

# Agenda Item 7: Pharmacy Benefit Manager Payment Models

Jeff Bogardus & Tricia Sieg

# Why are we talking about this?

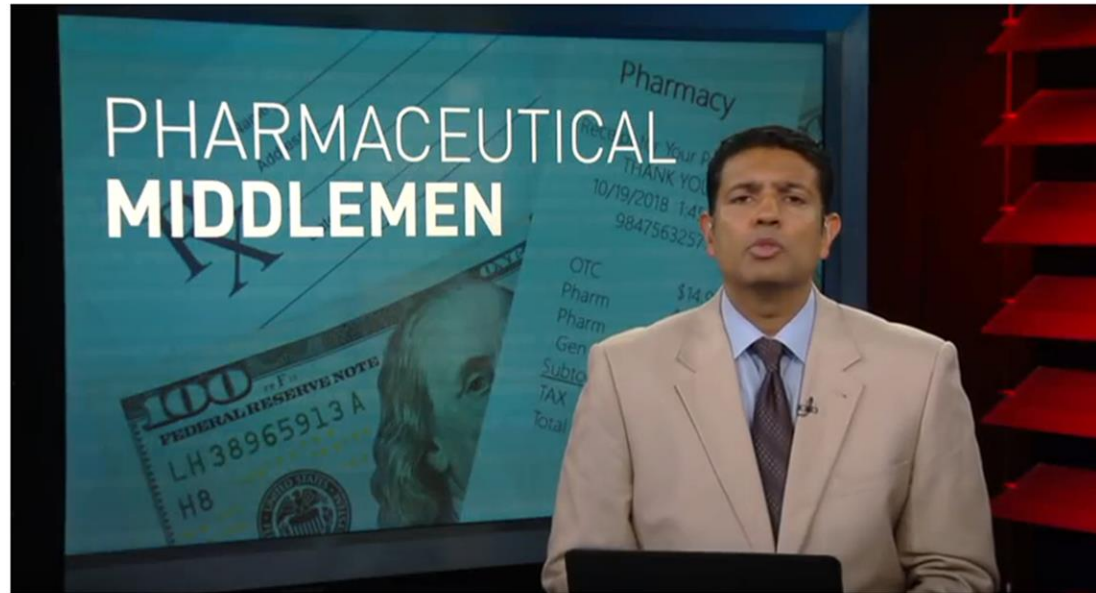
STAT Section



**PBS NEWSHOUR**

## The Secret Middle

By Robert



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

racial drugs vastly more



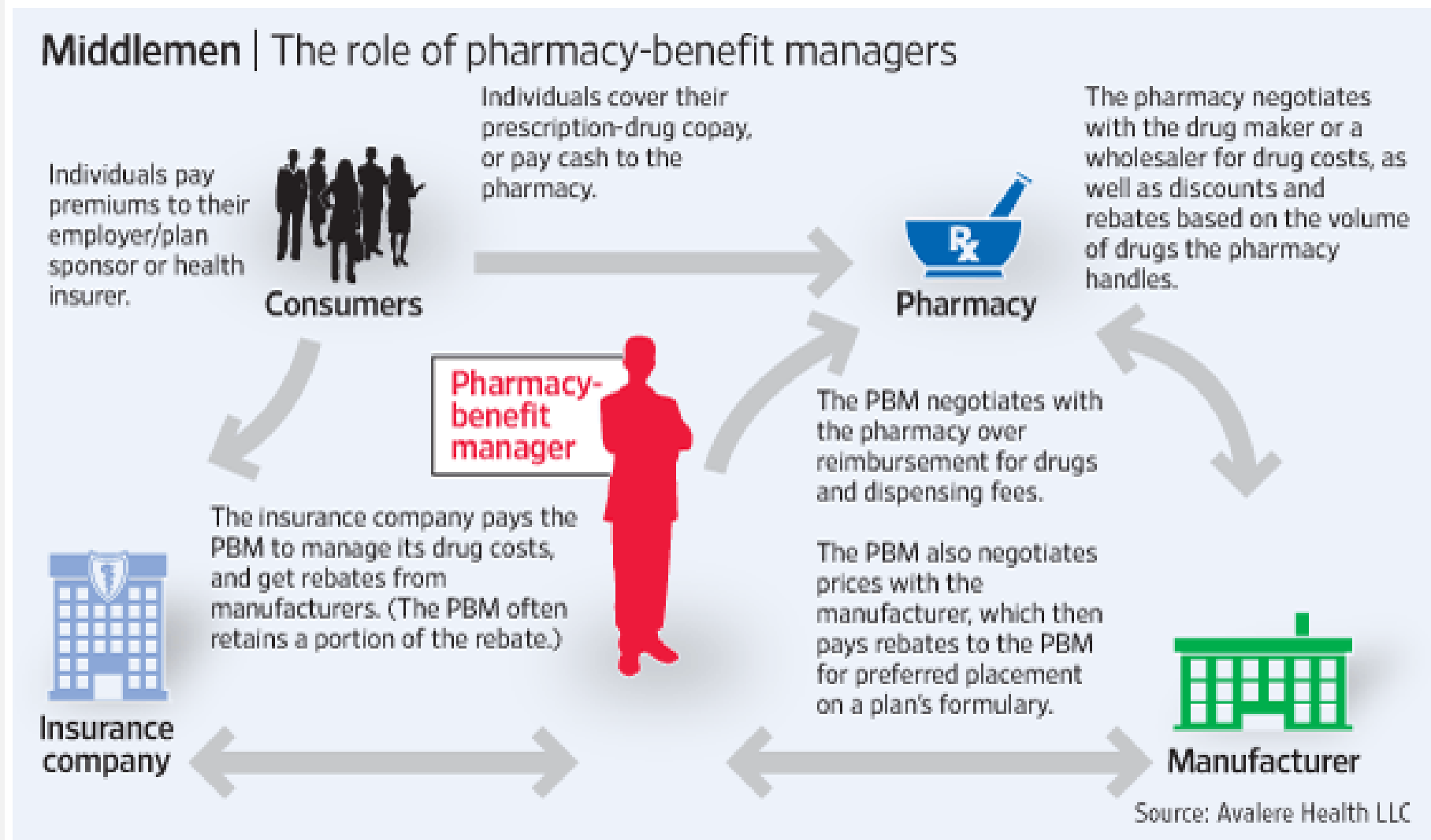
her company's  
of the three largest pharmacy benefit

