CHAPTER 18

TRANSPARENT PHARMACY BENEFITS

Transparent Pharmacy Benefits should offer purchasers the ability to gain control of decision making based on factual, fully disclosed information. Before we get started though, it's worth noting that the term transparency is incredibly over-used in the market and not all transparency is created equal. It's critical to look behind any seemingly impressive pricing or numbers to get to the real underlying issues that drive costs. I only use the term here for lack of a better one.

Let's start with the key elements and goals of Transparent Pharmacy Benefits.

1. It enables better decisions regarding pharmacy benefits by obtaining and using the data that a purchaser rightly owns.
2. It provides identifiable and measurable metrics to assert pricing and operational control over Pharmacy Benefit Manager (PBM) services.
3. It ensures members have relevant information to make informed choices.
4. It ensures clinical decisions are based solely on efficacy and actual cost, thereby advancing the purchaser's best interests ahead of a vendor's best interests.

Why Should You Support It?

Supporting Transparent Pharmacy Benefits is positive for almost all parties involved. Reducing therapy cost encourages pharmacy benefit participants to become more engaged in their therapy. And there are literally thousands of opportunities where, with proper information and education, participants can make better financial choices and even improve the chances of a quality outcome.

Tim Thomas, CEO of Crystal Clear Rx, gave the following example. Metformin, a drug for treating diabetes, has been around for decades and is a valuable therapy for treating the condition. It is a twice a day drug and can be obtained for less than $40 a month. Today, there are new formulations of Metformin that can be taken once a day, possibly improving patient adherence, but at a much greater cost to the participant and employer, over $3,000 a month. If the participant was educated and properly incentivized, would they be able to maintain adherence and reduce spending by nearly $36,000 per year? Pharmacists that have additional training and are paid appropriately for their time can help patients with this situation as well.

How Does It Work?

Compared to some Health Rosetta components, Transparent Pharmacy Benefits don't actually work much differently than what you're used to. The primary difference is the process for engaging your consultant or PBM services vendor. It focuses on contracts, access to data, and distribution channels for accessing drugs that counteract the pricing opacity, undisclosed financial incentives, and other conflicts that permeate status quo pharmacy benefits. The most critical piece is the role and involvement of an expert who knows the space top to bottom and has incentives aligned with your interests.

What Are the Key Elements to Look For?

1. Clarity on How PBMs Work

PBM business models and revenue streams are often highly-complex and full of conflicts that make their incentives very different than yours or your plan members. To start, they are often incentivized to push certain prescription brands. Additionally, "rebates" can be misleading and may not result in actual savings. True transparency is needed. Rebates can be up to 25% of the total cost of a brand or specialty drug and rarely benefit the member as they are paid to the plan sponsor or health plan. Thus, PBMs use rebate incentives that benefit only the plan sponsor or health plan at the expense of the patient through increased drug costs at the point of sale. Plus, the definition of what is a rebate payable to the plan sponsor or health plan rarely aligns with the actual amount paid by pharmaceutical manufacturers to the PBM. True transparency means one can see the relevant contracts the PBM has with manufacturers and others.

Some PBMs also employ pricing tactics that create "spread pricing" in which the amount charged to you and your members or a health plan is drastically higher than what is actually paid to the pharmacy. Spread pricing occurs across brand, specialty, and generic drugs. It's especially egregious in the generic component.

2. Access to Your Claims Data

Pharmacy claims data is some of the most robust and readily available in the health care industry, but first you need to get access to it, then fully understand and utilize it.

Next, your PBM relationship and agreements should make clear that you own your claims data as the purchaser of services. This includes your right to use that data to make informed decisions. You should combine your data with other analytical resources to analyze the true cost of pharmacy treatments and not solely depend on information the PBM provides.

Access to this data is essential to operating an effective ERISA plan. ERISA health plan service providers typically abdicate fiduciary responsibilities in their contracts with your plan. This means not getting data can increase your own risk under ERISA's fiduciary requirements to manage the plan solely for the benefit of the plan members.

