

Pharmacy Benefit Manager Payment Models

Item 10 – Group Insurance Board

Jeff Bogardus, Manager of Pharmacy Benefit Programs

Tricia Sieg, Supplemental Plans Program Manager

Office of Strategic Health Policy



Why are we talking about this?

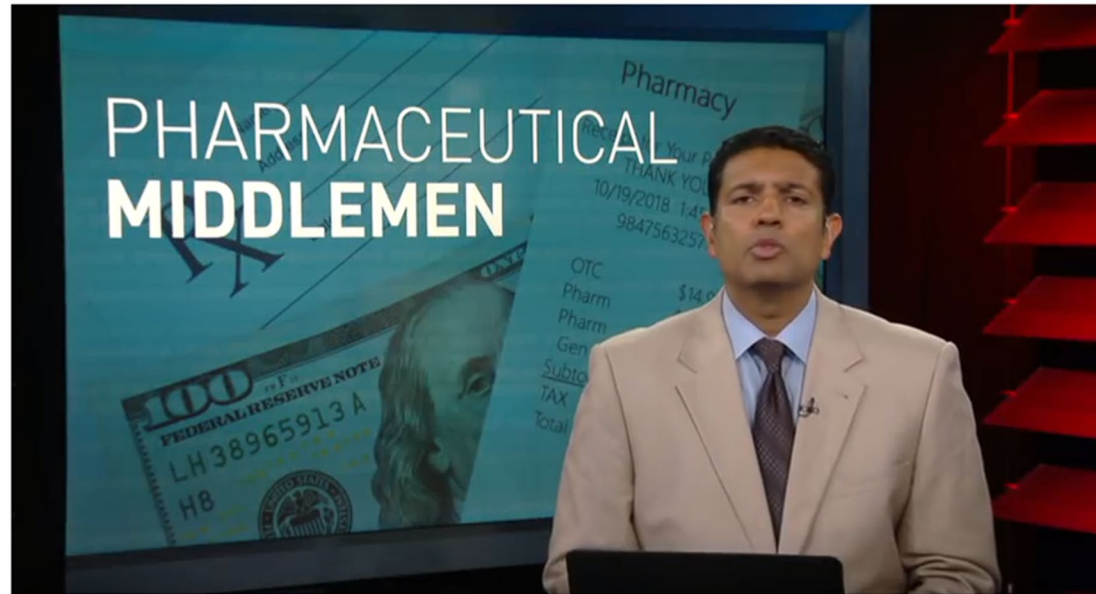
STAT Section



PBS NEWSHOUR

The Secret Middle

By Robert



Do Prescription Drug Middlemen Keep Prices High?
August 11, 2018

racial drugs vastly more



her company's



of the three largest pharmacy benefit

Agenda

Informational Only – No Action Necessary

- Our Pharmacy Benefits
- The PBM Industry Landscape
- PBM Business Models
- How Do PBMs Make Money?

Our Pharmacy Benefits

Our Pharmacy Benefits



Carved out pharmacy benefits from the medical benefits in 2004



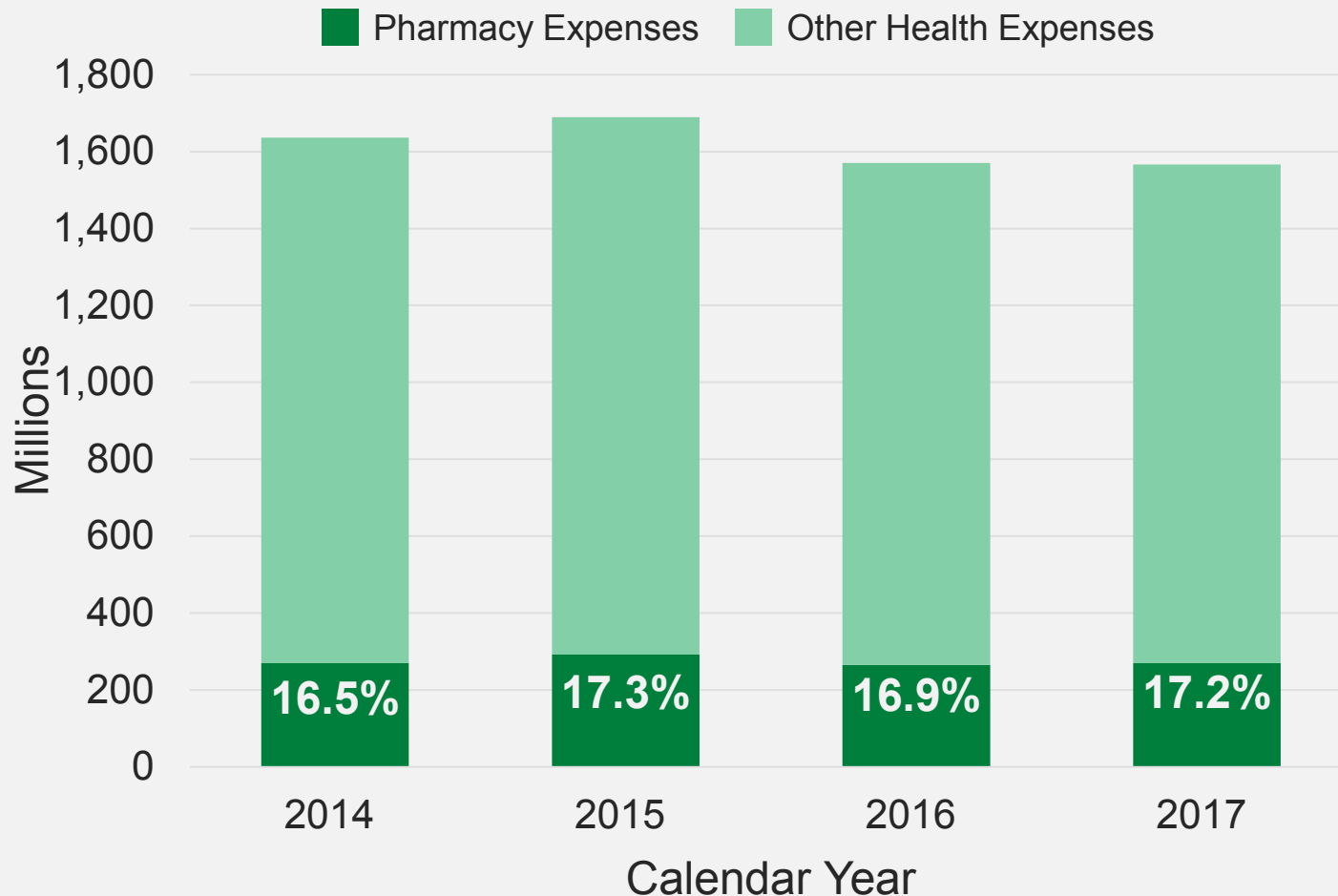
Maintained the fully transparent, full-pass through model for 15 years