# Agenda

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

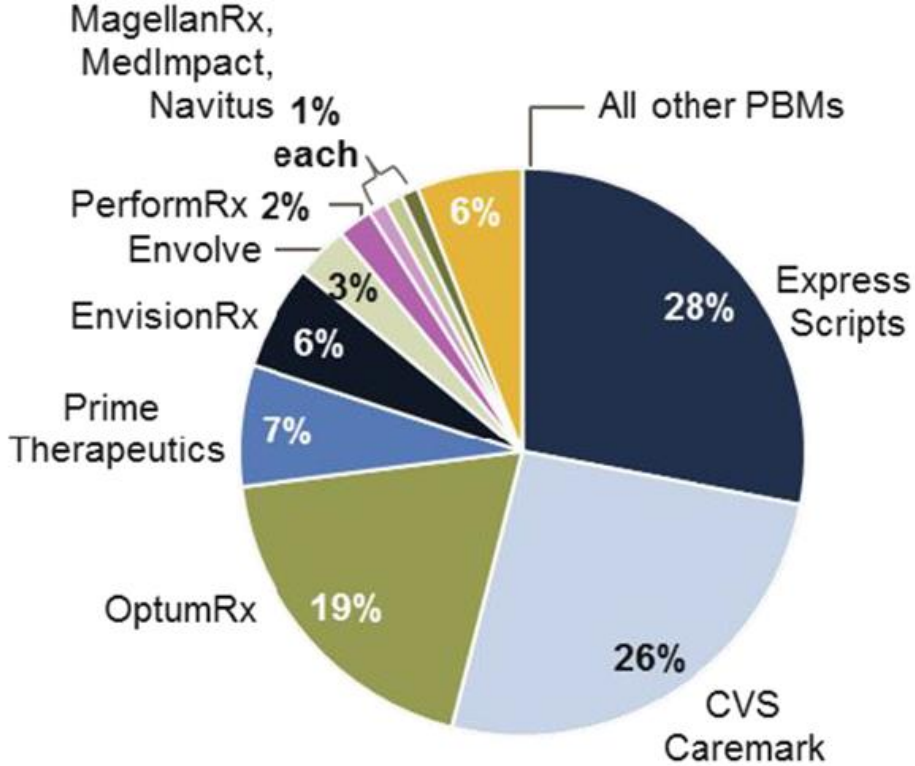
# PBM Industry Landscape

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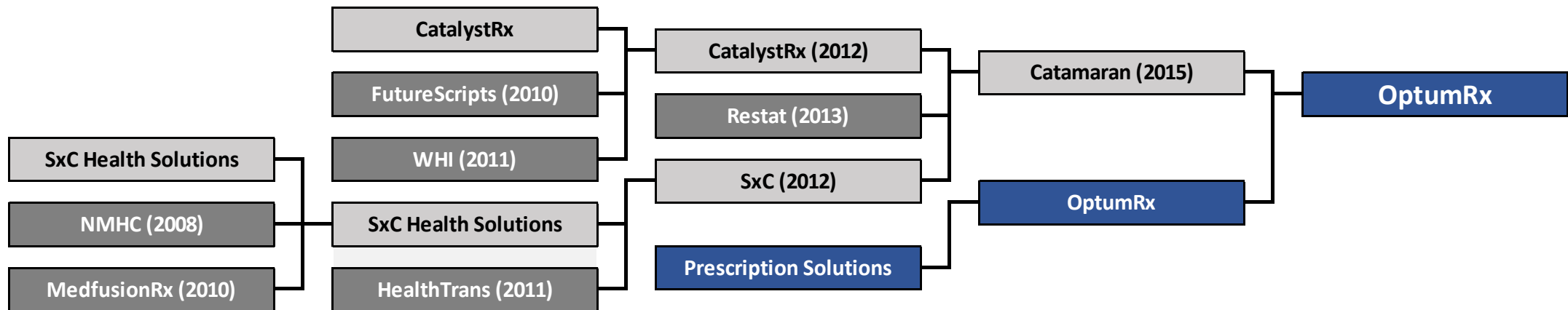
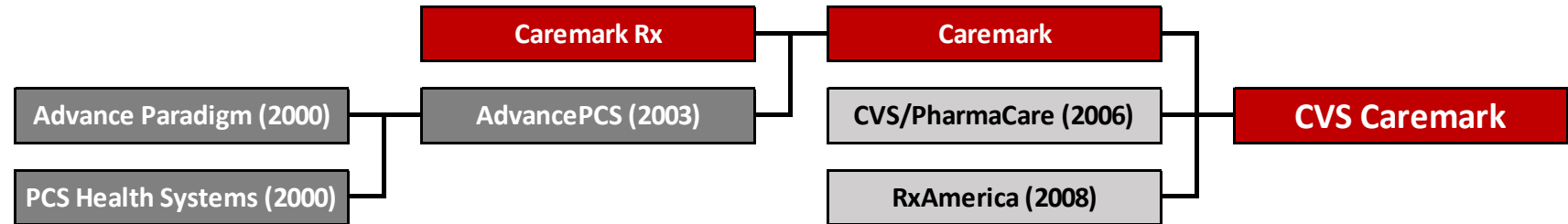
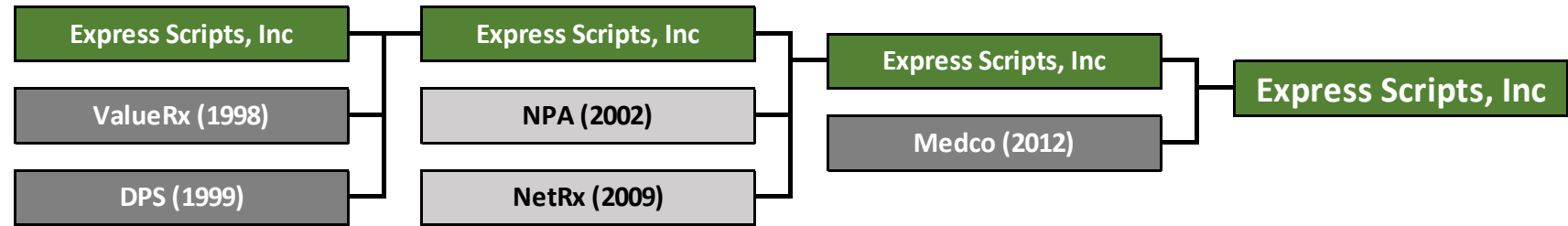
# PBM Industry Landscape

