

RPEC TODAY!

Winter 2019

Your Voice for Retirement Security

Our mission is to unite retired public employees for their mutual benefit and welfare.



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What are Pharmacy Benefit Managers and Why Should I Care?

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1-800-562-6097
info@rpecwa.org
www.rpecwa.org

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President's Letter - Kandy Kraig

Winter has finally arrived and many of us have experienced the effects of the recent storms across the state, but we're looking forward to spring for the grass to start growing again, flowers blooming and the sunshine to shine our way forward in 2019 to protect the benefits of retirees.



I would like to acknowledge Maria Britton Sipe, who served as Executive Director for five and a half years. She has truly made a difference for all retirees with her tireless dedication and expertise in pensions, budgets, medical coverage. She has always looked at the big picture on legislation and making sure that she informed all parties as to what's on the horizon. We will miss her knowledge, energy, and passion that she brought to the job as she returns to Illinois AFSCME Council 31.

We are now moving forward with the process of hiring a new executive director. We will notify members when a new person has been hired. In the interim, the RPEC Executive Committee has appointed James Cockburn. James will continue his role as membership coordinator as well. We look forward to a seamless transition in hiring a new director who will make a difference for all of our members. James brings the knowledge and experience he has learned from Maria and will do an excellent job in the interim.

Our 2019 Legislative Day was a huge success. RPEC members met with their legislators to express our legislative priorities which were passed at our convention. Please continue to sign up for our email-legislative alerts to keep up to date with legislation that impacts retirees.

Executive Director's Note

- James Cockburn

As I step into the role of Interim Executive Director, I want to thank Maria Britton-Sipe for her hard work and dedication to retirees in the State of Washington. Her passion and leadership will be greatly missed by all of us. Fortunately, she leaves a legacy of building up the strength of the organization and has left it in the hands of our very capable Executive Board members.



I appreciate the trust the Executive Committee has placed in me during this transition period and I look forward to working with our skilled and committed leaders to keep the organization moving in the right direction.

I have a passionate belief in this organization being "the voice for retirement security" in Washington State and I am honored to work on behalf our members to protect what they have earned.

RPEC has been able to achieve some significant victories in recent years and none of it would be possible without the persistence and hard work of our members. Despite many challenges and setbacks, retirees have shown that they are not willing to sit quietly while their quality of life is being challenged by shortsighted lawmakers who seek to balance the budget on the backs of seniors.

As we move forward into the 2019 Legislative Session, we have the

opportunity to build on the momentum that our member's efforts have created. We will be working to continue to address the lack of a COLA for Plan 1 members to ensure all retirees can maintain their purchasing power. We also continue to put pressure on the Legislature, PEBB, and the Insurance Commissioner's office to ensure all retirees have access to quality, affordable, and comprehensive medical coverage.

These efforts depend on members continuing to engage by attending their chapter meetings, calling and emailing their elected officials, and attending our events.

I am very excited about the future of RPEC and I look forward to working with our members to build up this organization further.

Political Participation Options - RPEC PAC

RPEC members can now take part in political giving in two ways, due to a resolution passed at the 2018 convention. While members can still contribute to candidates that support our issues through AFSCME's PEOPLE Program, now members also have the option of giving to RPEC's own PAC. One difference is that RPEC's PAC is limited to candidates running for state office only. If you are interested in more information, you can either download the form from the RPEC website (<http://www.rpecwa.org/rpec-pac-deduction-form>) or call the office at 1-800-562-6097.

2019 Legislative Bill Status

The following is a list of bills in the State Legislature that RPEC is in **SUPPORT** of:

HB 1390/SB 5400 - Providing a one-time 3% increase, capped at \$62.50/mo to PERS/TRS Plan 1 Members (COLA).

HB 1085/SB 5469 - Requiring the State to cover at least 50% of the monthly premium for Medicare-eligible retirees under PEBB.

HB 1308/SB 5360 - Addressing plan membership default provisions in PERS, TRS and SERS.

HB 1065/SB 5360 - Protecting consumers from charges for out-of-network health care services.

HB 1132/SB 5314 - Concerning early retirement options for members of the TRS and SERS Plans 2 and 3.

HB 1414/SB 5335 - Paying state retirement benefits until the end of the month in which the retiree or beneficiary dies.

HB 1224/SB 5251 - Concerning prescription drug cost transparency.