Maintained trends that are competitive with or better than industry trends

Our Pharmacy Benefits

Pharmacy Expenses vs. Other Health Expenses



\$272 Million

Average Annual Net Pharmacy Expenses

\$330 Million

Average Annual Cost of Pharmacy Claims

(before rebates, discounts, fees, subsidies, etc.)

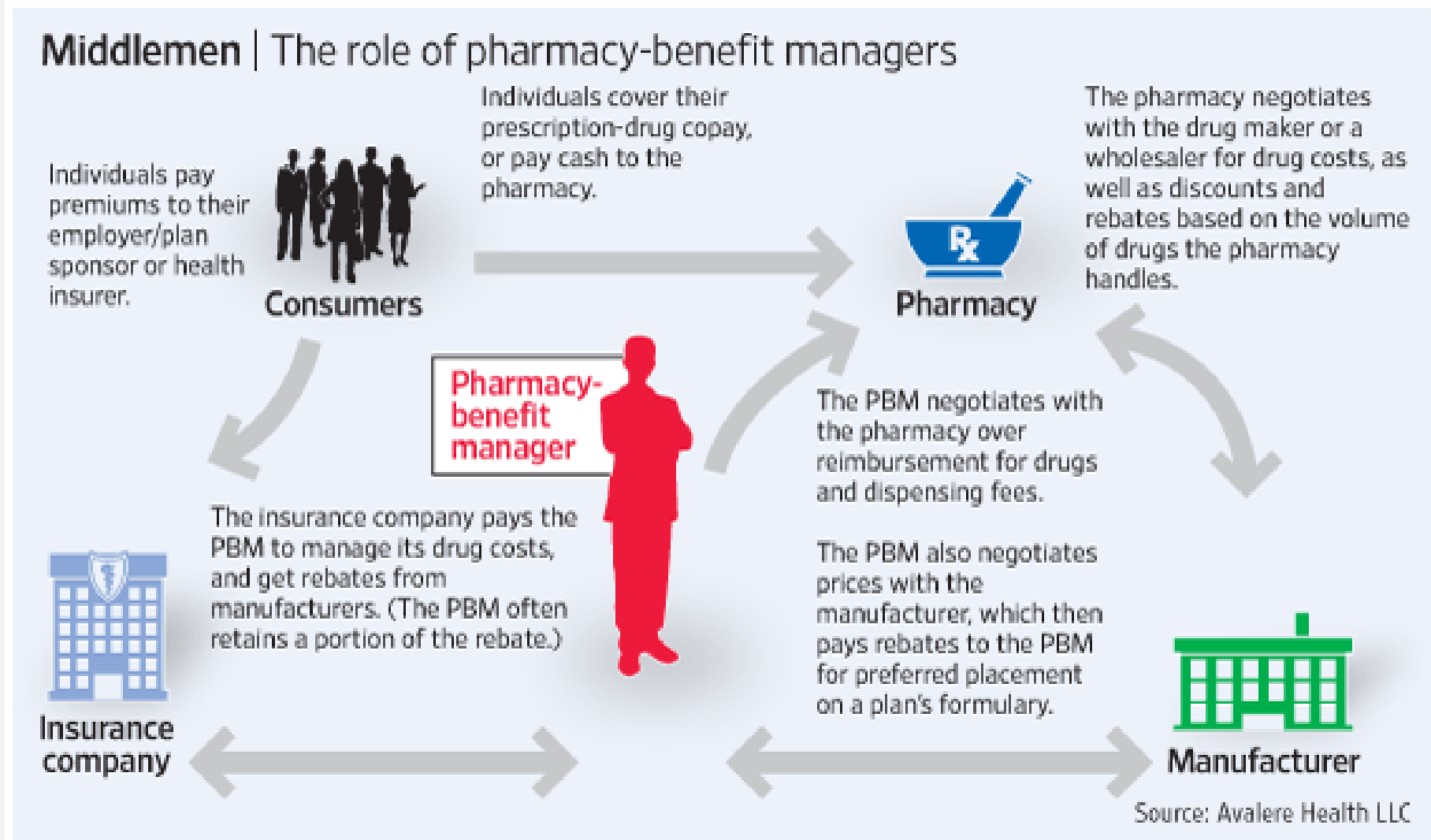
\$58 Million

Average Annual Reductions in Pharmacy Cost

Source: ETF Division of Trust Finance

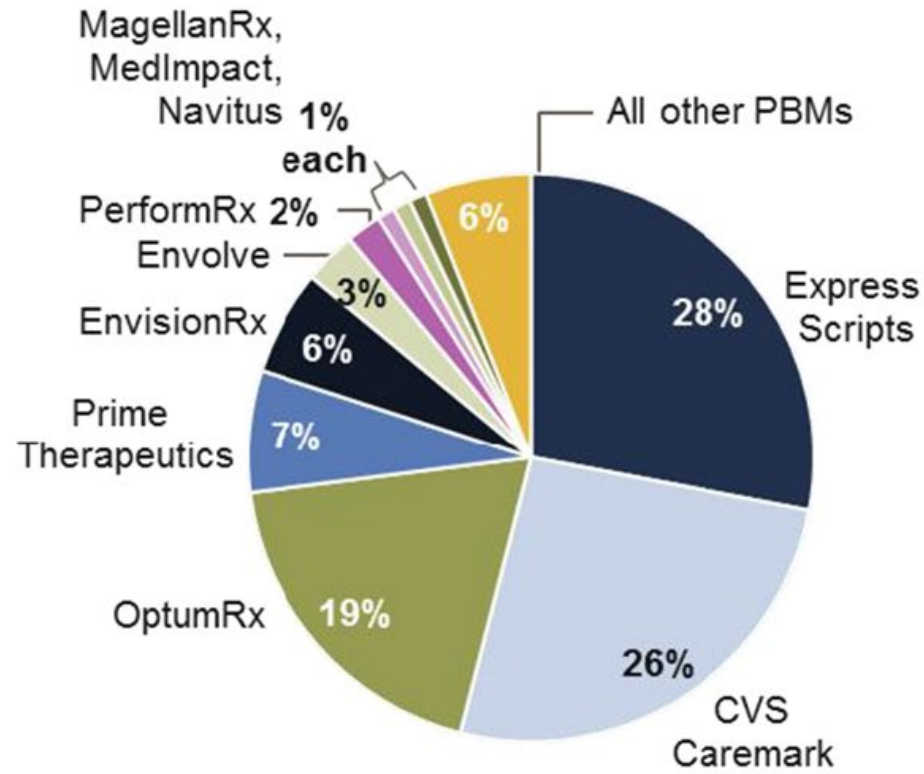
PBM Industry Landscape

