

March 30, 2021

# Follow the Dollar

How Your PBM Works



Purchaser Business  
Group on Health

# Misaligned incentives

## Manufacturer

*Increase prices at their discretion*

**Higher drug costs = Higher profits**



## Wholesaler

*Paid as a percent of drug costs*

**Higher drug costs = Higher profits**



## PBM

*In control of formulary, contract language, manufacturer revenue*

**Higher drug costs = Higher profits**



## Plan Sponsor - You

*Lack of control*

**Higher drug costs = Lower profits**



# Consolidation/Integration

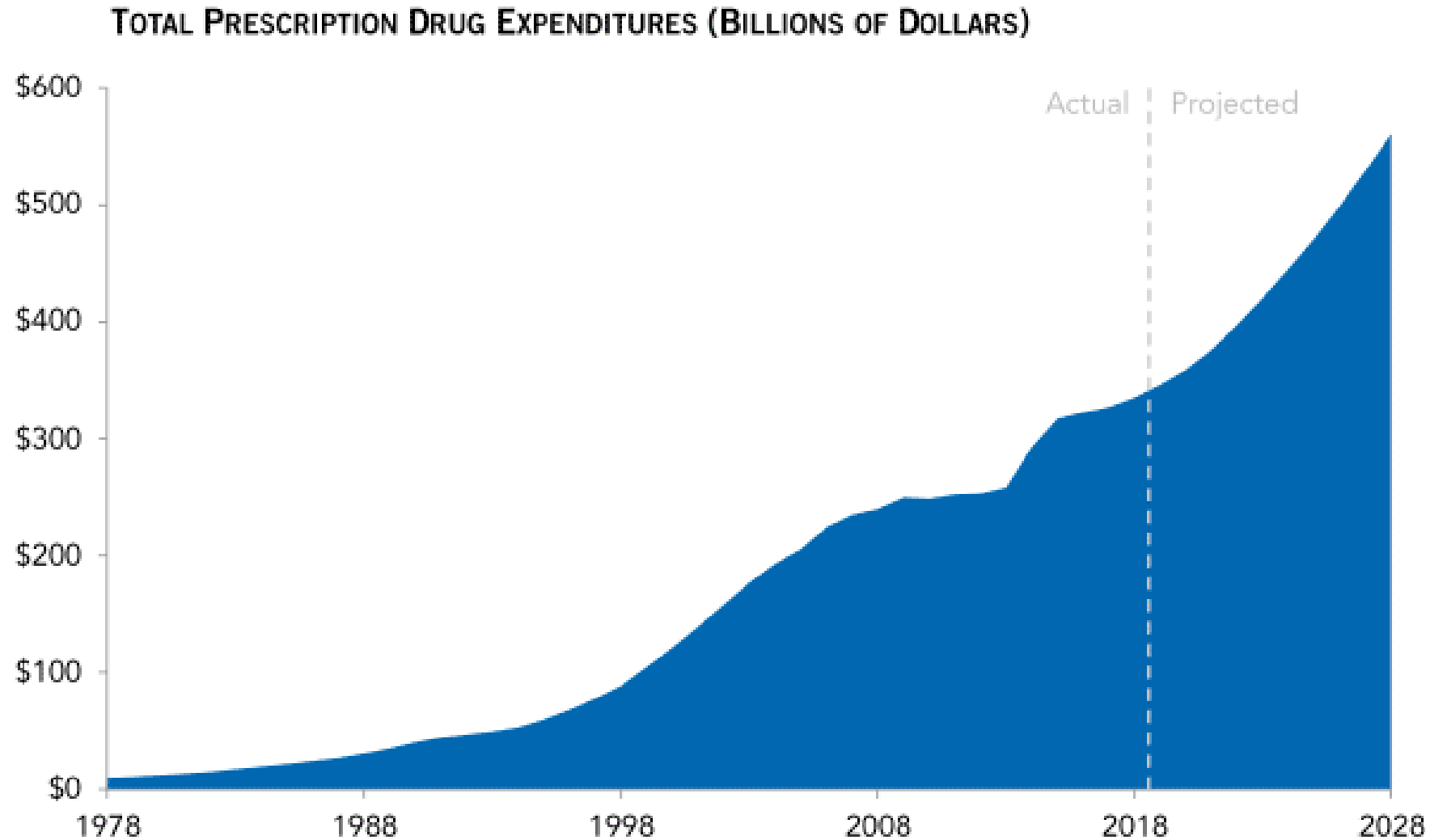


1. Cigna partners with providers via its [Cigna Collaborative Care](#) program. However, Cigna does not directly own healthcare providers.

2. AllianceRx Walgreens Prime is jointly owned by Prime Therapeutics and Walgreens Boots Alliance.

Source: Drug Channels Institute research; [The 2019 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers](#), Chapter 5.

