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The Source for Leading Health Benefits Professionals

The Need to Transform Pharmacy Benefits — Challenges and Strategies

September 11, 2018

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Midwest Business Group on Health
Powerful Connections, Vital Solutions

- 130 members - health benefit professionals from mid, large and jumbo employers, including coalitions, hospitals, health plans, pharmaceutical manufacturers, wellness vendors, consultants and professional associations
- Members spend more than $4.5 billion annually on health benefits for over 4 million covered lives
- Activities focus on the Purchaser Perspective:
  - Education, networking and benchmarking
  - Health benefits research, toolkits and demonstration pilots
  - Community-based initiatives on health improvement, patient safety and quality outcomes
  - Buyers groups and health benefits service offerings

National Employer Initiative on Specialty Drugs

Employer Focused, Employer Driven

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- Employer-driven research project since in 2010
- Advisory council of large self-insured private employers
- Employer benchmarking surveys
- Online toolkit – www.specialtyrxtoolkit.org
- Annual Forum on Pharmacy Benefits & Specialty Drugs
- Annual multi-stakeholder meeting with coalitions, employers/purchasers, specialty pharmacies, PBAs, manufacturers
- Collaboration with sister coalitions

Pharmacy & Specialty Drug Benefits

Employer & stakeholder interests must be aligned!

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Innovation - Employers want to pay for innovation from suppliers and manufacturers; much of the current model is not working

- *We need transparency about the real costs*
- *We need suppliers to remove all waste*
- *We need to stop spending money on low value drugs; this will preserve funding to pay for high value drugs*
- *We want drugs on formulary to be based on clinical efficacy and safety, not rebates*

What We Know….

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- Today's employer's pay more than 56% of all health care costs in the U.S. serving as the **real payors (purchasers)** and costs continue to go up each year
- Employers are not a party to contracts between intermediaries (middlemen) so they **have no visibility to fees and rebates** paid by manufacturers or between parties to handle the transport and hand-offs of the drug
- Drug prices are **marked up at every handoff point**, significantly increasing employer costs
- Drug prices are also **arbitraged** (e.g. buy and sell) which further increases costs
- Current M&A activity is reducing competition instead of enhancing it - this will likely **not slow down or save money for employers**

Employers as Plan Sponsors and Fiduciary

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- ERISA doesn't just apply to retirement; as fiduciary it is an employers duty to know how premiums are being spent
- DOL…..
  - Act solely in the interest of plan participants and their beneficiaries with the exclusive purpose of providing benefits
  - Carry out duties prudently and follow the plan documents
  - Hold plan assets
  - **Pay only reasonable plan expenses**
- Drug distribution channels are very complex and employers need to hold everyone in the supply chain accountable
- Employers need to understand these channels and the impact of middlemen in adding to the cost of the drug

https://www.dol.gov/sites/default/files/ebsa/about-ebsa/our-activities/resource-center/publications/understanding-your-fiduciary-responsibilities-under-a-group-health-plan.pdf

What Progressive Employers are Doing

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- Some employers are **driving change, being disruptive and offering alternatives to the traditional PBM model**
- Employer coalitions are supporting these changes and serving to **represent the voice of the employer**
- New and existing strategies **may or may not work**
  - JPMorgan/ Amazon/ Berkshire Hathaway - still don't know the "what"
  - Health Transformation Alliance - reorganizing to get it "better"
  - Apple/Others
- Collaborations that **reduce unnecessary costs, drive efficiencies and patient outcomes** is key to keeping employers engaged

Pharmacy Benefits Middlemen

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- Few opportunities exist for purchasers to impact the actual cost of traditional and specialty drugs
- Middlemen's lack of transparency for certain drug costs, contracting strategies and unpaid rebates continues to play a significant role in adding to the already high claim costs of specialty drugs
- Who are the primary middlemen impacting purchaser costs?
  - PBMs
  - Drug Wholesalers
  - Drug Distributors

Pharmacy Benefit Managers

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- PBMs are virtually unregulated and many want to know…
  - How they function?
  - What deals do they cut?
  - How do they generate revenue?
  - What specific services to they perform?
- Three PBMs control 70-80% of the prescription drug benefit transactions
- Many PBM contracts are opaque and difficult to interpret
- Ongoing consolidation and vertical integration is reducing competition instead of enhancing it

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Sharing the Wealth

Here is how profits are shared from a brand-name drug with a list price of $300*. Of the middlemen involved in the process, a pharmacy benefit manager gets the biggest gross profit of $18.

