



## **The Battle of PBM Analytics** ***Total Net Cost vs. Individual Pricing Terms***

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With difficult economic times upon us and looming well into the future, plan sponsors and plan members have become strange bedfellows in their desire to cut pharmacy benefit costs without sacrificing coverage. The good news is that there are dollars to save, hidden in the pricing spreadsheet often used to evaluate pharmacy benefit management (PBM) pricing. The bad news is that you need new and innovative analytics to uncover those savings.

Plan sponsors who are looking for the most cost-effective (and patient-friendly) prescription drug benefit plan can now ask for sophisticated pricing and cost information that will help them achieve savings without sacrificing coverage. By focusing on the total net cost of a pharmacy benefit plan – rather than the individual prices offered by the PBM – plan sponsors and members can achieve significant savings.

Plan sponsors who choose their PBM services based on total net cost are better positioned to control prescription expenses than those who rely strictly on drug pricing and rebates.

### **What Are the Primary Elements of Total Net Cost?**

The primary elements of total net cost are drug mix and channel mix. Drug mix is the percent of generic drugs in a plan's formulary, while channel mix is the percent of retail prescriptions versus mail-order prescriptions.

### **The Role of Drug Mix in Total Net Cost**

Plans that take advantage of the growing number of generics available in the market can realize significant savings. The ability to move consumers to generics is crucial to keeping pharmacy benefits affordable. Innovative PBM companies encourage switching to generics from brands by plan members through member communication that uses pertinent and timely information. An example of this type of communication is informing plan members of impending generic releases. When combined with traditional financial incentives such as higher co-pays for branded drugs, this same communication becomes an example of combining the old with the new to create a more powerful approach to modifying member behavior.

Plan sponsors can also realize tremendous savings with drug mix through the use of step therapy programs that begin with an Over-The-Counter (OTC) drug. Examples of therapeutic categories that are "no brainers" for these savings are Non-Sedating Antihistamines (NSAs) and Gastro- Esophageal Reflux Disease (GERD). Plan sponsors can upgrade the benefit by establishing a \$0 co-payment for members if they choose the OTC. This will maximize the member incentive to switch to the OTC option. In addition, they can offer to pay the PBM an administrative fee for each OTC script. This helps maintain the PBM revenue model and gives them an incentive to establish the operational pieces necessary for OTC step therapy programs to succeed. For the plan member, a \$10 co-pay savings may not have been an incentive a year ago. But with today's economic crisis that same \$10 helps offset the rising costs of everything from basic food supplies to health care insurance co-pays.

In addition, a doctor must write a script for each OTC, just as they would for a legend drug. This means that all OTC scripts are subject to the same adjudication as a generic or brand script for eligibility and all other electronic edits in place to protect against improper utilization, clinical appropriateness, fraud and abuse. Generic substitution incentives are worth pursuing under almost all circumstances. The long-term cost-savings of clinically appropriate generic substitutions are enormous for plan sponsors and plan members. A generic drug typically costs 60 percent less than its brand-name counterpart. A 1 percent increase in the plan's generic fill rate will typically save the plan sponsor 1.5 percent of its annual drug spend and allow the organization to maintain current benefit levels for its plan members.

The good news is that these savings will continue to increase over the next five years. More than 20 brand-name drugs worth more than \$60 billion in annual sales will go off patent between 2009 and 2013.

### **Mail vs. Retail: The Role of Channel Mix in Total Drug Spend**

Is mail order more cost-effective than retail? When discussing the role of how channel mix affects total drug spend, no question is asked more often. Why is this question so compelling and often difficult to answer?

One point of differentiation is that mail order can drive higher engagement through consumer education communications, leading to improved compliance and better drug mix.

According to an analysis by the Lewin Group, mail order saves about 10 percent of total plan costs. This represents significant savings for both the plan sponsor and the plan member. These savings are dependent on several variables. Two of the most important are (1) generic contract pricing, and (2) how effectively the Concurrent Drug Utilization Review (CDUR) edits between retail and mail order "talk" to each other.

### **Generic Contract Pricing**

Day in and day out, branded drugs are less expensive at mail order than at retail. However, generics can be a different story. Why?

All PBM companies establish retail generic reimbursement to pharmacies using Maximum Allowable Cost (MAC) pricing programs. In a retail MAC pricing program, the retail pharmacy is paid a set reimbursement for generic drugs in each therapeutic category, regardless of the selected drug's list price, also called the Average Wholesale Price (AWP). Typically, retail pharmacies dispense the generic drug that costs them the least to maximize their profit. It also means that the lower AWP is typically chosen. The PBM represents the MAC contract pricing as part of an overall discount guarantee, which is usually 55 percent to 60 percent less than AWP.

PBM companies typically do not have MAC pricing programs for generics at mail order. This can result in a greater discount being calculated while, in fact, the net cost is greater than at retail. How can this be?

If PBM providers consistently pick the higher AWP generic drug in each therapeutic category, they can offer a greater discount, when, in fact, the net cost is greater. A 60 percent discount from a \$150 AWP results in a higher cost than a 50 percent discount from a \$100 AWP.

It is important to understand this concept and ask your PBM the questions necessary to ferret out this little-examined quirk in PBM contract pricing. If you do, you are well on your way to a basic understanding of whether mail order is more cost effective than retail.

