PBMs and their Role in the Drug Supply Chain

Pharmacy Benefit Management Reporting Task Force
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What Is a PBM?

• A pharmacy benefits manager (PBM) is a health care company that contracts with insurers, employers, and government programs to administer the prescription drug portion of the health care benefit.

• PBMs work with insurers and employers to perform a variety of services to ensure high-quality, cost efficient delivery of prescription drugs to consumers.

• PBMs aggregate the buying clout of millions of enrollees, enabling plan sponsors and individuals to obtain lower costs for prescription drugs.

• PBMs are the only check in the retail Rx drug supply chain against drug makers’ power to set and raise prices.
Who Are PBM Clients?

- Private Sector Employers
- Public Sector Employers
- Commercial Health Plans/Government Programs
- Union Trusts/Taft-Hartley Plans (ERISA-exempt)
Why Do Plans Hire PBMs?

- Plans/payers may lack the technical expertise and experience to manage the drug benefit
- PBMs help save plans 40-50% over unmanaged benefit, increase adherence.¹
- Improve clinical outcomes and reduce medication errors through use of drug utilization review programs.
  - Over next 10 years, PBMs will help prevent 1 billion medication errors.²
  - Improve drug therapy and patient adherence, notably in the areas of diabetes and multiple sclerosis.³
- Manage programs to address opioid use issues.

¹ Visante, Return on Investment on PBM Services, Nov. 2016.
² Visante estimates based on IMS Health data and DUR programs studies.
³ Visante estimates based on CDC National Diabetes Statistics Report 2014 and studies demonstrating improved adherence by 10+%).
How Plans Hire PBMs: RFP Process

**Plan Issues RFP**
- Request for Proposal (RFP) dictates the terms and conditions of the PBM services

**PBM Bids**
- Multiple PBMs bid in a highly competitive environment
- PBMs offer various design models depending on plan sponsor’s specific needs

**Plan Decision**
- Plan sponsor may utilize benefit consultants for direction
- Decisions often reflect need of a robust pharmacy benefit that delivers cost savings

**Plan Design**
- PBM provides options based on the plan sponsor’s unique needs
- Plan sponsor makes the final decision about the drug benefit plan

PCMA
PBM – Plan Contracts

• PBM s offer various design models depending on a plan’s specific needs:
  – Plans choose how to compensate PBMs:
    traditional/spread, pass-through/fees, rebate share.
  – Performance guarantees and audit rights protect plans and ensure transparency.
  – On average, more than 90% of rebates negotiated by PBMs are passed through to plan sponsors.
• The plan sponsor always has the final say when creating a drug benefit plan.
• Things not determined by a PBM: benefit design, cost sharing levels, deductibles, etc.
How PBMs Drive Savings and Quality: Manufacturers

• PBMs are able to bring volume to manufacturers and in some cases, obtain price concessions.

• Rebates reduce the net cost of drugs for payers, but they aren’t available on all drugs—only where there is competition.
  – 90% of drugs dispensed are generics, with little-to-no rebate in commercial programs.
  – In Medicare Part D, 64% of brands were not eligible for rebates.¹
  – PBM clients get the vast majority of the rebates.², ³

• Rebates help reduce premiums & cost-sharing, and revenue is included in MLR calculation.

• Plans have no alternative tool at this time that is as effective at forcing manufacturers to compete, bringing down the net cost of drugs.

Snapshot of PBM Marketplace

• Competition in PBM Marketplace is strong.
  – 66 PBMs in the U.S.¹
• PBMs vary in size, geographic footprint, service offerings, expertise and focus.
• Market changes: consolidation, vertical integration, new entrants.
• PBMs’ net profit is lowest in supply chain.

