

To the members of the House Health & Insurance Committee:

I write to offer brief testimony on House Bill 1237, relative to the use of online reverse auctions for the state's Pharmacy Benefits Management contracting.

I write for my organization, the Josiah Bartlett Center for Public Policy, New Hampshire's free-market think tank.

Last year, we did a study to analyze what the impact would be on New Hampshire if the state switched to an online reverse auction for its PBM contracting.

Our study found that New Hampshire could realistically save between \$17.9 million and \$22.2 million a year by switching to an online reverse auction system for awarding its PBM contracts. We are a small state. The potential savings for Colorado obviously would be much larger.

Our research found that private sector businesses and the federal government regularly use online reverse auctions to save substantial sums of money when issuing requests for proposals (RFPs). The savings come from the online reverse auction process itself.

In brief, online reverse auctions give the state the advantage in the PBM contracting process. Unlike traditional RFPs, in which PBM bids might be based on very different drug formularies, the online reverse auction process gives the state greater control of the process and forces bidders to compete more aggressively through multiple rounds of bidding.

The online reverse auction infrastructure further provides the state with the means to easily audit contracts to see that the terms are being met.

The savings potential was so large that in New Hampshire our organization, which favors free markets and limited government, joined with state employee unions to promote the benefits of switching to an online reverse auction process. We all agreed that the online reverse auction would save taxpayers and state employees money. It offered a win-win for everyone.

Crucially, using an online reverse auction process for state contracts (including but not limited to Pharmacy Benefits Management) offers a way for the state to save taxpayer money without cutting any services. It offers savings simply by making the RFP process more competitive, which drives down prices.

Our study used a middle-of-the road average to calculate savings, likely underestimating the high-end of the potential savings.

Our study can be found online at <https://jbartlett.org/wp-content/uploads/JBC-Reverse-Auction-For-PBM-services-Study-Winegarden.pdf>.

Sincerely,

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