3. Complete Contract Understanding

A complete understanding of current PBM contracts, utilizing a neutral third-party consultant, will ensure you have a clear understanding of current terms and conditions that are often the source of hidden costs. Even definitions left in OR OUT of a contract can be financially devastating.

This is especially true when it comes to "guarantees" in the PBM-purchaser contract. Average Wholesale Price (AWP) with its associated "discount" is the common method for evaluating PBM financial performance. AWP really means "Any Wild- assed Price" or "Ain't What's Paid" to be less snarky. Because AWP is often confusing and misleading, it can reduce leverage in negotiations.

Scott Haas, an industry expert, provided Figure 12 on the next page as an example of how AWP can and often does produce pricing variability to the plan sponsor and member. It is data from a real contract with a uniform AWP-68.5% discount for retail generics. First, notice the price per unit varies dramatically even though this is supposedly a uniform discount. Second, the unit costs rise over time. PBMs will say this is your cost trend, but it's often the PBM increasing cost basis to increase their spread (and revenue) over time. As a result, AWP-based discounts and metrics make it far harder to see or manage actual spending.

Another issue is distribution channel pricing variability, such as mail order and specialty.

The foregoing are just a couple examples of how the many moving pieces of PBM contracts, claims processing approaches, and business practices can make it difficult to manage spend. You need the right oversight and contract terms.

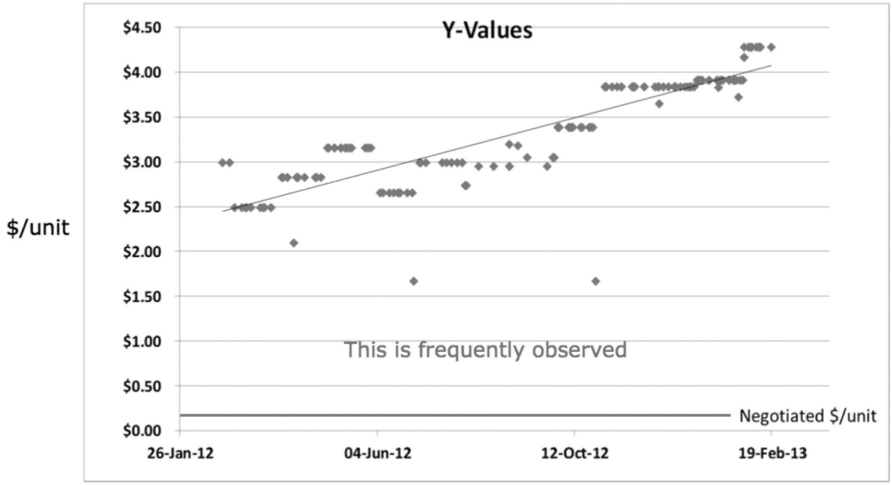

Figure 12: The contracted AWP-68.5% discount remained the same for the entire period. Each point represents a single claim. Source: Scott Haas.

4. Expert Resources

Purchasers should pair their own data with unbiased consultants equipped with analytical know how, pharmacy industry knowledge, and vendor insight to negotiate better PBM contracts. Then they can decide for themselves if they should leave all of the PBM services with one vendor or if they should carve out certain aspects of the pharmacy benefit.

Consultants who only work with PBMs that pay them disclosed or undisclosed fees should be avoided. Having the wrong economic incentives makes it nearly impossible to act in the best interests of their clients. Many PBM coalitions should also be looked at with suspicion because of the lack of overall transparency and potential fiduciary duty issues under ERISA. Follow the money before trusting any arrangement that doesn't let you view the contract between the PBM and Coalition sponsor. Without it, you can't fully assess whether that arrangement will truly provide you the value represented.

