

PBM *news*



EVOLUTION TRIGGERS TRANSPARENCY DEBATE

“Transparency” discussions are being featured in trade journal articles and industry Web sites. PBMI has spoken about the transparent pharmacy benefit manager (PBM) business model with many plan sponsors and others interested in PBM activities throughout 2004. The issue is having a significant impact on the industry.

As the PBM business model has become increasingly sophisticated (Figure 1), the revenue sources have increased in number and dollar amounts. Plan sponsors are no longer providing the largest portion of PBM income. This has created the impression PBMs are serving competing interests.

There are many perspectives on transparency. This article does not attempt to make the case whether transparency is appropriate. The purpose of this article is to describe the characteristics of transparency that PBMI believes to be most important.

Logically, PBMI believes, the definition of transparency must come from the plan sponsor community. The sellers—PBMs—are naturally very knowledgeable about this issue. However, the PBMs’ definitions are influenced by their own business models, sales philosophy, and product-service lines. Regardless, a thorough discussion of transparency needs to consider PBMs’ interests and capabilities.

Figure 1: PBMs Evolve Over time

The Card Era	Claims Processing Goes On Line	PBMs Emerge	Complex PBM Revenues Create Black Box
1970s	1980s	1990s	2000 & Beyond

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EXPERTS ADDRESS CRITICAL ISSUES AT 2005 CONFERENCE

Experts will address transparent pharmacy benefit manager (PBM) pricing, drug pricing methodologies, Medicare drug benefit implications, innovative benefit plan designs in addition to other topics of interest at The Pharmacy Benefit Management Institute’s (PBMI) tenth annual independent conference. The meeting, dedicated to prescription drug utilization management, will be held March 30-April 1, 2005, at the Hilton Scottsdale Resort & Villas in Scottsdale, Ariz.

“Our three-day conference focuses on strategies for curbing costs and maximizing quality in prescription drug programs,” said Michael H. Deskin, PBMI president. “Nationally known experts in our industry will present research

findings, case studies, and ready-to-implement strategies to manage drug utilization and the rising costs of prescription drugs.”

Industry experts from many organizations will speak at the PBMI Conference including American Health Group; Argus Health Systems; Better Health Technologies, LLC; Centers for Medicaid & Medicare Services; College of Pharmacy University of Minnesota; Employers Health Purchasing Corp. of Ohio; Express Scripts, Inc.; Health Strategy Associates; Hewitt Associates, LLC; Magellan Health; Medispan; Milliman; Pitney Bowes; Preferred Care; Pro Pharma Pharmaceutical Consulting; Regence Blue Shield of Idaho; Robins Kaplan

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Michael H. Deskin, President
PO Box 27831
Tempe, AZ 85285-7831
Tel: 480-730-0814
Fax: 602-241-6914
pbmi@pbmi.com

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Principles To Guide Industry

Conceptually, transparency is the communication to the plan sponsor of all revenue the PBM receives from any external organization for performing a service on behalf of the plan sponsor, or, on behalf of the external organization when that service involves the plan sponsor's:

- Beneficiaries,
- Beneficiaries' utilization, or
- Beneficiaries' utilization history.

A broad definition of transparency addresses disclosure of direct revenue (e.g., rebates) as well as indirect revenue (e.g., goods and services) for services either performed singly for the plan sponsor or in aggregate for multiple plan sponsors.

Disclosure does not mean the plan sponsor will receive or share the revenue the PBM receives from external sources. The expectation is that the PBM communicate the nature of its third-party relationships, the revenue it receives from those third parties, and the services being performed for those revenues. Disclosure and honest reporting allow a plan sponsor to better understand the value of its contract to the PBM and potentially competing interests.

Transparency Practices

To help our readers understand how a transparent contract may impact PBM business practices, PBMI has identified a number of practices it believes are consistent with transparent PBM relationships. Although some might consider certain of these as "best practices" rather than transparency practices, PBMI includes them under the umbrella of transparency practices because of the potential impact on the plan sponsor's total drug benefit cost.