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



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

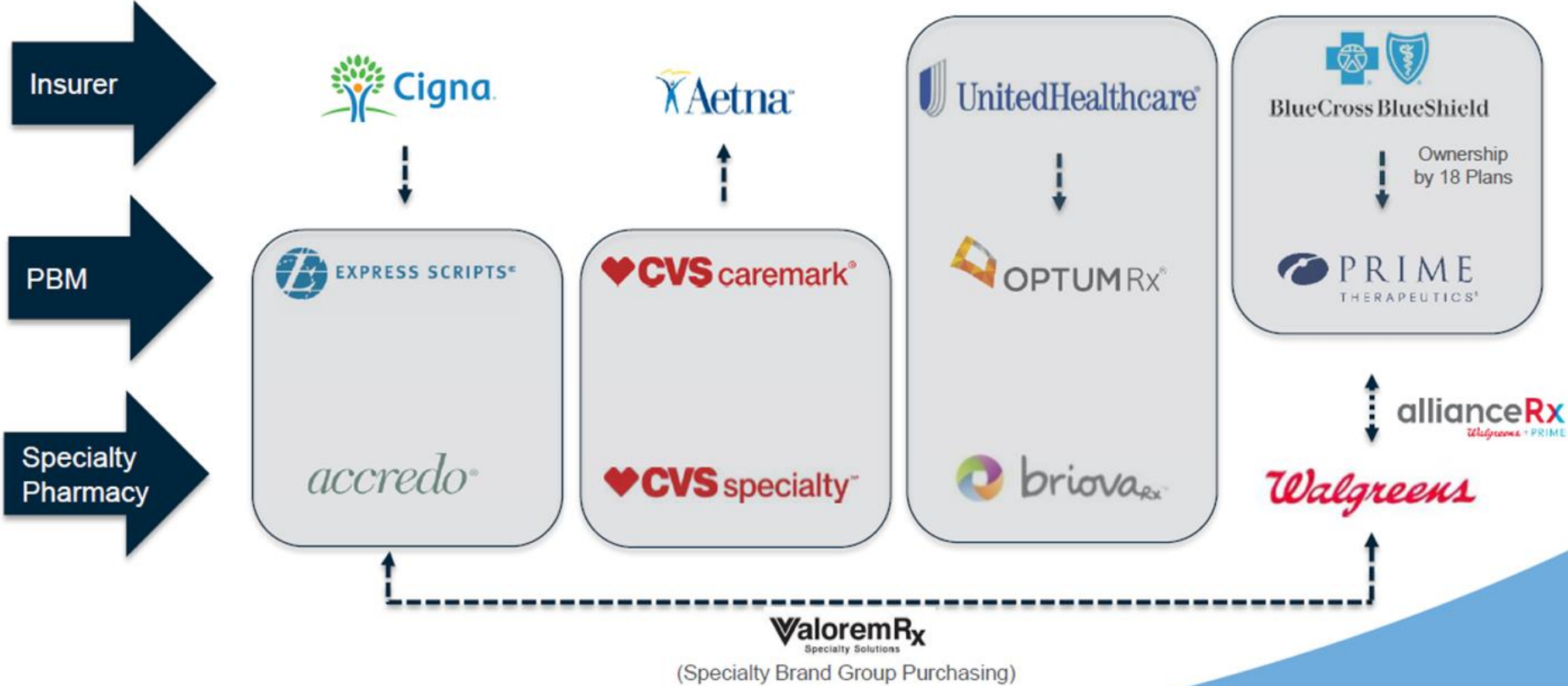
# PBM Industry Landscape



# PBM Industry Landscape

## Vertical Integration and Partnerships

  
 Solid Benefit Guidance  
 ARTHUR J. GALLAGHER & CO.





