



# Finding the Formula for Drug Savings

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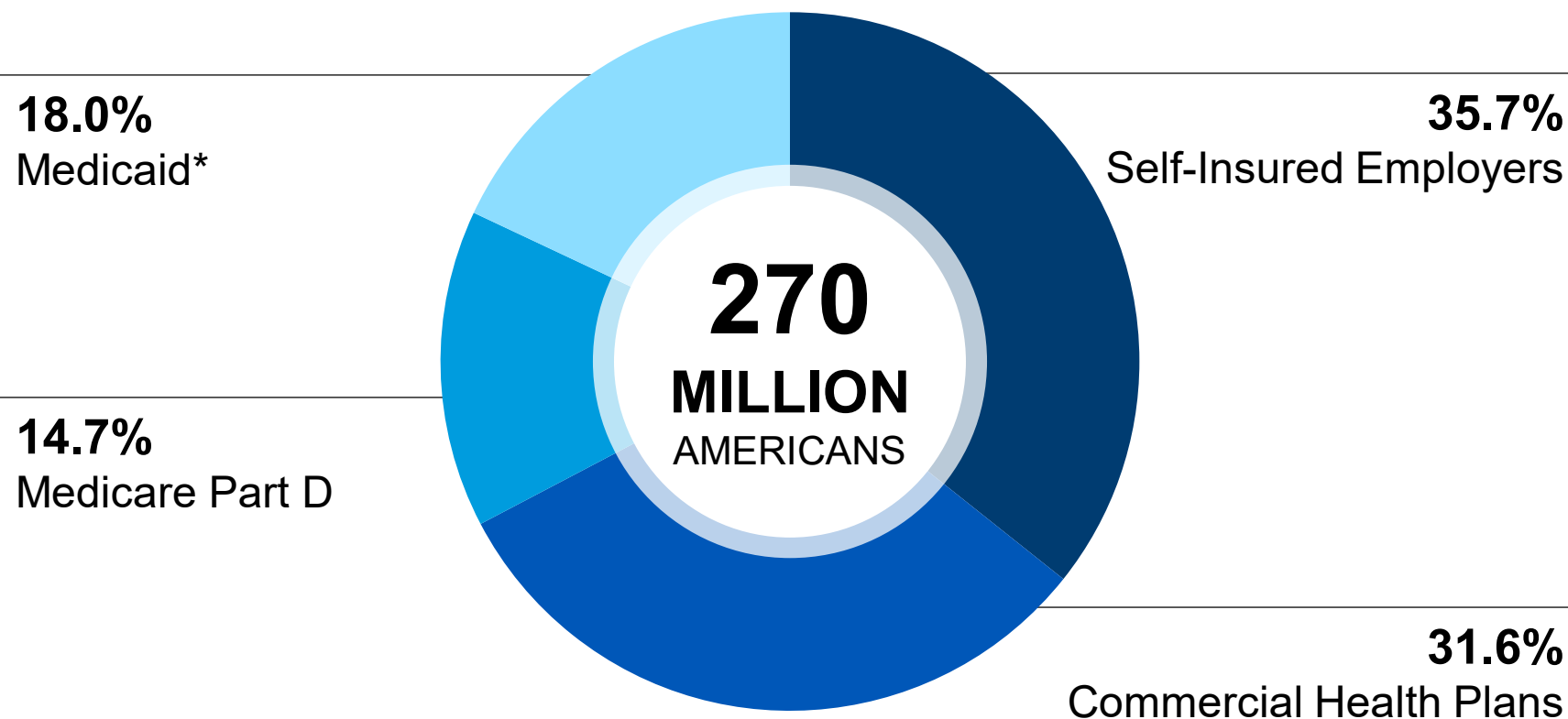
The Role of Pharmacy Benefit Managers in the Health Care System

# What Is a PBM?

- A pharmacy benefits manager (PBM) is a health care company that contracts with plan sponsors—insurers, employers, labor unions, and government programs to administer the prescription drug portion of the health care benefit.
- PBMs work with insurers and employers to perform a variety of services to ensure high-quality, cost efficient delivery of prescription drugs to consumers.

# PBMs' National Footprint

More than **270 million Americans** receive pharmacy benefits provided through PBMs



\*Excludes Medicare-Medicaid Dual Eligibles where drugs are covered by Medicare Part D.  
Source: Visante estimates prepared for PCMA, 2016.

# Snapshot of PBM Marketplace

- Competition in PBM Marketplace is strong.
  - 66 PBMs in the U.S.<sup>1</sup>
- PBMs vary in size, geographic footprint, service offerings, expertise and focus.
- The PBM market is dynamic to reflect better ways to serve patients and clients: consolidation, vertical integration, new entrants.
- PBMs' net profit is lowest in supply chain.<sup>2</sup>

<sup>1</sup> Pharmacy Benefit Management Institute (PBMI) data.

<sup>2</sup> *The Flow of Money Through the Pharmaceutical Distribution System*. Schaeffer Center for Health Policy & Economics, University of Southern California. June 2017.

# Why Do Plans Hire PBMs?

## Drive Cost Savings for Patients and Payers

PBMs help save patients and payers 40–50% on their annual drug and related medical costs compared to what they would have spent without PBMs.<sup>1</sup>

## Improve Health Care Quality and Patient Outcomes

- Reduce medication errors through use of drug utilization review programs.
  - Over next 10 years, PBMs will help prevent 1 billion medication errors.<sup>2</sup>
  - Improve drug therapy and patient adherence, notably in the areas of diabetes and multiple sclerosis.<sup>3</sup>
- Manage programs to address opioid use issues.

<sup>1</sup> Visante, Return on Investment on PBM Services, February 2020.

<sup>2</sup> Visante estimates based on IMS Health data and DUR programs studies.