PBM Industry Landscape



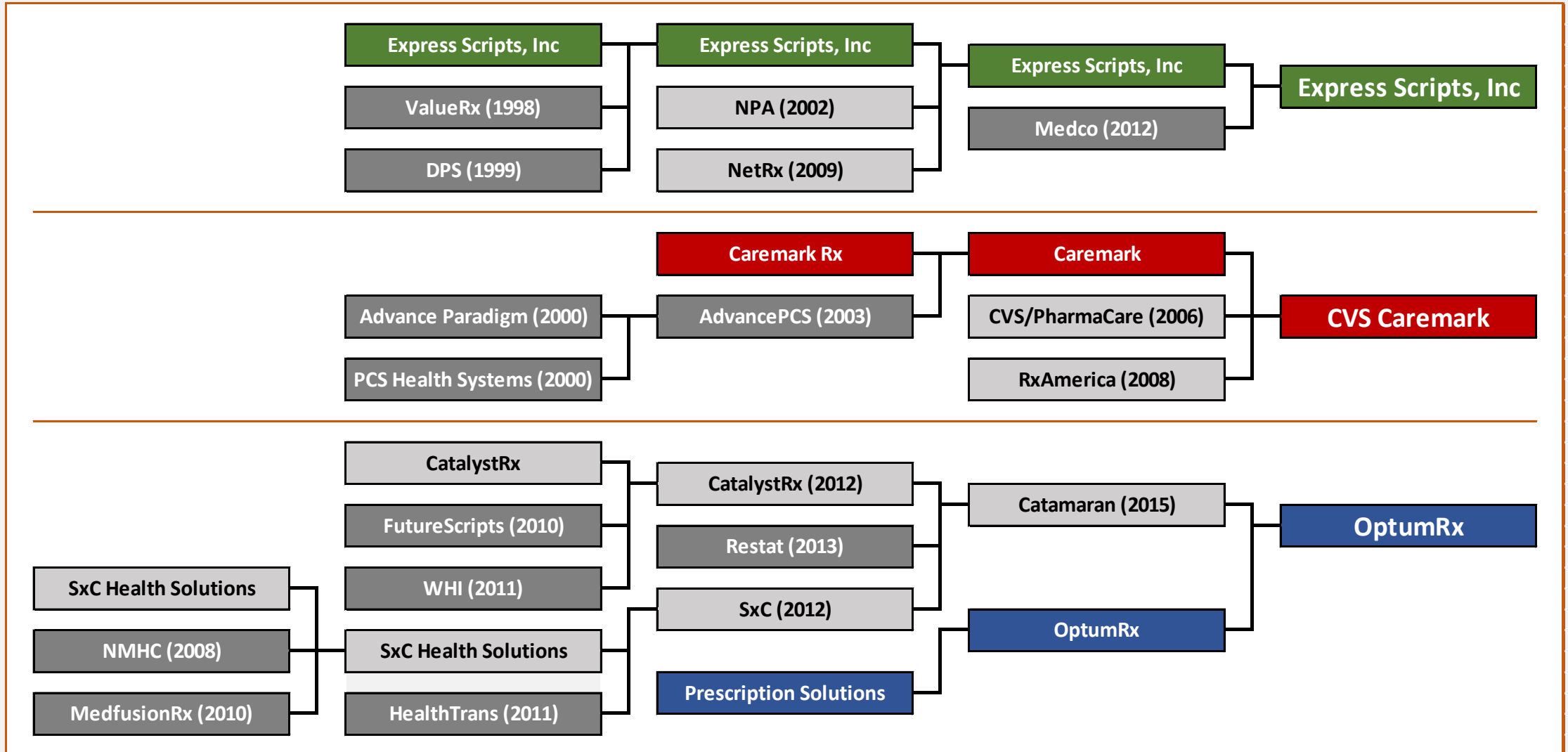
PBM Industry Landscape

Graph 1: 2017 PBM market share*
% share of 263.2 Million PBM lives

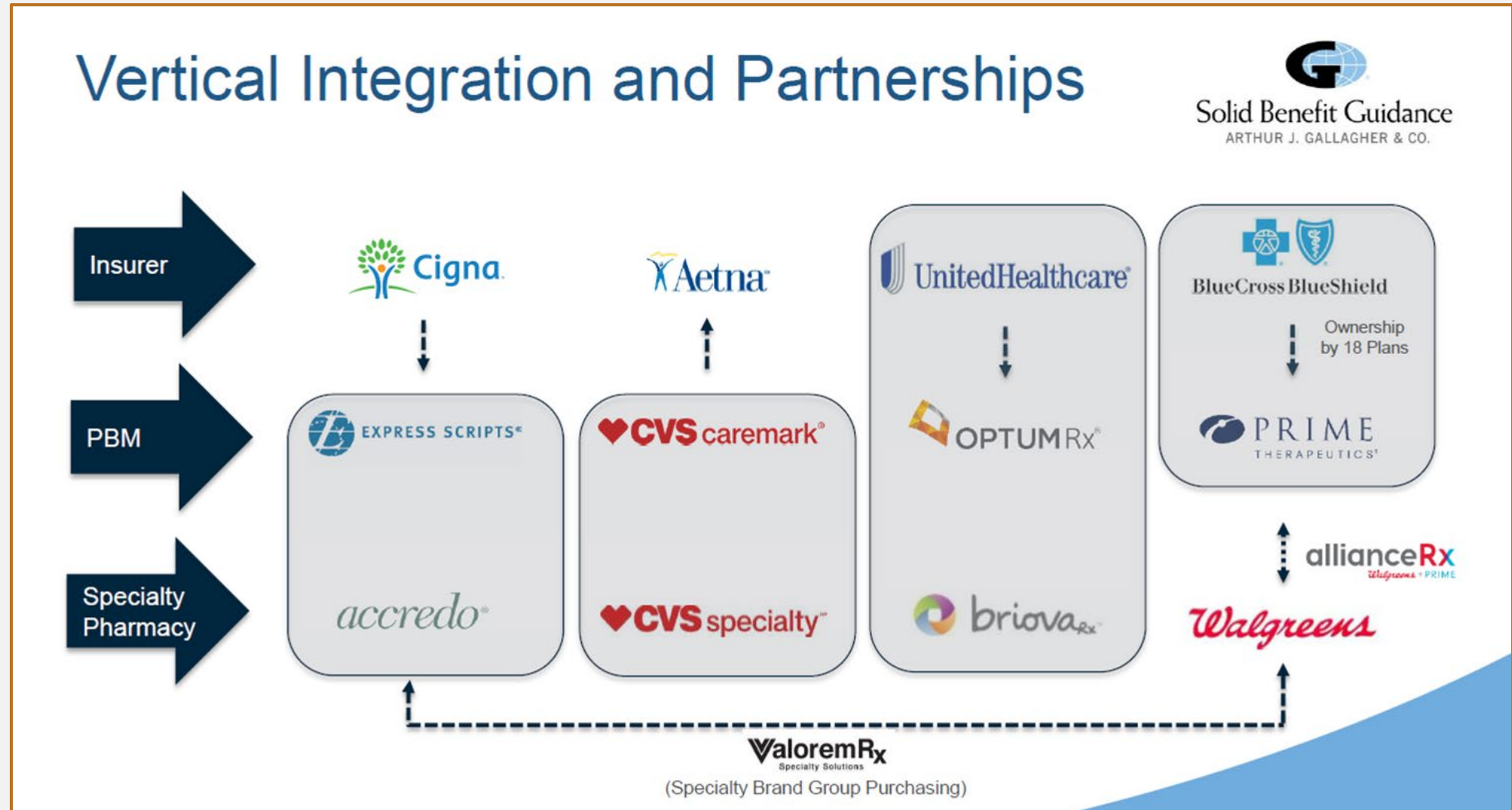


*Source: Solid Benefit Guidance, 2017 RFI Data on File.

