Proven Strategies for Managing Prescription Drug Costs

Pharmacy Benefit Purchasing Strategies and Auditing the PBM

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**Strong Medicine**

For Runaway Prescription Drug Costs

- The prescription benefit is the most widely used health care service
  - Average American gets 12 Rxs per year
- Drug costs continue to skyrocket
  - Doubling every 6 to 7 years
Rx Benefit Costs

■ Your Pharmacy Benefit Manager [PBM] claims competence in managing your Rx benefit

➢ But your drug costs keep rising

■ Your PBM’s profits and ROI are well beyond business norms and their EBITDA continues to increase.

➢ What is wrong with this picture and what can be done?
The PBM Industry

- PBM are unregulated
- They control 75% of all Rx
- The top 3 PBMs control over 50% of the prescriptions in America.
- Another 10–12 PBMs dominate the remainder
- They are now being investigated by The Congressional Committee on Oversight & Government Reform
This is truly a commodity industry: There is little difference in the services provided by PBMs

- Network
- Claims Processing
- Reporting
- Formulary & Rebate Management
- Mail Order Services
- Customer Service
- Drug Utilization Review
- Disease Management/Case Management
How do PBMs differ?

- Transparency & Pass – Through Pricing
- Formulary & Rebates
  - The large PBMs keep half the money they get from drug manufacturers!
- Reporting
  - Clear – or deliberately confusing?
Other Differentiators

● Mail Order
  ▸ The illusion of savings
    • Waste
    • Pricing brand drugs at or below cost, **but:**
    • Huge mark-up on generic drugs
    • Which package size?
Specialty Pharmacy

– The Fastest Growing Segment of Rx
– Needs to Be Carefully and Properly Managed
– Major Profit Center for PBMs
– See Materials at end of Presentation
PBM Metrics

- Extremely profitable, averaging between $2 and $4 per prescription!

- PBM’s are able to show ‘top-line’ revenue by acting as a Principal & not as an Agent.

➢ Most of their profit comes from hidden charges.
PBM Relationships

- Employer
- Drug Manufacturer
- PBM
- Network Pharmacy

Strategies to Control Rx Costs

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How Do PBMs Report Revenue?

Total billed claim: $76.00
(Claim total + $1.00 admin fee)

(Less copay) $20.00

Net billed to sponsor by PBM $56.00

Total revenue to pharmacy $70.00
(Copay + PBM payment)

PBM hidden ‘spread’ $5.00

PBM gross margin (spread + fee) $6.00

PBM ‘reported revenue’ $76.00
Hidden PBM Profits

- ‘Spread’ or markup between what the pharmacy is paid & and the charge to the plan sponsor
- **Substantial** share of the money collected by the PBM from drug manufacturers
PBM Hidden Profits, Continued

- Profits on generics from the PBM’s ‘captive’ mail order pharmacy
  - Cost per dose for 90 day supply by mail often exceeds cost per dose at retail for 30 day supply.

- None of this would be permissible if PBM were compelled to act as an Agent or a Fiduciary
Cost Implications of PBM Practices

- High fees: PBM gross profit calculus should be transparent
- PBM’s incentives are not aligned with the plan sponsor
- Demand to see what PBM pays the pharmacy – it’s your money
PBM’s high & hidden fees have a direct impact your drug cost increases!
Rx Benefit Specifics

- Generic Utilization
- Cost Sharing
- Formulary & Rebates
- Rebate Recognition at Date of Service
Generic Utilization

- Proper Use of generics drugs is the best single strategy

- Average generic claim is $18.00

- Average brand claim is $125.00

- Generic usage should be enforced through benefit design
Cost Sharing

• Higher copays may be a mistake
  – Compliance may suffer, resulting in higher medical and hospital expense
  – Degradation of quality of life
  – Lost days at work

• Co-insurance may be a better option
  – E.g.: $5 minimum, 20% co-insurance, $40 maximum
Rebates

- The maximal use of generics is the best single strategy

- Don’t get carried away by the size of the rebates
Rebate Management

- Medco is the only large PBM to disclose its rebate arrangements
  - Averages over $8 in rebates per brand claim
  - How much is your PBM sharing with you?

Note: We have done an in-depth review of Medco’s 10-K filing.
Rebate Management continued

• Plan Sponsor should set up rebates as a receivable.
  – Should be tracked as dollars per brand name claim

• Split with PBM should be negotiated & include all money received by PBM from drug manufacturers

• Demand fullest possible reporting
  • PBM will want to hide the data
  • Some simply report rebates by therapeutic class - which is insulting!
Rebates on Date of Service

- No cash flow issues
  - Instant vs. 9 month lag

- Better formulary compliance

- Easier recordkeeping

- Requires PBM to guarantee rebate performance
Rx Claims Pricing

- **Drug Cost**
  - Discount from Average Wholesale Price (AWP) for Brand
  - Maximum Allowable Cost (MAC) for Generics
  - “Bill” MAC Vs “Pay” MAC

- **Dispensing Fee**
  - Generic incentive common
  - Lower of U & C, or Cost + Fee
  - No fee for 90 day supply
Mail Order Pharmacy

