

# PBM news



## SAVE THE DATE FOR 2006 CONFERENCE

PBMI's 11th annual  
Prescription  
Drug Utilization  
Management  
Conference will be held  
**April 26-28, 2006** at  
The Scottsdale Plaza  
Resort in Arizona.

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## DRUG MIX DRIVES BENEFIT COSTS

To borrow the old real estate adage, the three most important things about pharmacy benefit management are drug mix, drug mix, and drug mix. Stretching this comparison a little farther points to the question many real estate buyers ask, "Am I paying too much?" A look at your drug mix may give you the answer.

### What Is Drug Mix?

Drugs that provide similar therapeutic benefit are grouped into therapeutic classes such as anti-inflammatories, calcium channel blockers, or non-sedating antihistamines. The relative utilization of the different drugs that comprise each class is referred to as the drug mix. Drug mix analyses allow PBMs to compare the use of each

drug to its peers within the class. These data should be used by PBMs to identify opportunities to change utilization patterns and to reduce net drug costs. Drug mix data can be evaluated using a number of metrics including:

- Total cost,
- Number of units dispensed,
- Cost per unit or dosage,
- Cost per day, and
- Cost per prescription.

Table 1 is a simple example of drug mix information. The key point of this example is that the preferred drugs make up the majority of the utilization and that the preferred drugs have lower costs than non-preferred drugs.

*Drug Mix, continued on page 2*

**Table 1: Analyzing Drug Mix By Therapeutic Drug Class**

Drug Name	Formulary Status	% Units Dispensed	Cost Per Day
Drug A	Generic	40%	\$0.15
Drug B	Preferred Brand	30%	\$0.50
Drug C	Preferred Brand	21%	\$0.75
Drug D	Non-Preferred Brand	6%	\$1.60
Drug E	Non-Preferred Brand	3%	\$1.25

## IN-DEPTH WORKSHOPS ADDED TO 2006 CONFERENCE

PBMI's 2006 Prescription Drug Utilization Management Conference will feature two new in-depth workshops for industry professionals responsible for providing drug benefits to employees, retirees, union groups, and health plans. The meeting will be held from April 26-28, 2006 at the Scottsdale Plaza Resort in Scottsdale, Ariz.

"We are developing interactive workshops to discuss in detail the critical issues of pharmacy benefit plan design, drug mix management, request-for-proposal methodologies, and PBM contracting," said Michael H. Deskin, PBMI president. Nationally recognized faculty members

will conduct the 90-minute workshops on Wednesday, April 26, to kick off the nation's premier annual conference dedicated to prescription drug benefit issues.

"These workshops have been developed in response to requests from convention attendees who are asking for detailed, technical information on critical drug benefit design and administration issues," Deskin said. In addition to the workshop discussions, faculty will participate in a joint question-and-answer session on up-to-the-minute issues or "hot topics" affecting drug benefit professionals.

*2006 Conference, continued on page 3*

### Working Toward Lowest Net Cost

The pharmacy reimbursement discounts, administrative fees, and rebates plan sponsors negotiate with their PBMs are important. Traditionally, these quantitative values have been the primary criteria used to evaluate PBMs by many plan sponsors. Based on its experience evaluating PBM proposals, PBMI believes that under normal circumstances a plan sponsor can negotiate relatively similar financial proposals from most PBMs. As a result of competition, it is becoming more difficult for PBMs to differentiate themselves simply on price. So, if PBMs cannot be easily differentiated by their financial proposals, how should they be evaluated? A careful analysis of a PBM's drug mix is helpful in understanding how a PBM contract may impact overall prescription drug expenditures.

It is very clear that PBMs are able to influence drug mix effectively. However, each PBM's drug mix within various therapeutic classes for clients in aggregate (entire book of business) may differ significantly. Because the cost of the different drugs in each therapeutic class varies greatly, drug mix is the answer.

PBMs influence drug mix in a variety of ways by providing a number of other services that can have an impact on drug mix including patient profiling, prescriber profiling, prescriber education, and therapeutic substitution programs. However, PBMI believes the variable with greatest impact on drug mix is formulary management.

