INNOVATION HORIZONS
TRANSFORMING IDEAS INTO ACTION

Driving for Transparency and Value in Pharmacy Benefit Management Services

Gregory Downing, D.O., Ph.D.
Founder, Innovation Horizons

Pharmaceutical expenditures have risen faster than any other aspect of health care delivery with prices of widely used brand-name drugs increasing more than 120 percent since 2008. [1]

Today, faced with staggering costs and complicated prescription drug purchasing programs, employers commonly opting to use pharmacy benefit managers (PBMs) for services that are separated from their beneficiary health plan offerings. PBMs, are now used by many health plans, employers, self-insured employers, and government payors to provide pharmacy services to their employees representing more than 250 million Americans. [2] *Some employee benefit managers leverage the PBM contracts to not only provide payment programs for their beneficiaries, but also to provide greater value by enhancing their pharmacy benefit program through formulary services, medication adherence programs, and initiatives that contribute toward enhancing performance measures of health outcomes.*

Often, employers feel that a lack of consistent and transparent measures can lead to unease about how well their PBM programs are performing. They seek guideposts and insights to balance the variables of their purchasing power, beneficiary satisfaction in pharmacy services, and the health outcomes as a result of medication interventions. Corporate executive teams are increasingly under pressure for accountability on health care expenditures, and pharmacy benefits programs are a key target for scrutiny.

As health care costs continue to rise and the national attention to high priced drugs grows, employers and purchasers of health care seek transparency on PBM programs, and foresight into the management of their programs into the future. Here we address business strategies that executives may wish to consider in order to control costs and seek greater returns on their PBM contracts, particularly, during a period of rapidly rising pharmaceutical prices and heated national policy debates about them.

The Current State of Play of Employer-Sponsored Pharmacy Benefits Programs

Employers and purchasers of health care are constantly gauging the shifting winds of health care pricing trends and monitoring the changing needs of their employees. Today, executive teams are pressed for time and lack the longitudinal and comparative data on costs and performance about employee pharmacy services to enable an effective corporate or government purchasing strategy to be developed. Leveraging a third-party administrator for prescription benefits and pharmacy services through a pharmacy benefits manager (PBM) has increasingly been the trend that started in the 1970s. Today, 3 national PBM firms service more than 80 percent of the contracted pharmacy services programs in the United States. In recent years, the consolidation of PBMs firms is one aspect of the broader merger and acquisition trends that are occurring across the health care delivery enterprise. The results include decreasing competition for PBM services and an intertwined, complex array of business arrangements across retail marketplaces, health insurance plans, and pharmaceutical manufacturers; one that can be extremely difficult for an employer to navigate on behalf of their employees. PBMs do provide advantages to meet consumer needs and opportunities for providing valuable population health benefits such as improved compliance, health information dissemination, adherence monitoring, and patient safety, such as with opioid prescribing. However, the resultant complexity and integration of PBMs creates opportunities for conflicts of interest, lack of true price transparency, and inconsistencies that can leave human resource managers increasingly vulnerable as more high cost specialty drugs enter the market, unforeseen cost-shifting as a result of direct and indirect rebates with pharmacy networks, and lack of control and accountability over their pharmacy benefits programs.[3]

Today, PBMs are subject to increasing scrutiny as policy makers and consumer advocates have questioned their ability and incentives to lower prices and improve value. Policy reforms are likely to follow and employers and health plans will need to follow closely the trends regarding rebates in spending and how price transparency can affect out of pocket expenditures for consumers.

What are the key roles that employers anticipate that they receive from their contract arrangements with PBMs? Much like other health care benefits programs that employers negotiate, the primary objective is to make sure that beneficiaries are given reasonable access to their health needs, i.e., medications, and at responsible price for the consumer and employer. With the passing of the era when many providers dispensed medications for the patient, the need emerged for an entity to navigate a complex delivery system of providers, pharmacies, suppliers, and regulators thereby opening the door for PBMs in the middle of the pharmacy delivery and payment system. As reliance on PBMs grew, so did the scope of the services that

employers negotiated with PBMs to provide. These include the negotiating rebates on behalf of the employer, operating mail pharmacy delivery services, providing medication compliance programs, processing claims between patients and pharmacies, managing health plan formularies (an increasingly complicated domain with many new specialty medications), and distributing medications through a pharmacy network. This scaling of responsibilities supported by PBMs and the benefits derived from their services can be difficult for human resource managers to harness when designing benefits strategy without the requisite tools, data, and insights.