## Prescription drug costs have increased significantly over the past several decades

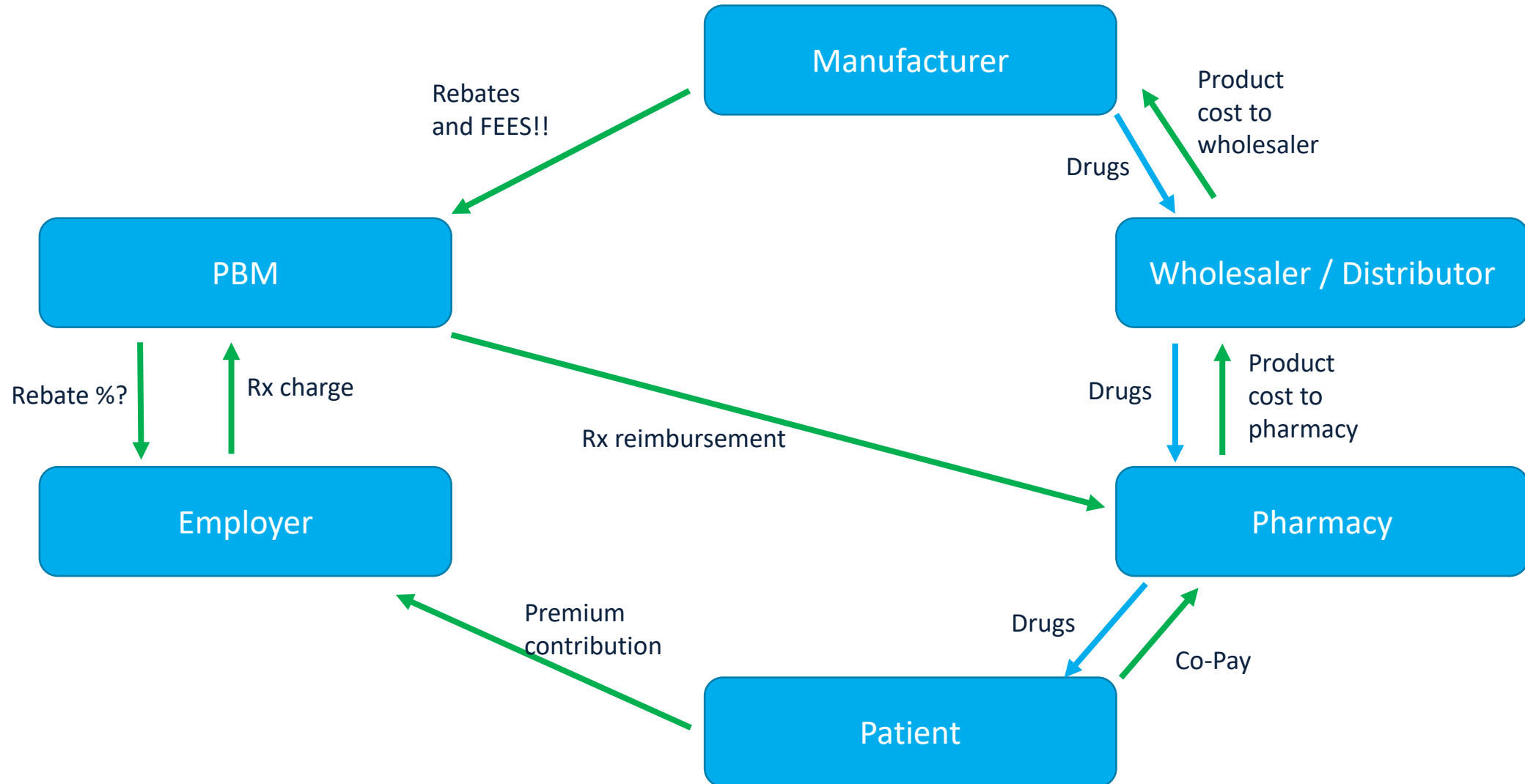


SOURCE: Centers for Medicare and Medicaid Services, *National Health Expenditures*, March 2020.

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# Follow the Dollar Through a Complex Supply Chain