# 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

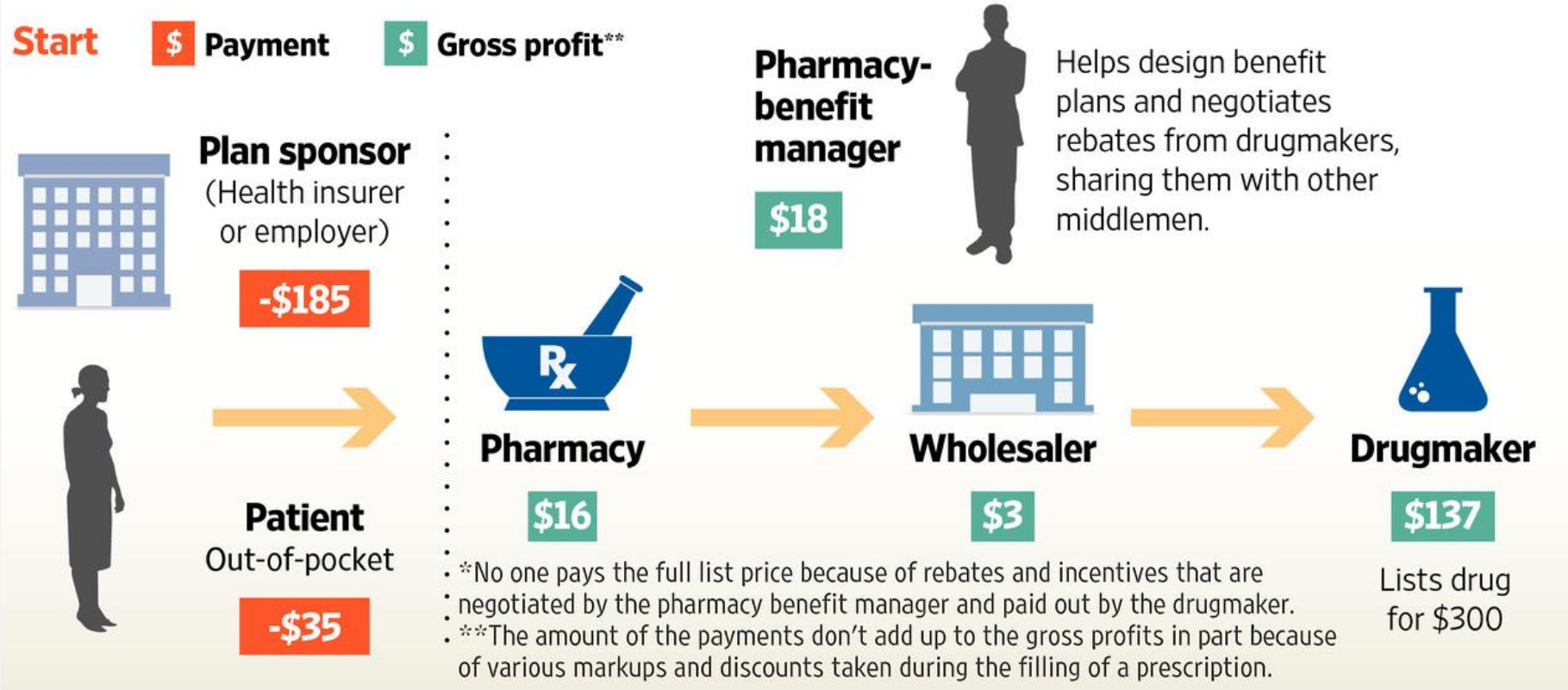
- Does not utilize a lowest-net-cost approach to formulary decisions
- Receives undisclosed fees from drug manufacturers
- Incentivized to push products based on higher rebates, not based on client or patient needs
- Often sells client data to drug manufacturers without client's knowledge