PBM Industry Landscape



PBM Industry Landscape



PBM Business Models

PBM Business Models

Pass-Through

Transparency + Lowest Net Cost

- PBM is paid an administrative fee for services provided, that includes clinical and analytics programs
- All other revenue sources are passed back to the payer/plan
- Full transparency – financial, operational, contractual and administrative
- Focused on the lowest net cost concept

Traditional/Spread

Opacity + PBM Revenues

- PBM is paid administrative fees for services, clinical and analytics programs provided, à la carte
- PBM keeps all or a portion of various revenue sources
- Less transparency allowed plus limited access to contracts and records
- Focused on chasing rebates and revenue sources

Compare Model Differences...

- Maximum Allowable Cost (MAC) Lists
- Drug Distribution Channels
 - Retail Networks
 - Mail-Order Services
 - Specialty Pharmacy
- Rebates
- Formulary Contracts

Comparing Model Differences: Maximum Allowable Cost (MAC)

Pass-Through

- Maintains single MAC List:
 - Clients receive the full value of the contracted discount
 - No MAC revenue retention
- MAC pricing applies retail, mail order and specialty distribution channels
- Full disclosure of specific MAC list drug pricing upon client request

Traditional

- Multiple MAC Lists:
 - Contracts low with pharmacies
 - Contracts high with clients
 - Retains the difference
- MAC pricing often excludes mail order and specialty distribution channels
- MAC list drug pricing is typically not disclosed to clients

Comparing Model Differences: Drug Distribution Channels

Pass-Through

- Total amount paid by the PBM to the retail, mail-order or specialty pharmacy is the exact amount the client pays the PBM for the prescription
- MAC List applies to all distribution channels – retail, mail-order or specialty
- Utilization incentives paid by mail order or specialty pharmacies passes through to the plan sponsor.

Traditional

- The PBM benefits from spread revenue by retaining a portion of:
 - Drug Ingredient Costs
 - Dispensing Fees
 - Usual & Customary Costs
- MAC List not applied to mail-order or specialty distribution channels
- Revenue opportunities for the PBM increase as mail-order service and specialty pharmacy utilization increases

Comparing Model Differences: Rebates

Pass-Through

- 100% full pass-through of all rebates to clients
- No revenue retained by the PBM
- Full disclosure of ANY manufacturer financial benefits or revenue
- Fully auditable manufacturer agreements

Traditional

- PBM typically shares a portion of the rebate with clients but retains some for its own revenue
- Other financial benefits from drug manufacturer (e.g., fees, incentives) kept by the PBM
- Manufacturer agreements are not auditable by clients

Comparing Model Differences: Formulary Contracts

Pass-Through

- Evidence based formulary; clinically appropriate drugs and lowest-net-cost
- No alignment with drug manufacturers
- Constantly monitor formulary to ensure evidence of clinical efficacy and value
- Client data is proprietary; no secure, protected client information to manufacturer
- 100% of any manufacturer fees and discounts passed back to client

Traditional

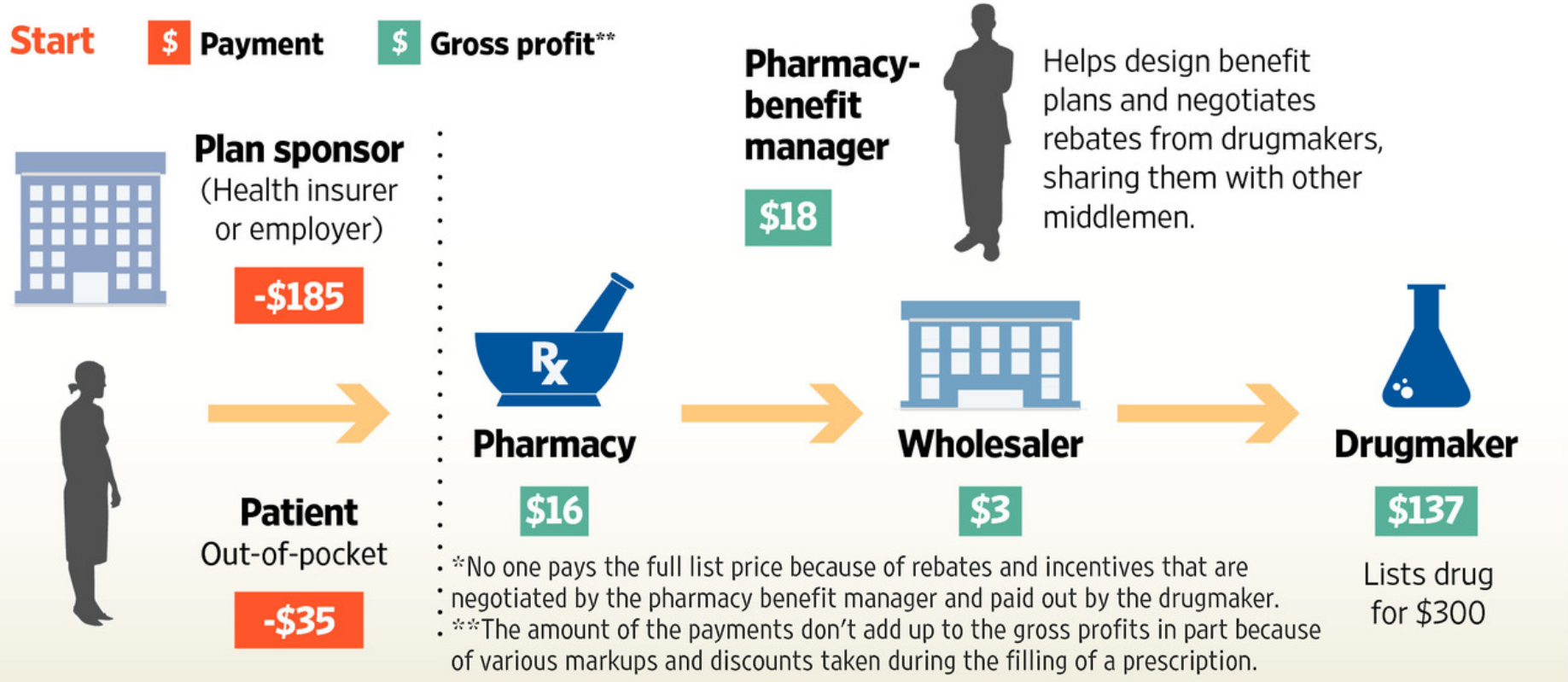
- Does not utilize a lowest-net-cost approach to formulary decisions
- Receives undisclosed fees from drug manufacturers
- Incentivized to push products based on higher rebates, not based on client or patient needs
- Often sells client data to drug manufacturers without client's knowledge

