

# Board Education: Pharmacy Benefits

## Item 3 – Group Insurance Board

Tricia Sieg, Pharmacy Benefits Program Manager  
Office of Strategic Health Policy



# Informational Item Only

- No Board action is required

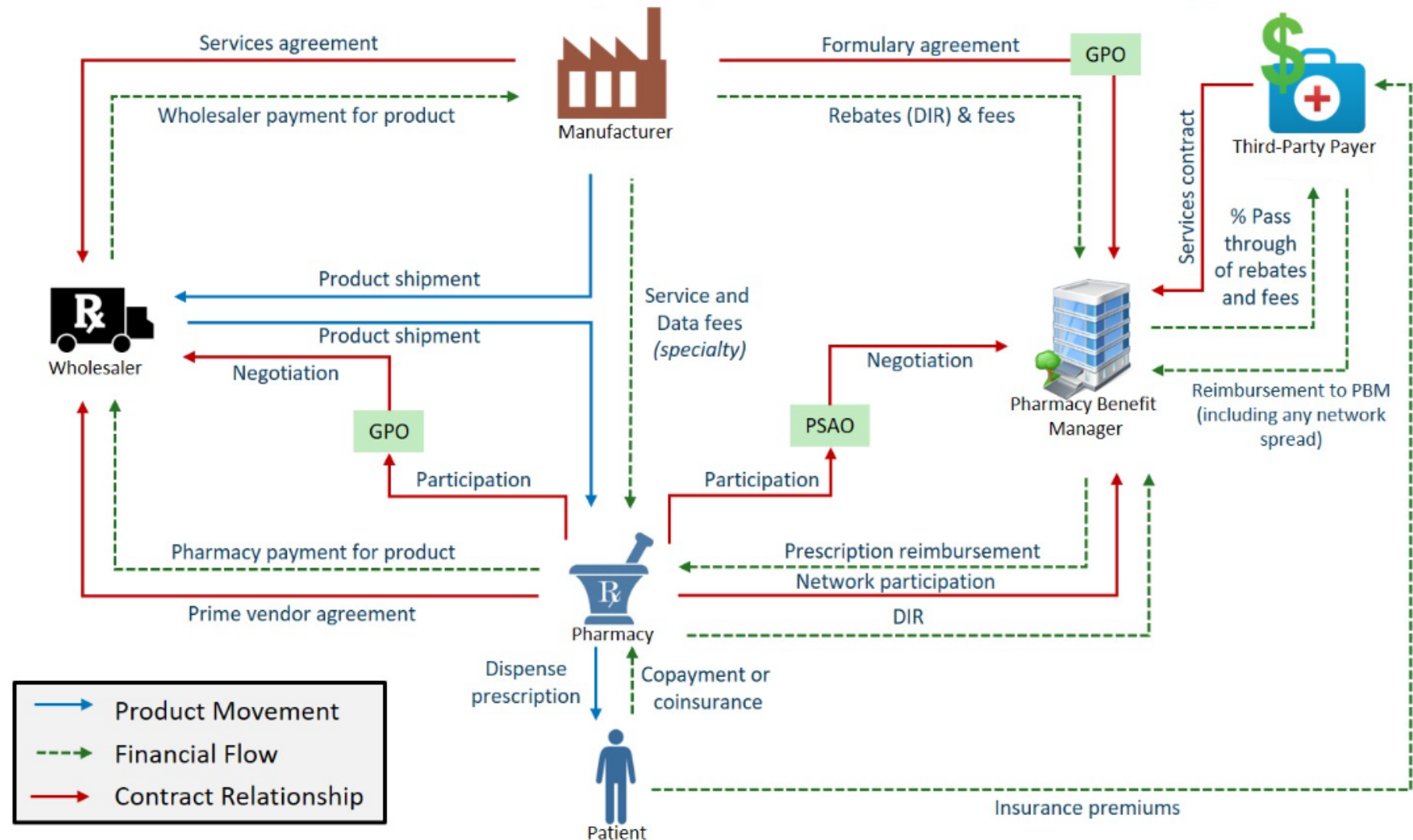
# What To Expect

- An understanding how drug manufacturers, Pharmacy Benefit Managers (PBMs), third-party payers, drug wholesalers, pharmacies, and members all contribute to pharmacy benefits
- An overview of the Board's pharmacy benefit
- The history and current landscape of the pharmacy benefit industry
- How federal and state laws impact pharmacy benefits