# 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

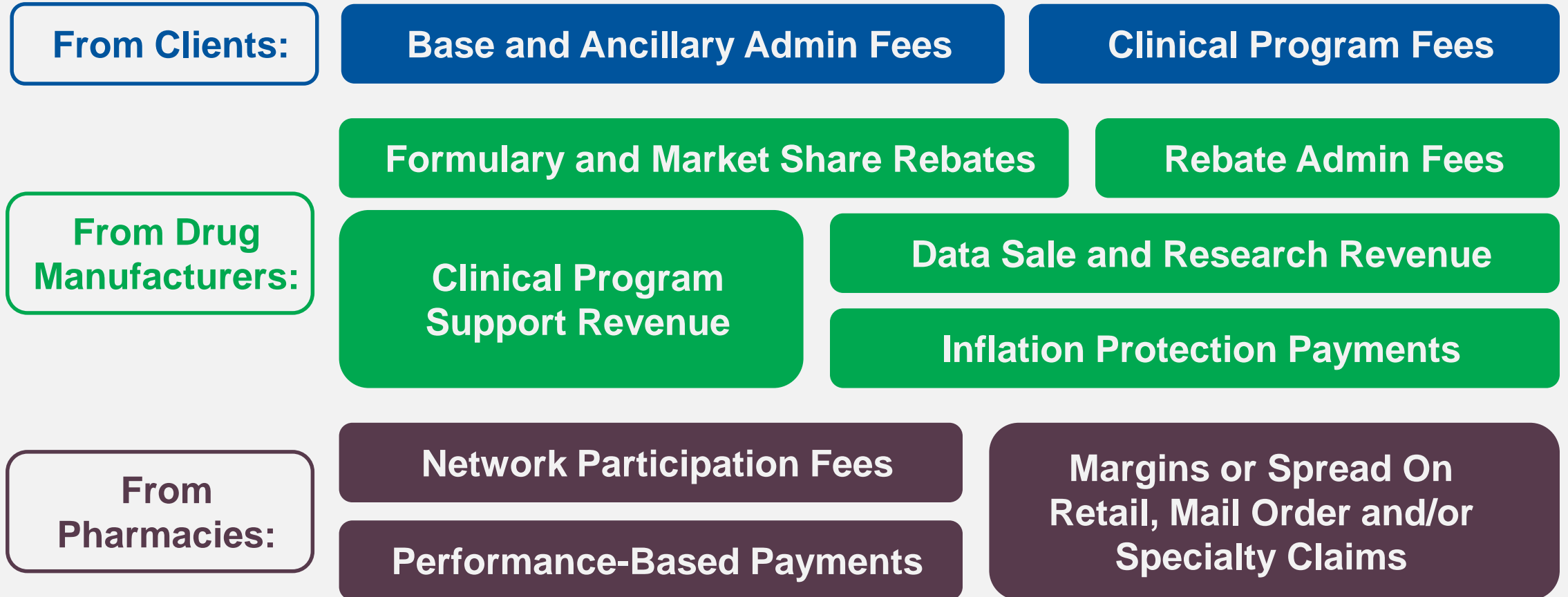
THE WALL STREET JOURNAL.