HB 1220/SB 5275 - Adding a nonvoting representative from the office of the insurance commissioner to the Public Employees' Benefits Board.

HB 1172/SB 5314 - Assisting Washington families by improving the fairness of the state's tax system by enacting a capital gains tax and providing property tax relief.

SB 5184 - Concerning prescription coverage and the use of nonresident pharmacies.

For a comprehensive list, visit our website at www.rpecwa.org for the current Bill Summary.



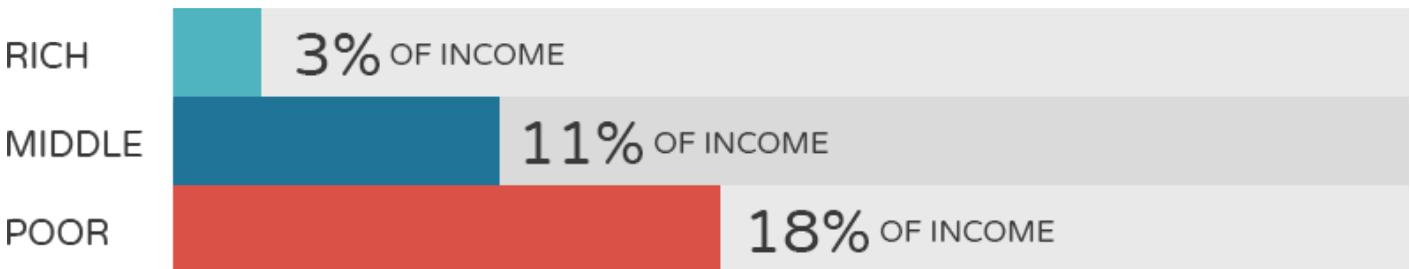
WASHINGTON'S REGRESSIVE TAX STRUCTURE'S GROWING IMPACT

- Washington Budget and Policy Center & Balance Our Tax Code

Washington is a great place to live, work, and raise a family. There's nowhere we'd rather live. We can lead the nation in education, natural beauty, healthcare, and prosperity -- but one big roadblock holds us back. Despite everything that's great about Washington, we can't ignore that the tax code is upside down and working families pay the price.

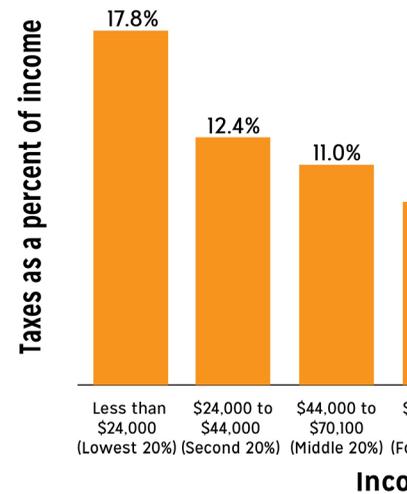
The Problem

Our tax code is completely upside down. In fact, Washington has the most unbalanced, broken tax system in the country. That is because powerful special interests have manipulated the tax code by inserting tax breaks and special deals that only benefit themselves. Our state's combination of tax loopholes (HOW MANY), reliance on sales and property taxes, and special deals mean the wealthiest get richer while regular working families pay more -- as much as 6 times the rate the wealthiest pay.



Washington's worst Highest rates for

Washington state and local taxes as a



Chapter Spotlight: Getting to Know Your Board Members

District #1 Board Member Joel Hall

Chapter 7 - Whatcom County Area, representing Chapters 6, 7, 8, & 37

When did you retire and from which agency?

I retired in 2011 from Western Washington University as the Program Director for The Western Front Newspaper and other publications.

Why did you join RPEC?

I wanted to stay active in the union and keep up to date on political affairs, and I had concerns about the protection of my

pension.

What do you enjoy most about retirement?

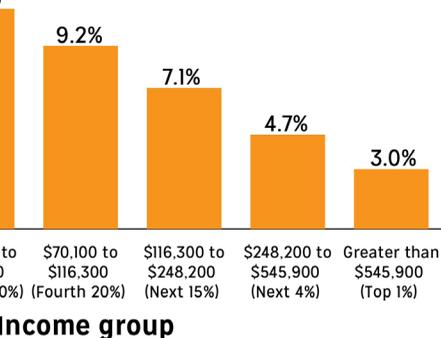
I enjoy having time to enjoy volunteering, playing music, having a laid back lifestyle, and having things on my own schedule. I also enjoy not having a boss!