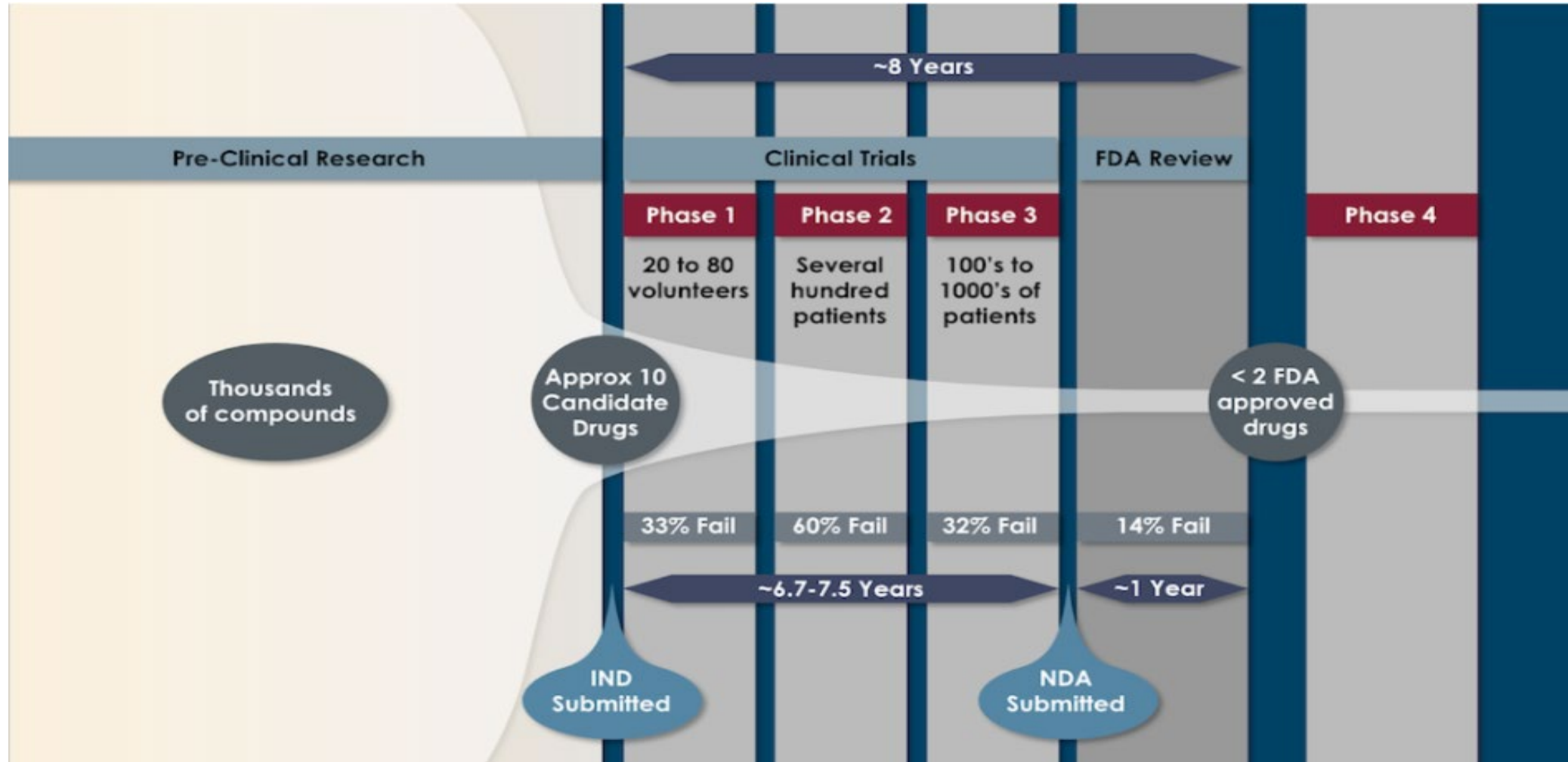
# Drug Manufacturers

- **GPO** = group purchasing organization
- **PSAO** = pharmacy services administrative organization
- **DIR** = direct and indirect remuneration

Source: "The U.S. Pharmacy Distribution and Reimbursement System for Patient-Administered, Outpatient Brand-Name Drugs." *Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers*. [Drug Channels Institute](#)



# Drug Development and Approval



Source: Kesselheim, Aaron. "Drug Development and Approval." *The FDA and Prescription Drugs: Current Controversies in Context*. HarvardX.

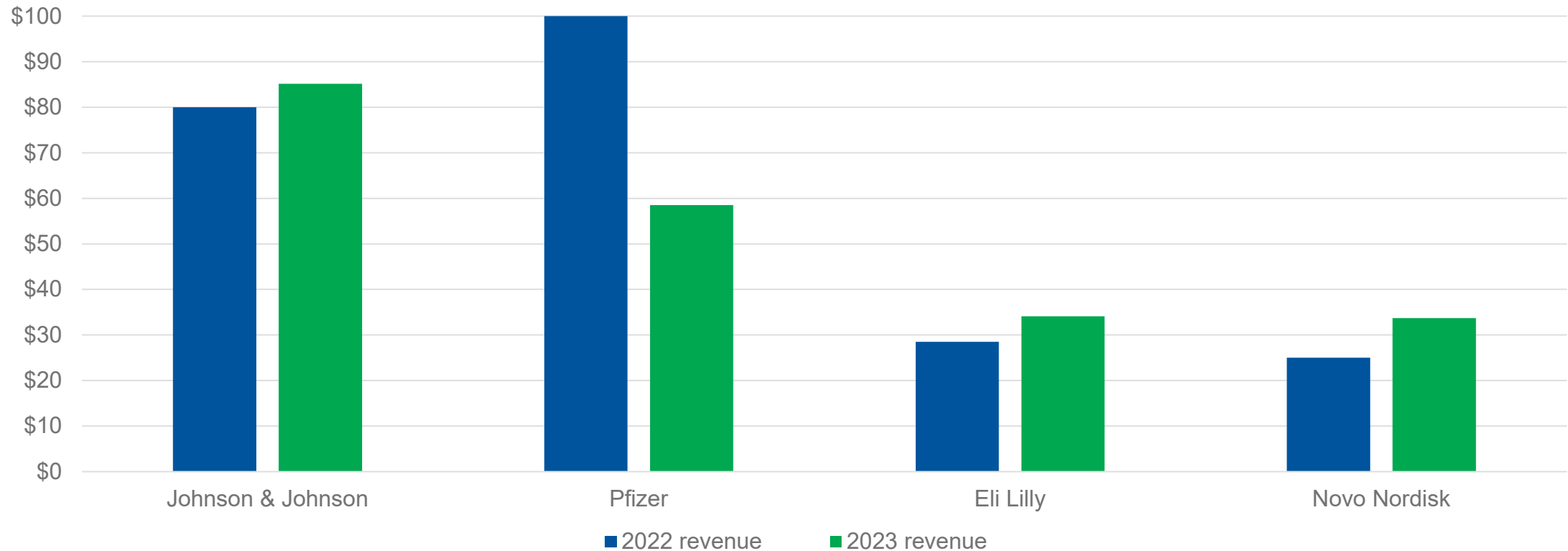


# Brand-Name vs. Generic Drugs

Brand-Name	Category	Generic Drugs
No difference	<b>Active Ingredients</b>	No difference
Higher in cost	<b>Price</b>	Lower in cost
Covered if no generic form exists	<b>Insurance Coverage</b>	Normally always covered
Tested and approved by the FDA	<b>Inactive Ingredients</b>	May differ-but proven to be acceptable by the FDA
No difference	<b>Strength/Dosage</b>	No difference
Drugs are standard in size, color, packaging, etc.	<b>Appearance/Look</b>	Packaging and drug may look different