# How Do PBMs Make Money?

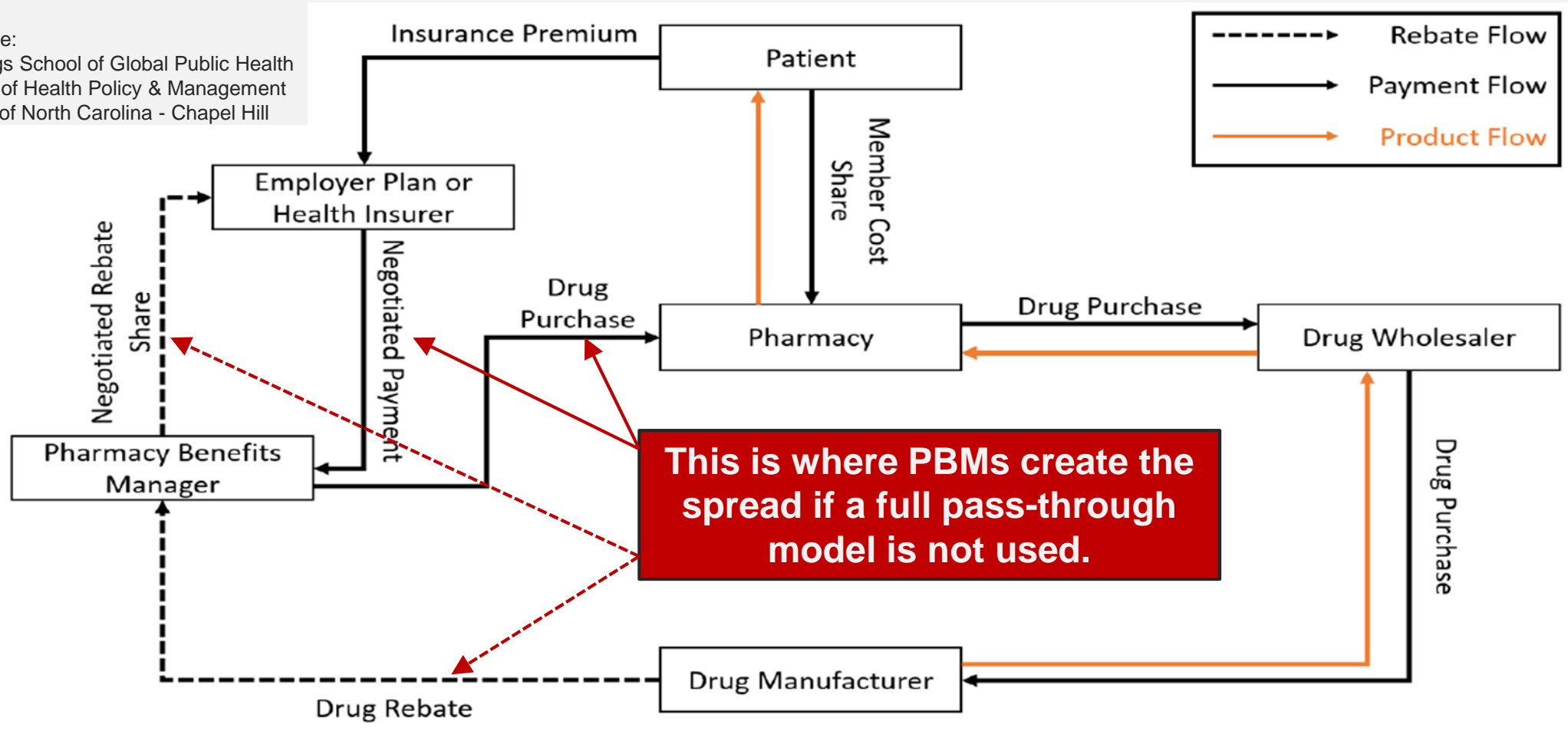
Key Revenue Sources Available to PBMs