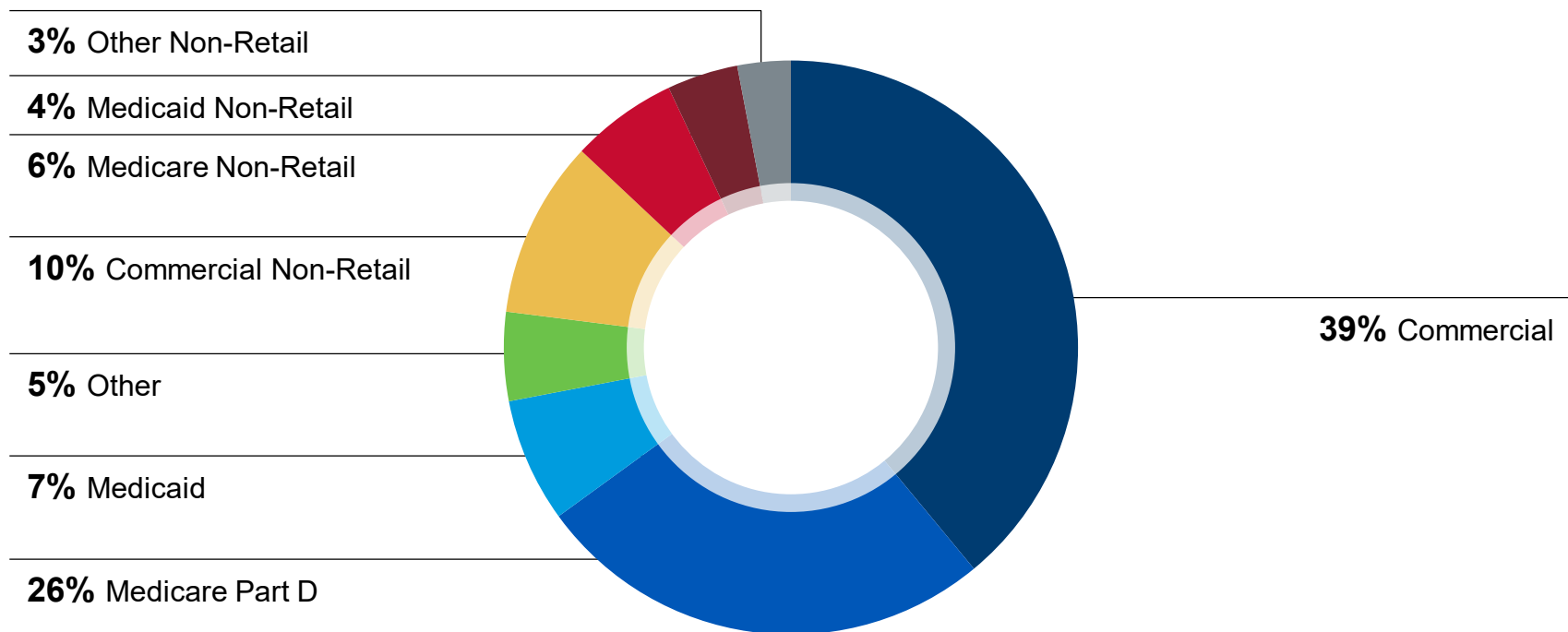
<sup>3</sup> Visante estimates based on CDC National Diabetes Statistics Report 2017 and studies demonstrating improved adherence by 10+%).

# Who Are PBM Clients?



# Who Pays for Prescription Drugs?

## U.S. Net Pharmaceutical Spending by Channel and Pay Type (2016)



**Source:** Medicine Use and Spending in the U.S.—A Review of the 2018 and Outlook to 2023. IQVIA Institute for Human Data Science, May 2019, citing CMS NHE, Jan 2017, and IQVIA Institute Analysis, 'How Much is the United States Actually Spending on Drugs?' Poster Presentation ISPOR, May 2018.

**Chart Notes:** Med D = Medicare Part D. CMS National Health Expenditures of retail prescription drug spending by pay type have been used as a basis for modeling overall spending by pay type across channels which are not reported for drugs separately from other medical costs by CMS. Patient out-of-pocket costs have been allocated by pay type based on CMS published assumptions. Non-retail medicine spending levels have been estimated by IQVIA and then segmented based on CMS NHE pay type shares of overall spending on personal healthcare costs excluding retail prescription costs. Net spending by all payers, including patients result in spending levels that are notably higher than net manufacturer revenues reported elsewhere in this report.

# A Plan Sponsor Is the PBM's Client

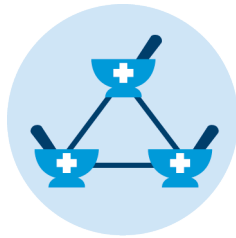
- The plan sponsor always has the final say when creating a drug benefit plan.
- There is no one-size-fits-all model because each plan sponsor has unique needs.



Value-Based  
Purchasing  
Program



Formulary  
Management



Preferred  
Pharmacy  
Networks



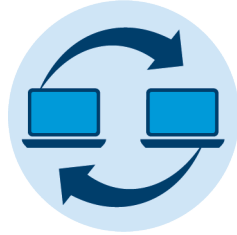
Negotiation of  
Rebates



Mail-order/  
Specialty  
Pharmacy



# Pharmacy Benefit Management Services



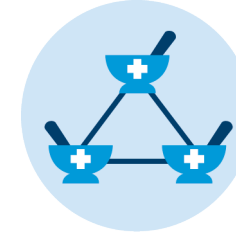
Claims  
Processing



Price, Discount and  
Rebate Negotiations  
with Pharmaceutical  
Manufacturers and  
Drugstores