5. Creative Distribution Channels

What if mail order prescriptions are actually costing you more than the same drug at retail? Seriously, this happens. When evalu-

ating a PBM's channels, consider carving out mail order and specialty pharmacy services from the PBM contract. Some mail order and specialty pharmacies offer services for "cost plus a management fee," which can be far less expensive than the AWP "Ain't What's Paid" model. Plan design often drives whether this is a cost effective solution.

What Challenges Can You Expect?

1. The Appearance of Savings

Consultants and PBMs will use AWP discounts that *appear* to create significant cost savings. Remember, AWP is a flawed metric for analysis that clouds true costs and any potential savings. A good analogy for this core flaw is what happens when you multiply percentages of percentages. The math guickly gets so convoluted that it just doesn't work well.

During the RFP process, most consultants send your current pharmacy claims data to other PBMs, who then reprice the claims, showing you what you would have paid under their pricing (again, often using AWP). Since every proposal always has the appearance of savings, you'd think just doing an RFP each year would give you negative pharmacy costs eventually. Unfortunately, this isn't the case.

The core problem with this is the flawed process. How much can you trust RFP responses when your consultant just gives your data to a potential vendor without controlling anything that occurs when repricing that data for the response? Because the actual repricing work is done by the PBM vying for your business, the consultant can't have any real confidence it's done correctly.

Plus, very few consultants compare actual pharmacy claims to original RFP responses to ensure the original representations actually materialized in reality after the contract was signed.

A better process is for your consultant to provide very basic summary information to PBM vendors about your plan, employ-

ees, total spend, prices paid through various channels, and other plan design elements. Then, they require PBMs to provide brand and specialty pricing, plus fixed per pill unit costs for generics (usually around 3,000 of them) that have some guaranteed pricing or utilize a MAC (Maximum Allowable Cost) list. Lastly, they will apply the responses to your actual data to create a cost avoidance summary that provides accurate and statistically validated cost saving potential (absent specialty utilization).

There's far more complexity to this, but the key point is you need someone that applies the type of statistical discipline that would make an auditor proud. Handing data over to health plans or PBMs without provable validation controls isn't enough.

2. Interference

Many PBMs talk transparency, but it is *not* in their best financial interests. Existing consultants who are being incentivized by payments from PBMs may interfere with your journey toward transparency, as it may not be in their best financial interest.

3. Lack of Understanding

Although this may not be an obvious pain point, there still might be a lack of understanding in the HR department about the benefits of Transparent Pharmacy Benefits, or they may simply be unaware of the options available. It is important to gain HR and executive buy-in.

4. Not All Transparency Is Equal

There is often confusion between transparent and transparent passthrough. Transparent does not necessarily mean you are getting pass through pricing and the pricing being passed through may not be the best available. Make sure you understand the different models and that the transparency is working its way to you and in your favor. Just because a vendor claims to be transparent, this doesn't mean they're the best option, able to

secure the best pricing, or even meaningfully transparent.

5. Obfuscation to Preserve Status Quo

Consultants and PBM's who aren't forward-looking may fall back on "fear, uncertainty, and doubt" tactics meant to freeze progress. As stewards of your organization's and employees' hard-earned money, you must choose whether to protect your own health and bottom line or that of your vendor.

What Action Steps Can You Take?

Ask your broker, consultant, advisor, insurance carrier, or TPA if they are currently working with or have experience with transparent pharmacy benefits.

Ask your broker, consultant, or advisorif they or their firm receive any compensation from any PBMs or service provider?

Ask these same parties how they recognize the difference between good and bad pricing?

Encourage your broker, consultant, advisor, insurance carrier, or TPA to find, interpret, and share reliable cost and quality data from pharmacy benefits managers competing for your business.

Consider comparing pharmacy benefits managers through a structured and disciplined RFP process.

Get access to your own data to go beyond AWP and other misleading cost metrics to help you understand the real prices you're paying for each drug in your plan.

Additional Resources

Please visit healthrosetta.org/health-rosetta for ongoing updates, including lists of vendors, case studies, best practices, toolkits, and more.