# Start with the players in this drama

Manufacturer

PBM

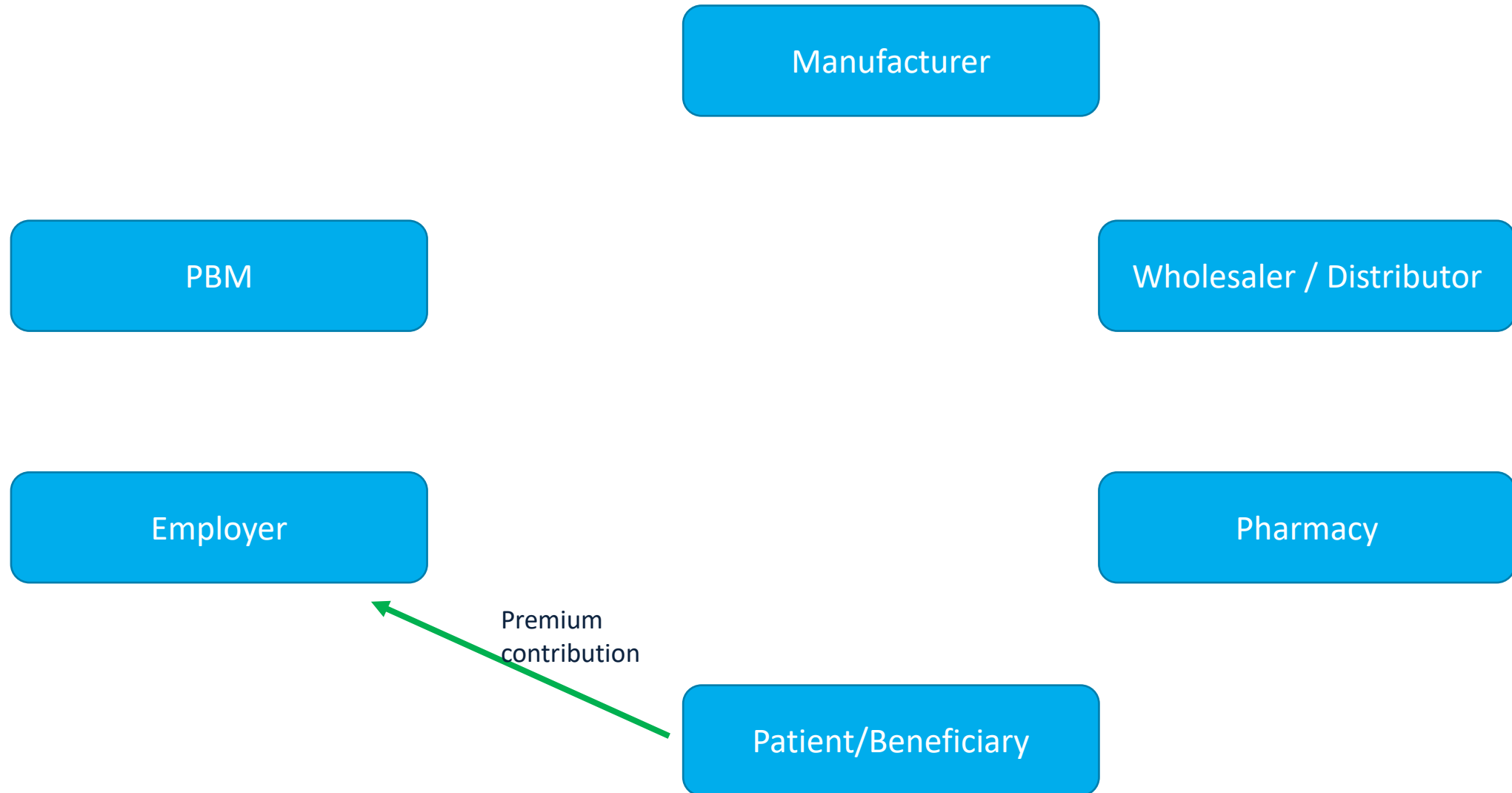
Wholesaler / Distributor

Employer

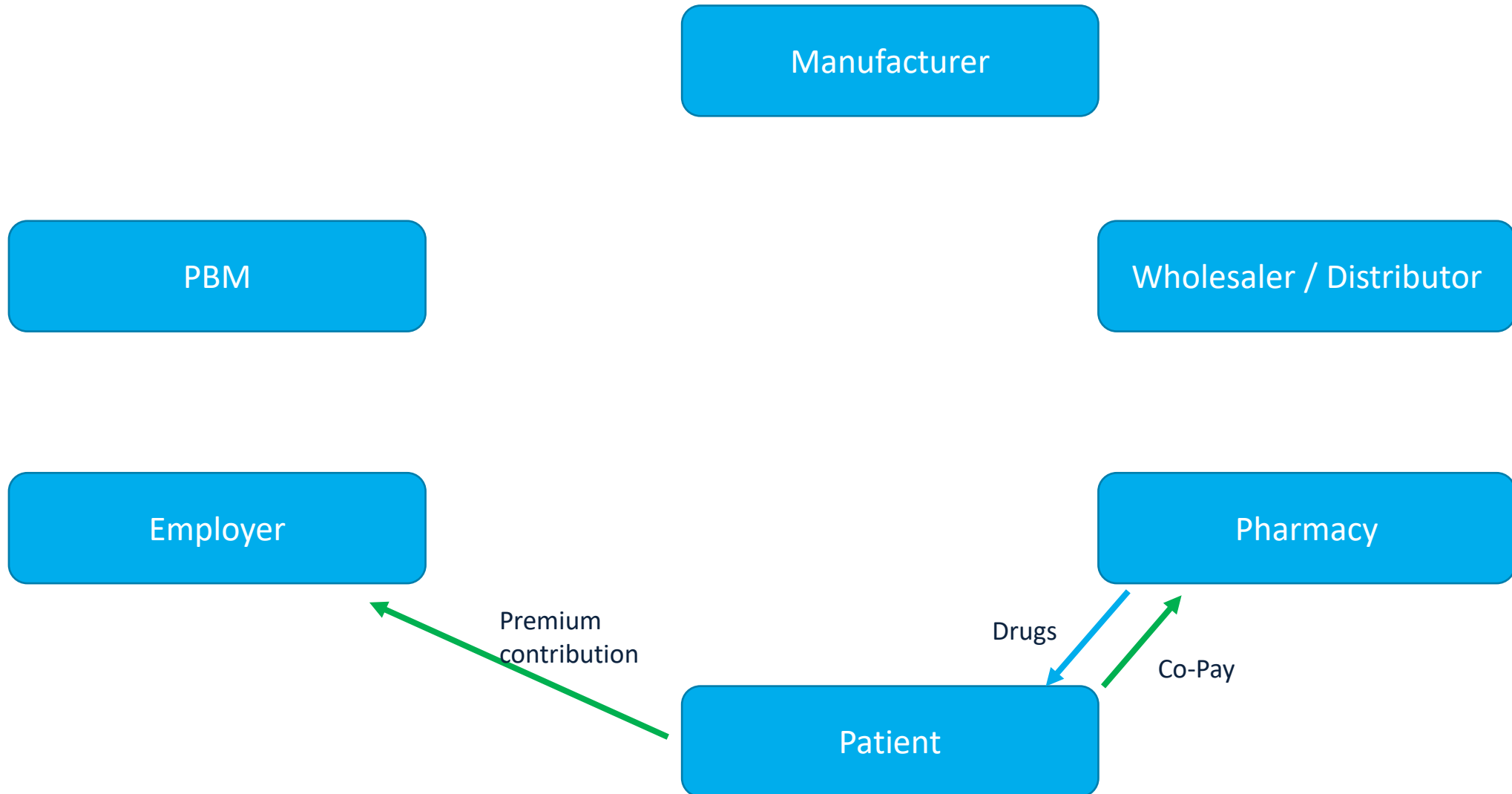