Start **$ Payment** **$ Gross profit****

Plan sponsor
(Health insurer or employer)
-$185

Patient
Out-of-pocket
-$35

Pharmacy
$16

Pharmacy-benefit manager
$18

Helps design benefit plans and negotiates rebates from drugmakers, sharing them with other middlemen.

Wholesaler
$3

Drugmaker
$137

Lists drug for $300

*No one pays the full list price because of rebates and incentives that are negotiated by the pharmacy benefit manager and paid out by the drugmaker.
**The amount of the payments don't add up to the gross profits in part because of various markups and discounts taken during the filling of a prescription.

Sources: Pembroke Consulting; WSJ staff reports

THE WALL STREET JOURNAL.

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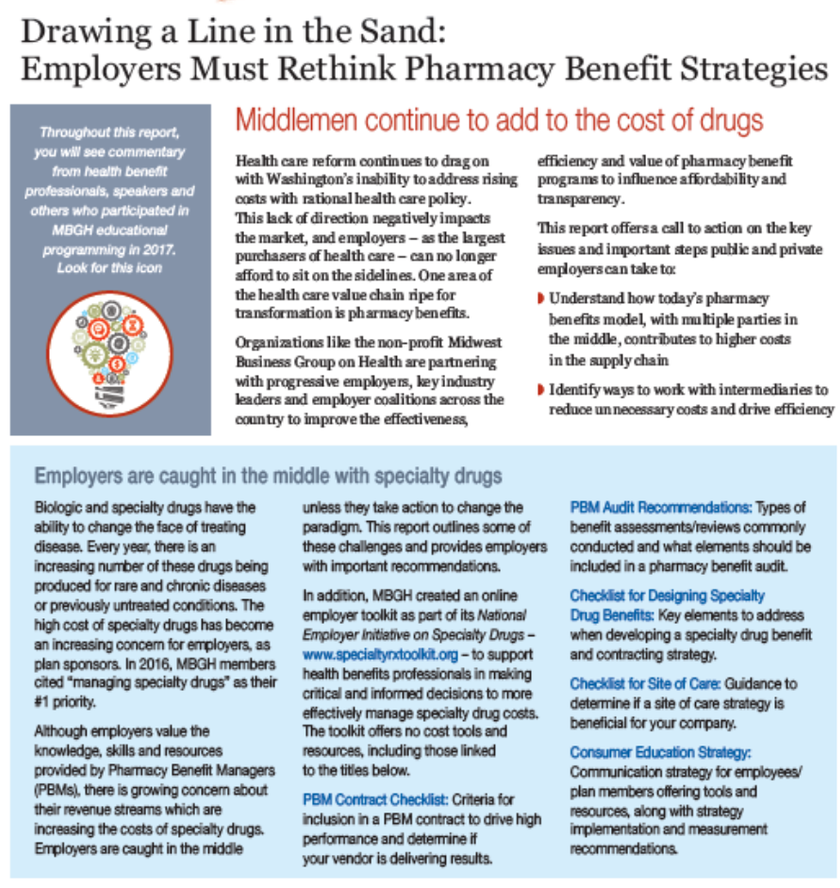
Drawing a Line in the Sand: Employers Must Rethink Pharmacy Benefit Strategies - *Middleman continue to add to the cost of drugs*

www.specialtyrxtoolkit.org

- Retain the rebate
- Keep the spread
- Keep drug distribution in house
- Claw back patient copays
- Use direct and indirect remuneration (DIR) claw backs at the pharmacy
- Lock out new drugs
- Require price protection rebates from mfg



Drawing a Line in the Sand:
Employers Must Rethink Pharmacy Benefit Strategies

Throughout this report, you will see commentary from health benefit professionals, speakers and others who participated in MBGH educational programming in 2017. Look for this icon

Middlemen continue to add to the cost of drugs

Health care reform continues to drag on with Washington's inability to address rising costs with rational health care policy. This lack of direction negatively impacts the market, and employers – as the largest purchasers of health care – can no longer afford to sit on the sidelines. One area of the health care value chain ripe for transformation is pharmacy benefits.