# Drug Companies 2022 vs. 2023

## Revenue In Billions

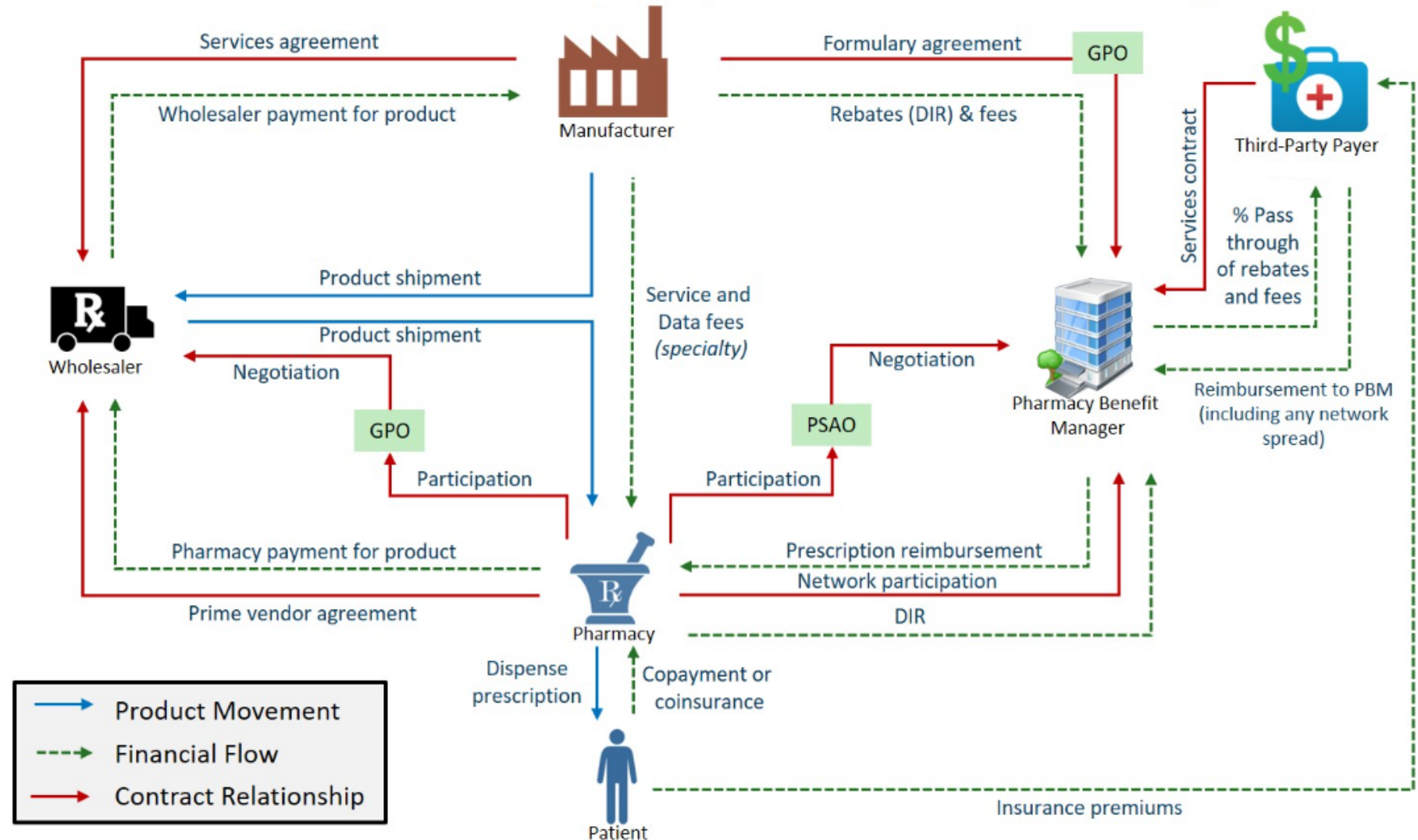


Source: Dunleavy, Kevin. The Top 20 Pharma Companies by 2023 revenue. Fierce Pharma. 2024 April 15. <https://www.fiercepharma.com/pharma/top-20-pharma-companies-2023-revenue>

