Partnering for Health Outcomes—How the Prescription Pass-Through Model Facilitates Saving Money

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Drug spending growth has averaged 8.1% since 2013.

Sources:
- QuintilesIMS Institute Report: Medicines Use and Spending in the U.S.A. Review of 2017 and Outlook to 2022
- The Wall Street View of the PBM Space, March 2017, George Hill, Deutsche Bank
Figure 9
PBM Retained Revenue on Retail Prescription Drugs by Source and Share of Net Spending for Retail Prescription Drug Coverage, 2012-16

<table>
<thead>
<tr>
<th>Year</th>
<th>PBM Retained Revenue (Billions)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$5.7</td>
<td>4.6%</td>
</tr>
<tr>
<td>2013</td>
<td>$5.9</td>
<td>4.9%</td>
</tr>
<tr>
<td>2014</td>
<td>$6.6</td>
<td>5.2%</td>
</tr>
<tr>
<td>2015</td>
<td>$7.4</td>
<td>5.6%</td>
</tr>
<tr>
<td>2016</td>
<td>$10.4</td>
<td>6.6%</td>
</tr>
</tbody>
</table>

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PBM s sit in the middle of a large and complex ecosystem

A pharmacy benefit manager (PBM) is an organization that **should**:

- Manage the purchasing, reimbursement and dispensing of prescription drugs
  - Negotiate rebates with drug manufacturers
  - Create and maintain pharmacy networks (retail, mail-order, and specialty)
  - Create formularies that balance access and cost
  - Manage customized prescription drug plan designs

- Improve the health of members
  - Help members navigate questions on benefits
  - Inform members of more effective or lower-cost alternatives
  - Administer clinical and disease management programs
# PBM Pricing is Difficult to Understand

## AWP Guarantees

<table>
<thead>
<tr>
<th>Channel</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generic Retail</td>
<td>AWP—77%</td>
<td>AWP—78%</td>
<td>AWP—79%</td>
</tr>
<tr>
<td>Generic Mail</td>
<td>AWP—79%</td>
<td>AWP—80%</td>
<td>AWP—81%</td>
</tr>
<tr>
<td>Brand Retail</td>
<td>AWP—15%</td>
<td>AWP—16%</td>
<td>AWP—17%</td>
</tr>
<tr>
<td>Brand Mail</td>
<td>AWP—24%</td>
<td>AWP—25%</td>
<td>AWP—26%</td>
</tr>
<tr>
<td>Specialty</td>
<td>AWP—18%</td>
<td>AWP—19%</td>
<td>AWP—20%</td>
</tr>
</tbody>
</table>

## Rebate Guarantees

<table>
<thead>
<tr>
<th>Channel</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand Retail</td>
<td>$50</td>
<td>$65</td>
<td>$80</td>
</tr>
<tr>
<td>Brand Mail</td>
<td>$160</td>
<td>$190</td>
<td>$210</td>
</tr>
<tr>
<td>Specialty</td>
<td>$500</td>
<td>$800</td>
<td>$1,100</td>
</tr>
</tbody>
</table>

## Pricing Nomenclature

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASP</td>
<td>Average sales price</td>
</tr>
<tr>
<td>AMP</td>
<td>Average manufacturer price</td>
</tr>
<tr>
<td>GER</td>
<td>Generic effective rate</td>
</tr>
<tr>
<td>BER</td>
<td>Brand effective rate</td>
</tr>
<tr>
<td>AWP</td>
<td>Average wholesale price</td>
</tr>
<tr>
<td>MAC</td>
<td>Maximum allowable cost</td>
</tr>
<tr>
<td>WAC</td>
<td>Wholesale acquisition cost</td>
</tr>
<tr>
<td>SSG</td>
<td>Single-source generic</td>
</tr>
<tr>
<td>GDR</td>
<td>Generic dispensing rate</td>
</tr>
<tr>
<td>DF</td>
<td>Dispensing fee</td>
</tr>
</tbody>
</table>
PASS-THROUGH VS. TRADITIONAL PRICING

Traditional Model

- Admin Fee
- Ingredient Cost
- Rebates
- Spread
- Extra Hidden Fees
- Definitions

Pass-Through Model

$ Admin Fee

+ Ingredient Cost

= Cost
PBM EVALUATION

Goal: Select a PBM whose interests are most clearly aligned with Plan Sponsor’s interest

- Business practices substantiate such levels of alignment
- Assessment of PBM partners goes beyond rudimentary spreadsheet comparisons:
  - Proposed pharmacy discount rates
  - Administrative fees, and/or
  - Drug rebate projections
- Conduct comprehensive PBM Evaluation process
### CONSIDERATIONS WHEN COMPARING PBMS