• Accounts for more than 1/6 of retail pharmacy dollars
• Mail Order service is useful, but not necessarily cheaper
• Major profit driver & profit center for PBMs

➤ Remarkable that the manager of pharmacy benefits can get away with this self-dealing
Mail Order continued

• Mail Order pharmacies cannot buy any better than community pharmacies – they are the same class of trade
• Mail Order “savings” are inherently misleading – this is a smoke & mirrors exercise
• PBMs offer very low prices on brand drugs by mail
• But mail order generics pricing may actually be higher than in the neighborhood pharmacy
Mail Order Pricing

- Self-dealing
- Which package size?
- Generic mail order Rxs are a huge source of profit for PBMs
- Movement toward a cost-plus model
Strategies for Controlling Rx Costs

- Inspect what you expect – become your own expert
- PBM audits
- Contract with new generation of PBMs that offer both full transparency & low fees
- Measure cost per cardholder per month; don’t be mislead by low administrative fees – look for the hidden costs
PBM Audits Result In Significant Financial Recoveries

• Inspect what you expect

• Best first step in assessing your PBM and its pricing practices

• PBMAs are often sloppy — or worse — in performing in accord with contracted terms

• Recoveries can be substantial
PBM Audits continued

Under Medicare Part D:

• If you contract with a PBM, you are responsible for what they are doing*

• Medicare expects employer/plan sponsor’s contract with PBM to require adequate reporting of rebates, discounts, charge-backs, and similar price concessions

* Jim Sheehan, Associate U. S. Attorney, Eastern District of Pennsylvania
PBM Audits continued

• Pharmacy claim-by-claim audits are feasible since the data is in an industry-standard format

• Our PBM audits are almost always ‘productive’ — recovering important dollars for our clients
PBM Audit & Evaluation

- Rebates payments should be audited

- Did the PBM load your formulary correctly?

- Did the PBM use the correct AWP price on the date of service?
PBM Audit & Evaluation continued

• Claim by claim audits validate:
  ▶ Pricing accuracy
  ▶ Eligibility of recipients
  ▶ Adherence to benefit design
  ▶ Full and *timely* rebate payments
  ▶ Correct days supply dispensed
  ▶ and more
PBM Audit & Evaluation continued

- Uses expertise in pharmacy benefit management, prescription benefit design, mail order pharmacy, retail pharmacy operations, pharmacy systems & applications, and integration of pharmacy benefits and data

- Peels back the “onion layers” of PBM’s hidden fees
PBM Audit & Evaluation continued

- Serves as your advocate to renegotiate the PBM arrangement
  - Can result in considerable, long term savings
  - Most important role: To help you understand & navigate through the complex pharmacy labyrinth
Questions?
Thank You

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Specialty Rx Value Proposition

- Management of *all* members utilizing specialty medications
- One payer eliminates multiple member/payer touch points
- Consistent application of precertification & clinical criteria eliminates confusion and disruption
- Seamless navigation through distribution settings eliminates fragmentation and improves satisfaction
- Real time information via one payer eliminates delays in enrollment in case management programs
- Integrated reporting provides holistic view of SRX use and management
## Specialty Pharmacy Market Definition

<table>
<thead>
<tr>
<th>Specialty Coverage</th>
<th>Non-Specialty Coverage</th>
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<tbody>
<tr>
<td>High unit cost injectables &amp; infusions</td>
<td>Insulin</td>
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<td>Injectables and infusions routinely administered in the home or outpatient setting</td>
<td>Immunizations</td>
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<tr>
<td>Injectable medications used to treat chronic diseases with low prevalence</td>
<td>Non-injectable medications</td>
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<td>Medications that require special handling and distribution</td>
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<tr>
<td>Benefit Design</td>
<td>Medication Examples</td>
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<td>----------------------------------------------------</td>
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<tr>
<td><strong>Exclusive Pharmacy Coverage:</strong></td>
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<tr>
<td>Drugs that can be self-administered by members</td>
<td>MS: Avonex, Betaseron, Copaxone</td>
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<td></td>
<td>Hep C: Pegasys, Peg-Intron</td>
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<td></td>
<td>RA: Enbrel, Humira, Kineret</td>
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<td></td>
<td>Asthma: Xolair</td>
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<td><strong>Pharmacy &amp; Medical Coverage:</strong></td>
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<tr>
<td>Drugs that can be self-injected by members or</td>
<td>EPO: Procrit, Epogen</td>
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<td>require physician administration</td>
<td>Antiemetics: Kytril, Zofran</td>
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<td></td>
<td>Cystic Fibrosis: Garamycin</td>
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<td><strong>Medical Coverage Only:</strong></td>
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<td>Drugs that are usually administered by medical</td>
<td>Hemophelia: Factor</td>
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<td>practitioners of home infusion agencies</td>
<td>Autoimmune: IVIG</td>
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<td>RSV: Synagis</td>
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<td>Condition</td>
<td>Precert</td>
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<tr>
<td>Cancer (Self Inj)</td>
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<td>Multiple Sclerosis</td>
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<tr>
<td>Growth Hormone Deficiency</td>
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<td>Hepatitis C</td>
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<tr>
<td>Hemophilia</td>
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<tr>
<td>Autoimmune Disorder</td>
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