

Under the microscope: Rx Costs

How to get the most from your
Pharmacy Benefits Manager

September 2018

As you review your prescription drug costs and your Pharmacy Benefits Manager (PBM) model, how do you ensure your contract is meeting your goals and objectives? It's a good idea to periodically assess your PBM service arrangement to ensure you are getting the most out of this relationship.

Your PBM's role is to negotiate on your behalf with drug companies and pharmacies, but are you measuring their effectiveness at this task? And, should you evaluate the marketplace to determine if you're getting the best deal? These are important questions, and here we will help you think about ways to get the answers.

Key Takeaways

- >> It's wise for your organization to carefully assess your pharmacy benefits manager model.
- >> There are steps you can take to ensure your PBM is working in your best interest.

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The role of a PBM is coming under scrutiny

Why is this an issue for today's employee benefits decision-makers? Because new innovative therapies and the related cost are overwhelming budgets, the role of a PBM and the way they operate is being examined amidst concerns over a lack of transparency in their process. The issue has not escaped the attention of legislators; some states are taking action to control prescription drug costs, with several now requiring drug companies to justify big price hikes on popular drugs. At the federal level, the White House is reviewing a proposal that would make changes to federal safe harbor protections that allow drug rebates.¹

Katherine Hempstead from the Robert Wood Johnson Foundation noted: "PBMs are not strict fiduciaries by any means."²

So, what is the role of a PBM? Essentially that of a "middleman." Health insurers and employers contract with PBMs to negotiate with drug manufacturers on their behalf.

The PBM determines the pharmacies that will be in your plan's network, and they develop the formulary (list of appropriate medications based on cost and efficacy). Negotiations by the PBM center largely around price discounts and rebates from the drug companies. The rebates are provided in exchange for having specific medications listed on the formulary.

All of this means the PBM plays a powerful role and is largely responsible for your employees' prescription drug coverage. A PBM holds power that can not only affect your bottom line, but also your employees' health.

208%

The rise in prices for the most popular brand-name drugs from 2008 to 2016.³

Set the bar high

We believe that everything in business deserves a fresh look on a regular basis, and your PBM arrangement is no exception. Prescription drug plan costs in particular are nuanced and can change rapidly. According to the Robert Wood Johnson Foundation: "Drug spending is always difficult to predict, due to unanticipated developments in both medications and disease, in addition to a complicated supply chain."²

Your PBM watches drug prices carefully. You need to monitor your PBM's efforts with just as much care. As you review their activity, ask yourself: Is our PBM aligned with our goals and objectives? Does our PBM contract match the spirit of the terms and conditions negotiated during our Request for Proposal (RFP) or renewal process?

Are you watching?

Your PBM watches drug prices carefully. Be sure you are monitoring their efforts just as carefully.

You are in control

With the eyes of the media and regulators on this issue, PBMs and health plans are under pressure to manage costs more effectively on behalf of employers and consumers. Bear in mind, your employees can hardly negotiate for themselves. As their employer, they entrust this process to you.

So, don't be afraid to negotiate. Understand that you have a choice when it comes to your delivery model. And remember: If your employees are in a high-deductible health plan, any prescription savings will have the greatest impact on them.

The more you know as a seasoned buyer, the better the results can be for your organization. Ask your PBM the following questions:

- How are you actively working with our participants?
- How are you working with our participants' doctors?
- How are you conducting prior authorization and are you diligently applying it?
- Are you driving low net cost (e.g., encouraging movement from high cost drugs to lower-priced therapies) in our program?

Take two and see savings every morning

Among other cost reduction measures available to you, consider these two that rise to the top of the list to evaluate with your PBM: prior authorization and step therapy. Rather than thinking of these as setting up a “roadblock”, consider them as solid approaches from a cost standpoint.

1. **Prior authorization:** Prior authorization (PA) is a technique for minimizing costs, especially when very expensive medications are prescribed by a physician and cheaper alternatives are available.
2. **Step therapy:** Step therapy is trying lower-priced medications first before more expensive ones. Example: You take a generic drug to lower your cholesterol, but it's not working. Your doctor prescribes a different medication that works well, but it's more expensive. Before your plan will cover the more expensive drug, it will check to see if you've tried lower-priced drug options.