Prevailing Winds of Change - Health Care Financing Reforms Are Coming to Pharmacy Services

Undoubtedly, purchasers of health care plans are now well versed in the unrelenting rapid pace of change in health care financing. These influences are now washing ashore for pharmacy benefits programs. Amidst the opportunity and challenges these bring, executives need accurate and in-depth business insights to understand the choices they face with each new contract.

Changes in the consumer marketplace and insurance purchasing is also affecting employer pharmacy benefits programs. As most employers have begun to offer a consumer-driven, high-deductible health plan as an option, their employees become exposed to these dramatic changes in drug prices. For employees who have their first encounters with the unexpected experience, particularly for those with fixed co-pay histories, this can be shocking. For consumers, there is often no real clear explanation for price hikes they encounter from one prescription fill to the next. In a consumer-centric plan, the purchasers are on the hook for the a greater proportion of the cost of services.

Over the last decade, government and commercial payors have been directing resources to shift from fee-for-service models to value-based care programs. These transformative pay-for-performance approaches to health care providers and hospitals are designed to align incentives and eliminate unnecessary spending among key components of the health care delivery enterprise. Today, most pharmacy benefits contracts are structured in a fee-for-service model wherein the PBM is paid to perform certain functions such as eligibility determination and prior authorization reviews. In the future, it is likely that pharmacy benefits programs will be included among some performance-based contracts that will align risk with factors that reflect the interests of purchasers, such as patient satisfaction, appropriate uses of lower cost generics, and other added quality enhancing services. Further, a performance-based payment system provides greater incentive for transparency in the cost chain and places added incentives upon the PBM to closely monitor and provide accurate cost management features that are consistent with their client's contracts specifications.

Knowing Where You Are and Examining the Options in Pharmacy Benefits Design

Corporate executives have additional needs to understand their costs beyond the impact on the balance sheet. Employers also play an important role as communicators of these trends in pharmacy services and pricing to their employees. Increasingly, government and corporate employers are being held accountable to health outcomes and community benefits. Armed with data and insights, human resource managers can provide clarity and anticipatory guidance to employees as they make choices about their health care futures. What are some of the ways to accomplish this?

Follow the Money

As part of their contracts with employers, PBMs

create and maintain the formulary that defines the drugs covered by the plan, the payment amount and co-pay terms that are staggered by tiers to address the prices paid for generic drugs, specialty generics, brand label drugs, and specialty brand drugs. In their roles PBMs negotiate the dispensing rates paid to pharmacies, discounts, and rebates with pharmaceutical and biotechnology manufacturers. Prescription drug rebates paid to PBMs can make up 40 percent or more of the average wholesale price of the drug. This way, PBMS can negotiate confidential rebates as a tool to overcome high drug prices set by brand-name manufacturers. Employers and commercial health plans have a limited capacity to assess how the rebates yield cost-savings for their members if the terms of the PBM contracts with suppliers are not specified. In some cases, this rebate process may incentivize PBMs to support higher priced brand products if the rebates in such cases are favorable to them, thereby increasing costs to the employer and beneficiary.[4] In some cases, the rebates and formulary control processes have led to higher profits for the PBMs from the copays beneficiaries pay. Recent research showed that co-payments for some drugs for many Medicare Part D patients were higher than the cash price one would pay for the same prescription.[5]

The rapid rate of growth in basic generic prescriptions is also a cause of growing concern among purchasers and policy makers. Increasing numbers of new pharmaceuticals and biologic specialty drugs can have disruptive impact on employer benefits programs if not anticipated and planned for in the annual contracts.

