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Finding Value Amid Challenges with Pharmacy Benefit Managers

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In a healthcare industry fraught with economic disruption, health system leaders across the continuum of care spend a lot of time assessing how to control costs, generate revenue, create value and position themselves for the future. All this while being more transparent and responsive to shifting consumer expectations.

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Pharmacy benefit managers (PBMs), in their role as third-party administrators of health plan drug benefits programs, are an important factor to consider when evaluating healthcare costs. Yet, in contrast to other players in the market, PBMs operate with little transparency or regulation while yielding significant profits.

PBMs tout their abilities to negotiate favorable manufacturer drug prices and point to their role in medication review and adherence, pharmacy network management and efficient processing of claims as proof of their benefit to providers, health plans and consumers.

In recent years, however, PBM business practices have been under scrutiny from industry leaders, consumer watchdogs and lawmakers. In 2019, more than 248 PBM reform bills were active in state legislatures across 46 states. In Washington D.C., the Congressional Budget Office analyzed a PBM reform bill that estimates more than $5 billion in savings to taxpayers.

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Awareness of PBM Business Practices

Critics of PBMs are wary of their increasingly intertwined relationships with commercial payers, their revenue models and their control over formularies. PBM revenue models such as spread pricing, rebate retention and direct and indirect remuneration (DIR) fees have drawn significant concerns from stakeholders in and outside the healthcare industry, mostly due to the lack of transparency associated with each practice.

Spread pricing describes the difference between what a PBM charges a health plan for a prescription and what it pays a pharmacy for that same claim. Consider a typical cancer drug example of a Mitotane 500 mg dispense of 100 tablets: The PBM charges their client (health plan) $472 but reimburses the pharmacy at $450, a difference, or "spread" of $22.

The potential for excessive spread pricing markups is exacerbated by a lack of transparency since health plans and pharmacies typically are not privy to the full formula of prices charged versus reimbursed.

PBMs also profit from retaining a portion of drug rebates provided by manufacturers instead of passing the full amount of savings on to consumers or clients. Additionally, PBMs may delay rebate fund payments to clients and consumers, often more than 90 days, allowing the PBM to collect interest on the rebate funds prior to remittance.

Rebates can also drive formulary decisions. Formularies, or lists of preferred drugs approved for reimbursement by PBM clients (insurers and health plans), play a significant role in controlling the availability of drugs, often in ways that lower drug costs. In some cases, formularies can be designed to give preferential status to branded drugs that provide the best rebates instead of those that might be most advantageous to a prescriber or patient. In an examination of 57 Medicare Part D formularies, JAMA found that 72% demonstrated favorable placement of at least one branded drug over its generic product and that 30% placed fewer utilization controls on at least one brand name drug.

Secure Better Value from PBMs

The Centers for Medicare and Medicaid Services (CMS) predicts drug expenditures over the next 10 years to be one of the fastest growing healthcare expenses. It is imperative that health leaders, especially those with self-insured health plans, understand how their PBM agreements work.

To ensure their PBM contracts are as cost-effective and efficient as possible, organizations need to evaluate their plans with an awareness of the following issues:

- **Pricing model transparency:** PBM contracts are often written in ways that make it difficult to achieve full transparency into fees and pricing. Spread pricing policies, "maximum allowable cost" (MAC) lists and DIR fees significantly impact the final cost of a claim. Leaders should ensure they have the right expertise to evaluate PBM contracts beyond typical due diligence to eliminate unnecessary financial risk.
- **Strategic integration:** Beyond gaining a deeper understanding of their PBM contracts, organizations need to integrate their ambulatory pharmacy strategies into their PBM relationships. Organizations should consider whether they can service their employee base through their own retail and specialty pharmacies and how that will affect their contract and cost profiles.
- **Specialty drugs and specialty pharmacy:** More than half of the drugs in the U.S. Food and Drug Administration's (FDA) pipeline are specialty drugs, and they typically represent one-third to one-half of a selfinsured employer's drug expenses. These drugs are driving expenditure growth, and specialty pharmacies are a profitable segment for PBMs. Organizations should be aware of the advantages of maintaining their own specialty pharmacy instead of relying on PBMs to administer those drugs. The benefits of specialty pharmacies include better clinical outcomes, savings and new revenue streams.

- **Language and definitions:** The definitions and terms in PBM contracts should be reexamined carefully for unexpected deviations from common language. For example, organizations should ensure they understand the contractspecific definitions of standard phrases such as “claims” and “generics and brands.”

PBM relationships can bring value to an organization once leaders understand the terms of existing contracts and the areas for potential growth.

Key Takeaways

While industry issues with PBMs persist, organizations can own their future by ensuring they understand the benefits and challenges presented by these relationships, and develop strategies that give them the most control over drug costs and pharmacy services.

Think differently.

Continually challenge the value of existing PBM relationships; don’t take for granted that leaders fully understand existing contracts.

Plan differently.

Expand the integration of PBMs into broader pharmacy strategies and consider new revenue-generating endeavors such as specialty pharmacies.

Act differently.

Commit to reevaluating existing PBMs contracts and stay informed of PBM reform.

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