



Empowering Pharmacy Leaders to Improve PBM Relationships


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Learning Objectives

- Describe the different PBM business models and how they can impact your organization
- Discuss the market forces influencing PBM engagement with customers, payers and patients
- Identify where opportunities exist for pharmacy leaders to successfully engage PBMs



Exploring PBM Models: Weighing the Pros and Cons

- **Traditional Spread**
 - Generates revenue on spread
 - Little to no transparency
- **Transparent Hybrid**
 - Disclosure & share of some spread
 - Market option to straight spread
- **Pass Through**
 - Zero spread retained in any channel
 - Complete financial & operational transparency



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Traditional Spread Model

- Perceived cap on year-over-year costs with fixed guarantees
- Contractual cap on financial performance; no upside shared
- Increased spread revenue each year based on AWP price increases
- Skewed actual vs. contract discounts due to contract definitions
- Promotion of high rebate products generates higher spend – net, net
- Excessive use of caveats in pricing terms & definitions
- Steerage to PBM pharmacies (mail & specialty) not always lower cost
- Significant limitations to audit of pharmacy & manufacturer claims
- PA approval rates (90+% for specialty) not in client's best interest

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Transparent Hybrid Model

- Varied degree of transparency from the traditional and pass through
- Direct result of clients wanting an alternative to spread
- Disclosure of some spread:
 - May take spread in certain channels – mail & specialty
- Disclosure of some rebate retention:
 - May keep 5-10% for themselves
- Usually limited claims audit capabilities
- Most contractual 'gotcha' language still present

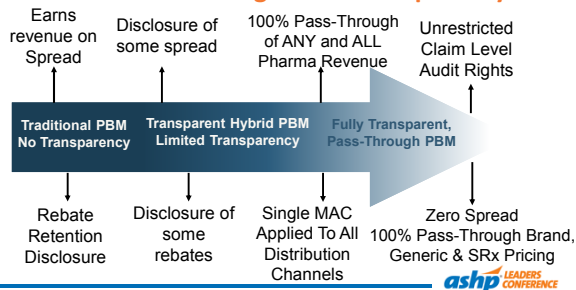
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Pass Through Model

- Zero spread on pharmacy or pharma manufacturer claims
- 100% pass-through of ALL pharma & pharmacy value, and upside, above contract discounts over the life of the contract
- Formulary product selection based on 'low-net-cost' philosophy
- Appropriate PA approvals & Step Therapy used to manage cost
- Third party determination of brand & generic definitions
- Single MAC list applied across all distribution channels
- Unrestricted claim level audit rights at NDC-11 level
- No misaligned incentives between plan sponsor, PBM and patient



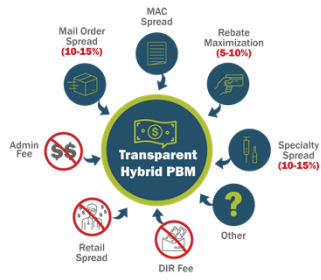
PBM Models & Degrees of Transparency



How Does a Traditional PBM Make Money?



How Does a Transparent Hybrid PBM Make Money?



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How Does a Pass-Through PBM Make Money?



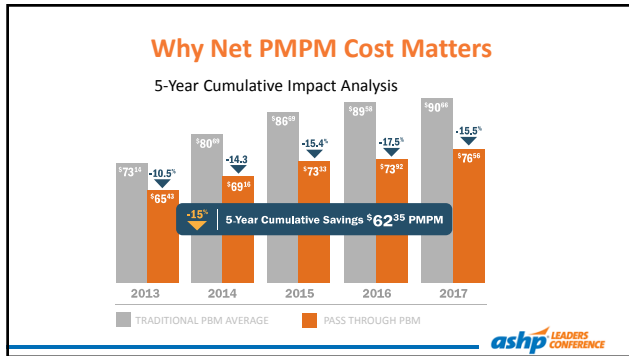
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Getting to Your True Costs

- Big rebates, deep discounts and dollar for dollar PG's don't guarantee the lowest net costs – Why?
- All PBMs negotiate discounts with pharmacies and rebates with pharmaceutical manufacturers – however, it's ultimately the plan sponsor's "all in" cost on a PMPM basis that matters most
- PMPM measures spend vs. trend, which more accurately depicts the plan sponsor's true costs



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Question

Which PBM model provides the highest level of transparency?

A) Pass through model
B) Transparent hybrid model
C) Traditional model

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Know Your Benefit Philosophy:

Which PBM Model Fits Your Philosophy and Goals?

- Traditional, Hybrid or Pass-through financial model?
- Pass through offers complete financial and operational disclosure?
- Large rebate checks means higher cost drug selection to formulary?
- How important is flexibility with plan design features?
- Do you believe \$0 admin fee means you're paying \$0 in admin costs?
- Is your year-over-year trend a concern; especially with specialty?
- Contract terms ultimately govern what you'll spend?
- How is your PBM doing with EGWP regulatory compliance?
- Would you prefer to pay hidden fees or directly disclosed fees?

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Know Your Benefit Philosophy

- Communicate your PBM model preference to your consultant/broker
- Who you choose for PBM consultant will largely determine RFP outcome
- When using a PBM consultant/broker, consider the following:
 - Is their PBM RFP process an expertise or an add-on service?
 - Does the consultant have clients with the preferred PBM model?
 - Does the consultant receive compensation separate of RFP process?
 - How are caveats and definitions incorporated into the financial evaluation?
 - Does consultant firm have a 'coalition' PBM offering?
 - Will that PBM coalition offering be included or disqualified in a RFP?
 - Who pays the consultant fees; the client or the PBM?



Question

Large rebate checks translate to lower drug costs for clients?