Formulary management is comprised of each drug's formulary status and tier placement. Given that plan sponsors have established fairly significant differences in the cost sharing amounts between tiers, beneficiaries tend to gravitate toward the drugs that require the lowest out-of-pocket cost. Table 2 details the average copayment amounts and coinsurance percentages reported in PBMI's recently released *2005 Prescription Drug Benefit Cost and Plan Design Survey Report*. This survey captured

**Table: 2004 Average Retail Copayments and Coinsurance By Tier**

	Tier One (Generic Drugs)	Tier Two (Preferred Formulary Drugs)	Tier Three (Nonpreferred Formulary Drugs)
Copayment Amount	\$9.14	\$20.71	\$37.45
Coinsurance Percentage	20%	25%	38%

drug benefit cost and plan design data from 404 U.S. employers.

Beneficiaries use a high percentage of generic drugs because they have the lowest out-of-pocket cost. If a generic drug is not available for a particular condition, beneficiaries tend to use more preferred or second tier drugs than nonpreferred or third tier drugs. The difference between the second and third tier cost share amounts is often great enough to cause significant changes in drug mix.

Data reported by Atlantic Information Services in its October 29, 2004 issue of *Drug Benefit News* supports this. Based on data collected from 30 PBMs in 2004, 48% of prescriptions were dispensed using tier one drugs (commonly generic drugs), 43% were dispensed using tier two drugs (commonly preferred brand drugs), and 12% were dispensed using tier three drugs (commonly nonpreferred brand drugs). The total of prescriptions dispensed exceeds 100% due to issues related to inconsistencies in the data provided by the PBMs.

### Using Drug Mix To Manage Costs

Plan sponsors should periodically review their drug mix with their existing PBM. The PBM should provide information identifying which drugs are generic, which brand drugs are preferred products, relative market share of each drug, and the cost of each drug.

In some cases, plan sponsors may find that a PBM has identified a drug that is more expensive than similar drugs to be a preferred product. There are a number of valid clinical, strategic, or financial reasons why the PBM may have made this decision.

Clinical reasons include fewer side-effects, better outcomes, and reduced potential for adverse drug reactions. Strategic reasons include the expectation of generic availability in the near future. Financial reasons include the offset of the higher prescription costs with greater rebates.

Plan sponsors should periodically review the drug mix in the top 10 therapeutic categories by cost. If there are instances in which higher cost brand drugs are preferred and lower cost brand drugs are nonpreferred, the plan sponsor should ask the PBM for an explanation. This does not need to be done for all classes but for at least the three or four classes that appear to have the greatest impact on the plan sponsor's costs.

The PBM should be able to explain why these higher cost brand drugs are identified as preferred drugs and the lower cost brand drugs as nonpreferred; regardless whether for clinical, strategic, or financial reasons. If it is for clinical reasons, plan sponsors should consider reviewing the information provided by the PBM with a consulting pharmacist or physician. If it is for financial reasons, the PBM should be willing to share the financial justification which is likely to include the rebate amount.

In response to previous surveys conducted by PBMI on benefit design issues, 20% of the plan sponsor respondents reported that they asked their PBMs to modify their formulary in some way including changing the formulary status of specific drugs and the cost sharing tiers in which these drugs were placed. The examples most frequently identified by the respondents were related to moving drugs from the preferred status to

### *Drug Mix, continued from page 2*

nonpreferred status. The drugs cited in these examples were drugs that were more expensive and perceived to offer little added clinical value over competitors' drug products.

### **PBM Selection**

Drug mix is particularly important when comparing proposals from various PBMs. When selecting a PBM, a plan sponsor must evaluate whether moving its business to a different PBM will result in drug mix changes that will increase or decrease its costs. In the most elemental form, this type of analysis requires the plan sponsor to know its existing drug mix and the prospective PBMs to divulge their existing drug mix for selected therapeutic categories.

Although PBMs are very willing to guarantee most aspects of their financial proposals, they are not able to guarantee

the actual drug mix that will be achieved in the various categories. No PBM is able to exactly predict the impact of the demographics of a particular plan sponsor's beneficiary population and the benefit plan design on drug mix. Taking into account any idiosyncrasies of the population, the only reasonable projection of what the plan sponsor's drug mix will be one year after implementing a drug benefit program with a different PBM is some semblance of what the PBM's drug mix is today, which does not take into account potential changes in the formulary and cost sharing over time.

PBMI recommends that PBM drug mix comparison data be used for directional purposes rather than as an absolute predictor of net drug costs. This means, if a prospective PBM tends to have a drug mix that is weighted toward higher cost drugs, particularly higher cost drugs than are currently being used, the plan sponsor

needs to carefully question the PBM about the potential impact of its drug mix on plan sponsor costs and utilization trends. If desired, weighted cost values that reflect the cost of the drugs and class-specific drug mixes can be calculated to get a picture of the overall impact across drug categories. This may be appropriate because different PBMs tend to prefer higher cost drugs in different drug categories because of proprietary rebate contracting strategies.

