

July 17, 2018

The Honorable Elizabeth Warren
United States Senate
317 Senate Hart Office Building
Washington, DC 20510

Dear Senator Warren:

I am writing in response to your June 29th letter to Larry J. Merlo, regarding Secretary of Health and Human Services (HHS) Alex Azar's recent comments before the Senate Health, Education, Labor and Pensions (HELP) Committee.

Today the high cost of prescription drugs is one of the nation's most pressing issues. At CVS Health, we are addressing this challenge comprehensively by negotiating lower drug prices and reducing out-of-pocket costs. In fact, for our PBM clients, including employers, unions, health plans and government programs we serve, we have kept drug price growth at a minimal of 0.2 percent in 2017, the lowest in five years, despite manufacturer brand list price increases on drugs near 10 percent. Further, over 30 percent of our clients spent less in 2017 than they did in 2016 on prescription drug costs.

Our concern with consumer drug costs motivated us to launch the most comprehensive program in the industry to help patients save money on their medications through pricing transparency at the pharmacy counter and at the point of prescribing available in the physician's office, so patients, pharmacists and doctors can work together to find the most affordable prescription. For prescriptions written by physicians using these real time benefits and filled by a Caremark member, when a lower-cost preferred alternative is presented, physicians are switching to the lower cost alternative 40 percent of the time. In these cases, the member cost was \$130 lower per fill, compared to the original non-preferred drug selected. Under our real time benefits initiative, physicians are switching to a covered drug 75 percent of the time when the original drug is not covered.

We also encourage the use of preventive drug lists especially in high deductible health plans that make medications for many common chronic conditions available at zero dollar copay. And in fact, we provide this benefit to our own employees. As a result, we have seen our generic dispensing rate increase, reducing costs for both CVS Health and our employees. Our employees' medication adherence to their preventive drug regimens for many chronic conditions has improved, and our research shows that health care costs for patients with these conditions are reduced when they take their medications as prescribed.

Additionally, many of our clients provide rebates at the point-of-sale, which we offer to all clients, and can help reduce patients' out of pocket costs. This program began five years ago and today negotiated rebates are passed directly to approximately 10 million CVS Caremark members.

With more Americans now covered through a high deductible health plans (HDHPs) with an associated health savings account (HSA), millions of consumers are seeing higher-out-of-pocket costs on the part of the benefit they use most—their prescription drug coverage, because they may not have full prescription coverage until they have met their deductible. Under current Internal Revenue Service guidance for HSAs, only certain preventive products and services may be covered by a high deductible health plan prior to satisfaction of the minimum deductible. We have proposed that the IRS should expand the definition of coverage of preventive products and services to include products for managing chronic conditions, or to allow a high deductible health plan to cover drugs prior to satisfaction of the deductible, which would help these plans provide more first dollar coverage at the pharmacy counter, improve medication adherence, and health outcomes.

Regarding Secretary Azar's comments that drug companies would like to lower prices but the pharmacy benefit managers have not been cooperating, I want to assure you that this is not the case for CVS Health. Please see below for answers to the questions in your letter to Mr. Merlo.

1. Has your company, since May 11, 2018 (or prior to that date, if it was related to the Trump Administration drug pricing initiative) engaged in any discussions with drug companies seeking to reduce their prices? If so, please provide additional detail on these discussions, including information on the company, the drug, and the extent and nature of proposed price reductions.

As a pharmacy benefit manager through CVS Caremark, CVS Health negotiates regularly with drug manufacturers for the lowest possible net cost. We have had very limited discussions with drug companies related to the Administration's drug pricing initiative. Where we have had discussions, we have emphasized our advocacy for our clients and individual patients in the context of our interactions and our negotiations, and we have reiterated that we do not instruct manufacturers on price setting.

We do not tell manufacturers they should raise or lower prices or how to set prices for new products, but we have expressed our willingness to work together on solutions to lower drug prices, as we have done in the past.

2. Have you received any commitments of lower list prices from drug manufacturers?

Yes. We were notified that Pfizer was increasing prices on many of their products effective July 1, 2018. After adjusting our systems to reflect the new Pfizer prices, Pfizer indicated on July 12, 2018 that they were reducing prices back to the level prior to the July 1, 2018 increase effective July 16, 2018.

3. How did your company respond to these efforts?

When notified of the Pfizer price increases and subsequently the price decreases we adjusted our systems accordingly to reflect Pfizer's established prices.

4. Have you “pushed back” against any of these offers by drug companies of lower list prices?

No. We do not instruct manufacturers on how they price their products. Consistent with that practice, we have not as part of the current dialogue or in any other circumstances, instructed manufacturers not to lower their prices. We have expressed our willingness to work together on solutions to lower drug prices, as we have done in the past.

5. Have you stated or implied in any way that you prefer that drug companies not reduce prices or prefer that they would charge higher prices?

No.

6. Have you stated or implied in response to any offers of price reductions for a drug that you would remove this drug from your formulary?

No. The use of formularies helps reduce drug costs and improve medication adherence. Our formulary is approved by an external panel of experts, known as the Pharmacy and Therapeutics Committee. Formulary decisions are based on medical evidence, including guidelines from leading medical specialty societies. The net cost of clinically appropriate alternative products are reviewed to make formulary placement recommendations. We have not told manufacturers that we would remove drugs from the formulary in response to price reductions. Any such decisions would be made in the course of our review of the relevant class of drug products. We have and will continue to communicate to manufacturers that we will continue to work as advocates for our clients in order to negotiate the lowest price possible.

7. Have you received “suggestions or approaches from drug companies for lower list prices?” If so, what has your reaction been? Have you stated or implied that if any drug manufacturer were to decrease their price they would “actually be harmed in terms of formulary status, and patient access, versus [their] competitor who has a higher price?”

No. Our formulary review process is described above. We do not instruct manufacturers on how they price their products. Consistent with that practice, we have not as part of the current dialogue or in any other circumstances, instructed manufacturers not to lower their prices.

8. If a manufacturer were to indicate that they intended to reduce their list price, what would your reaction be? Would you welcome and implement this offer in a way that reduces costs for consumers?

We have and will continue to work tirelessly on behalf of our clients and individual patients to lower overall drug costs. We have expressed our willingness to work together on solutions to lower drug prices, as we have done in the past.



Please do not hesitate to contact me if you have any further questions.

Sincerely,

A handwritten signature in black ink, reading "Melissa A. Schulman".

Melissa A. Schulman
Senior Vice President
Government and Public Affairs