PBMI does not believe that transparency precludes PBMs from performing any of these practices. However, PBMI believes that a transparent PBM is obligated to communicate about the revenue associated

with these practices. Transparent PBMs adhere to the following business practices in good faith and communicate openly about their performance.

Claim Pricing Calculations

- Use the National Drug Code (NDC) submitted by the retail pharmacy for purposes of pricing and reporting and do not change the NDC.
- Use the Average Wholesale Price (AWP) as of the date the prescription was filled as documented by the price database provider (e.g., First DataBank or MediSpan); recognizing that some price database changes are retroactive.
- Require pharmacies to submit usual & customary (U&C) pricing on all claims and report this data to the plan sponsor.

- Calculate the prescription cost as the lower of the U&C price, or the negotiated discounted ingredient cost or MAC price and the negotiated dispensing fee.
- Use original manufacturer NDCs and AWP prices rather than using repackager NDCs.
- Add drugs to the MAC price list as soon as the drugs are widely available from multiple sources.
- Establish MAC prices that take advantage of the deep discounts available for generic drugs.

Cost Sharing Calculations

- Calculate cost sharing as the lower of the prescription cost (as defined above) and the copayment amount.
- Calculate percentage coinsurance as a

PBM PRICING DEBATE TO CONTINUE

Industry experts agree the transparency concept will continue to evolve in 2005.

"Transparency should be defined as the performance of each PBM function for the singular and sole interest of the customer," says Terrence Killilea, RPh, assistant vice president of pharmacy for the Regence Group.

"The University of Michigan is testing transparency by rebidding PBM services in 2005 under these new transparent arrangements to see what the net savings may be," says Keith Bruhnsen, pharmacy benefit manager for the University of Michigan. "A PBM that discloses its true costs allows you to negotiate on a level playing field."

"A better understanding and quantification of industry practices will result in a more efficient market," says John Brautigam, an attorney who was involved in defending the state of Maine's legislation requiring PBM disclosure. He also is a newly elected Maine state representative. "The PBMI list of guiding principles is a useful tool that will improve communication and lead to greater confidence in PBM-plan sponsor relationships."

"In 2005, we are going to see the leveraging of transparent pricing on rebates to improve formulary and other clinical decision making," says Tim Watson, PharmD, MBA, principal of the Pharmaceutical Strategies Group. "We also may see a willingness of some transparent vendors to offer guaranteed network pricing and rebates." ●

percentage of the prescription drug cost as defined above.

Pharmacy Interaction

- Do not collect fees from pharmacies to participate in a pharmacy network.
- Do not collect fees from pharmacies to submit transactions.
- Pay retail pharmacies the amount the PBM bills the plan sponsor for each claim.

Utilization Management

- Inform plan sponsors of all utilization management activities performed by the PBM and any funding (real or in-kind) for these services paid by external sources.
- Do not encourage prescribers to switch a patient from a lower net cost drug to a higher net cost drug.
- Do not sell patient or provider data profiles to manufacturers.

Formulary/Rebates

- Create formularies in which, among therapeutically equivalent drugs, lower cost drugs (net of rebates) are identified as preferred drugs and higher cost drugs (net of rebates) are identified as non-preferred drugs. The calculation of lower cost, net of rebate, requires some reasonable assumptions about the potential rebate amount that could be obtained for the nonpreferred product.
- Assuming the competing products are relatively equivalent in terms of therapeutic value and quality, identify as preferred products those drugs that are expected to be available generically within a specified period of time.
- Negotiate rebate contracts on an individual drug basis rather than on a bundled basis.
- Submit and calculate rebate amounts separately for each customer rather than in the aggregate for multiple customers.
- Report the rebate amount received for each drug and strength and the net cost of the drugs after rebates.
- Report all fees paid or in-kind services performed or provided by pharmaceutical manufacturers for any purpose.

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EMPLOYER PBM SATISFACTION REMAINS HIGH

Employer satisfaction with pharmacy benefit managers (PBMs) remains high for another year. The Pharmacy Benefit Management Institute (PBMI) has surveyed large U.S. employers about PBM satisfaction annually since 1995.