Organizations like the non-profit Midwest Business Group on Health are partnering with progressive employers, key industry leaders and employer coalitions across the country to improve the effectiveness, efficiency and value of pharmacy benefit programs to influence affordability and transparency.

This report offers a call to action on the key issues and important steps public and private employers can take to:

- Understand how today's pharmacy benefits model, with multiple parties in the middle, contributes to higher costs in the supply chain
- Identify ways to work with intermediaries to reduce unnecessary costs and drive efficiency

Employers are caught in the middle with specialty drugs

Biologic and specialty drugs have the ability to change the face of treating disease. Every year, there is an increasing number of these drugs being produced for rare and chronic diseases or previously untreated conditions. The high cost of specialty drugs has become an increasing concern for employers, as plan sponsors. In 2016, MBGH members cited "managing specialty drugs" as their #1 priority.

Although employers value the knowledge, skills and resources provided by Pharmacy Benefit Managers (PBMs), there is growing concern about their revenue streams which are increasing the costs of specialty drugs. Employers are caught in the middle unless they take action to change the paradigm. This report outlines some of these challenges and provides employers with important recommendations.

In addition, MBGH created an online employer toolkit as part of its *National Employer Initiative on Specialty Drugs* – www.specialtyrxtoolkit.org – to support health benefits professionals in making critical and informed decisions to more effectively manage specialty drug costs. The toolkit offers no cost tools and resources, including those linked to the titles below.

PBM Contract Checklist: Criteria for inclusion in a PBM contract to drive high performance and determine if your vendor is delivering results.

PBM Audit Recommendations: Types of benefit assessments/reviews commonly conducted and what elements should be included in a pharmacy benefit audit.

Checklist for Designing Specialty Drug Benefits: Key elements to address when developing a specialty drug benefit and contracting strategy.

Checklist for Site of Care: Guidance to determine if a site of care strategy is beneficial for your company.

Consumer Education Strategy: Communication strategy for employees/plan members offering tools and resources, along with strategy implementation and measurement recommendations.

Employer Perspectives on the Pharmacy Benefits Supply Chain

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Manufacturers can tell you what they charge the wholesaler but they can't talk about rebates with the PBM because of required confidentiality clauses between the two.

When you pay a PBM a PMPM fee, any revenue or rebate derived by adjudicating your formulary should get passed back to you. PBMs have lots of ways to hide revenue streams so it doesn't always happen. Transparency standards have been in place for a long time but you still need to negotiate with suppliers.

We don't talk to employers about the concept of fiduciary responsibility; in this health care environment; employers will have to make ethical decisions about which drugs to cover that will require making difficult choices.

Employers haven't felt there is a problem with pharmacy benefits and have been told by consultants and partners that everything is under control and they are getting the best deal possible. We want to trust our partners, but don't know what questions to ask or what to include in the RFP. Employers need help!

Today, employers are not allied and have no common agenda (to drive change). The people you're buying benefits from know it. You have to stand up and ask (your vendors) for accountability.

Include questions in your RFP that ask intermediaries what they have been paid by partners in the supply chain (and indicate they will be audited – you have a fiduciary duty).

Employer Perspectives on the Pharmacy Benefits Supply Chain

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Don't accept the status quo. There is a lack of (PBM) willingness to change and employers need disruption and transformation. The easiest way to do this is through pharmacy benefits. If one PBM doesn't want to play, there are others waiting.

A properly designed, full pass through, transparent PBM/PBA is clean, audit-friendly and the best option for legal compliance, but most PBMs don't want to sell you a transparent contract. Traditional contracts are much more profitable.

Don't sign a contract until you know where every single penny is going.

Formularies are mostly based off cost savings not clinical outcomes and most employers don't know how to ask the PBM the right questions. Contracts also need to be reworded.

Our "suppliers" don't share contracts or disclose fees. Employers are starting to notice and wondering why they are paying so much. We need to ask intermediaries what they are paying each other and how they spent the money."

We learned we are only getting 70% of our rebate dollars. We need to review our PBM contract language and if necessary, change it to demand more rebates get passed through.