How Do PBMs Make Money?

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Sharing the Wealth

Here is how profits are shared from a brand-name drug with a list price of \$300*. Of the middlemen involved in the process, a pharmacy benefit manager gets the biggest gross profit of \$18.



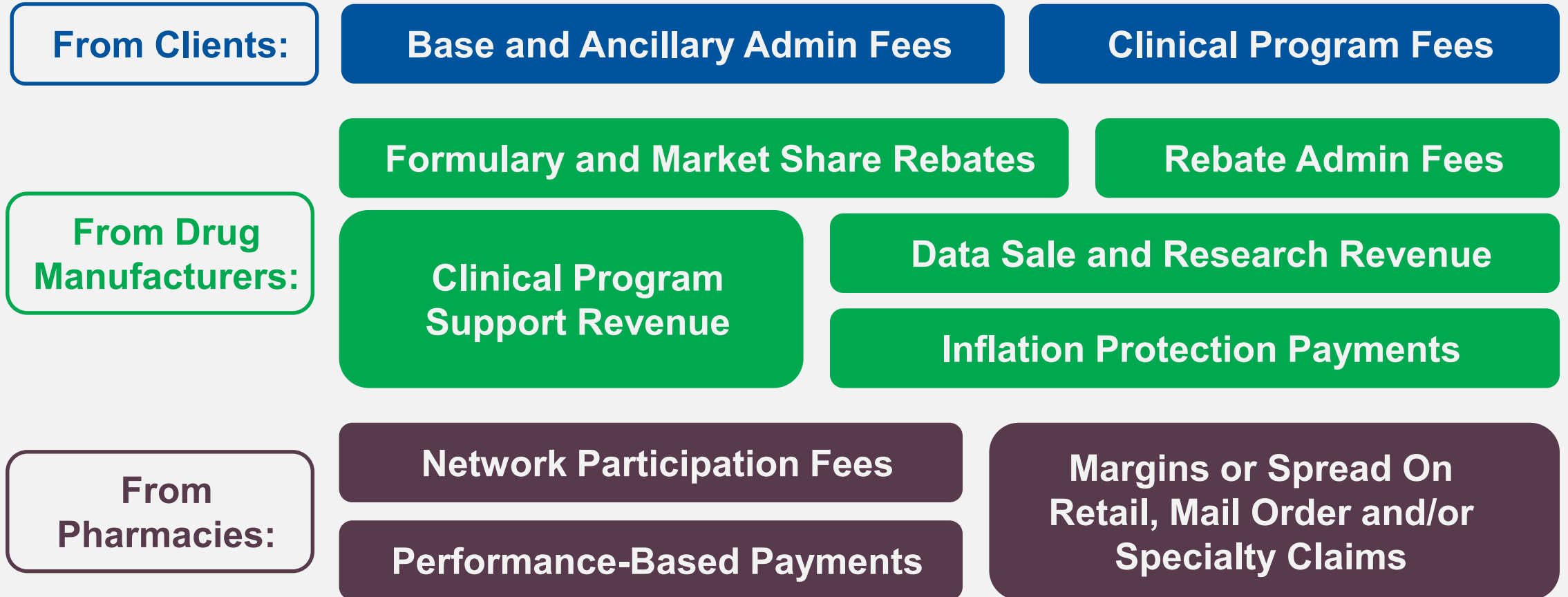
Sources: Pembroke Consulting; WSJ staff reports

THE WALL STREET JOURNAL.



How Do PBMs Make Money?