# Pharmacy Benefit Managers (PBMs)

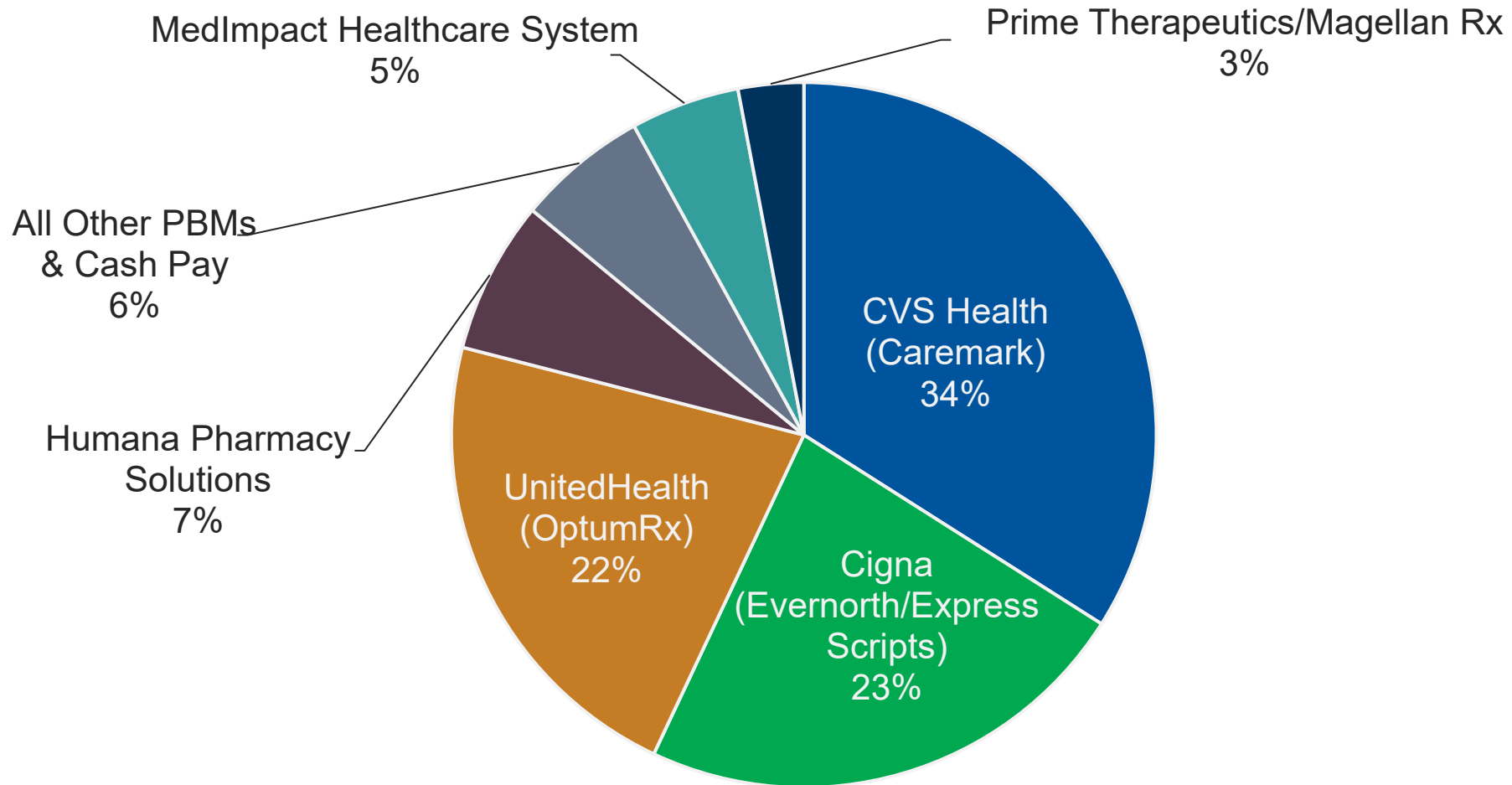
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# 2023 PBM Market Share By Claims



Source: 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Mangers, Drug Channels Institute

# Functions of a PBM

**Formulary  
Design**

**Utilization  
Management**

**Price  
Negotiations**

**Pharmacy  
Network  
Formation**

**Mail Order  
Pharmacy  
Services**

# PBM Business Models Overview

## Traditional Model

- PBM is paid administrative fees for services, clinical and analytics programs provided at additional costs
- PBM keeps a portion of rebates and other revenue sources
- Transparency and access to contracts and records limited

## Pass-Through Model

- PBM is paid administrative fees that may include clinical and analytics programs
- All rebates and revenue sources are passed back to the payer
- Full transparency and access to contracts with manufacturers and pharmacies

# Maximum Allowable Cost (MAC)

## Traditional Model

- Multiple MAC lists that often exclude mail order and specialty distribution channels
- MAC list with pharmacy contracts tend to be lower cost
- MAC list with payers tend to be higher cost
- Payers are not always allowed to see MAC list drug pricing

## Pass-Through Model

- One MAC list that applies to all retail, mail order and specialty distribution channels
- Pharmacy receives the MAC list cost for the drug
- Payer pays the MAC list cost for the drug
- Payers receive full disclosure of MAC list drug pricing for all drugs

# Rebates

## Traditional Model

- PBM will share a portion of the rebate with payers but keeps part of rebate
- PBM keeps a portion of fees and incentives received from drug manufactures
- Manufacturer agreements and pharmacy contracts are not always auditable by payer

## Pass-Through Model

- PBM passes 100% of rebates to payers
- Payers receives all fees and incentives the PBM receives on behalf of members
- Payers can view PBM's manufacturer and pharmacy agreements