# How Do PBMs Make Money?

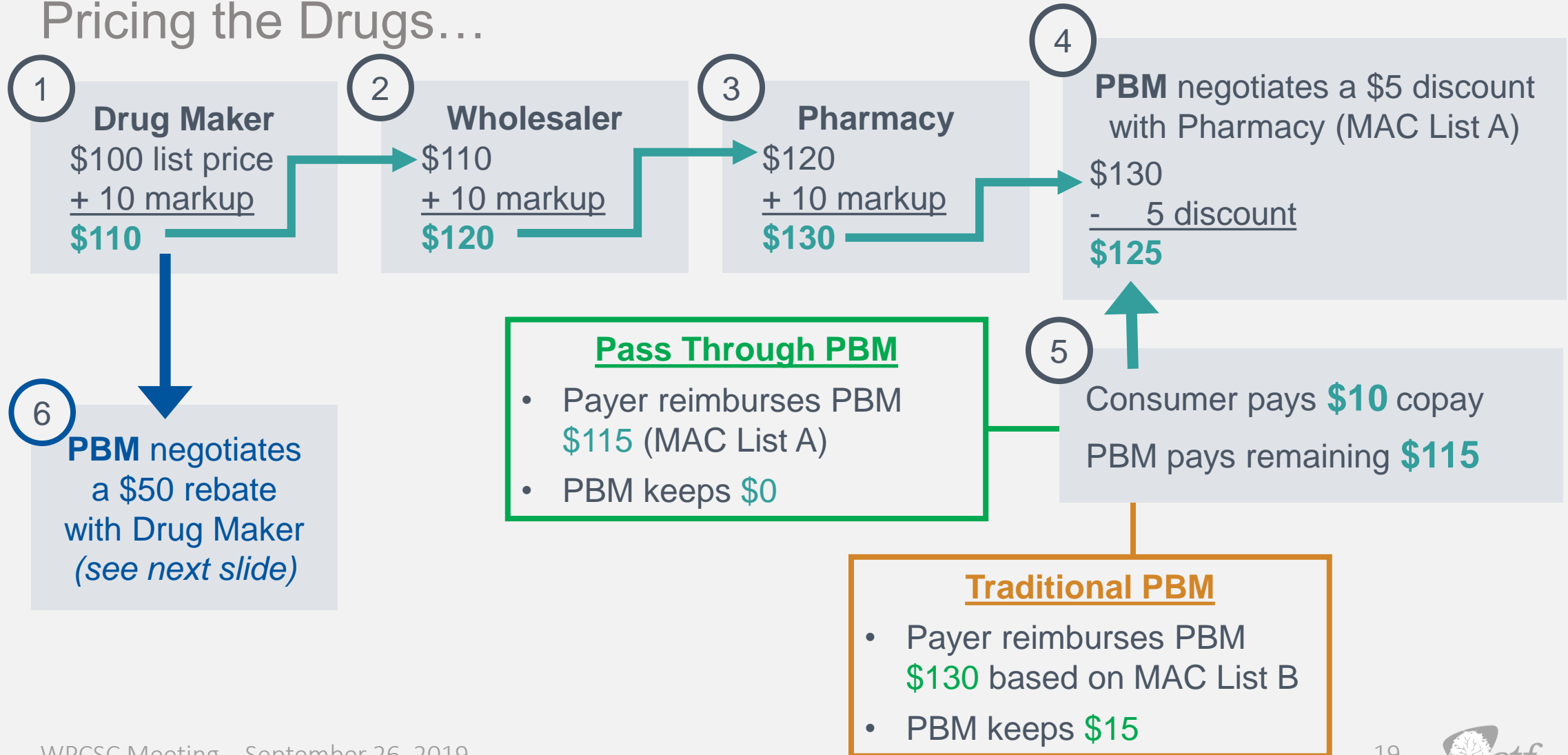
How the Products and Payments Flow Through the System