Formulary  
Management



Pharmacy  
Networks and  
Provider Education



Mail-service  
Pharmacy



Specialty  
Pharmacy

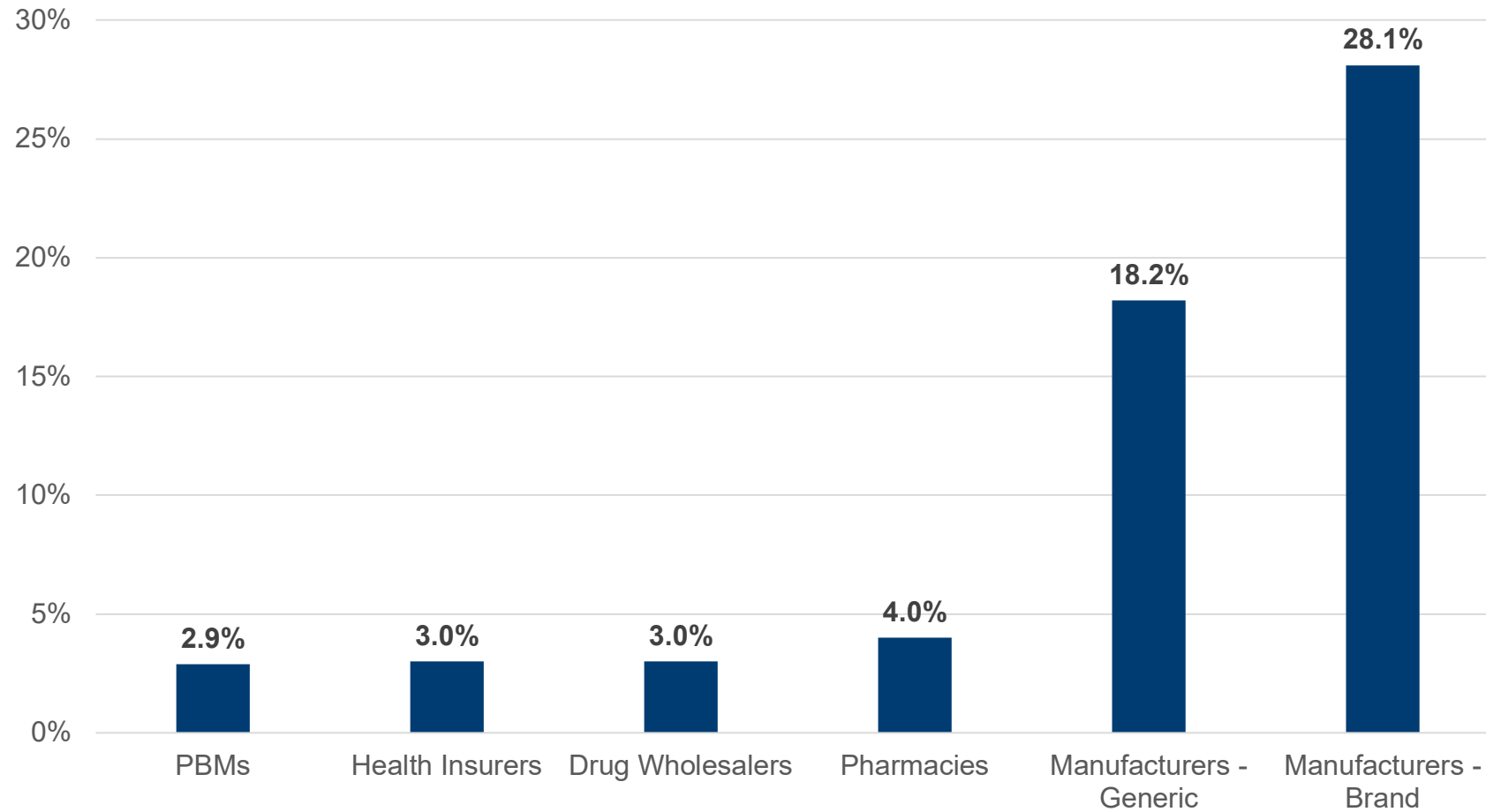


Drug Utilization  
Review



Disease  
Management and  
Adherence  
Initiatives

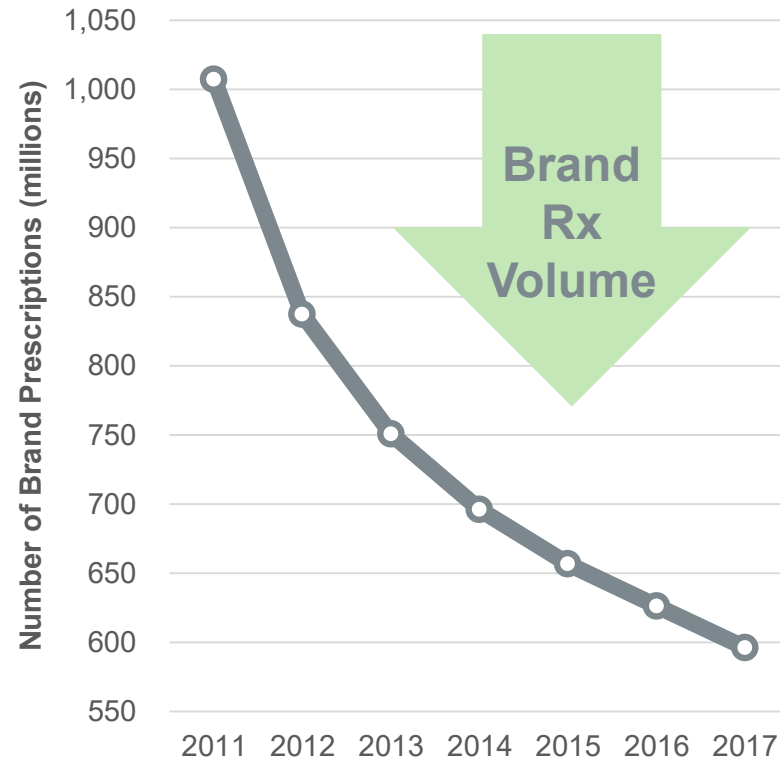
# Pharmaceutical Supply Chain Profit Margins



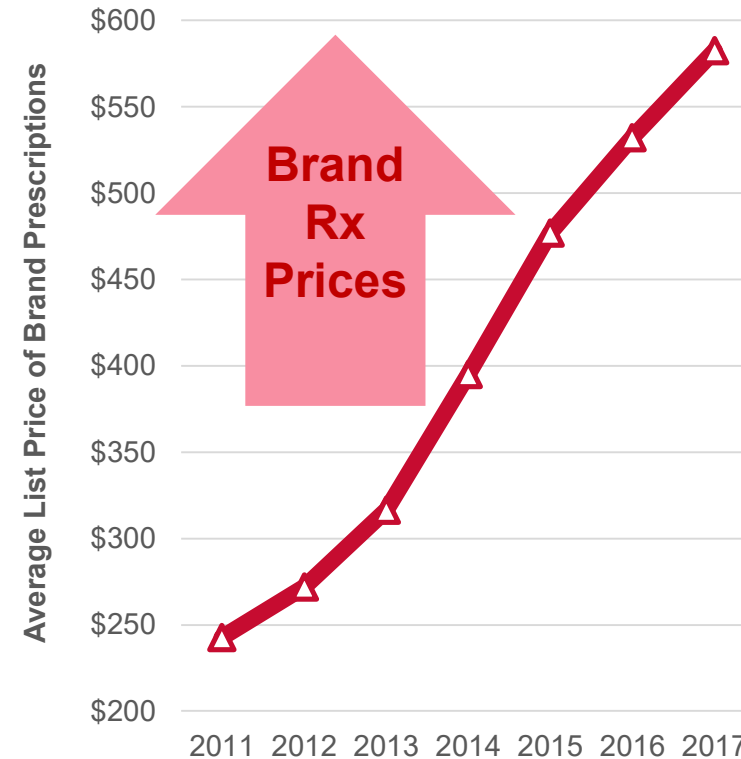
Source: *The Flow of Money Through the Pharmaceutical Distribution System*. Schaeffer Center for Health Policy & Economics, University of Southern California. June 2017.