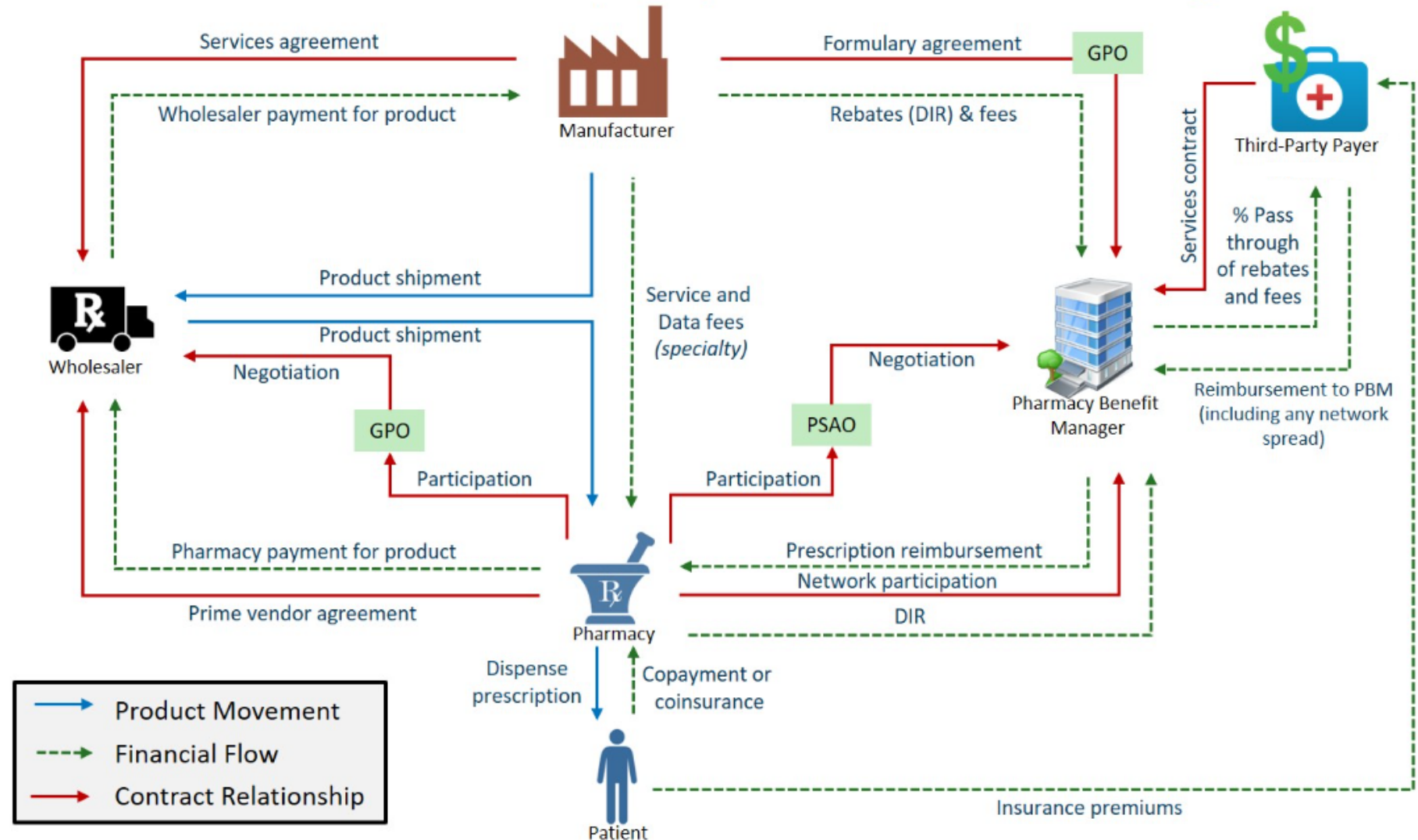
# PBM Legislation

- Pharmacy Benefit Manager Transparency Act 2023
- Pharmacy Benefit Manager Reform Act
- Pharmacy Benefits Manager Accountability Act
- Help Ensure Lower Patient Copays Act
- Prescription Pricing for the People Act
- SB737/AB773 Pharmacy Benefit Manager Accountability
- SB718/AB747 Creating a Prescription Drug Affordability Review
- SB100/AB103 All Copays Count

# Third-Party Payers, Patients, and Pharmacies

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# Our Pharmacy Benefit

Pharmacy benefits carved out from medical benefits since 2004

Board's pharmacy benefit fully transparent, pass-through model

Board pays monthly administrative fees, claims, ehealth services, and member independent review fees

Members pay one premium for pharmacy, medical, and wellness

Benefit has two formularies:  
- Commercial (non-Medicare)  
- Medicare/Employer Group Waiver Plan (EGWP)

Non-Medicare members can participate in drug manufacturer coupon or co-pay assistance programs

# 2024 Member Pharmacy Tiers

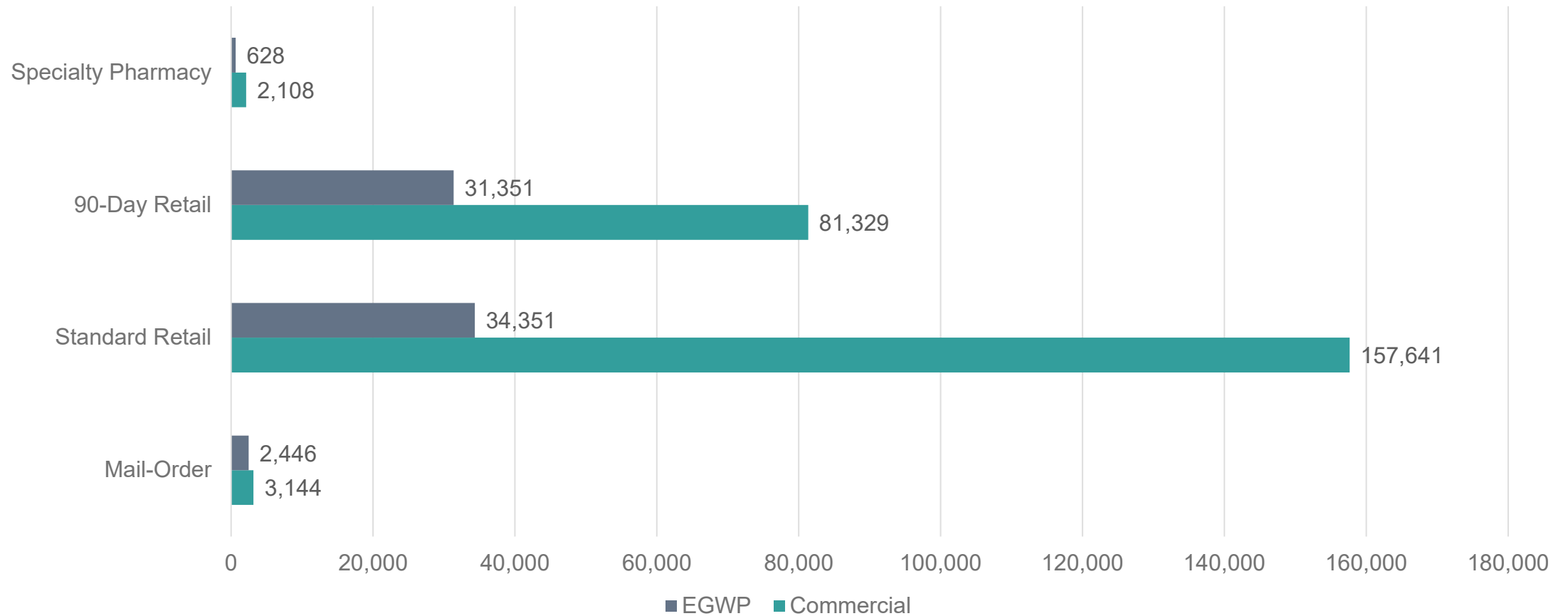
Levels	Copay/Coinsurance	Description
<b>Level 1</b>	\$5 copay	Preferred generic drugs and certain lower-cost preferred brand name drugs.
<b>Level 2</b>	20% coinsurance (\$50 max)	Preferred brand name drugs and certain higher- cost preferred generic drugs.
<b>Level 3</b>	40% coinsurance (\$150 max)	Non-preferred brand name drugs and certain high-cost generic drugs for which alternative/equivalent preferred generic and brand name drugs are covered.
<b>Level 4</b>	\$50 copay	Includes only specialty drugs filled at a preferred specialty pharmacy. Mandatory for commercial (non-Medicare) participants.
	40% coinsurance (\$200 max)	Specialty drugs filled at a pharmacy other than a preferred specialty pharmacy. This only applies only to members with Medicare.