What is your biggest concern about retirement?

My pension is very modest, but I depend

St-in-the-nation tax code: for those with the least

as a share of annual income by income group



This leaves many seniors facing tough choices in order to pay their property and other taxes while also seeing a rise in the cost of goods and services. The struggles are compounded by the fact that retirees under Plan 1 have only seen one small 1.5% COLA since 2011 and continue to be challenged by rising prescription drug costs.

The Solution

While no solution will completely fix the system overnight, we must begin to take steps to create equity. A capital gains tax would tax profits made from the sale of stocks, bonds, and other financial investments. There are different details in different proposals that have been made, but consistent is that the only taxpayers affected would be extremely wealthy. Depending on the details, a capital gains tax could raise from \$1.6 to \$2.4 billion and affect between 0.2% and 1% of Washington taxpayers. Different proposals have required taxpayers to profit anywhere from \$25,000 to \$300,000 in capital gains in a single year before being taxed – thresholds that few Washington families

reach.

The capital gains tax we're proposing also includes reasonable exemptions so that those not ordinarily considered "rich" wouldn't be affected. The tax wouldn't apply to the sale of primary residences, farmland and equipment, timber, and the sale of genuinely small businesses (grossing less than \$7,000,000 per year) for retirement.

A capital gains tax is a thoughtful, responsible way to balance our tax code and raise the revenue necessary to make the investments we need in our state's future.

For more information or to join the effort, visit www.balanceourtaxcode.com

on it to make ends meet. I am very thankful that we, as public sector retirees, have RPEC to fight on our behalf to protect our hard-earned benefits.

What it is fun fact that you are willing to share?

I am the proud father of public-employer daughter, who is a member of PERS 2, working for Snohomish County Community Transit.

What do you hope to accomplish on the Executive Board?

I wish to work to support access to defined benefit pensions for all Washingtonians both public and private sector. I also would like to see more acknowledgment for the hard work and accomplishments of our local RPEC chapter leaders.

Joel has been a member of RPEC since 2012 and has served as the Chapter 7 (Whatcom County) President since 2013.



What are Pharmacy Benefit Managers and Why Should I Care?

Prescription drug prices are skyrocketing at an alarming rate and popular blame points squarely to drug companies. Most consumers, legislators and regulators have no idea there are middlemen who manipulate the prices patients pay for medications. These same middlemen dictate the type of medical care patients are allowed and decide how much pharmacies will be reimbursed for the drugs they dispense under the health plans benefit. They also set the amounts of patients' co-payments and co-insurance premiums paid to the health plan.

Who are these middlemen? They are called Pharmacy Benefit Managers (PBMs), health-plan subcontractors given total control over a plan's prescription drug benefits. PBMs create, design, implement and administer health plan's prescription drug coverage, wielding tremendous control over which prescription drugs a health plan will cover and patients' out-of-pocket costs for drugs.

It's a little-known fact that when patients get their prescriptions filled at a pharmacy their insurance card lists the PBM that processes ALL prescription drug claims. When a pharmacist processes patients prescription drug claims for their patients, it's the PBM controlling medication decisions. They are the authority responsible for how much patients pay, switching patients to different drugs or forcing the use of mail order pharmacies that they often own. They have the authority to raise drug prices and prohibit patients from realizing cheaper alternatives - with zero oversight, zero accountability and zero transparency. In fact, there are no laws requiring them to have a license to conduct business in Washington State!

PBMs got their start in the 70's as useful claims processors when insurance companies expanded their coverage to include prescription drugs and they turned to a "middleman" to process enrollees prescription drug claims. For just a small fee per claim, these processors took care of all those prescription claims, not only for insurers, but also for self-insured employers and even certain state and federal government agencies.

As time passed, PBMs began to exert more

and more control over consumer's prescription-drug benefits. They developed formularies and mandated which medications doctors and pharmacies could prescribe patients, and under what circumstances. They grew into large corporations' intent on pursuing profits at the expense of quality patient care and began to concentrate their power. Many smaller PBMs were gobbled up by larger ones, purchased by health plans themselves, or by large drugstore chains.

Today, PBMs market themselves as cost savers. Meanwhile, drug and health plan costs keep going up while PBMs consolidate unregulated power, influence and wealth at the expense of the health plans, consumers and providers.

