CONFUSING NEW PBM DRUG PRICING TERMS LEAVE PAYORS UNSURE OF NEXT STEPS

Drug Pricing Supposed To Cut Costs, but Savings Hard To Find, according to TRICAST, Inc.

Milwaukee, WI (August 11, 2009) – A recently mandated settlement in a class action suit involving drug wholesaler McKesson Corporation and data publishers First Data Bank and Medispan is impacting pharmacy benefit programs in both the short and long terms, according to Greg Rucinski, President & CEO for TRICAST, Inc., a leading next-generation health information business.

"There's a whole lot more than meets the eye in what the U.S. District Court in Massachusetts mandated. Pharmacy Benefit Managers are looking to renegotiate all of their clients' pricing agreements resulting from the fallout of this settlement," Rucinski says, adding that TRICAST has issued a White Paper on the issue.

"Many payors are expecting windfall savings because the cost-basis for drugs will decrease in September," Rucinski says. "However, PBMs and pharmacies are protecting any loss in their margins resulting from this pricing rollback, with PBMs moving in several confusing directions regarding pricing."

Many corporate and health plan CFOs and government agencies, as well as other payors, are confronted with new contracts or pricing amendments that recalculate how drugs will be priced. "We are seeing an array of new pricing discount terms, pricing algorithms and different basis of costs," says Rob Shelley, President of PSRx Advisors, a TRICAST partner. "As a result, it is hard for payors to be confident of the next step to manage drug costs."

Details on Pricing Rollback
Average Wholesale Price (AWP) is the pharmacy industry basis for reimbursement of pharmaceuticals dispensed on behalf of third party payors. Pharmacies typically purchase drugs and negotiate payment from PBMs using a different basis known as Wholesale Acquisition Cost (WAC). AWP pricing represents a markup of WAC that is typically 20%. The differential between WAC and AWP factor into pricing algorithms that deliver spread pricing margins to drugstores and many Pharmacy Benefit Managers (PBMs).

Two years ago, a class action lawsuit was brought against McKesson Corporation, a national drug wholesaler, alleging collusion between McKesson and First Data Bank, a major drug pricing publisher. The activities between the two entities resulted in an increase of the published AWP as a markup of WAC on more than 400 brand drugs from 20% to 25% back to 2001. This secretly raised drug prices and generated excess profits for the primary purchasers (pharmacies) since they acquired the drugs via WAC pricing which remained consistent, but received an additional 5% reimbursement from third party payors.

{For more on the court case, click here for the TRICAST White Paper.}

Third Party-Payor Impact
Rucinski says the impact on payors is twofold:

1) Executives are Confronting New PBM Pricing Terminology and Financial Agreements

PBMs have created "financial equivalencies" and other protective language that allow them to reduce discounts offered to payors via re-negotiated terms that fall into three basic categories:

- Pricing offers that revert to much lower drug discounts than currently administered.

- Offers that ignore the current pricing roll back, but maintain the current drug discounts and continue to utilize the prior pre-settlement AWP mark-up of 20% to 25%.
- Introduction of WAC "plus" pricing as a new alternative to "AWP" terminology.

Clauses in the PBM agreements are being enacted to protect margins, due to the expected behavior of the PBM pharmacy networks who will demand renegotiation of the discounts provided to PBMs that maintain current drug cost pricing spread margins or pricing guarantees.

Many executives assume that their agreement is immune to any adjustments since they have negotiated their PBM agreement on a fixed cycle, however, the fine print in a number of these contracts opens the door to negotiations. Benefit and pharmacy directors will no doubt be surprised by the receipt of new pricing terms that on the surface look very inferior to current terms in place, or are completely unfamiliar, according to Shelley.

Basically the pharmacies and the PBMs are protecting themselves from loss of any margin *despite the fact that the settlement was created to rectify an inequity to payors of drug cost overpayment.*

In fact, PBMs are aggressively renegotiating their contracts and offering internally derived solutions to this pricing dilemma, but none have stated that there will be savings to the payors resulting from a roll-back in drug costs. "Many PBMs are moving quickly on the client side, but have offered little detail to their clients regarding whether the PBM's network is really mandating the reduction in discounts. We understand PBMs are the pricing middlemen between payors and pharmacies, but have all the 45,000+ pharmacies nationwide come back to the PBMs and renegotiated new agreements with lower discounts? If not, a PBM is actually benefitting immensely by these actions, by lowering discounts to clients but not to pharmacies," says Rucinski.

2) Validating the Appropriate Next Step to Secure Best Financial Agreement

The majority of payors will be faced with complex decisions with new and unfamiliar pricing terminology adding to an already complex drug pricing dynamic. The financial impact on negotiating these market adjustments and the impact on drug expenditures is in the billions of dollars nationally.

Despite the roll back and adjustments to pricing algorithms, payors may see an increase in costs if they do not proactively confirm that the next step secures at least similar costs to drugs.

"The introduction of any of the alternatives mentioned above requires independent validation. Given the complexity of PBM pricing it is important to assure oneself that what is being placed on the table is legitimately a valid offer to best manage drug spend," says John Adler, TRICAST National Practice Leader for pharmacy programs.

To learn more about specific strategies and considerations on this pricing roll back, please access the TRICAST White Paper at http://www.tricast.com/industry_trends.asp. The TRICAST White Paper offers specific recommendations on how to respond to the anticipated AWP pricing changes.

As a preemptive measure, TRICAST provides an innovative tool that dynamically assesses all drugs impacted by this pricing settlement. The key variables are provided in a format that allows for quick comparative analysis and actionable next steps. TRICAST's intent is to look at pre-AWP markup costs, post-markup costs, WAC discounts and incorporate current and projected drug costs to see how they all balance. This analysis provides for:

1. An assessment of WAC mark-up instead of AWP to track pricing divergence between WAC and AWP.

2. Determinations of the relative impact of the AWP adjustments on drug spend.

3. Summary of all pricing variables in play to determine the appropriate contract discounts.

4. The use of actuarial, PBM underwriting and data expertise to assure clients of the best solution for their situation.

Timeliness and accuracy are critical as plan sponsors adjust their agreements. The fall out of these steps will set forth concrete steps in PBM price negotiations. Many clients will demand savings; others will seek cost equivalency; and some will require a complete renegotiation of terms given their situation.

“The court ruling in Massachusetts provides an opportunity to lower payor costs for pharmaceuticals,” says Dr. Joel R. Daven, Chief Medical Officer for the Oregon-based health plan, Douglas County Individual Practice Association. “For our Medicare clients, this will translate into lower premiums and copays. Unfortunately, the strategies the PBMs are employing are designed to maintain their margin, with no benefit to the payors or consumers.”

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About TRICAST, Inc.

TRICAST, Inc., founded in Milwaukee in 1997, uses pharmaceutical and medical claims analysis for benchmarking, audits and risk analysis for health benefit plan sponsors. The company also provides timely reporting on vendor performance, allowing opportunities for decisive responses. The net result is better program oversight, lowered plan costs and risk exposure.

TRICAST delivers data-driven cost control solutions every day. As a leading next-generation health information business, TRICAST offers programs, products and applications for the healthcare industry that assist risk entities controlling overall healthcare costs, with a specific focus on pharmaceutical benefits. Please visit www.tricast.com to learn more.

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