# Total Pharmacy Numbers 2019-2023

Categories	2019	2020	2021	2022	2023
Number of eligible participants	236,002	240,448	239,670	237,506	241,487
Number of Participants who use benefit	184,918	186,502	201,491	202,943	201,590
Total prescriptions filled	2,805,057	2,747,750	2,857,898	2,880,143	2,962,931
Total cost (includes Board & Participant costs)	\$374,112,596	\$378,621,157	\$329,860,562	\$375,875,829	\$415,993,896



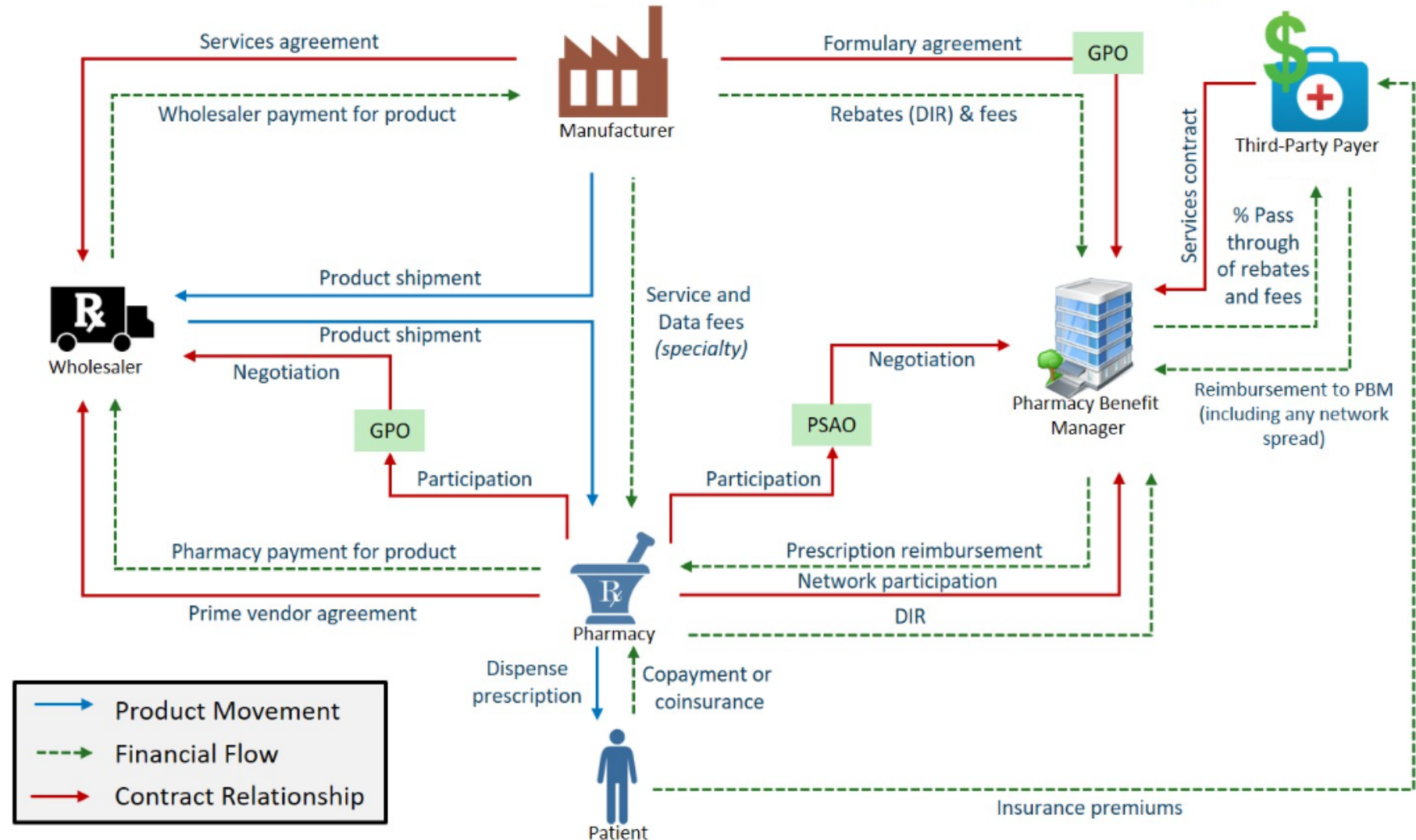
# 2023 Utilizing Members By Pharmacy Type



