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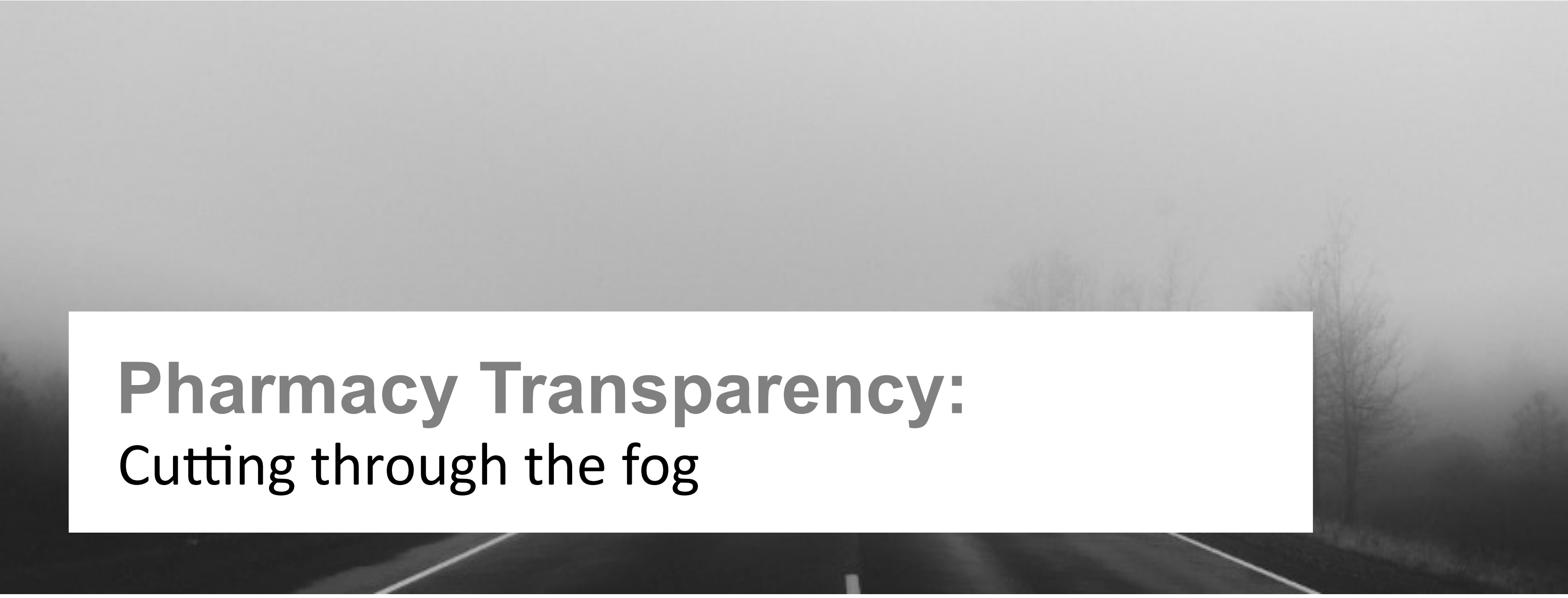
VOLUNTARY BENEFITS ASSOCIATION®

Neil Model is an employee benefits expert with over 40 years of experience in successfully identifying areas for cost savings within the healthcare plans of large and mid-size employers.

PHARMACY TRANSPARENCY: CUTTING THROUGH THE FOG



Pharmacy Transparency:

Cutting through the fog

Pharmacy spending continues to be a top-of-mind issue for employers. Many realize it's overdue to start working on cost saving solutions, but may not know where to start. And it's no wonder, really. The pharmaceutical delivery industry has become so complex that many employers are overwhelmed and aren't aware of all the entities involved in executing their pharmacy benefits, starting with drug manufacturers and ending with plan participants.

While the margins between generic and brand prescriptions vary slightly, approximately 30% of drug plan spending goes to an "intermediary"—the distributors, Pharmacy Benefit Managers (PBMs), and administration. Of every dollar you spend toward your pharmacy plan, many different pots receive a percentage. Unfortunately, it would seem that some of the percentages in the chart below are relatively set, leaving little wiggle room for cost savings analysis.

Of Every Dollar Spent on Pharmacy...