# Why Are Manufacturers Increasing Prices? To Counter Shrinking Prescription Volume for Brand Drugs

**Brand Prescription Volume Has Plummeted as Generics Have Replaced Brands**



**Meantime, Brand Drug Prices Have Skyrocketed to Maintain Revenues**

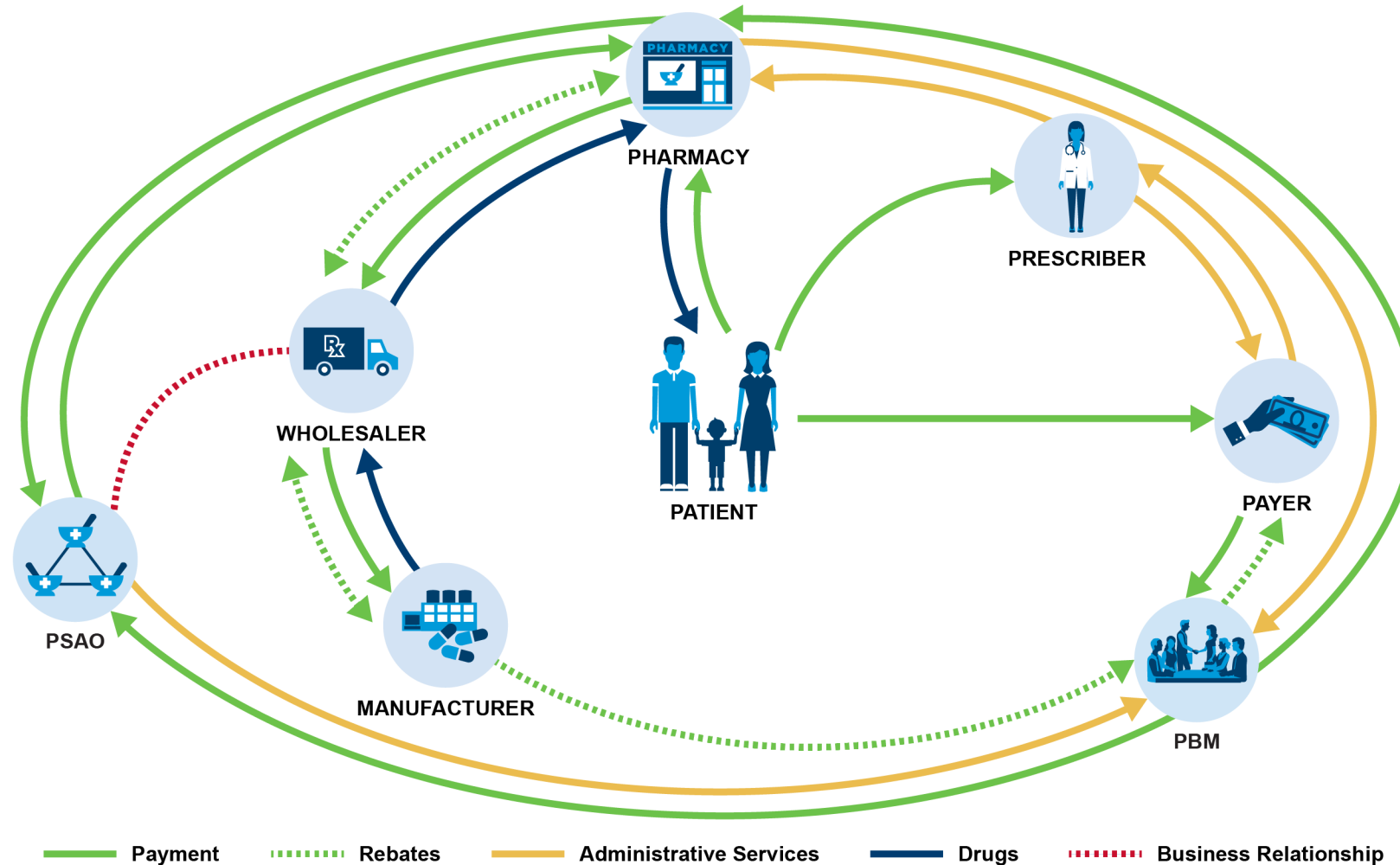


Source: Visante analysis data published by the IQVIA Institute, 2018.