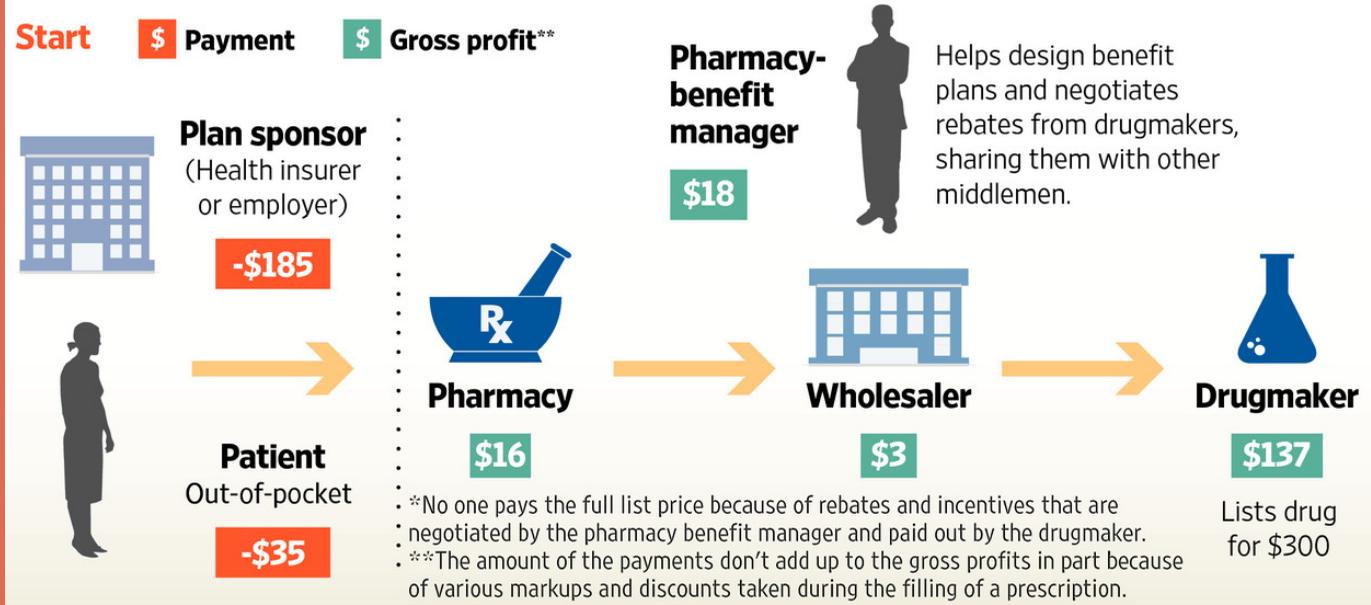
Transparency doesn't exist in their world because PBMs require confidentiality with health plans, patients and pharmacists. Only they know the provisions and costs applied to health plans, or the restrictions and mandates place upon patients and providers. They routinely prohibit or financially penalize patients for using local community pharmacists, while implementing new tactics such as switching patients to PBM owned, out-of-state, mail order pharmacies. They have been known to place gag orders on pharmacists, prohibiting them from informing patients when it might be cheaper for the patient to pay cash for their drugs and often switch patients' drugs without prescriber involvement. Worse yet, they dictate all the terms and conditions of the health plans prescription drug benefits, setting the amount of patient drug co-pays and co-insurance and collect those from providers with zero oversight. They operate as they wish, charge what they want, hinder patient and provider relationships with no laws or regulations to hold them accountable or provide oversight with their business dealings.

How do they make their money? The main ways PBMs extract their profits is via rebates, administrative fees, pricing spreads, direct and indirect remuneration (DIR) fees and forcing patients to use PBM owned mail-order and specialty pharmacies.

A rebate is a discount on a medication a drug manufacturer gives a PBM in return for the PBM agreeing to cover the drug manufacturer's product. They receive billions of dollars in rebates from manufacturers for increasing market share. Only a portion of those rebates are shared with the health plan and a PBM pockets the rest.

Sharing the Wealth

Here is how profits are shared from a brand-name drug with a list price of \$300*. Of the middlemen involved in the process, a pharmacy benefit manager gets the biggest gross profit of \$18.



Health plans pay PBMs administrative fees for the prescription drugs dispensed to plan members and for collecting the premiums from patients.

