

Spread Pricing in the Prescription Benefit

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The pharmacy benefit manager (PBM) is the company that typically administers the employer/sponsor prescription benefit. Researchers at the Creighton University Pharmacy School have earned national recognition for innovative research into the PBM industry. Findings by our research/consulting group suggest that many **PBMs augment low administration fees with cash flows the sponsor may not be aware of. One such cash flow is “spread” pricing. Spread pricing occurs when the PBM charges the sponsor a higher price for a drug than the PBM pays the pharmacy for the same drug.** The tables below contain actual prescriptions found by our group in corporate benefit plans. The four employers below varied in size from 2,100 to over 20,000 employees.

How we performed this study: We examined the invoices to the sponsor from the PBM and the PBM payment detail to the pharmacies that filled the employer’s prescriptions. To orient the reader, refer to the first entry for Employer #1. This sponsor had an employee who filled a prescription for Atenolol 25 mg tablets #30 from the local pharmacy. The employer’s PBM invoice show the employer was charged \$3 for this prescription while the pharmacy’s payment detail shows a payment of \$2 to the pharmacy. The prices below represent the drug ingredient price of each prescription. Therefore, the patient co-payment or the employer payment of the balance does not interfere with this “apples-to-apples” comparison. For this prescription, the PBM made an extra \$1 in addition to the administration fees to the PBM which were agreed upon in the contract. **Markup in the supply chain is not bad. However, most employer are unaware that PBMs are augmenting their incomes with these pricing practices.**

Employer 1*

Drug Name & Strength	Quantity	Billed Sponsor	Paid Pharmacy	Spread
Atenolol 25mg	30	\$3	\$2	\$1
Fluoxetine HCl 20mg	30	\$18	\$12	\$6
Fosamax 70mg	4	\$62	\$62	0
Lotrel 10-20mg	30	\$70	\$70	0
Norvasc 5mg	30	\$42	\$42	0
Pacerone 20mg	30	\$51	\$28	\$23
Tamoxifen Citrate 20mg	30	\$61	\$36	\$25
Timolol Maleate 0.5%	10	\$17	\$8	\$9

Employer 2*

Drug Name & Strength	Quantity	Billed Sponsor	Paid Pharmacy	Spread
Actos 45mg	30	\$153	\$153	0
Atenolol 50mg	30	\$3	\$1	\$2
Prevacid 30mg	30	\$122	\$122	0
Cephalexin 500mg	18	\$7	\$5	\$2
Enalapril 20mg	60	\$28	\$21	\$7
Norvasc 10mg	30	\$55	\$55	0
HCTZ 12.5mg	30	\$11	\$4	\$7
Metformin 1000mg	60	\$26	\$21	\$5
Plavix 75mg	30	\$116	\$116	0

Employer 3*

Drug Name & Strength	Quantity	Billed Sponsor	Paid Pharmacy	Spread
Allegra D	60	\$79	\$79	0
Cyclobenzaprine 10mg	30	\$11	\$10	\$1
Flomax 0.4mg	30	\$55	\$55	0
Lipitor 10mg	30	\$68	\$68	0
Metformin 1000mg	60	\$18	\$17	\$1
Nystatin Suspension	200	\$37	\$34	\$3
Oxycodone 5mg	180	\$50	\$41	\$9
Temazepam 15mg	60	\$11	\$10	\$1
Terazosin 2mg	120	\$166	\$154	\$14

Employer 4*

Drug Name & Strength	Quantity	Billed Sponsor	Paid Pharmacy	Spread
Amoxicillin 250mg	60	\$11	\$5	\$6
Alprazolam 0.25mg	90	\$17	\$4	\$13
Lipitor 10mg	30	\$62	\$60	\$2
Prilosec 20mg	60	\$250	\$242	\$8
Atenolol 100mg	90	\$80	\$7	\$73
Celebrex 100mg	30	\$44	\$43	\$1
Furosemide 80mg	90	\$36	\$7	\$29
Monopril 40mg	30	\$29	\$29	0
Propoxyphene N/APAP	200	\$104	\$40	\$64

*Actual amounts were rounded to protect the anonymity of employers and community pharmacies

PBM Spread Pricing: Issues to Consider

- **Spread pricing obscures the true price of PBM service:**
If the employer bases the selection of a PBM on the agreed upon administration fee (a per-prescription charge for the PBM service), then spread pricing serves to raise the cost of the benefit and make PBM selection more difficult.¹
- **Spread pricing is very difficult to detect:**
Most plan sponsors are unfamiliar with the nuances of the pharmacy benefit invoice. Furthermore, it is even more difficult for the plan sponsor to be well versed in the prices that should be charged for a given drug.
- **Spread pricing could be a contributing factor in the runaway pharmacy budget:**
Researchers have estimated spread pricing in the range of \$5 (and higher) per prescription..²
- **Amount of some spreads are alarming:**
Spreads of up to \$200 for a single prescription have been documented in the literature.³

References:

1. Garis,RI; Clark,BE; Makoid,MC. Restructure PBM incentives to boost cost savings. Business Insurance, September 30, 2002.
2. McDonald, E, Drug Lord, Forbes Magazine, February 16, 2004
3. Garis,RI; Clark,BE, The Spread: Pilot Study of an Undocumented Source of Pharmacy Benefit Manager Revenue, Journal of the American Pharmacists Association, 44 (1), 2004, pp. 15-21.