Employers rated PBMs with an average Overall Service and Performance rating of 7.6 on a 10-point satisfaction scale. Plan sponsors who perceive their drug benefit cost increases were less than other companies' increases rated their PBMs higher on Overall Service & Performance, Delivering on Promised Service, and Delivering on Promised Savings than others who perceive their drug cost increases were the same or more than other companies.

"Employers are historically satisfied with overall PBM performance," said Michael H. Deskin, founder and president of PBMI. "Although there has been little change in PBM performance levels in the past five years, our 2004 data illustrate that PBMs who align their goals with their customers receive the highest satisfaction ratings."

The 2004 survey asked employers a new question: Do you think your PBM's goals are aligned with your company's goals? Goal alignment engenders some of the highest satisfaction levels reported in the survey.

Four hundred and seventy-two large employers representing 11,727,005 benefit plan members responded to the survey. Respondents were asked to indicate their satisfaction levels on Overall Service & Performance of PBMs and a variety of service functions, using a 10-point scale. Satisfaction ratings were captured on 15 service functions in the areas of plan design, administration, network design and management, and clinical services. Specialty pharmacy was included for the first time this year.

To obtain a copy of the *2004 Pharmacy Benefit Manager Customer Satisfaction Report*, log on to www.pbmi.com/acss.asp or call 480-730-0814. The report includes 10 in-depth PBM profiles and two abbreviated profiles. ●

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Miller & Ciresi; UCLA/Greater LA Veterans Affairs Hospital; United Drugs; University of Arkansas for Medical Sciences College of Pharmacy; and Walgreens Health Initiatives.

Agenda Available On Line

PBMI conference programming has been developed for the industry professionals who are responsible for providing drug benefits to employees, retirees, and union groups. For a complete agenda and to register, visit www.pbmi.com/Conference.5.ASP.

The University of Arizona College of Pharmacy, accredited by the American Council on Pharmaceutical Education, will award 14.7 contact hours of continuing education credit to conference attendees participating in PBMI's conference. Additional CE credits for human resource and benefits professionals also will be available. ●

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These services include, but are not limited to, rebate programs, therapeutic substitution programs, disease management programs, and administrative services related or unrelated to formulary management. Share these manufacturer funds with the plan sponsor in a pre-negotiated distribution.

- Report the net cost of each drug in a manner that allows the plan sponsor to compare the cost of all drugs (including generics) in each therapeutic class.

Transparent PBMs have the choice of either agreeing to perform certain practices or communicating about the practices it chooses not to perform and the associated revenue. Plan sponsors must either negotiate a PBM contract that allows them to confirm these practices are being performed or that allows them to audit the amounts the PBM reports it receives. Plan sponsors should negotiate nonperformance penalties when and where appropriate.

Concerns About Competition

PBMs have been reluctant to openly communicate about some of the issues identified above, particularly relating to pharmaceutical company agreements. PBMs have expressed concerns that releasing rebate data to the marketplace will make it more difficult for them to negotiate aggressive rebate agreements, reducing rebates collected, and generally reduce competition among PBMs. PBMI is not attempting to refute or confirm the validity of the PBMs' argument. The plan sponsors pursuing transparency have either decided they do not agree with this position or believe that the value of a transparent contract offsets any loss in general industry competitiveness.

To Our Readers & Colleagues: PBMI wants to create a forum for professional debate about transparency for plan sponsors, PBMs, pharmacists, and patients. Please e-mail your comments to pbmi@pbmi.com. We will summarize the most interesting responses in a future newsletter. ●

ENJOY REWARDS OF BECOMING A MEMBER

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 drug benefit delivery. Join by visiting www.pbmi.com or calling 480-730-0814.

Award Deadline Nears

The deadline for PBMI's 2005 Rx Benefit Innovation Awards is Feb. 11, 2005. Send a letter to PBMI describing your innovative solutions for drug benefit challenges including: statement of problem or opportunity; objectives for solution; implementation plan, resources and metrics; and results. Log on for details at www.pbmi.com/awards.submit.asp. ●

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