Generic	Brand	
90%	70%	Rx Manufacturer
5%	5%	Distributor
2%	14%	PBM
2%	10%	Pharmacy
1%	1%	Administration

*Compiled by CBIZ Pharmacy Consulting Services Team

But there are some percentages that aren't set. Due to the lack of transparency that has become the norm with pharmacy plan contracts, many are not aware that there are significant areas to cut costs within this 30% intermediary category. But it's worth taking the time to explore. Think about this-- If you, as an employer, could save an extra 15% on a $1,000,000 drug spend, you'd pocket an extra $150,000. Is that not worth looking into?

There are many strategies for getting to the leanest pharmacy plan possible, but these strategies hinge upon understanding the top transparency issues facing pharmacy benefit plans.

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Transparency Trap #1: Spread Pricing

Roughly 90% of all prescriptions filled are for generic drugs. These drugs are relatively inexpensive to manufacture, yet PBMs make huge margins on these drugs. How does this happen? They make their money through price spreading. Price spreading consists of paying the pharmacy one reimbursement rate and then billing the plan sponsor/employer a different—usually higher-- rate and then pocketing the difference.

The problem with this practice is obvious—it seems like highway robbery. But most employers aren't aware that this is happening due to a blatant lack of transparency. Many PBM contracts prohibit employers from seeing the actual costs associated with the plan. If an employer can't ever know the bottom price of the drug, for example, because they aren't privy to that information under the terms of their PBM contract, how can they know that the PBM is charging them fairly? Reading and understanding PBM contracts is an art in and of itself. So without a skilled benefits professional to help decipher the terms of the contract, many employers are unknowingly letting money slide right into the hands of the PBMs and away from their bottom line.

Transparency Trap #2: Coupons/Rebates

Rebates are typically offered by drug manufacturers to PBMs as an incentive for including their brand name drug on the approved drug list for a particular pharmacy plan. While it would be most ethical for the rebates to go to the consumer, PBMs have been accepting the rebates under the guise of "administrative support" or other vague line items. This practice does absolutely nothing to lessen the cost to the consumer but increases PBM profits. One solution for employers to consider, besides really understanding their contract, is to deal with a PBM that guarantees in writing they receive no monies from the pharmaceutical companies. Their administrative pricing is on a per script defined-expense basis. Period.

Transparency Trap #3: Pharmacy Coalitions

Pharmacy coalitions exist in an effort to seek out pharmacy savings through increased purchasing power. Typical coalition members consist of employers within the same industry or within a geographical region, for example. Some coalitions are run by companies who offer just pharmacy collectives and perhaps some other services. And some coalitions are run by pharmacy/benefits consultants. Some might consider the latter to be a conflict of interest, as the consultants who are hired to provide unbiased advice may also be collecting even higher fees than a separate PBM.

Fees

If you're a part of a coalition, do you know what fees you're paying and to whom? There's often a one-time set-up fee which needs to be taken into account in calculating savings over the life of the membership. Additionally, some coalitions charge large fees and— in the case of the coalitions that are run by consultants— these fees go back to your consultant or to a separate but related entity, which is counterproductive to cost savings. When dealing with a consultant on a fee basis be sure that their contract states what other sources of revenue they can or will earn. Seek transparency.

Financial Guarantees

Financial guarantees for savings targets may not apply to an entire group within a coalition. For example, if the guarantee is for the coalition to achieve 70% savings, not every group in the coalitions needs to hit that goal in order to avoid penalties by PBMs. So while you may enter a coalition thinking you'll always achieve 70% savings, you may achieve significantly less savings and the coalition can still consider it a success.

Contractual cloudiness

Being a part of a coalition often means less or no access to critical plan data. Because this data may be considered proprietary by the consultants who run the coalition, employers often forfeit their right to see drug

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prices, usage data, etc., much like with a traditional PBM contract. If a coalition will not release their contract in advance of an agreement, this should serve as a red flag to the plan sponsor.

If you're accepting anything less than full, honest transparency, you're likely leaving money on the table. The only way to determine if there's room for additional savings is to conduct a full audit of your pharmacy benefits plan. This can seem like a lot of work and will require you to do some digging. But for an hour or less of your time, it may be extremely beneficial to enlist the help of a benefits professional specializing in "transparency traps" and one who has success in negotiating more cost effective pharmacy plans. ■

Neil Model is an employee benefits expert with over 40 years of experience in successfully identifying areas for cost savings within the healthcare plans of large and mid-size employers. As the cost of pharmacy has continued to rise, he has written many articles on ways to lower pharmacy spend, and has made it one of his focus areas. He can be reached at nmodel@cbiz.com or 610-862-2460. Follow him on LinkedIn for all of his latest articles on pharmacy plan savings.

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