A Guide to Choosing a Pharmacy Benefit Management Partner

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Navigating the complexities of the ever-changing pharmacy marketplace can be challenging.

Hidden costs, confusing definitions and lack of data can make it difficult to evaluate plans. In this guide, we'll walk you through some important items to consider when looking for a pharmacy benefit manager (PBM).

As prescription costs continue to rise, so does the cause for concern among self-funded employers. Plan members use pharmacy benefits more than any other benefit, so choosing the right PBM is more critical than ever.

The PBM is your advisor. They work with manufacturers, wholesalers, pharmacies and the health plan to make sure drugs are administered correctly and you're not overpaying. They can also help educate members about their pharmacy benefits and improve health outcomes.

Traditional vs. Pass-through models

There are two types of PBM business models: traditional and pass-through. Having a clear understanding of the two types is essential.

- **The traditional model** offers volume discounts and rebates to generate savings. The drug manufacturer pays out rebates on eligible claims directly to the PBM. Additionally, they generate revenue through transactions at the pharmacy level and through the spread (more about this later).

- **In the pass-through model**, all rebates and discounts received by the PBM are passed through directly to the employer. Revenue is generated by charging an administrative fee for managing the claims and rebate process. The PBM's charges should be completely transparent and should disclose what the exact fee includes.

For every $1 spent on PBM services, costs are reduced by $10, according to the Pharmaceutical Care Management Association.

Understanding rebates

Large rebates may look attractive on a proposal, but that doesn't necessarily equate to bigger savings. Additional expenditures, such as higher volumes, may be necessary to get higher rebates. However, this could end up increasing drug costs in the long term. A traditional PBM may keeps a significant portion of rebates as part of their revenue, funds that could have otherwise been used toward plan premiums or other expenses.

Monitoring and reporting

Monitoring drug usage is critical to containing costs. Transparent financial reporting showing details of costs, discounts, and rebates should be required. Access to various real-time specialty drug spend reports is also advantageous in understanding costs. Other reports you'll want to see from your PBM include plan cost per member, plan cost per prescription, and generic vs. specialty metrics.

Formularies

Every PBM will recommend a different formulary, and your PBM should actively manage your formulary. Two principles of formulary management should drive pharmacy plan offerings: Lowest net-net cost options and clinical outcomes and effectiveness. Patient outcomes should always be the ultimate driver. An analysis of drugs on the formulary can point out the cost difference between rebated and non-rebated drugs. An efficient formulary is both robust in its offerings as well as financially contained.

A broad formulary enables members to keep their current prescriptions during a transition period if the client changes from one PBM to another thereby reducing disruption in filling prescriptions.

Understanding frequently used medications and drug classes can identify wasteful spending. For example, combination products are those that combine two existing medications, resulting in a drug with significantly higher costs and little advantage. This should be avoided. Examples include Duexis, Roszet, Janument, and Kazano. In some cases, these combination products can drive up costs an estimated 800% over the individual agents. "Me too" products should also be heavily examined. "Me too" products include minor modifications made to existing medications resulting in a "new" drug with little or no clinical difference from the original.

DUEXIS (ibuprofen 800mg / famotidine 26.6mg)

Per tablet cost is $33.13 and taken 3 times per day

$2,980 per month, per patient	$ 2,980
Rebated at $130 per Rx	$ -195
Patient copay (assistance)	$ -5
Net Impact	**$2,780 PPM**
	$33,360 PPY

Ibuprofen 800mg + Famotidine 40mg

Both products < $1.20 per day taken 3 times per day

$36 per month, per patient	$ 36
No rebate (generic drug)	$ 0
Patient copay	$ -10
Net Impact	**$26 PPM**
	$312 PPY

Specialty drugs, such as anti-inflammatories, are a big driver of increased costs. Brand name anti-inflammatory drugs, along with dose creep, contribute to these cost increases. This occurs because some PBMs have a revenue stream tied to a drug manufacturer's rebate contract. Your PBM should focus on customized utilization management and prior authorizations that review dosing.

Monitoring usage is not only important for cost containment but also for improving outcomes. Look for a PBM that will proactively communicate critical issues to plan members, such as potential drug complications, minimizing unsafe use of narcotics, and reducing gaps in treatment.

What to expect from your PBM

It's essential for a PBM to establish and maintain strong relationships with members, doctors, and pharmacies. A consultative approach is necessary to foster these relationships for maximizing cost savings and patient outcomes.

The PBM's clinical staff should reach out to members with specific health conditions on a routine basis and provide guidance on ways to manage their conditions more effectively. An experienced, unbiased team that is actively involved in executing a variety of clinical intervention programs, therapy optimization, and trend monitoring can deliver an incremental 7%-10% in annual savings without disrupting members.

Glossary

Step Therapy:	*A prior authorization program designed to make sure patients have tried a less expensive drug before moving on to a more expensive one.*
Dose Creep:	*Increasing a medication's dose or frequency beyond what is considered standard care.*
Spread Pricing:	*A revenue stream for traditional PBM models that comes from rebates and pharmacy transactions. Health plans and employers reimburse PBMs at a higher rate for generic drugs than what the PBM actually pays. The PBM keeps the difference. A lack of transparency allows this to happen.*
Formulary:	*A list of generic and branded drugs that are covered within a plan.*
AWP:	*Average wholesale price.*
Combination Drugs:	*These combine two ingredients into one pill, which results in higher costs than the individual ingredients.*
Me Too Products:	*Tweaks to an ingredient that result in a "new" drug with little or no clinical value.*
PMPM Costs:	*Per member per month. This cost can help you compare traditional and pass-through PBMs.*

Find out how PinnacleRx Solutions can help you control your employee health care costs.

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