A rebate versus a low-net cost model – Is your PBM looking in the right place for savings?

1. **Traditional rebate maximization PBM model.** PBMs generate revenue largely through rebates --payments they negotiate with drug manufacturers to return a percentage of the drug's price to the entity paying the bills, such as an employer or health care insurer, spread pricing, mail order programs and pharmacy-owned arrangements. Issue: The specific results the negotiated arrangements provide are often obscured, making it hard to know what's being passed on as plan sponsor savings and what is kept by the PBM.

>> Are you confident in your arrangement? Do you have audit rights?

2. **Newly emerging models.** Emerging models are now beginning to focus on managing to the lowest cost drug. Thanks to new tools and assessment reports, it's starting to get easier to understand the tradeoffs among competitive drugs. A focus on clinical effectiveness and evidence-based decision-making can help employers make knowledgeable decisions that translate into meaningful cost-savings.

For example, some very expensive drugs (but not all) have alternatives in the market that are just as effective but are cheaper:

- Dupixent® is a specialty drug that treats eczema at a cost of \$36,000 per year, but following an evidence-based protocol shows that alternative treatments can be obtained for only \$2,400 a year.
- Harvoni® is a treatment for Hepatitis C and is typically prescribed for a 12-week duration. But an evidence-based, “stop gap” approach --in some patient's cases-- demonstrates that treatment for an 8-week duration is just effective. At \$113,400 for 12 weeks versus \$75,600 for 8 weeks, you're looking at a potential savings of \$37,800 savings per treatment at the drug's average wholesale price.

Use the power of your next RFP

Consider revisiting your service model during your next request for proposal, whether you are choosing a new PBM or your contract is coming up for renewal. Beyond the most obvious elements to examine when choosing your PBM (contact terms, financials and capabilities), we believe there are three critical areas to consider that can make or break your prescription drug program:

1. **Periodic evaluation** – Ensure that your agreement with your PBM provides you with the right to conduct at least an annual evaluation of financial contract terms against the marketplace. With the ever-increasing cost, complexity and number of drugs being administered by PBMs, the rebate deals and discounts the PBMs can provide may change rapidly.
2. **Audits** – Ongoing auditing using an unbiased third-party pharmacy audit partner is prudent. More so than with any other benefit partner, auditing the administration of pharmacy benefits and the detailed complexity of these contract terms continue to net both financial and process improvement opportunities.
3. **Ongoing support** – Pharmacy cost is too big an area to leave to chance or a missed opportunity to review. You need ongoing support to help evaluate specific drug changes proposed by the PBM throughout the year, which typically includes formulary changes, exclusions, and process for handling new drugs coming to the market.

Opportunities to save

Emerging models are beginning to make meaningful progress in containing pharmacy drug costs. If one drug costs \$36,000 a year, and another one just as effective is \$2,400 a year, shouldn't your PBM be driving your providers and employees to the cheaper alternative?



"We continue to see signs of an evolution away from the traditional rebate model. At Fidelity Benefits Consulting, we are laser focused on evaluating the PBM space to find ways to better align with our clients' objectives."

— Robert Kennedy, Senior Vice President, Fidelity Benefits Consulting

We'll help you find your best options now — and give you a clearer view of the future

At Fidelity Benefits Consulting, our role is to offer you an unbiased perspective. We roll up our sleeves and dig deep to show you objective criteria that can help you determine what a PBM should offer to help you meet your goals. We work with employers like you to evaluate your needs and options, help set strategies, and manage the vendors that deliver your benefits.

Our thought leadership in the health care and pharmacy space fuels our consulting to bring you the best and most-forward thinking ideas, helping to keep you nimble in your ability to respond to change. For more information on our consulting related to pharmacy benefit managers and your contracts, please contact your Fidelity relationship manager or email the Fidelity Benefits Consulting group at fidelitybenefitsconsulting@fmr.com.

¹ Edney, Anna, "New proposal would remove safe harbor protections for drug rebates," Benefits Pro, July 19, 2018

² Hempstead, Katherine, "The Road Ahead For Prescription Drug Prices," Robert Wood Johnson Foundation

³ "Why Our Drugs Cost So Much," AARP Bulletin, May 2017