Pharmacy

Patient

# Follow the Dollar

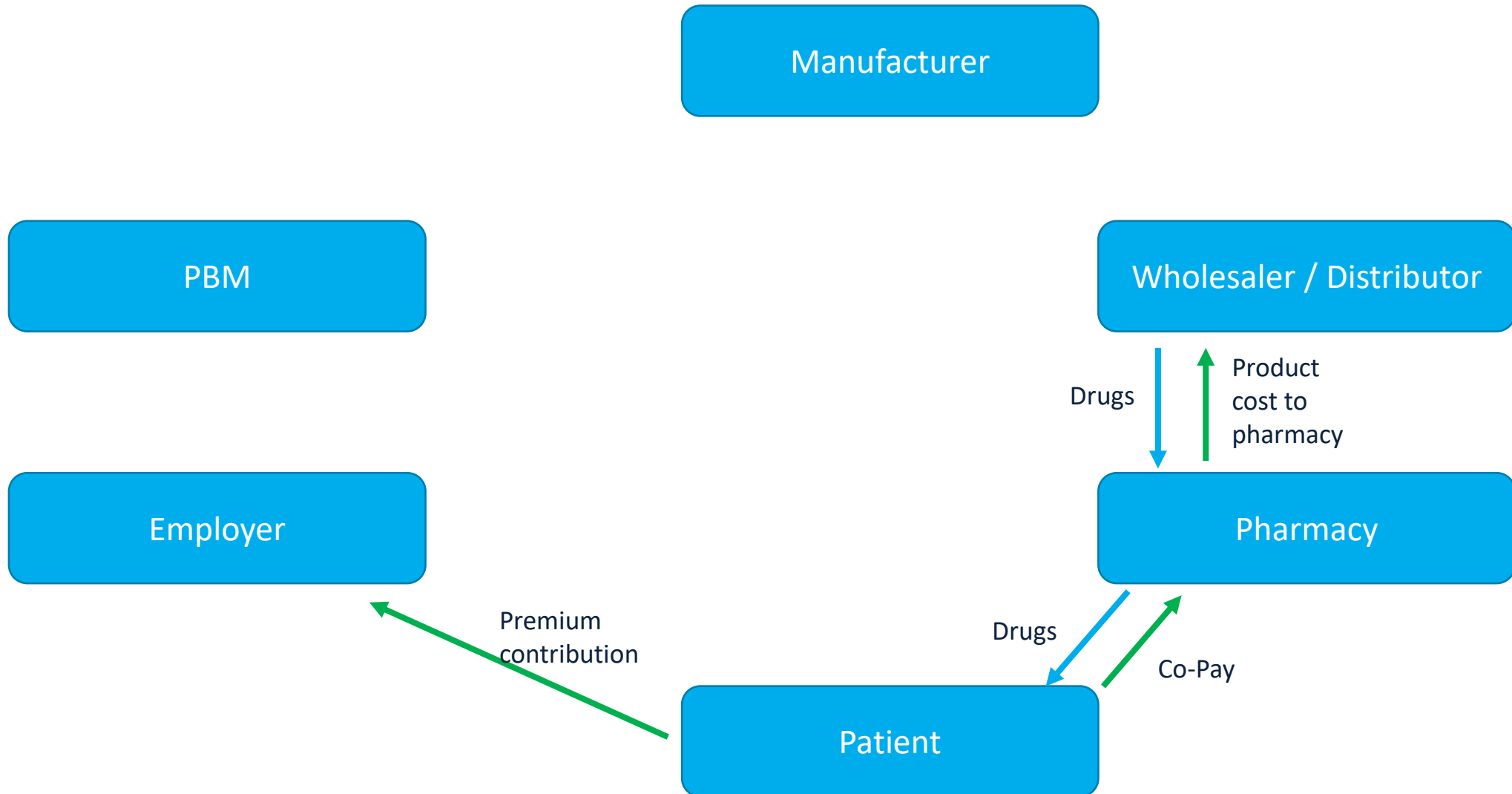


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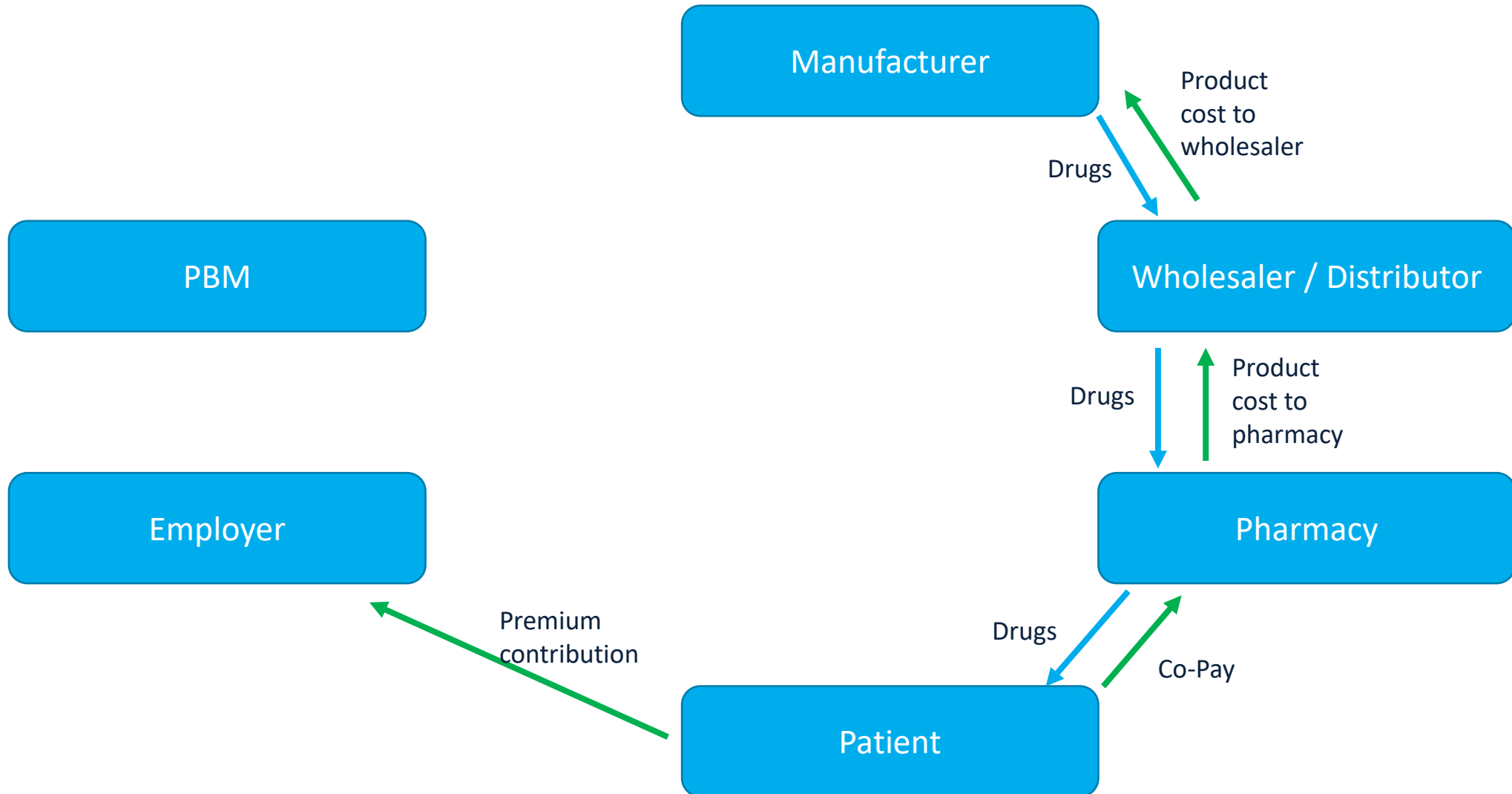