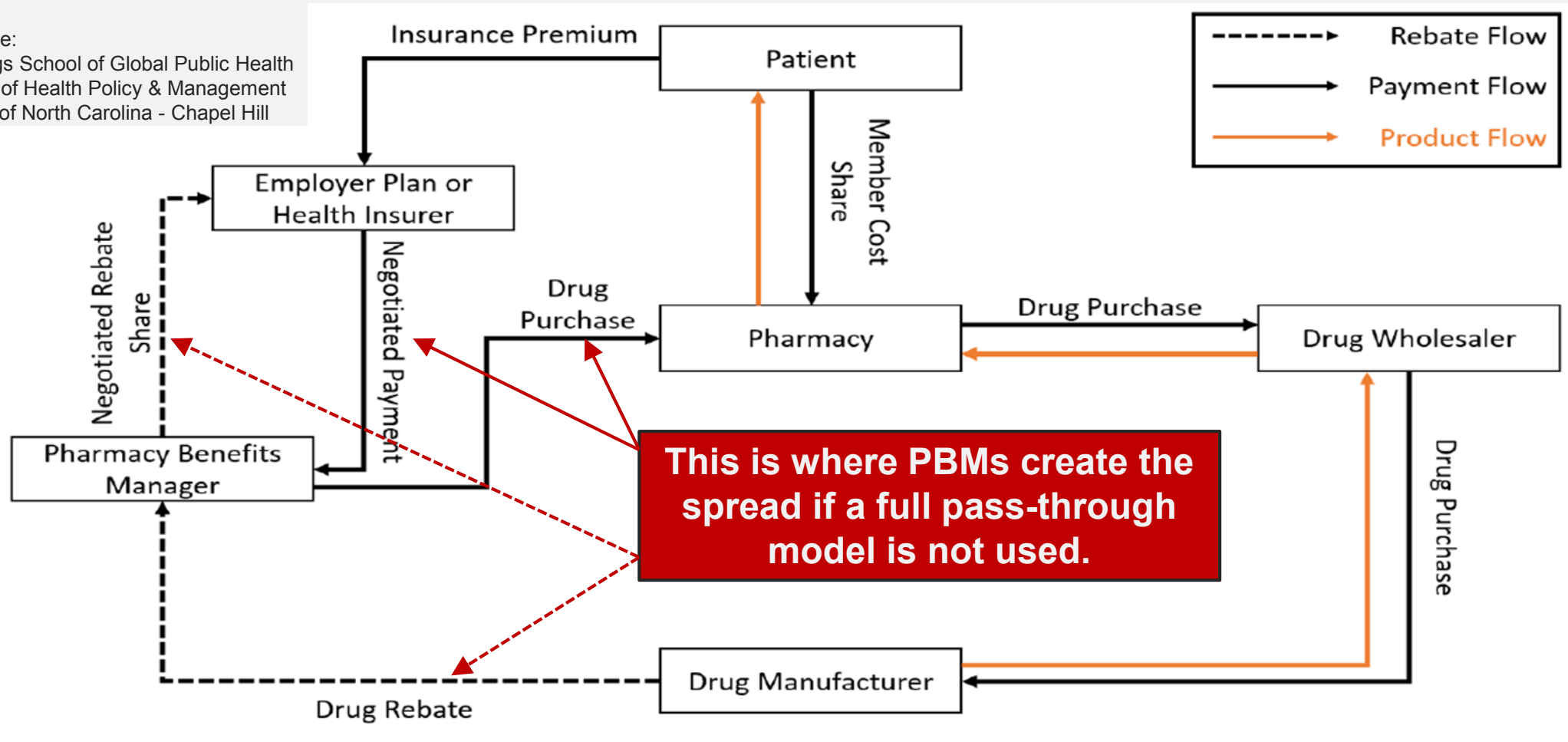
Key Revenue Sources Available to PBMs



How Do PBMs Make Money?

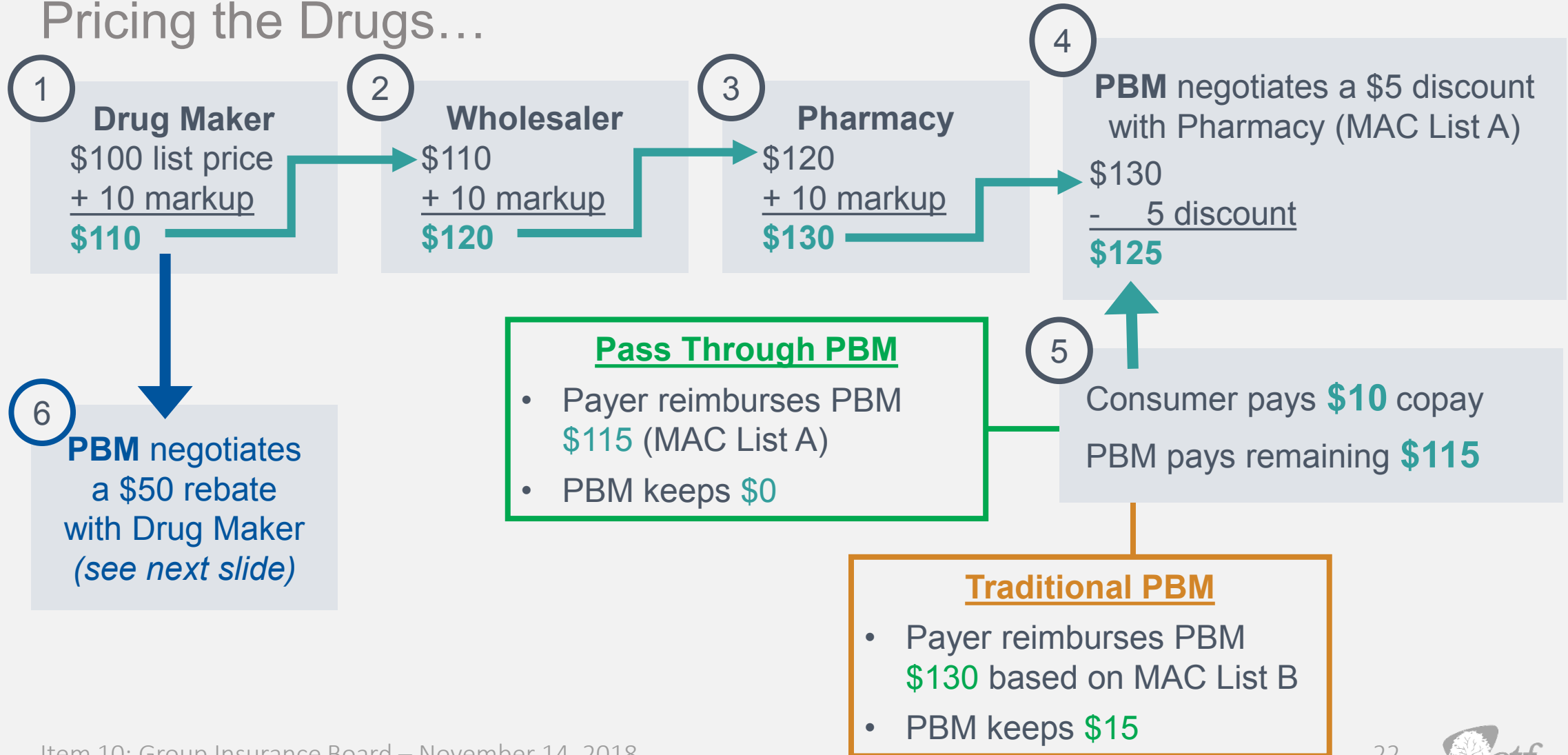
How the Products and Payments Flow Through the System