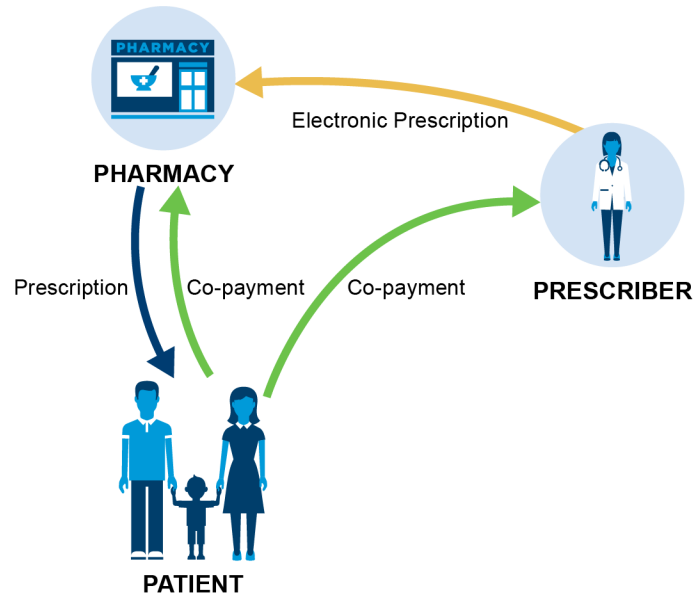


# **Prescription Drug Delivery & Financing**

# Flow of Goods, Transactions & Services

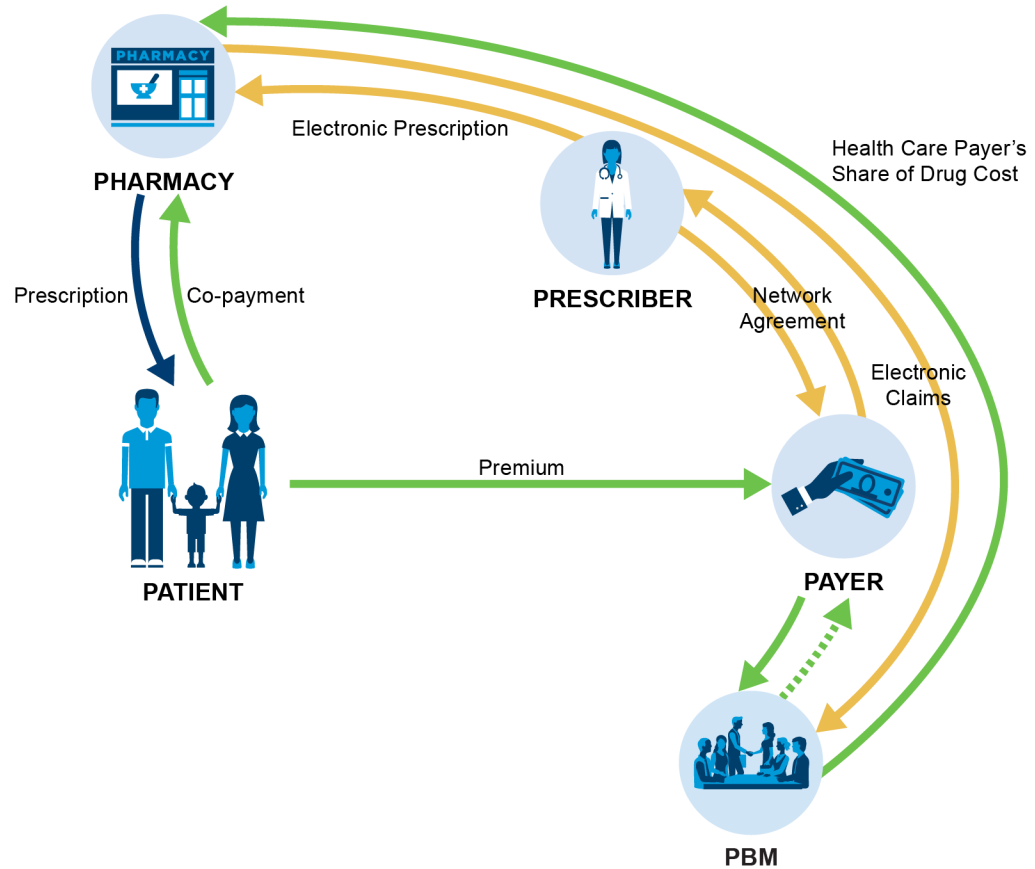


# Patient-Prescriber-Pharmacy Interactions



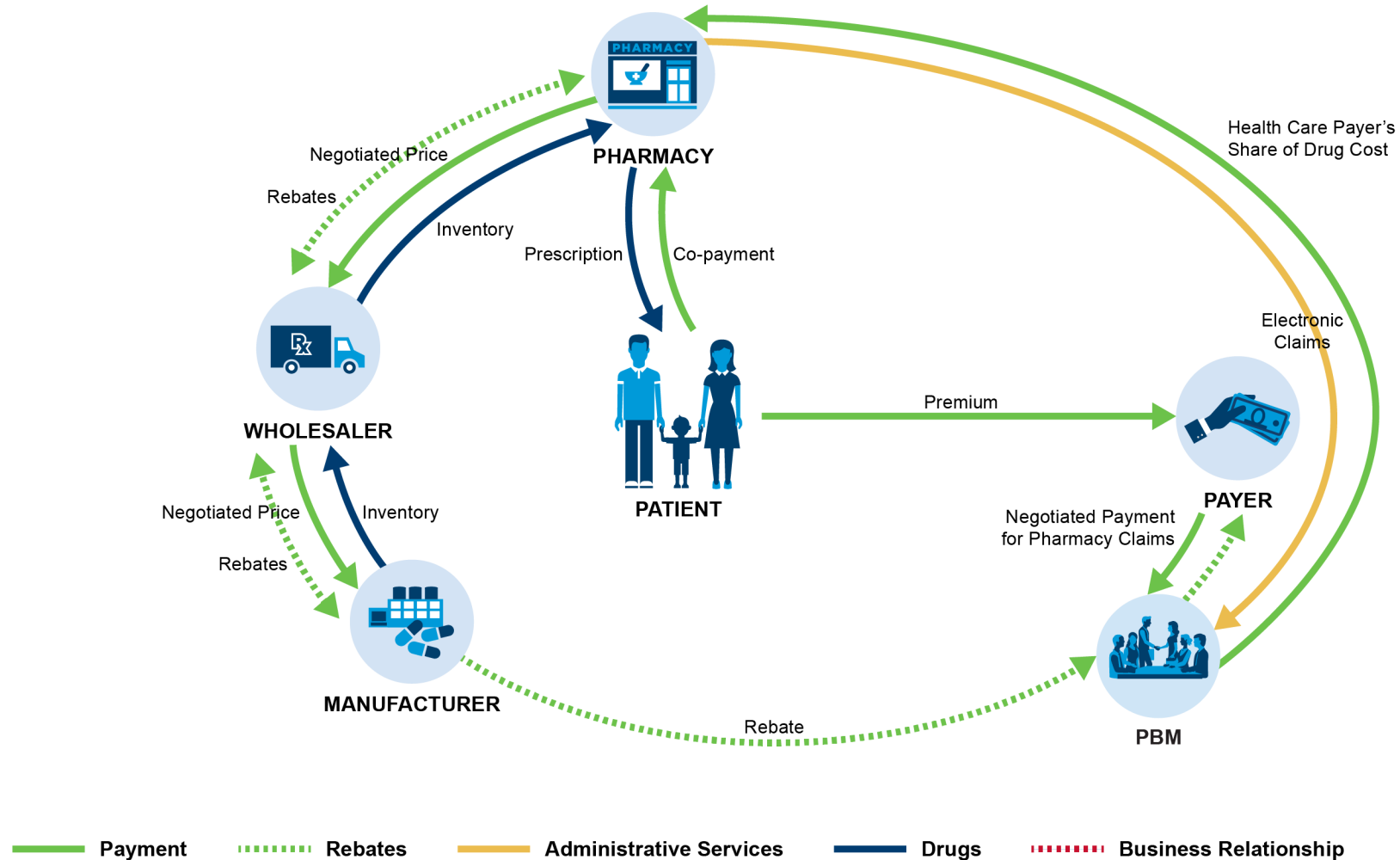
— Payment    ..... Rebates    — Administrative Services    — Drugs    ..... Business Relationship

# Prescription Drug Coverage



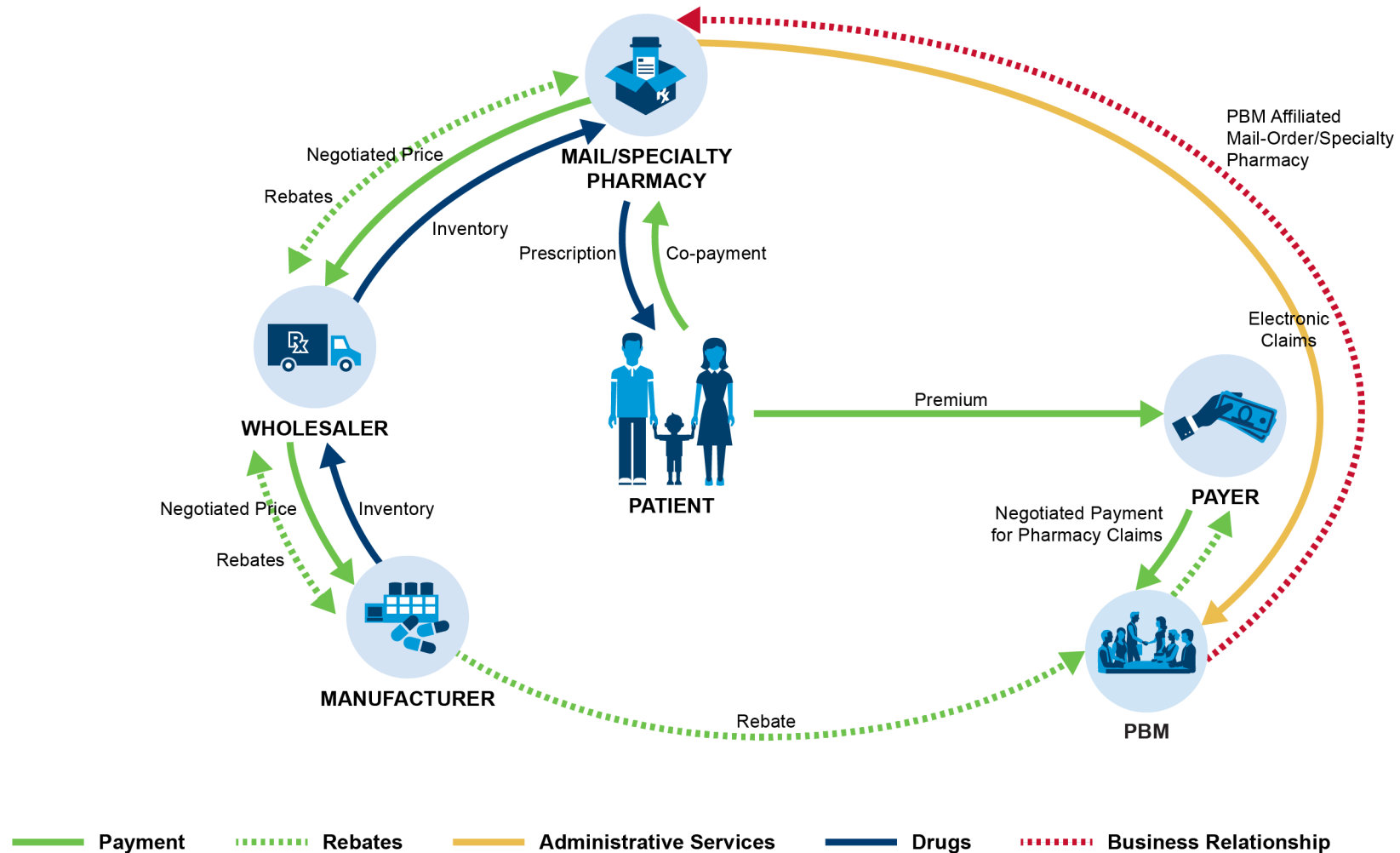
— Payment    ..... Rebates    — Administrative Services    — Drugs    ..... Business Relationship