¹ Pharmacy Benefit Management Institute (PBMI) Data
Pharmaceutical Supply Chain Profit Margins

Source: The Flow of Money Through the Pharmaceutical Distribution System. Schaeffer Center for Health Policy & Economics, University of Southern California. June 2017
Flow of Goods, Transactions & Services

1. **PSAO**
2. **Manufacturer**
3. **Wholesaler**
4. **Pharmacy**
5. **Patient**
6. **Prescriber**
7. **Payer**
8. **PBM**

Lines indicate different types of flows:
- **Green**: Payment
- **Green Dots**: Rebates
- **Orange**: Administrative Services
- **Blue**: Drugs
- **Red Dots**: Business Relationship

(Flowchart by PCMA)
Independent Pharmacies & PSAOs

- 80% of independent pharmacies in the U.S. are represented by Pharmacy Services Administrative Organizations (PSAOs).
- PSAOs pool purchasing power of many pharmacies to leverage strength and contracting strategies with payers.
- PSAOs negotiate & enter into contracts with payers on behalf of independent pharmacies, including reimbursement rates, payment term, and audit terms.
- PSAOs also provide inventory and back-office functions to pharmacies.
- The largest PSAOs are owned by the three major drug wholesalers.
- **PBMs have no insight into private contract terms between PSAOs and pharmacies.**
- Independent pharmacies are doing well & national numbers have been flat or trending up since 2010 – 37% of all pharmacies in US are small, independent pharmacies.¹

¹ Quest Analytics of NCPDP Data, Jan. 2019.
PBM Menu of Services

- Claims Processing Fraud, Waste & Abuse
- Price, Discount and Rebate Negotiations with Pharmaceutical Manufacturers and Drugstores
- Formulary Management
- Pharmacy Networks
- Mail-service Pharmacy
- Specialty Pharmacy
- Drug Utilization Review
- Disease Management and Adherence Initiatives
Who Pays for Prescription Drugs?

Source of Payment for Outpatient Prescription Drug Expenditures, 2016

1. Includes workers' compensation and Pembroke Consulting estimates for employer share of private insurance.
2. Includes those with Medicare supplemental coverage and all individually purchased plans, including coverage purchased through the Marketplaces. Figure reflects Drug Channels Institute estimates for prescription drug spending for individually purchased private insurance.
3. Includes Children's Health Insurance Program (Titles XIX and XXI), Department of Defense, Department of Veterans Affairs, Indian Health Service, workers' compensation, general assistance, maternal and child health, and other federal, state, and local programs. Other federal programs include OEO, Federal General and Medical, Federal General and Medical NEC, and High Risk Pools under ASA. Other state and local programs include state and local subsidies and TDI.

Source: Drug Channels Institute analysis of National Health Expenditure Accounts, Office of the Actuary in the Centers for Medicare & Medicaid Services, December 2017. Totals may not sum due to rounding. Data exclude inpatient prescription drug spending within hospitals and nearly all provider-administered outpatient drugs.
Where the Rx Dollars Go

Retained Revenue Across U.S. Pharmaceutical Sector, 2016 ($billions)

- Manufacturers: $323
- Insurers: $9
- PBMs: $23
- Providers: $35
- Pharmacies: $73
- Wholesalers: $18


Note: Study does not take into account the full amount of manufacturer rebates that PBMs may pass along to clients, which may lower estimated PBM retained revenue.
Major Findings:

• Over the three-year period of the study (2014-2016), PBMs successfully increased the size of rebates they negotiated, which helped hold down Part D premiums
• PBMs passed along almost all (99.6%) of rebates negotiated with manufacturers to Part D plan sponsors
• Service fees paid by manufacturers to PBMs are a relatively small portion of total Part D expenditures (0.4%)
• Service agreements, fees paid by Part D plan sponsors to PBMs were not related to the price of the drug, but instead based on claim volume or total populations served
The Federal Trade Commission on the Concentration of PBMs

“The market for the provision of full-service PBM services to health care benefit plan sponsors is moderately concentrated and consists of at least ten significant competitors. Our staff’s investigation revealed that competition for accounts is intense, has driven down prices, and has resulted in declining PBM profit margins—particularly in the large customer segment.”