Source:
Gillings School of Global Public Health
Dept. of Health Policy & Management
Univ. of North Carolina - Chapel Hill



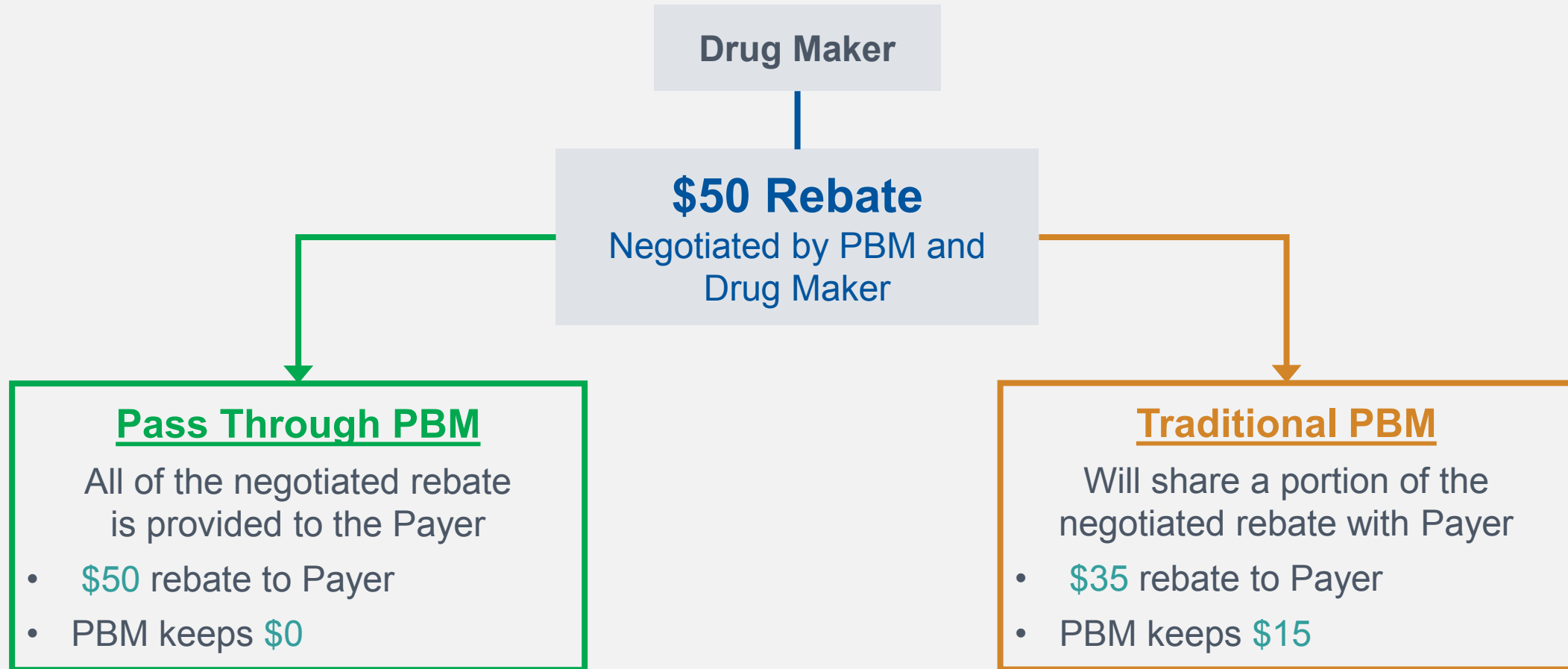
How Do PBMs Make Money?

Pricing the Drugs...



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Pricing the Drugs...

Money Flow Recap

Drug Maker	Keeps \$60	<i>\$100 list price + 10 markup - \$50 rebate</i>
Wholesaler	Keeps \$10	<i>\$10 markup</i>
Pharmacy	Keeps \$5	<i>\$10 markup - \$5 discount</i>
Traditional PBM	Payer pays \$95 PBM keeps \$30	<i>\$130 paid to PBM - \$35 rebate</i> <i>\$15 from drug purchase + \$15 from rebate</i>
Pass Through PBM	Payer pays \$65 PBM Keeps \$0	<i>\$115 paid to PBM - \$50 rebate</i>

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Questions?

Thank you



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