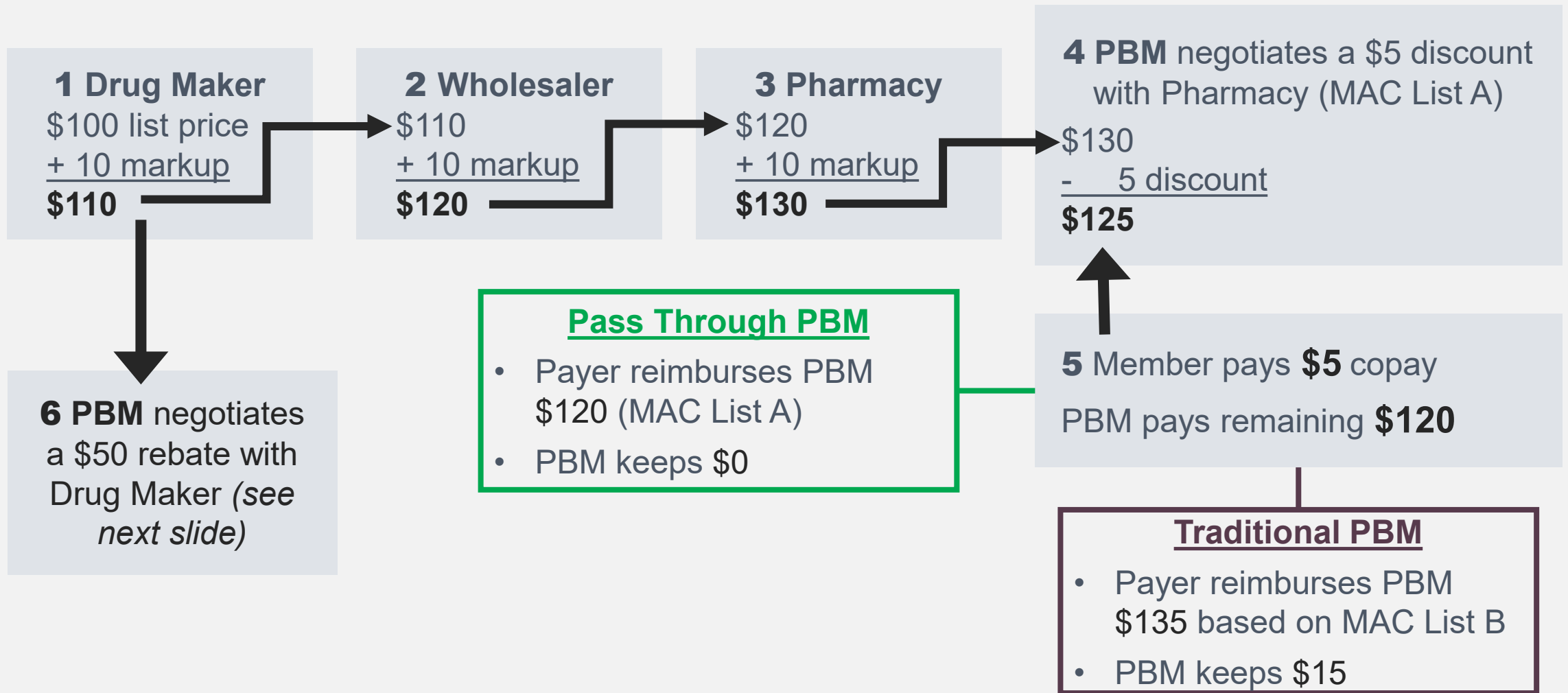
# Pharmacy Industry Landscape

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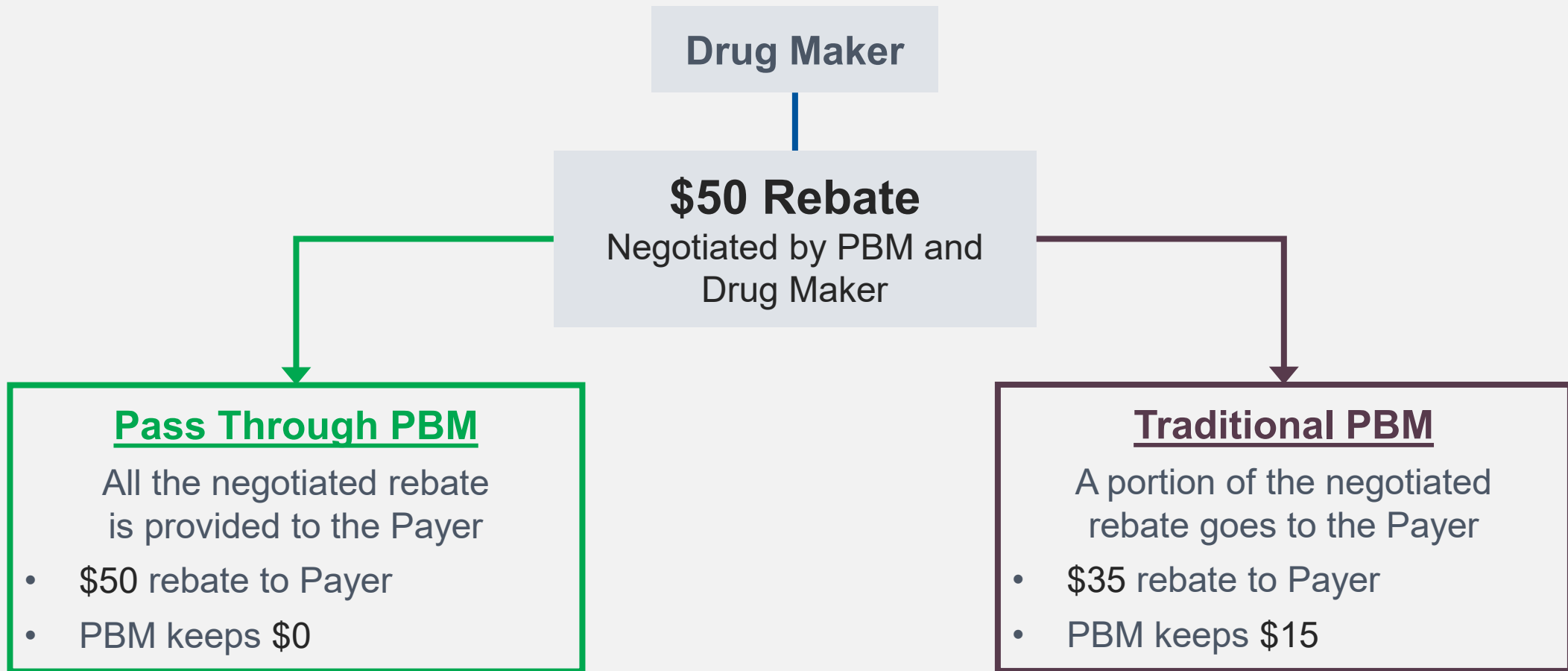
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# Payment Flow Chart