# Drug Delivery and Reimbursement



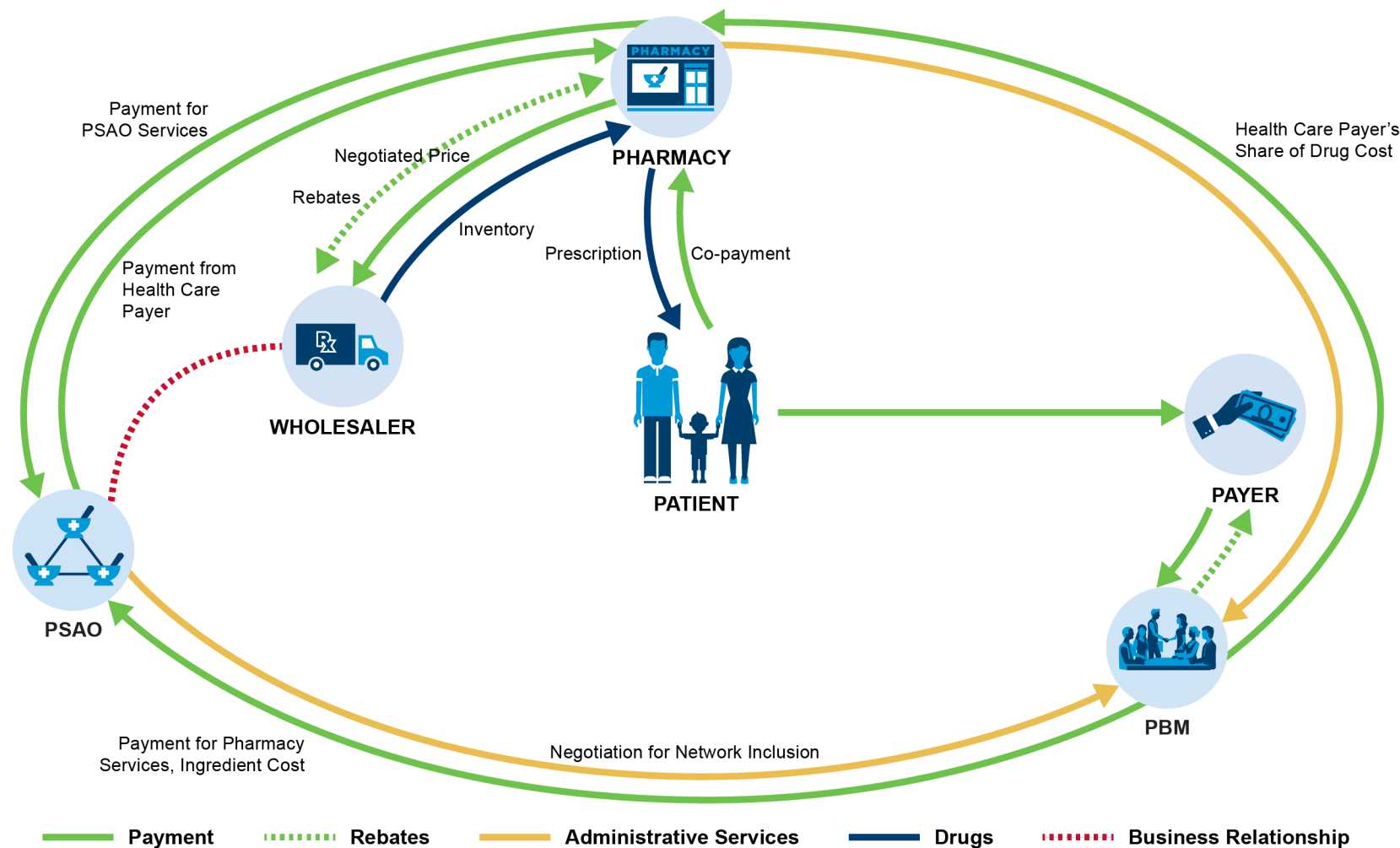


# Home Delivery/Specialty Pharmacy



# PSAOs

## Pharmacy Services Administrative Organizations





# **Keeping a Lid on Rising Drug Prices**

## **PBM Tools**

# Tackling High Drug Costs

- **Health plans and PBMs do not have any control over the price the manufacturer sets for a drug** — but PBMs have some tools to drive down drug costs.
- Patient cost-sharing often represents only a small fraction of the total cost of the drug.
- Brand drug manufacturers establish prices within a monopoly established by federal patent law.
- Until other drugs are approved for the same disease or condition, manufacturers have little incentive to reduce their prices.

# Pharmacy & Therapeutics Committees

- Selecting the **right drug** for the **right diagnosis**, at the **right time** is a key factor in driving efficient, high-quality health care.
- PBMs assemble P&T Committees to recommend to the plan sponsor a formulary that encourages clinically appropriate and cost-effective prescribing.
- P&T Committees:
  - Are independent from the PBM and plan sponsor
  - Are composed of physicians, pharmacists, and other clinical experts
  - Meet at least quarterly to review and recommend formulary updates and consider new drugs
  - Are driven by scientific evidence and clinical standards of practice
- Cost is considered **only** after a drug's efficacy and safety have been evaluated.
- Plan sponsors **always** have the final say over which drugs are included on their formularies, and how many exceptions to their formularies could be implemented.

# Competitive pharmacy networks

- The same drug can cost different amounts at different pharmacies.
- PBMs help drive savings for patients and plan sponsors by helping to design preferred networks and by providing transparency on where patients may be able to obtain their prescriptions at the lowest cost.



Rx = \$25



Rx = \$12



Rx = \$17



Rx = \$22

# What Are Prescription Drug Formularies?

- A prescription drug formulary is a list of prescription drugs approved for usage by a plan sponsor.
- Plan sponsors customize the drug list to meet their plan-specific needs.
  - PBMs offer basic formulary templates that can be customized.
  - PBMs may provide options to customize the utilization management techniques used to encourage patient compliance.
- Tier structures create preferred groups of drugs and incent lower cost choices – generics-only tier, specialty tier, for example.
  - Broad formularies = more access, loose management, increased cost
  - Narrow formularies = less choice, tight management, lower cost
- Formularies can change when new drugs are approved, changed, or recalled by the FDA.

# How PBMs Drive Savings and Quality: Manufacturers

- PBMs are able to bring volume to manufacturers and in some cases, obtain price concessions.
- Rebates reduce the net cost of drugs for payers, **but they aren't available on all drugs**—only where there is competition.
  - 90% of drugs dispensed are generics, with little-to-no rebate in commercial programs.
  - In Medicare Part D, 64% of brands were not eligible for rebates.<sup>1</sup>
  - PBM clients get the vast majority of the rebates.<sup>2, 3</sup>
- Rebates help reduce premiums & cost-sharing, and revenue is included in MLR calculation.
- Plans have no alternative tool at this time that is as effective at forcing manufacturers to compete, bringing down the net cost of drugs.

<sup>1</sup> Milliman, "Prescription Drug Rebates and Part D Drug Costs." (July 2018).