- 1) True
- 2) False



Exploring Market Forces: Consolidation & Disruption



- Bigger is not always better
- Lower visibility and limited pharmacy details

- Integration of data & services
- Aggregation of innovation efforts



Exploring Market Forces: Demand for Transparency

- Established lack of trust and skepticism of PBMs business practices:
 - Only 35% of employers rated their PBM as “very trustworthy”¹
- Employers and health systems and others are demanding transparency:
 - 63% of employers stated that PBMs lack transparency about how they make money²
 - Ohio State Medicaid Report – Uncovered spread of 8.8% between what was billed to plans and paid to pharmacies³

PBM's: Maligned as Middlemen, They're Hearing Wedding Bells

Plan Sponsors Like More Transparent PBMs – Yet Not All Choose Transparency

63% of employers say PBMs not transparent about how they make money

Employers and PBMs: Where do They Stand on Prescription Drug Issues?

Negotiating Price Transparency with PBMs Pays Off

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Exploring Market Forces: Consumerism & Patient Engagement

“90% of Americans use at least one digital health tool. This up from 80% in 2016.”¹

Integration of wearable data into the patient record

- Help track physical activity, lose weight, improve sleep and manage stress
- Advancing with the capabilities to detect blood oxygen levels, goal-based exercise modes and a sleep tracking beta
- Will soon play a larger role in the electronic medical record (EMR) and the aggregation of the total patient/360 degree view
 - Already being used in clinical trials and remote monitoring
 - Will lead to greater feedback and patient-provider interaction

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Exploring Market Forces: Consumerism & Patient Engagement

“86% of health care professionals believe that mobile apps and wearables will increase their knowledge of patient conditions.”¹

Artificial Intelligence and Clinical Decision Support

- Each drug can have 10-12 different adverse effects alone, then when combining there's even more room for adverse effects.
- AI may help with the provider shortage and amount of info they need at their fingertips such as drug data.²

Expanded use of Telemedicine

- Offers new forms such as chat and voice platforms
- Medicare Advantage Part B is covering it in 2020³

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Question

Which trend did we not discuss?

- A) Integration of wearable data into the EMR
- B) The use of AI in decision support
- C) The expanded use of telemedicine
- D) Augmented reality



Discovering Opportunities for Pharmacy Leaders

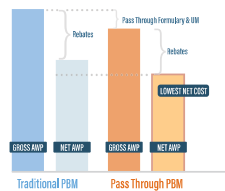
Closer monitoring and measuring of these critical cost-control components can reduce pharmacy spend year over year:

Formulary:

- Drug mix matters & does impact costs
- Plays a large role in achieving lowest-net cost vs. rebate chasing
- Built on clinically sound, cost-effective generics and less expensive brands

Utilization Management:

- PA approval rates on specialty impact costs



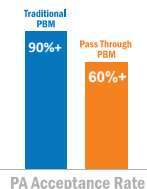
Discovering Opportunities for Pharmacy Leaders

	Pass Through PBM	Transparent Hybrid PBM*	Traditional PBM**
Starting Total AWP	\$65,571,525	\$65,571,525	\$65,571,525
Product Mix (Formulary & UM)	-\$5,169,639	\$0	\$1,425,900
Adjusted Total AWP	\$60,401,886	\$65,571,525	\$66,997,425
Network Discounts	-\$25,932,493	-\$26,264,984	-\$26,583,705
Dispensing Fees	\$137,314	\$137,316	\$137,312
Rebates	-\$3,941,293	-\$4,101,840	-\$4,543,122
Admin Fee	\$714,865	\$0	\$0
All In Net Cost	\$31,380,279	\$35,342,017	\$36,007,910
Total Increase over Navitus		\$3,961,738	\$4,627,631
Membership	29,000	29,000	29,000
All In Net Cost PMPM	\$90.17	\$101.55	\$103.47



Discovering Opportunities for Pharmacy Leaders

- Utilization management (UM) tools:
 - Includes prior authorization (PA), step therapy (ST), and quantity limits (QL)
 - PA is the most frequently used UM tools
 - PA is meant to ensure the medication dispensed is appropriate based on approved clinical guidelines
 - PA acceptance rates vary among PBMs
 - Pharma pays higher rebates when the PA requirements are more "loose" = approved



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Discovering Opportunities for Pharmacy Leaders

- Appropriate channel for distribution:

Retail



- Offers a convenient cost-effective distribution channel
- Use preferred or limited network to drive utilization to lower costs

Mail



- Many PBMs own mail facilities and promote as 'lower priced'
- Commonly prescribed drugs are repackaged and repriced at mail
- Mail may not always be the least expensive option

Specialty



- Many PBMs promote a 90-day fill vs 30-day for specialty which can cause waste and unnecessary cost
- Two pricing models are available: cost-plus vs. spread-based pricing

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Question

To more successfully engage PBMs, pharmacy leaders should focus on tools such as formulary, UM and distribution channels?

- True
- False

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In Closing

- We all play a role in advancing healthcare – payers, providers and patients, take the time to educate yourself to drive a better outcome
- Payers can influence the future of health care by rewarding alternative PBM models that deliver lower net-net cost option, based on philosophy
- Be just as thoughtful around the process of choosing your PBM consultant as you are about which PBM philosophy you align with
- This isn't the 1990s, you have better options to choose from



KEY TAKEAWAYS

- 1) **KEY TAKEAWAY**
Determining the right PBM model for your organization can help you reach your cost management goals
- 2) **KEY TAKEAWAY**
Understanding your options in the marketplace can ensure your organization is taking advantage of the latest and greatest pharmacy benefit solutions and technologies to improve health and lower costs
- 3) **KEY TAKEAWAY**
To successfully engage PBMs, pharmacy leaders should focus on business model, formulary, UM and distribution channels





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