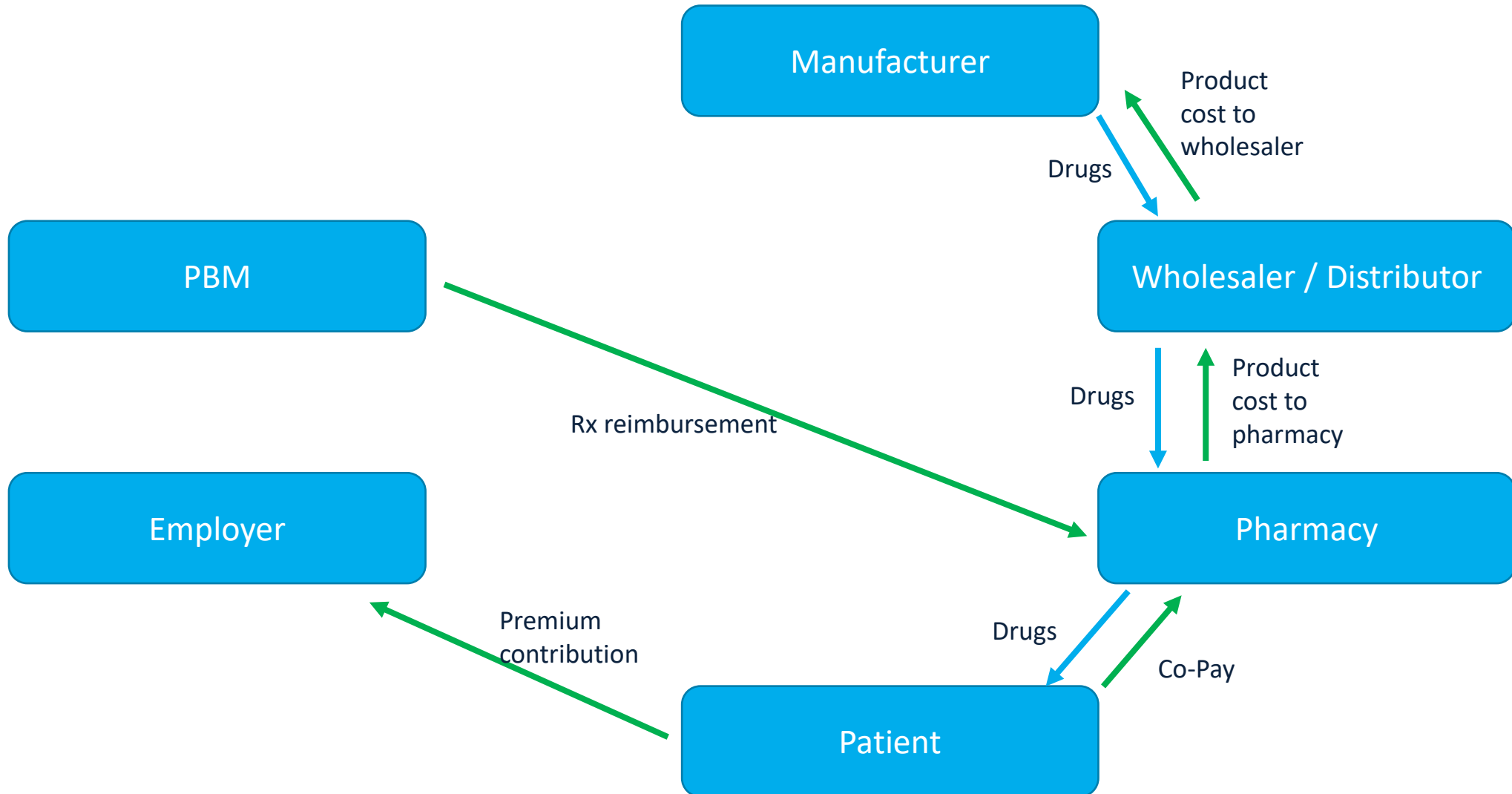
# Follow the Dollar



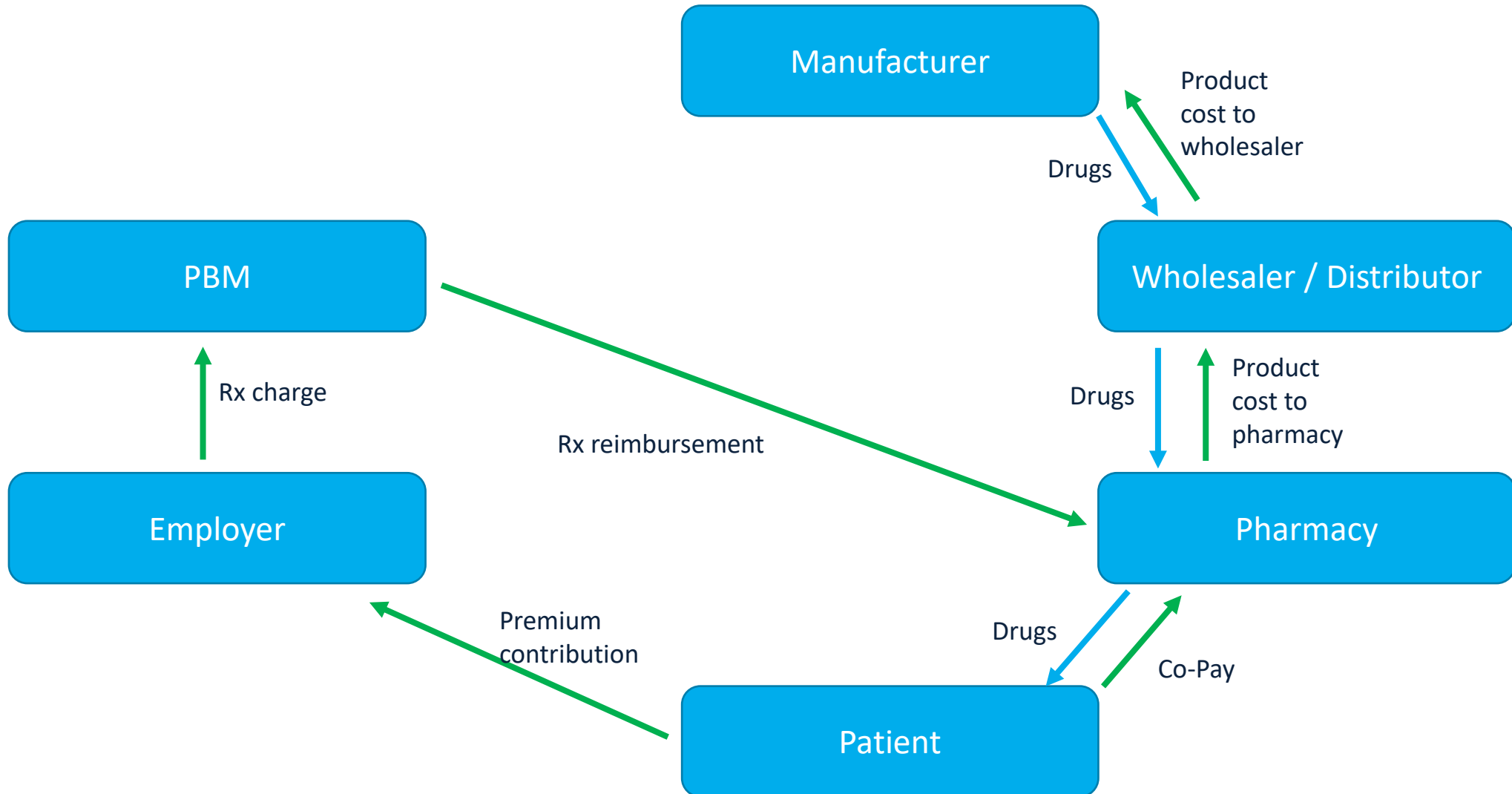
# Follow the Dollar



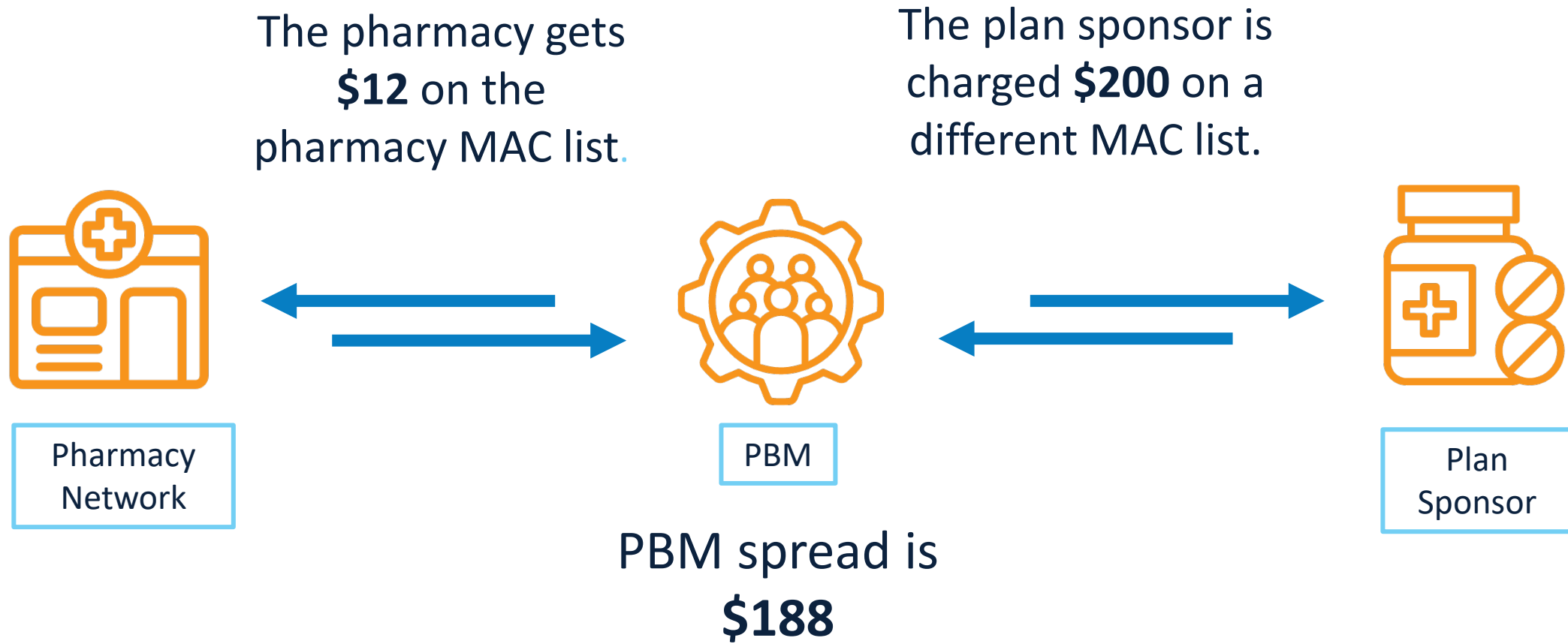
# Follow the Dollar



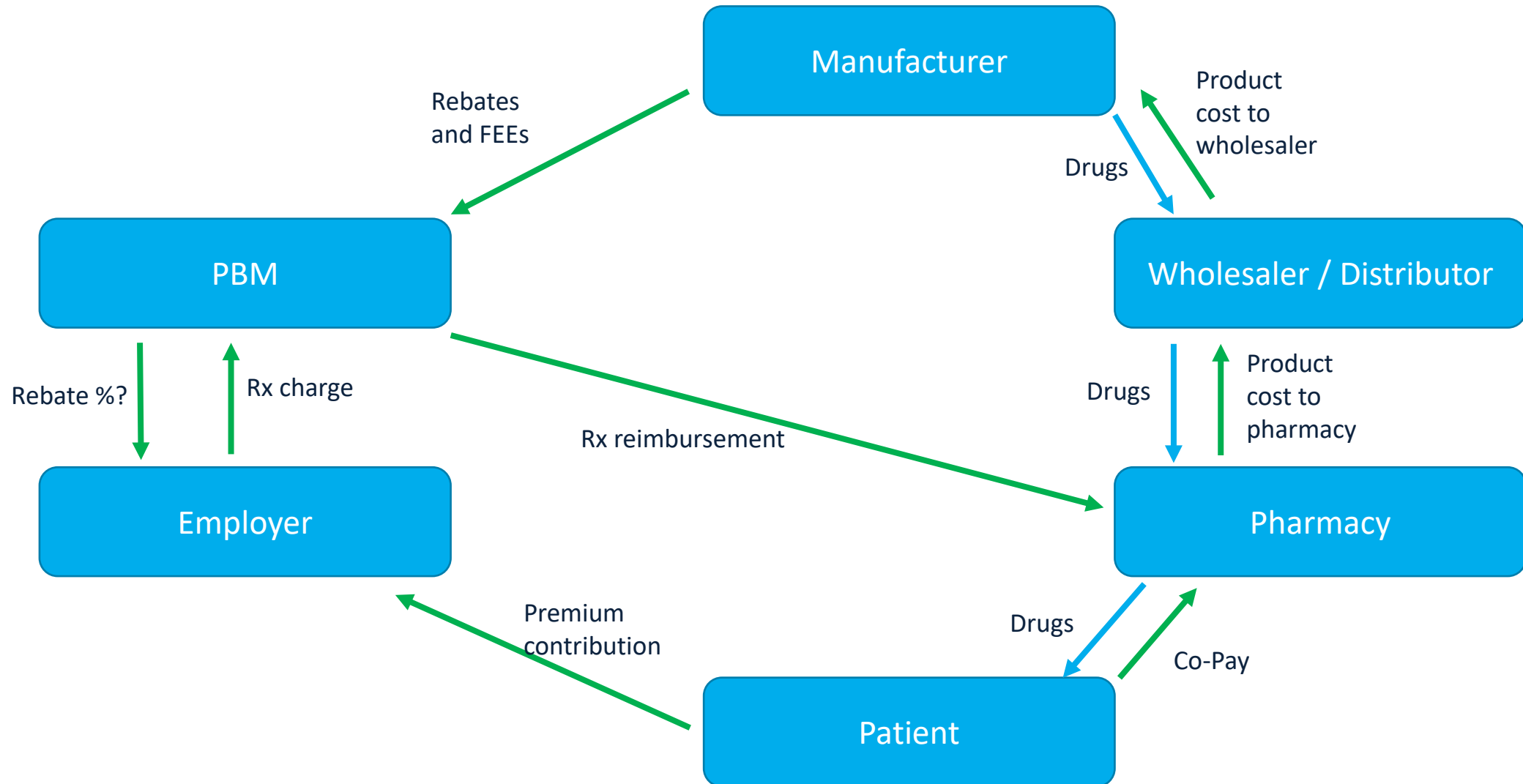
# Follow the Dollar



# Spread Pricing

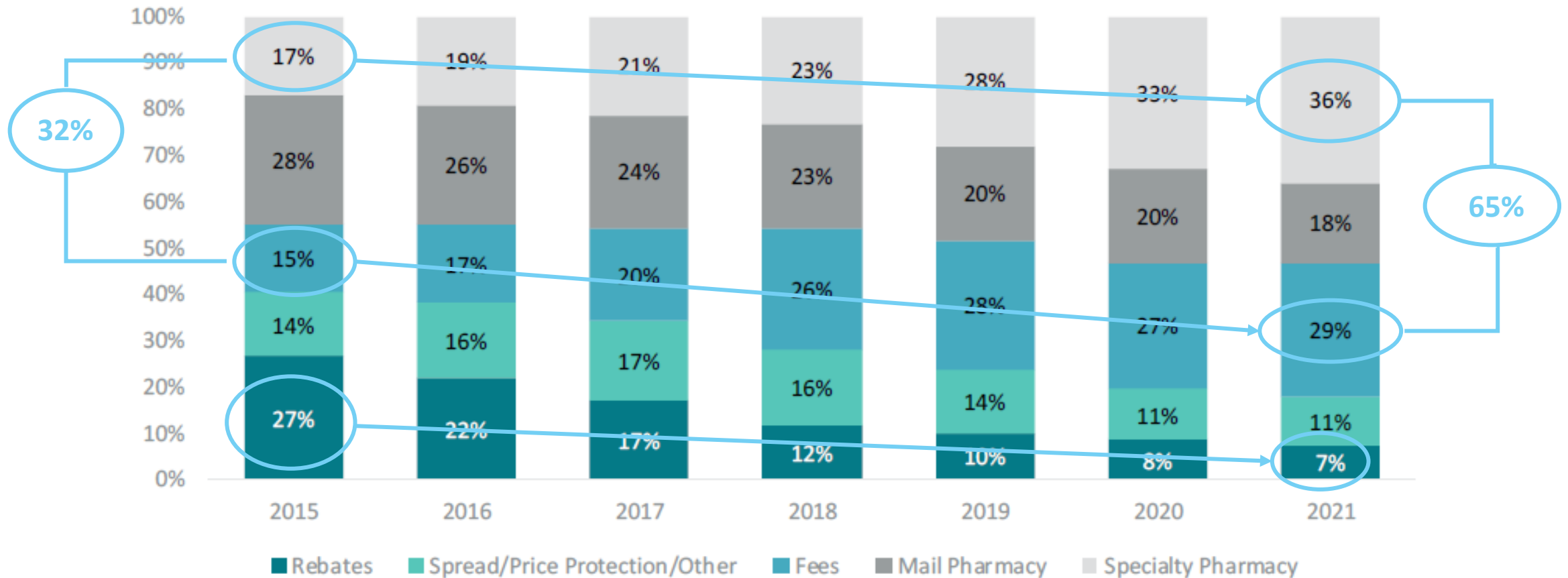


# Follow the Dollar



# PBM Profitability

**Fig. 4: PBM Gross Profit by Profit Pool (CVS, CI/ESI, OptumRx): PBM Profits Have Shifted from Rebates & Spread to Fees & Fulfillment**



Source: Nephron Research

# Rebate/fee language

Manufacturer Programs Formulary Rebates, Associated Administrative Fees  
contracts for its own account to obtain formulary rebates attributable to the utilization of pharmaceutical supplies (and possibly certain authorized generics marketed under a brand name) for its clients. Formulary rebate amounts received vary based on client specific utilization, the client's Formulary position applicable to the drug or supplies, and adherence to various client benefit design requirements, claims volume, and other similar factors, and in certain cases, on the product's market-share. ESI often pays an amount equal to all or a portion of the net cost to a client based on the client's PBM agreement terms. ESI or its affiliate may also provide aggregate guarantees