<table>
<thead>
<tr>
<th>1. Pricing</th>
<th>2. Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Administrative/dispensing fees</td>
<td>- Performance guarantees</td>
</tr>
<tr>
<td>- MAC pricing and list</td>
<td>- Full audit rights for retail and mail order utilization/cost</td>
</tr>
<tr>
<td>- Contracted rate and effective rate</td>
<td>- Require full disclosure of drug manufacturer incentive programs for PBM</td>
</tr>
<tr>
<td>- Percentage of rebates that will be returned to Plan Sponsor</td>
<td></td>
</tr>
<tr>
<td>- Mail-order pricing and rebates</td>
<td></td>
</tr>
<tr>
<td>- Does the PBM record revenue from data sales?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3. Product and Service Offering</th>
<th>4. Data and Regulatory</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Formulary options (open, closed)</td>
<td>- Compare reporting packages among PBMs</td>
</tr>
<tr>
<td>- Pharmacy network options (retail, mail-order, and specialty)</td>
<td>- Will Plan Sponsor have access to claims data?</td>
</tr>
<tr>
<td>- Service guarantees</td>
<td>- Research lawsuits and government investigations against PBMs</td>
</tr>
<tr>
<td>- Clinical programming/outcomes</td>
<td></td>
</tr>
<tr>
<td>- Implementation process</td>
<td></td>
</tr>
<tr>
<td>- Underlying technology/tools</td>
<td></td>
</tr>
</tbody>
</table>
Family-owned business started in the late 1800s
Feed business located in central California
250+ employees, many of whom are long term
Company views medical plan as integral part of employee compensation
Health plan has two deductibles—one for medical and one for prescription drugs
IMPACT OF SWITCHING FROM TRADITIONAL TO PASS-THROUGH MODEL

$4,000 → $39,000
(rebates in Y1)

1.6x
(outbound/inbound call ratio)

1.4% ↑
(in generic utilization compared with incumbent)

23.1% ↓
(Non-specialty plan spend compared with prior PBM)
IMPACT OF SWITCHING FROM TRADITIONAL TO PASS-THROUGH MODEL

Two Examples of A.L Gilbert’s results

Clopidogrel 75mg
- Helps reduce blood clots
- Prior PBM (AWP—86%): $208
- Pass-through PBM: $29 (AWP—96%)
- $21 in savings

Atorvastatin 20mg
- Treats high cholesterol
- Prior PBM (AWP—86%): $170
- Pass-through PBM: $24 (AWP—95%)
- $15 in savings
IMPACT OF SWITCHING FROM TRADITIONAL TO PASS-THROUGH MODEL

Some specialty medications can be filled through medical benefit OR pharmacy benefit

- Filling through pharmacy benefit provides added value:
  - Specialty pharmacy prices are aggressively negotiated
  - Prior Authorization ensures right patient, right treatment, right time
  - PBM and specialty pharmacy partnerships provide greater support mechanisms for patients facing complex diseases and the treatments prescribed to treat them

- In partnership, the TPA and new PBM worked to ensure specialty medications would be filled through the most cost effective mechanism
  - J-codes blocked on medical benefit
  - Specialty pharmacy price discounts, in conjunction with copay coupons, result in lowest net cost for patients and plan sponsor
Focus on appropriate medications first, independent of cost
Real-Time Data
Formulary Strategy
- Therapeutic equivalents
- Mail maintenance
- High cost brands
- High cost generics
- Non-essential drugs
**Strategies to Reduce Overall Spend**

**MAIL MAINTENANCE**
Migrating retail brand medications to mail order pharmacy typically leads to savings of 8-9% per switched claim.

**SPECIALTY COPAY PROGRAM**
Maximizing the contribution from manufacturer sponsored co-pay cards/coupons is an easy way to curb costs.

**CLINICAL MANAGEMENT**
Leveraging a PBM’s clinical team to engage in chronic disease management can help improve treatment and reduce cost.
Example of Clinical Savings Realized

Prior Authorization Cost Savings
(medications for psoriatic arthritis)

Original Rx for Enbrel $5,154.61
PA Denied based on Clinical Review
Alternative Rx for Otezla - $2,598.22
Realized Savings = $2,556.39
A.L. Gilbert Company strives to provide employees with a comprehensive and valuable benefits package that the company could continue to afford.

The Company looks for innovative solutions to maintain affordability.

Together, A.L. Gilbert, Krauter and SmithRx partnered to deliver a comprehensive pharmacy benefits offering that improves outcomes and drives lower costs.

Pharmacy Benefit Manager operating on a pass-through model and committed to delivering a superior and customized experience for clients and members.
Key Takeaways

Pass-through/transparency PBM model

1. Provides options
2. Eliminates hidden PBM costs
3. Provides same access to data for all partners
4. Enables focus on health outcomes which in many instances contains cost
5. Technology and transparency helps to manage the complexity