In retail, pharmacy “spreads” are the practice of charging the employer/insurer an amount greater than the pharmacy was paid.

- Example: Employer gets charged \$28.00 for a prescription, but the pharmacy was only paid \$12.00. The PBM artificially inflated the cost of the prescription by \$16.00 and pockets the entire \$16.00.

PBMs have long avoided both the spotlight and marketplace constraints of meaningful regulatory oversight or transparency. They operate in a black box, extracting money from the prescription drug supply chain and significantly profiting on prescription spiraling drug prices. This is very unfortunate for patients, pharmacies and taxpayers.

DIR fees are essentially a “catch-all” term designed to bundle various different types of “fees” including fees for network participation and reimbursement reconciliations. These fees are collected from pharmacies after claim adjudication. PBMs have used DIR fees to assess a “true-up” between an anticipated reimbursement rate in a participating pharmacy agreement and the aggregated effective rate actually realized by a pharmacy. In addition, DIR fees are taken from pharmacies to encourage the fulfillment of various quality measures.

There are various PBM models. Some PBMs

(transparent) assess a percentage or set fee per claim while others utilize a “spread pricing” model which is more lucrative, deceptive and extremely problematic.

Three PBMs dominate the market and are publicly traded - OptumRx, CVS Caremark and Express Scripts. They utilize “spread pricing” models. These “cost saving entities” collect over \$200 billion a year to manage prescription benefits for health plans covering around 300 million Americans including government programs.

All three PBM's are on the 2018 Fortune 500 List. OptumRX and CVS Health are in the top 10 with Express scripts listed as 25th. All three have either merged with or are in the process of merging with major health insurance companies.

The expansion of the PBMs' role and income illustrate the opportunities for taking advantage of America's fragmented healthcare system. PBMs originated as intermediaries to help health plans efficiently process pharmacy claims, and allow insurers to combine their customer bases for greater leverage in negotiations with drug manufacturers. In the 1990s, some of the biggest PBMs were acquired by drug companies, creating conflicts of interest that led to federal orders for divestment. The next phase was a wave of mergers and acquisitions within the field, followed by insurer acquisitions and pharmacy companies like CVS (retail pharmacy) acquiring Caremark in 2007 and UnitedHealth merged into OptumRx in 2015.

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Retired Public Employees Council

of Washington

906 Columbia Street SW, Suite 501
Olympia, WA 98501-1240

Your Voice for Retirement Security

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The increasing mergers should scare everybody, since Pharmacy Benefit Managers (PBMs) are largely unregulated. However, there are various patchwork pieces of legislation being passed at the state level attempting to better regulate PBMs. Without state and federal legal foundations laid, PBMs will find ways to skirt the few laws that have been passed.

PBMs claim that state insurance laws apply to them, however, when complaints are filed with our Office of Insurance Commissioner (OIC) over their business practices, pharmacies are told the OIC has no clear authority over PBMs because the laws on the books only apply to insurance companies. In fact, three years ago, WA State Insurance Commissioners' office staff had no idea the actual role PBMs play in the health care drug delivery system.

The difficulties and the problems caused by unregulated PBMs are growing quickly and becoming an unavoidable snare in our nation's health care system – a health-care entity operating with no laws that directly apply to them, and under zero transparen-

cy requirements with no recourse for billing practices. They don't have to prove they are saving money. Health plans and pharmacists must abide by specific laws and answer to an agency that will enforce those laws. Consumers have consumer-protections laws with provisions aimed at making sure the consumer is not being exploited. PBMs do not operate under any such laws, because there currently are none that apply to them.

It's time for Washington State to pass laws that create regulations to hold PBMs accountable. Like any other business entity in the state, there should be a law to require PBMs to obtain a license and laws to regulate their activities.

Prescriptions drug costs are increasing and a contributor in their climb are PBMs. The curtain needs to be raised on all non-transparent drug cost factors. Lawmakers, regulators and consumers need to be aware of the impact PBMs have on the prescription drug delivery system, because PBMs are operating unchecked at the cost of good health for our state's citizens.



Contact Us

Retired Public Employees Council | 906 Columbia St SW, Ste 501 | Olympia, WA 98501
1-800-562-6097 | 360-352-8262 | Text Alerts: Text **RPEC** to **237263**
info@rpecwa.org | www.rpecwa.org | www.facebook.com/rpecwa