<sup>2</sup> U.S. Government Accountability Office, "Medicare Part D: Use of Pharmacy Benefit Managers and Efforts to Manage Drug Expenditures and Utilization." (July 2019).

<sup>3</sup> Pew Charitable Trusts, "The Prescription Drug Landscape, Explored." (March 2019).



# PBM Rebates Reduce Medicare Part D Costs



- The GAO found that virtually all—99.6% — of prescription drug rebates negotiated by PBMs with drug manufacturers in Medicare Part D are passed through to drug plan sponsors.
- The GAO highlighted that rebates are used by plan sponsors to lower costs and control premiums for beneficiaries.
- The GAO found that PBM-negotiated rebates kept Part D spending 7% lower than it would have been without rebates.

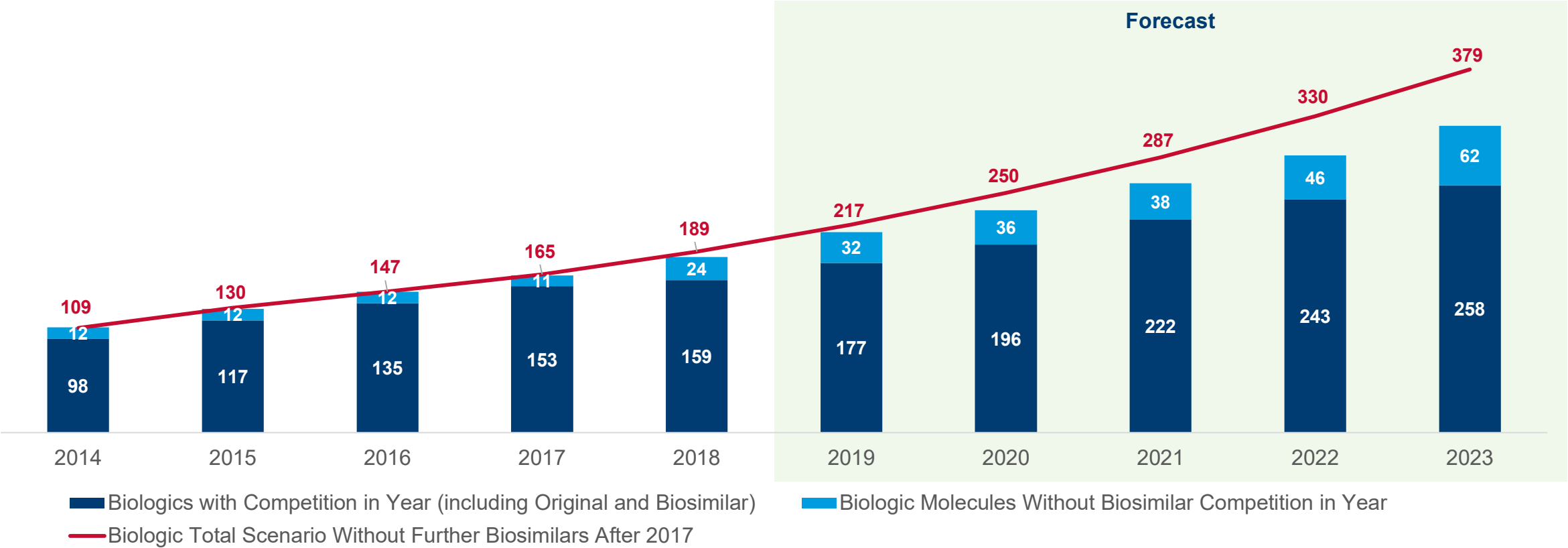


- The OIG found that in Part D, rebate-adjusted spending on brand drugs with rebates increased just 4% instead of the 19% prices increases that would have occurred without rebates.
- The OIG found increases in spending where not related to changes in rebates: 39.3% of rebated brand drugs had spending increases and rebate decreases, while 56.3% of rebated brand drugs had spending increases and rebate increases.
- The OIG found only a small fraction of drugs — 10% — accounted for 60% of rebate growth between 2011 and 2015.

**Sources:** U.S. Government Accountability Office report: "Use of Pharmacy Benefit Managers and Efforts to Manage Drug Expenditures and Utilization," July, 2019; U.S. Dept. of Health & Human Services, Office of Inspector General, "Rebates for Brand-Name Drugs in Part D Substantially Reduced the Growth in Spending from 2011 to 2015," September, 2019.

# Growth of Specialty Drugs

Biologic spending could grow more dramatically without future biosimilar penetration



Source: IQVIA MIDAS, Jun 2018; Institute Dec 2018. Note: Line on chart represents biologic spending using average growth of molecules not facing competition in 2017 continued to 2023 to represent what spending would have been without new molecules facing biosimilar competitors. Segments for biologics with and without competition are modeled using the average historic growth rates and expected entrance of biosimilars and price and volume changes associated with biosimilar entry.

# What Is a Specialty Pharmacy?

- Specialty pharmacies provide services to small population groups with complex and chronic diseases that require challenging drug regimens or coordinated care.
- Specialty pharmacies specialize in the unique storage, shipping, administration, and patient care coordination and management requirements that these oral, injectable, inhalable, and infusible products require.
- Retail and manufacturer-affiliated pharmacies are not typically equipped or trained sufficiently to manage the full range of products and services that PBMs and payers require for the distribution and management of patients taking specialty drugs (e.g., treatments for hepatitis C, multiple sclerosis, cancer, etc.).

