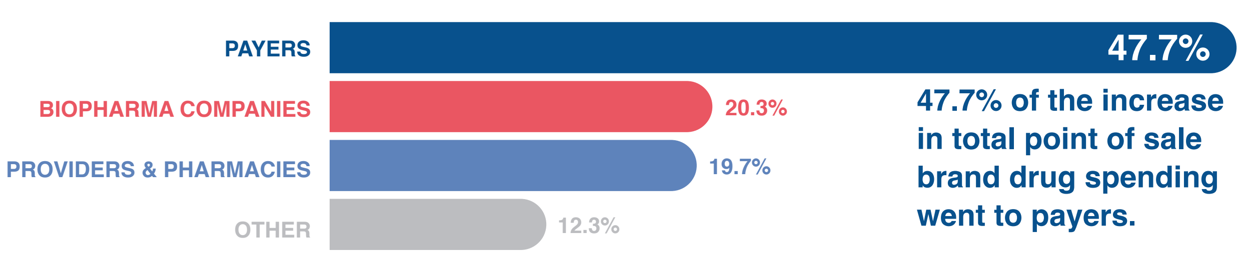
> **"The 'Supply Chain' that moves the product from the manufacturer to the patient has become larger and more complex. ... Each [link] receives a portion of the costs, but not necessarily in relation to the value they add."**
>
> **RANDY DeFREHN**

In January, the Berkeley Research Group (BRG) published a report that updates and expands on DeFrehn's findings. They found that the **"supply chain and other entities, including PBMs, hospitals, pharmacies, and payers, now retain nearly half of all spending on brand medicines at the point of sale, while the biopharmaceutical companies that researched, developed, and manufactured the medicines retain 54%."**

Nearly half of all spending on brand medicines was going to stakeholders other than the biopharmaceutical companies that manufactured the medicines.

BRG's study found that between 2013 and 2018, manufacturers retained an increasingly smaller share of total spending on brand medicines. As a result of this trend, BRG found that "[d]espite the absolute **growth in brand medicine spending** at the point of sale, which increased from **$354 billion in 2015 to $440 billion in 2018,** growth in the amount retained by manufacturers remained in line with inflation over the same period. Instead, supply chain and other entities retained an increasingly larger share of the total brand medicine spending."

PAYERS RECEIVED THE LARGEST SHARE OF THE INCREASE IN TOTAL BRAND DRUG SPENDING BETWEEN 2015 AND 2018



* "Other" includes wholesaler and provider margins, patient cost sharing assistance
Note: payers include health plans, PBMs, the federal and state governments, and employer groups

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SOLUTIONS

Both DeFrehn and BRG agree that these trends will continue into the foreseeable future unless new legislation to reform the supply chain is enacted.

DeFrehn notes that “in the end, the recurring theme is one of a need for greater transparency in contracting and pricing in this industry. As with any such change, it will be far better for the supply chain vendors to devise new pricing schemes which better reflect the added value of the services provided to address these concerns, than to wait until more draconian structures are imposed.”

Last year, PILMA adopted a resolution supporting policies which require PBMs and other recipients of rebates, discounts and other favorable pricing savings pass on such savings, so they directly benefit patients and participants of jointly managed plans. PILMA believes this is a commonsense policy and will call on policymakers to enact legislation that lower patients’ out-of-pocket costs without jeopardizing current and future biopharmaceutical innovation, and the jobs the industry supports.

PILMA RESOLUTION:

PATIENTS’ OUT-OF-POCKET COSTS AND THE BIOPHARMACEUTICAL SUPPLY CHAIN

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UNION JOBS REPORT

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PILMA.org

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