When negotiating their pharmaceutical benefits, employers should ask for more transparency in their PBM contracts so they can keep track of hidden costs. Employers and health plans can attempt to estimate the actual price PBMs are paying manufactures and stipulate that a proportion of the discounts be passed along to the plan or employer. Further, benefits managers can seek to understand administrative fees and payment to pharmacies to enable a better understanding of the differential gains by the PBM. Armed with more complete information on pharmaceutical spending, employers can educate beneficiaries on how to get the best value available on their prescriptions.

Consider New Pharmacy Benefits Purchasing Options

There are other trends on the horizon that may substantially affect the business model of PBMs and their relations with health care purchasers.[6] Some PBMs have established new models that will apply cost-effectiveness pricing strategies in their formulary. Additionally, PBMs are offering options to employers and health plans to select from a two-tier formulary system that enables the choice of the current formulary with rebates and high list prices or a formulary with lower list prices absent rebates. To leverage these new models effectively, purchasers will need a thorough understanding of their past performance, service utilization, and preferences of their employees to enable successful transitions and achievements of goals.

In addition, the impact of vertical alignment among stakeholders in pharmacy services, such as the merger between Aetna and CVS, may spur additional changes in incentives among PBMs. ***Reforms to enhance the value side of the PBM service should include diversification of business lines away from rebate models, enhanced care coordination, integration of data to optimize population health interventions, and incentivizing providers to use cost-effective disease management strategies.*** For executives charged with leading their negotiations for pharmacy services, you should ask PBM contract representatives about these options and be able to describe what their strategies are for enhancing the value to your company or agency.

The entry of Amazon into the pharmacy distribution market with the acquisition of PillPack and its remote distribution of individualized medications for chronic disease could trigger other

forms of disruption to community pharmacy models and PBM mail-order services. Additional models could lead to ***further*** integration with PBMs in the future that would leverage their relationships with providers, pharmaceutical manufacturers, and provider groups particularly through data integration, analytics and business insights. Employers can view these changes as creating opportunity to enhance benefits and increase value to their beneficiaries or create additional barriers to transparency and flexibility of plan design and contract specifications.

Conclusions

The management of pharmacy benefits programs by human resource managers is an increasingly important facet of health care delivery and the compact that employers hold with beneficiaries. The complexity of the financial terms coupled with dramatic price increases and arrival of new therapies enhances the challenges with managing cost and maintaining high quality access and pharmacy services. As policymakers and consumers raise their concerns and expectations for pharmacy benefits, increased transparency, access and use of data, and innovative solutions to address and sustain the value of PBM services will continue to be a high priority across the health care enterprise.

The current system of employer and government purchasing of pharmacy services lacks clarity and there are not incentives in place for PBMs to make data transparent. Careful navigation and expertise in PBM contract negotiation, supported by statistical, comparative evidence is how employers can protect assets and enhance the member benefits for their employees. **-**

[1] Kesselheim AS, Avorn J, Sarpatwari A. "The High Cost of Prescription Drugs in the United States: Origins and Prospects for Reform," *Journal of the American Medical Association* 316, no. 8 (Aug. 23–30, 2016): 858–71.

[2] Shrank WH, Porter ME, Jain SH, Choudhry NK. A Blueprint for Pharmacy Benefit Managers to Increase Value. *Am J Manag Care* (2009) 15(2) 89-93.

[3] Vela L. Reducing Wasteful Spending in Employers' Pharmacy Benefit Plans. The Commonwealth Fund. Issue Brief. *The Commonwealth Fund*. Issue Brief. August 2019.

[4] Cohen JP. Rising Drug Costs Drives the Growth of Pharmacy Benefit Managers Exclusion Lists: are Exclusion Decisions Value-based? *Health Services Research* 2018; 53:S1L 2658-2669.

[5] Van Nuys K., et al. Frequency and Magnitude of Co-payments Exceeding Prescription Drug Costs. *Journal of the American Medical Association* (2018) 10: 1045-1047.

[6] Seely E. and Kesselheim AS. Pharmacy Benefit Managers: Practices, Controversies, and What Lies Ahead. *The Commonwealth Fund*. March 2019.