# Specialty Pharmacy Credentialing & Accreditation

## Pharmacy Credentialing

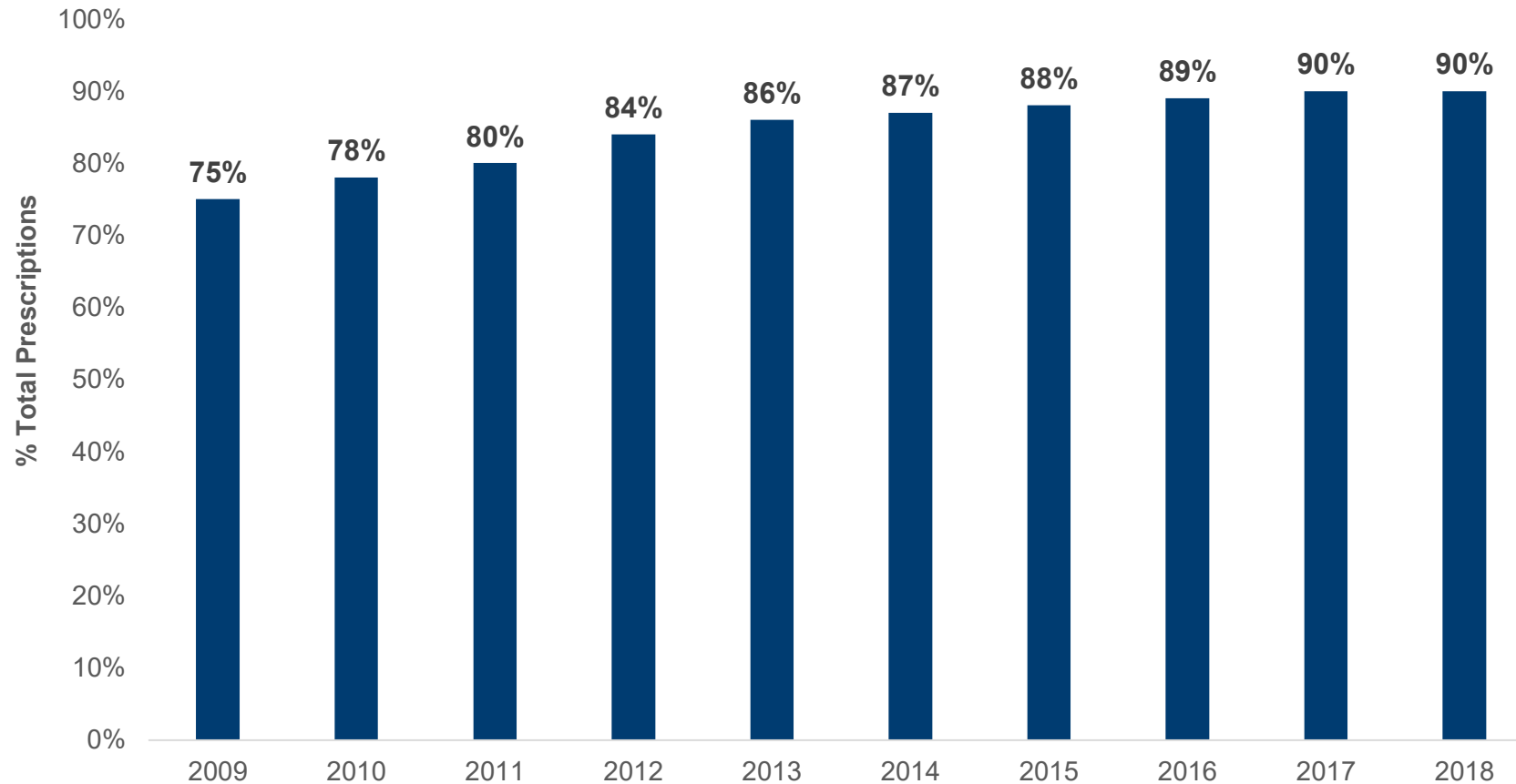
- Credentialing is the process by which an organization obtains, verifies, and assesses a pharmacy's basic qualifications to provide patient care.
- PBMs and health plans typically require evidence of:
  - State licensure
  - Current federal DEA license
  - Current pharmacy malpractice insurance
  - Description of pharmacy services, hours and types of drugs regularly stocked
  - Photos with a GPS location to prove the pharmacy is legitimate
  - Electronic claim processing and e-prescribing capacity
- PBMs and health plans may have internal credentialing programs or may rely on third parties.

## Specialty Pharmacy Accreditation

- Accreditation from a national body such as URAC or ACHC demonstrates high standards of best practices, including for patient care, proper drug handling and distribution, and home delivery of medications.
- Accreditation assesses best practices for:
  - Use of evidence-based practices and clinical decision support programs
  - Patient counseling and benefits coordination
  - Patient outcomes and quality of care
  - Many other clinical and patient care factors
- Accreditation is essential for demonstrating high expertise in caring for patients.
- Accreditation enables insurers to trust that accredited pharmacies are well qualified to care for these unique patients.

# PBMs Aggressively Encourage Generic Drug Use; Generic Dispensing Increasing as a Result

**Generic (Branded and Unbranded) Market Share, Percent of Total Prescriptions**



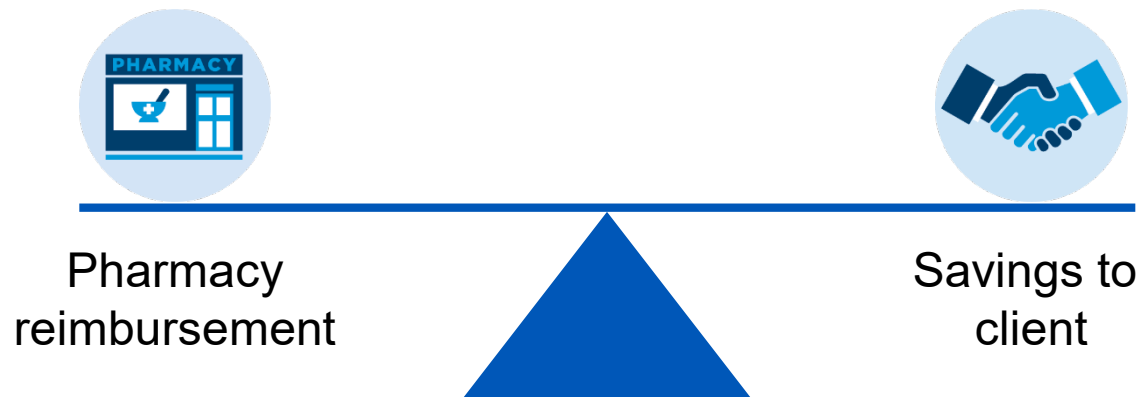
Source: IQVIA National Prescription Audit, January 2019.

# Generic Drug Reimbursement

- A maximum allowable cost (MAC) list specifies the maximum amount a PBM will reimburse a pharmacy for a particular generic drug.
- Every manufacturer has its own price for a particular generic drug and these prices can differ extensively by manufacturer.
- MAC lists standardize the reimbursement amount for identical products from various manufacturers, regardless of each manufacturer's price.

# Generic Drug Reimbursement

- PBMs develop and maintain their own confidential MAC lists, based on proprietary methodologies that include a number of factors, such as survey of existing wholesale prices in the marketplace.
- MAC lists help PBMs fairly compensate pharmacies while providing cost-effective drug benefits to their health plan and employer clients.



# Generic Effective Rate (GER)

- Some pharmacies choose to manage generic drug price fluctuations by agreeing to a GER contract with a PBM through private contract negotiations.
- A GER is a pharmacy's **guaranteed reimbursement** rate for the dispensing of generic drugs that it negotiates with a PBM.
- The GER guarantees the pharmacy a **minimum** reimbursement level across all claims for an agreed-upon set of generic drugs.
  - The GER agreement may cover a PBM's entire book of business with a particular pharmacy, or there may be multiple GERs between a PBM and a pharmacy for different contracts with different health plan sponsors.



# What Is a Mail-Service Pharmacy?

- Many PBMs operate mail-service pharmacies, which send patients' prescription drugs directly to their home.
- Plan sponsors frequently choose to incentivize their members with the option of lower co-payments on drugs for chronic conditions that are ordered by a mail-service pharmacy.



A patient will go to her local drugstore for a new prescription.








The patient will fill several 30-day prescriptions at the local drugstore.



Once stabilized, the patient will use mail-service pharmacy for maintenance drugs.

# Value of Mail-Service Pharmacy

Mail-service promotes optimum consumer access to medications, especially for the elderly, the disabled, and the homebound.

-  24/7 access to customer service representatives and pharmacists
-  Translation services
-  Specialty services for patients with disabilities
-  Cost-effectiveness
-  Monitoring for potential adverse drug events

# Conclusion

- Manufacturers are increasing drug prices for both brands and generics
- PBMs play a unique and central role in **driving adherence, holding down costs, and increasing quality**
- PBM tools **deliver savings** for plan sponsors and consumers, underscoring the success of the competitive marketplace



# Thank You

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