Employers Driving Change - Caterpillar

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- Serve as their own prescription coordinator
- Offer narrow formulary based on value-based drugs
- Promote use of generics and discourage use of certain expensive drugs - e.g. heartburn
- Negotiate directly with retail pharmacies using cost-plus model
- Company has saved tens of millions of dollars each year and dropped patient/per prescription costs

Employers Driving Change - Other Employers

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Value-based design that focuses on the shared value of the outcome of a drug between the member and employer - One example….

- Lifestyle drugs that only benefit the employee (diet aids, cosmetic); member pays all or the greatest amount
- Convenience drugs that are not essential to life or offer less costly drugs with similar efficacy alternatives (non-sedating antihistamines, toenail fungus creams); employer and member share equally in the cost
- Business-preserving drugs that treat controllable health conditions (chronic diseases) and impact lost work time; employer assumes the greatest amount of cost with member cost at low or no cost
- Life-preserving drugs that are directly associated with the preservation of life or functioning of body systems essential to life (typically largest group of drugs); employer assumes greatest amount of cost

Cost savings from lifestyle/convenience drugs helps preserve revenue to cover rising costs of business/life-preserving drugs

See Employer Journey – www.specialtyrxtoolkit.org

Employer Recommendations

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- Require transparent/pass through models that remove the spread between amount paid by plan and amount paid to the pharmacy
- Guarantee PBM contracts disclose all financial flows, **including all PBM revenue streams – margin pricing, formulary management fees, data sales**
- Require pass-through for all pharmacy discounts, rebates, pharmacy spread, retail and mail-order discounts so that the true costs – not just the price – are known
- Ensure that price protection rebates required by PBMs from manufacturers are disclosed and passed through; these rebates are often worth more to the PBM then traditional rebates
- Require PBM contracts exclude use of copay claw backs at the pharmacy

Employer Recommendations

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- Use performance-based contracts with penalties for not meeting goals
- Incentivize members for improved outcomes for drugs and related treatments
- Negotiate directly with retail pharmacy networks for dispensing and patient care services
- Determine if there is value in allowing PBMs to have drug distribution in-house vs retail/specialty pharmacy – contracts often demand this and it's very profitable for the PBM; alter benefit design accordingly
- Exercise full auditing rights in PBM contracts, including the handoff between supply chain partners and how they get paid between contracts (the part we can't see); make sure the PBM does not control what companies you can use to audit them

Where We Need to Go

Get Rid of the Waste!

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- Drugs are net cost based off list price at the time of dispensing with no hidden rebates or discounts
- Drug costs and clinical outcomes are balanced to maximize outcomes for total cost of care savings
- Formularies are based on clinical efficacy, not rebates, discounts, exclusive contracts or narrow networks
- Advanced clinical support and case management program fees are separate from dispensing fees
- Mail order is not mandatory through PBM pharmacies
- Appropriate drug alternatives are used versus mandatory exclusions
- Manufacturer contracts are at shared risk for product related outcomes using meaningful metrics