### **CDUR Edits between Mail Order and Retail: Talk to Me!**

Duplicate therapy is an example of a CDUR edit designed to effectively manage member utilization. If the edits between retail and mail order don't "talk" to each other effectively, plan members who are abusing narcotics can fill one type of narcotic at retail while simultaneously filling another narcotic at mail order.

To effectively evaluate whether this is occurring with your PBM, you must find a firm that can load your claims and identify overlaps in drug usage in each therapeutic category. Consultants and analysts typically look for gaps in therapy that point to member non-compliance, but rarely do they look for and identify overlapping therapies that are also costing the plan unnecessary dollars.

Once you understand the generic contract pricing terms, and how effectively the CDUR edits “talk” to each other, you are better positioned to examine whether mail order is more cost effective than retail. There are more commonly understood evaluation aspects to mail order and retail that are already industry standards. Armed with your new knowledge, you can now evaluate the other aspects.

Mail order can, and should be, more cost effective. According to the Lewin Report, mail order is projected to save up to \$85 billion over the next 10 years. Member convenience and plan cost savings have combined to make mail order the fastest-growing channel for prescription drugs. According to IMS Health, mail service nearly doubled between 2002 and 2006, from \$24.8 billion to \$42.2 billion.

### **Emerging Analytical Tools Capture Total Cost**

PBM companies and consultants have developed methods to determine total net cost through complex analytics for both drug and channel mix. By factoring in formulary compliance, generic substitution and other aspects of the drug transaction, true net cost calculations help plan sponsors design the best benefit plan for their plan members.

As the PBM market has matured, the contract pricing differentials between PBM companies have become smaller and smaller. To fully understand true cost, plan sponsors need to employ analytics that move their decision process from a spreadsheet. In the past, plan sponsors focused largely on price-related analysis, including AWP discounts, rebates and administrative fees. While these are important variables, they create a narrow view of the total cost.

The spreadsheet has become a far less effective measure of cost for plan sponsors, as it paints only a partial picture of the cost of drug benefits. What a spreadsheet tells you in January and what a final bill tells you the following December may be entirely different.

### **Influencing Change through Communication**

Effective plan design and sound decisions based on contract pricing analysis are the foundations for savings in a pharmacy benefit plan. But, of equal importance, getting plan members to make better choices can mean the difference between a good plan and great plan. Today, Americans are filling more drugs than ever, spending \$275 billion a year on prescription medicines. Your plan members (consumers) play a vital role when it comes to the effectiveness of sponsor-initiated changes in pharmacy benefits.

Your PBM provider should have effective communication strategies that encourage consumers to become more involved in their health care decisions. By delivering tailored messages that contain clear cost information and language, these communications can help consumers change their behavior and understand the long-term impact of their drug selection decisions.

### **Empowering Consumers Means More than High Deductibles**

For the past few years, Consumer Directed Health Care (CDHC) has been the next great solution in reducing overall health care costs. The success of CDHC is predicated on the theory that engaging consumers more directly in the cost of their health care decisions will compel them to be more conscientious health care spenders.

Armed with only partial information, consumers do not always make the most cost-effective decisions, particularly when it comes to prescription drugs. Thanks to extensive Direct-To-Consumer (DTC) advertising by the pharmaceutical industry, consumers often request prescriptions for costly branded drugs when the generic equivalent is available and just as clinically effective. This brand-focused consumer mindset contributes to the rising cost of prescription drug coverage and is further fueled by incomplete information. If consumers are to become engaged in cost-cutting measures, they need to think of cost-effective solutions and not focus on branded drugs.

Fortunately, consumer behavior can be changed. Today, a revolution is taking place in the scientific understanding of human behavior as it relates to personal health decisions. In addition, academics in diverse fields such as behavioral economics, social psychology and cognitive linguistics are making new inroads into

understanding the basis for decision-making and action. Proven theories and tools that can change behavior already exist, many of which have direct and immediate application to health care in general, and the pharmacy benefit in particular.

Some PBM companies are applying behavioral research to help them effectively change individuals' prescription drug decisions. For example, in 2006, Express Scripts developed a communications platform for plan members that used personally tailored messages about the potential savings available from switching to generic Zocor when the brand-name statin went off patent. As a result of this well-timed and carefully directed message, consumers switched to generics at a rate that was 12 percent higher than the industry norm, saving plan sponsors and their members more than \$600 million.

### **Leading Consumers to Better Health and Value**

PricewaterhouseCoopers projects that using a PBM provider will save employers, families and Medicare eligible seniors \$1.3 trillion in prescription drug costs over the next decade. It is smart business to use your PBM provider to create communication that empowers and encourages your plan members to become more involved in their health care decisions and make informed, intelligent choices about their prescription medications.

By focusing on total net cost, you can understand and analyze member data, anticipate future costs and help change patients' behavior throughout the plan year. This creates a comprehensive risk management approach that will consistently result in lower annual overall drug trend. It is also a more effective approach than reacting to non-compliance or repeated high-cost brand drug utilization at the end of each year.

Through effective management of drug mix and an advanced understanding of human behavior, your PBM provider can help you deliver better health and value – one consumer at a time.

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