# What about Rebates?



# Payment Path Chart

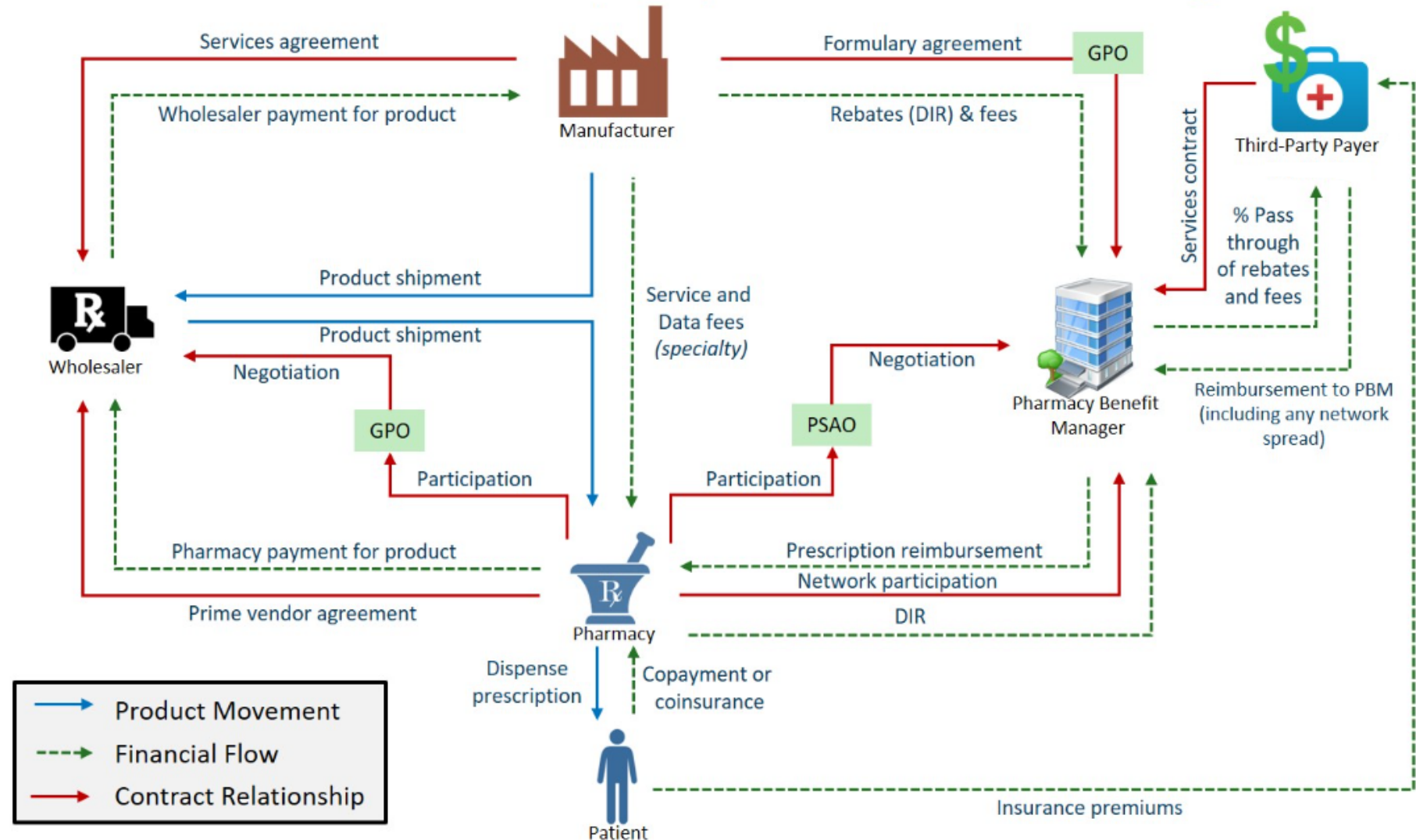
Entity	Payment	Explanation of Payment
Drug Maker	Keeps \$60	<i>\$100 list price + 10 markup - \$50 rebate</i>
Wholesaler	Keeps \$10	<i>\$10 markup</i>
Pharmacy	Keeps \$5	<i>\$10 markup - \$5 discount</i>
Traditional PBM	Payer pays \$100 PBM keeps \$30	<i>\$135 paid to PBM - \$35 from rebate \$15 from drug purchase + \$15 from rebate</i>
Pass Through PBM	Payer pays \$70 PBM Keeps \$0	<i>\$120 paid to PBM - \$50 rebate</i>



# Questions?

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# Thank you

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