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



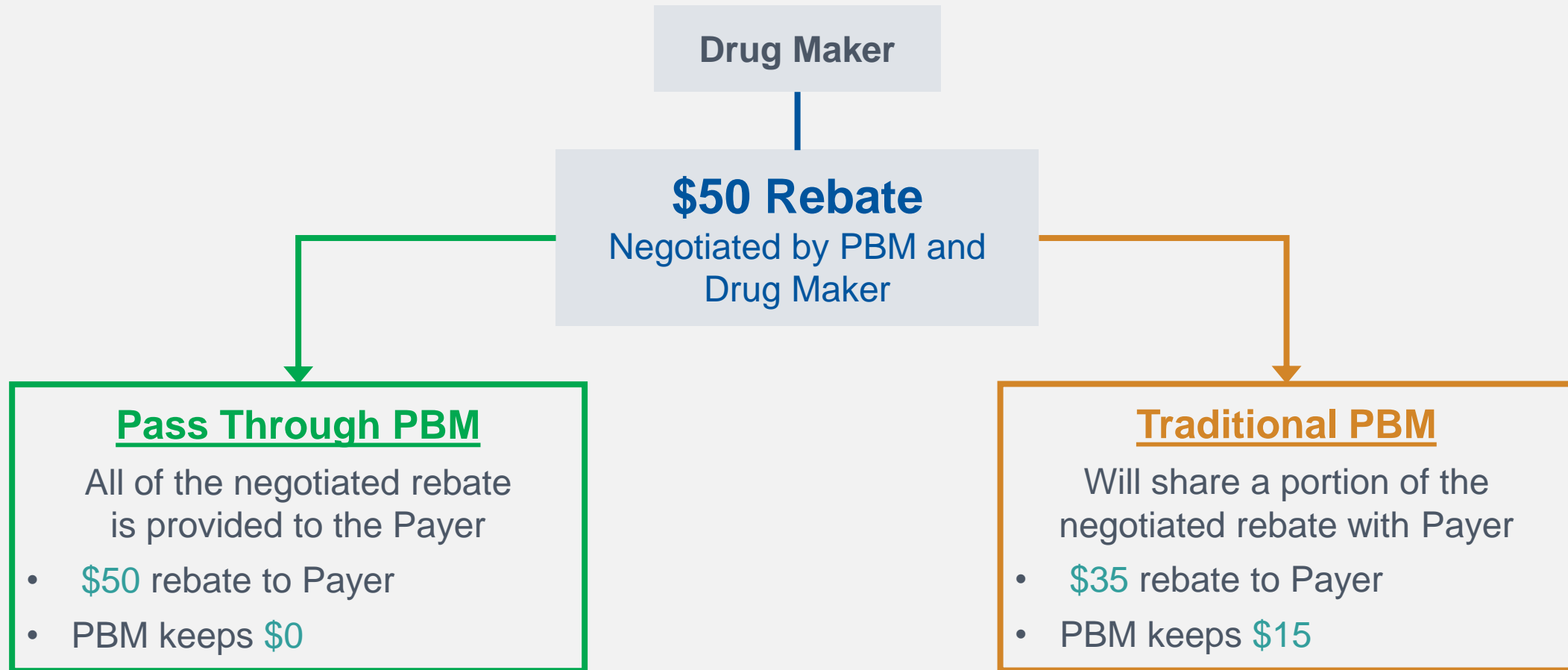
# How Do PBMs Make Money?

## Pricing the Drugs...



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Pricing the Drugs...

## Money Flow Recap

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

The background is a dark blue gradient with numerous out-of-focus light spots in shades of blue and purple, creating a bokeh effect.

**Questions?**

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# Thank you

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