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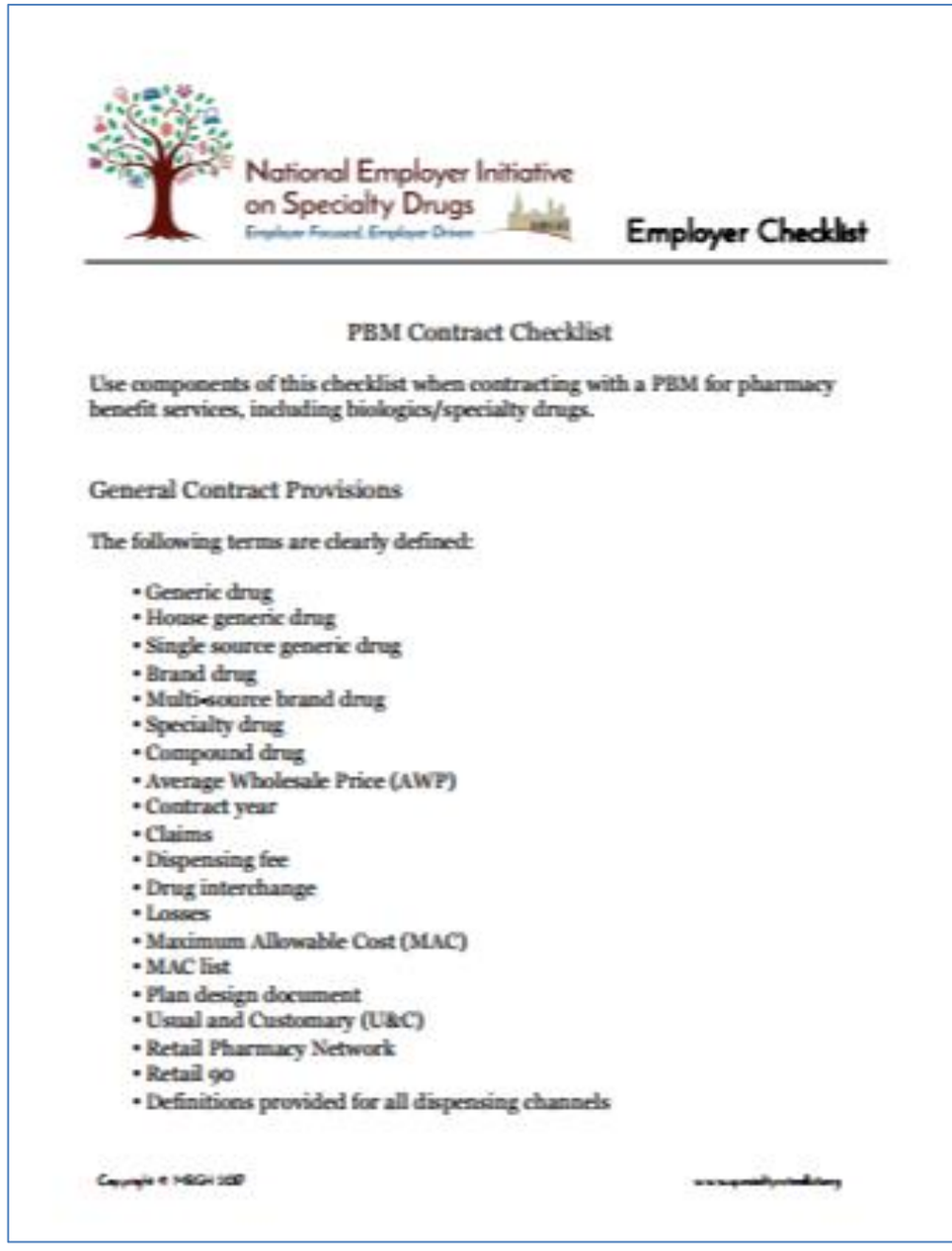
Toolkit includes employer checklists, tip sheets and resources to support purchaser efforts

- Checklist for PBM Contracts
- Checklist for PBM Audits
- Checklist for Designing Specialty Drug Benefits
- Checklist for Site of Care Management
- Education Strategy for Consumers



National Employer Initiative on Specialty Drugs

Employer Checklist

PBM Contract Checklist

Use components of this checklist when contracting with a PBM for pharmacy benefit services, including biologics/specialty drugs.

General Contract Provisions

The following terms are clearly defined:

- Generic drug
- House generic drug
- Single source generic drug
- Brand drug
- Multi-source brand drug
- Specialty drug
- Compound drug
- Average Wholesale Price (AWP)
- Contract year
- Claims
- Dispensing fee
- Drug interchange
- Losses
- Maximum Allowable Cost (MAC)
- MAC list
- Plan design document
- Usual and Customary (U&C)
- Retail Pharmacy Network
- Retail 90
- Definitions provided for all dispensing channels

MBGH 38th Annual Conference

Employer Panel on Impact of M&A Activity

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- *We have to drive innovation or it will be driven for us*
- *Employers have had tons of opportunities to save money but we let the PBMs run us into the ground; we chose not to use transparent models because the PBM offered us another 1% savings!*
- *We're trying to do something different, but no one is interested because they have always done things one way*
- *As employers, if we're designing benefits that are out of reach for our members, then we're doing it wrong*
- *We have to be continually in front of where we want to go – we are the real payer and we have to start leveraging the power we have*
- *Everyone wants a seat at the table and figure this out based on a desire to do something different or better - we need to make this happen*
- *We must walk the talk! Who is willing to play ball and walk the talk with us?*

Thank You!

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