and may realize positive margin. In addition, ESI provides services to contracted manufacturers, which include, for example, maintenance and repair of information infrastructure necessary for invoicing and processing rebates, pharmacy discount program data, as allowed by law, for purposes of verifying and evaluating applicable payments made to the manufacturer's products. ESI receives administrative fees from the pharmaceutical manufacturers for these services. These administrative fees are calculated based on the price of the drug or the volume of utilization and do not exceed the greater of (i) 4.58% of the average wholesale price and (ii) the acquisition cost of the products. In its capacity as a PBM company, ESI also may receive compensation from manufacturers for the performance of various programs or services, including,

*“In its capacity as a PBM company, ESI also may receive other compensation from manufacturers for the performance of various programs or services, including, for example, **formulary compliance initiatives, clinical services, therapy management services, educational services, inflation protection programs, medical benefit management services, cost containment programs, discount programs,** and the sale of non-patient identifiable claim information.”*

initiatives, clinical services, therapy management services, education services, inflation protection programs, medical benefit management services, cost containment programs, discount programs, and the sale of non-patient identifiable claim information. This compensation is not part of the formulary rebates or associated administrative fees, and ESI may realize positive margin between amounts paid to clients and amounts received from pharmaceutical manufacturers. ESI may

*“This **compensation is not part of the formulary rebates or associated administrative fees,** and ESI may realize positive margin between amounts paid to clients and amounts received from pharmaceutical manufacturers.”*

Copies of ESI's formulary considerations can be reviewed at [www.esi.com](http://www.esi.com)



# Do you have control withing your PBM contract

**Formulary Control**

Can you control what is on your formulary?

Waste Free Formulary      Biosimilars

**Utilization Control**

Can you control what prior authorizations are approved?

**Network Control**

Can you control the pharmacies in your network?

# Contract Non-Negotiables

- The Data - it is YOURS! You are the Fiduciary! If you don't get your data make them the Fiduciary.  
**(Or find a new TPA/PBM)**
  - Unfettered access to and use of your claims data
    - YOU get to pick the auditor (they can't tell you who to use)
    - YOU get to pick the analytics vendor
    - YOU get to pick the data warehouse
    - The data are NOT proprietary
- Insist that 100% of rebates and other manufacturer payments (fees/discounts) are passed back to YOU. (Make sure there is no cap on your rebate/refund guarantee.)
- Single MAC – specify date/database
- Clear definitions of: Generic, Preferred Brand, Brand, Reference and Biosimilar
  - A single source generic is not a preferred brand!
- PBM must disclose all fees paid to your consultant/broker for 12 months prior and during
- Consultant/broker must disclose all fees paid to them by the PBM/TPA for 12 months prior and during

# Contract Non-Negotiables

- Assure that the PBM can and will administer all benefit designs even if not currently deployed
  - Point of sale rebates
  - OTC coverage for select drugs
  - Grandfathering for specific drugs during formulary change
  - Reference pricing for brand over generics
  - Reference pricing for select drugs
  - Benefit differential for specialty drugs
  - Specific OOP maxes for specific drugs
  - Waived cost share (as allowed by law) for specific drugs or conditions



# Purchaser Business Group on Health

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