If in a comparison to the drug mix of the existing PBM, a prospective PBM tends to have a drug mix that is weighted toward lower cost drugs, the plan sponsor should select a few drugs that would generate the greatest savings and review any clinical issues related to the preference of the lower cost drugs over the higher cost drugs to ensure a clinically sound formulary is in place. ●

### *2006 Conference, continued from page 1*

### **Agenda Topics**

Conference sessions on Thursday, April 27, and Friday, April 28, will feature industry experts presenting research findings, case studies, and ready-to-implement strategies to manage utilization and control net drug costs. Topics and case studies will address:

- PBM Marketplace Issues and Trends
- Value of Prescription Compliance
- E-prescribing
- Formulary Design and Management
- Coordination of Benefits at Point of Sale
- Specialty Pharmacy Economics and Disease Management
- Maintenance Medication Strategies
- Management of Physician Prescribing Patterns
- Benefit Design Approaches for Union Groups
- In-house Pharmacy
- Emerging PBM Transparency Standards
- Medicare Part D Implementation and Experience
- High Growth Drug Classes

### **Benefits for Attendees**

Continuing education credits for pharmacists and human resource professionals will be provided through nationally accredited associations to PBMI conference attendees. In addition to the two workshops and 15 professional sessions, PBMI's conference offers excellent networking opportunities over the course of the three-day event. The conference registration fee includes an attendee notebook, two networking receptions, as well as breakfast, lunch, and coffee breaks throughout the conference.

### **Sponsorship Opportunities**

PBMI has developed sponsorship packages to give PBMs, consultants, and suppliers the opportunity to showcase creative strategies and the activities needed to support drug benefit design and administration. Platinum, gold, and silver sponsor packages that include advertising, conference passes, exhibit space, and signage recognition are available.

PBMI will host its second annual Educational Forum with table-top exhibits

during the conference. The Forum provides an opportunity for organizations wanting to distribute research reports, monographs, and informative materials to attendees. For more information on sponsorship opportunities and the Forum, please contact Ken Carpenter at [kcarpenter@pbmi.com](mailto:kcarpenter@pbmi.com) or by phone at 480-874-2556.

### **Conference Venue**

A block of hotel rooms has been reserved at the Scottsdale Plaza Resort, 7200 North Scottsdale Road, in Scottsdale, Ariz. Restaurants and shops are located across the street from this well-known Scottsdale resort. The conference rate is \$179 per night. Contact the hotel before March 27, 2006 to take advantage of the group discount rate. Phone reservations can be made at 800-832-2025. Space is limited so make your reservations early. Conference attire is business casual. ●

### **Register Now On Line at**

[http://www.pbmi.com/pdumc\\_rates.asp](http://www.pbmi.com/pdumc_rates.asp)

**PBMI Members and Early Registrants Save \$100.**

# NEWS BRIEFS

## RESPOND NOW TO BENEFIT DESIGN SURVEY

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PBMI began fielding the 2005 Prescription Drug Benefit Design Survey in October. Plan sponsors who have not received this survey and who would like to participate should contact PBMI at (480) 730-0814 or send an email to [pbmi@pbmi.com](mailto:pbmi@pbmi.com) for a copy of the one-page, fax-back survey. Respondents automatically receive a copy of the survey report and are entered in a drawing for a free pass to PBMI's 2006 conference.

## CUSTOMER SATISFACTION REPORT NOW AVAILABLE

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PBMI's 2005 *PBM Customer Satisfaction Report* is now available. More than 400 employers, representing 8.5 million drug benefit plan members, provide insights on the performance of PBMs. For the 11th consecutive year, the report provides plan sponsors with information to select and manage PBM services. To order a copy, visit [www.pbmi.com](http://www.pbmi.com).

## ENJOY REWARDS OF BECOMING PBMI MEMBER

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Join PBMI for research-based information on designing and managing pharmacy benefit programs. PBMI membership is open to plan sponsors, pharmacy benefit managers, and the organizations involved in supporting drug benefit delivery. Some of the many benefits of PBMI membership include:

- Discounted registration to largest U.S. conference dedicated to drug benefit issues
- Annual trend reports on PBM performance and drug benefit plan design
- Subscriptions to *PBM News*

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