“There are also several standalone PBMs that are substantially smaller than the Big Three but have had recent success winning significant employer business, including large employer accounts. These PBMs usually compete by trying to differentiate themselves from the Big Three and health plan-owned PBMs by emphasizing a transparent pricing model, providing more individualized account management support, and offering customized PBM offerings.” **

** Commission Statement , supra note 12, at 4.
## Existing PBM Laws

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<tr>
<th><strong>SB 1195 (2012)</strong></th>
<th>• Directs how PBM’s conduct pharmacy audits and PBMs to negotiate discounts and rebates.</th>
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<td><strong>AB 339 (2015)</strong></td>
<td>• Directs the formation and operation of Pharmacy and Therapeutics Committee • Directs how a drug formulary is managed, including any changes</td>
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<td><strong>SB 17 (2017)</strong></td>
<td>• If PBM receives notice of increase in WAC, must notify large contracting public and private purchasers • Legislative intent to permit public and private purchasers to negotiate discounts and rebates</td>
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<td><strong>SB 1021 (2018)</strong></td>
<td>•Limits formulary tiers to 4 and requires placement be clinically indicated and reasonable medical management. • Copay capped at $250 • Patient pays lesser of co-pay or cash price</td>
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<td><strong>AB 2863 (2018)</strong></td>
<td>• Prohibit gag clauses • Cash payments apply to patient cost sharing</td>
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**AB 315 (2018)**
- PBM’s must register with DMHC
- Prohibition on gag clauses
- Patient pays lesser of copay or cash price
- PBM’s must notify purchaser of any conflicts of interest

**PBM transparency** - Must provide quarterly reports to purchaser:
- The average WAC for each therapeutic class containing three or more drugs
- The aggregate amount of rebates, including any utilization discounts, received from a pharmaceutical manufacturer.
- Any administrative fees received from the manufacturer
- Any manufacturer exclusivity agreement
- Drug utilization information
- The aggregate payments made to pharmacies owned or controlled by the PBM
Existing PBM Laws – cont.

- The aggregate payments made to pharmacies not owned by the PBM
- The aggregate amount of fees imposed on or collected from network pharmacies
- A PBM shall disclose to a network pharmacy or its contracting agent any material change to a contract provision
- A PBM must notify a health plan beneficiary that a pharmacy has been terminated from the PBM network
Existing PBM Laws – cont. Federal

S. 2553 (2018)
• Prohibition on gag clauses in Medicare (2020)

S. 2554 (2018)
• Prohibition on gag clauses in commercial market (self-insured and fully insured)
How Would the World Look Without PBMs?

- Without management of benefit, 40-50% more in costs\(^1\)
  - No one to make drug manufacturers compete with each other
  - No competition on price or quality in the pharmacy space
  - No auditing of pharmacies for fraud, waste, and abuse
  - No utilization controls that reduce waste and increase adherence
  - Paper claims, longer claims processing times, inability to have real-time reimbursement and coverage information for consumers at the pharmacy counter
  - Less utilization of generic drugs

\(^1\) Visante, *The Return on Investment (ROI) on PBM Services*. (November 2016).
PBM Clinical Services and Programs

• Medication Therapy Management Programs (MTMP)
  o Comprehensive Medication Review
  o Targeted Medication Review

• Drug Therapy Management
  o Medication Adherence
  o Opioid Overutilization Management
  o Polypharmacy

• Chronic Disease Management
  o Diabetes
  o Asthma
  o COPD
  o Blood Pressure
Goals of Clinical Programs

- Increase adherence to medication
- Optimize health status and outcomes
- Promote care coordination
- Reduce hospitalization and ED visits
- Reduce overall health care cost
Health Benefits to Patients

- Appropriate Use of Medications
- Decrease Adverse Events (side effects) and interactions
- Improve management of drug therapy regimen
- Improve management and monitoring of their diseases and conditions