Pharmacy Benefit Managers (PBMs)

Reducing Costs and Improving Quality

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Overview

• What is the problem?
• What is a PBM?
• What role do PBMs play?
• What added value to PBMs provide the healthcare system?
What is the Problem?

Modern Healthcare

Drug prices rise as pharma profit soars
By Alex Kacik | December 28, 2017
(Updated on Dec. 29)
The amount of money people spend on prescription drugs has over the past three decades as pharmaceutical sales and profit ballooned, according to a government report.

The New York Times

By Danny Hakim | Jan. 9, 2018
A prescription drug in the world. You may have

STAT

Several drug makers just raised their prices by nearly 10 percent, and buyers expect more price hikes
By Ed Silverman @statnews / January 2, 2018

The Washington Post

Pharma, under attack for drug prices, started an industry war
By Carolyn J. Johnson | January 2
It’s not easy to get Americans mad at a behind-the-scenes industry they’ve barely even heard of, but pharmaceutical companies have spent most of this year trying.

The Wall Street Journal

Cancer Drug Price Rises 1,400% With No Generic to Challenge It
By Peter Loftus
Dec. 28, 2017 7:10 a.m. ET
Since 2013, the price of a 40-year-old, off-patent cancer drug in the U.S. has risen 1,400%, putting the life-extending medicine out of reach for some patients.
What is a PBM?

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

• PBMs work with their clients to perform a variety of services to ensure the delivery of high-quality, cost efficient drugs to consumers.

• With more than 266 million Americans receiving pharmacy benefits through a PBM, they are able to aggregate this buying clout to help plan sponsors and individuals lower their prescription drug costs.
More than 266 million Americans receive pharmacy benefits provided through PBM.

- **35.7%** Self-Insured Employers
- **31.6%** Commercial Health Plans
- **18.0%** Medicaid*
- **14.7%** Medicare Part D

*Excludes Medicare-Medicaid Dual Eligibles where drugs are covered by Medicare Part D.

Source: Visante estimates prepared for PCMA, 2016.
What Role Do PBMs Play?

- PBMs tailor drug benefit models based on the plan sponsor’s specific needs and budgetary constraints through a competitive bidding process.
- There is no one-size-fits-all model and the plan sponsor, or PBM client, always has the final say when designing their drug benefit plan.
- In addition to holding down the cost of drugs, PBMs also employ a variety of tools that are proven at driving adherence, increasing quality, and improving patient outcomes.
Pharmacy Benefit Management Services

- Claims Processing
- 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
Tackling High Drug Costs

- Patient cost-sharing often represents only a small fraction of the total cost of the drug.
- Brand drug manufacturers establish and set the list price on pharmaceuticals.
- Until other drugs are approved for the same disease or condition, manufacturers have little incentive to reduce their prices.
- Health plans and PBMs do not have any control over the price the manufacturer sets for a drug — but PBMs have tools to lower drug costs.
PBM Prescription Drug Savings

- A recent study published in 2017 shows PBMs:
  - Save $941 per patient per year
  - Reduce drug costs for patients by up to 50% compared to what they would have spent without a PBM.
  - For every $1 spent on PBM services, costs to employers and other plan sponsors are reduced $6.
PBM savings per prescription:

Without PBM: $328

With PBM: $235

$123 PBM savings per prescription

Full price: $391

Price after PBM savings: $268

Drug Trend Reports: PBM Savings

Example 1: Drug trend declined from 5.0% in 2015 to 3.2% in 2016, for CVS Health commercial PBM clients. Per-member-per-month out-of-pocket costs also dropped 3%.

Trend Summary — Commercial Clients

Example 2: Prime’s commercial clients experienced an overall decrease in prescription drug expenditures in 2017 despite ongoing price inflation in some of the most expensive drug categories.

Double-digit trends continue in the most expensive categories

<table>
<thead>
<tr>
<th>Drug Category</th>
<th>% of Spend</th>
<th>Trend</th>
<th>Unit Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Autoimmune</td>
<td>14.0%</td>
<td>23.1%</td>
<td>$4,785</td>
</tr>
<tr>
<td>HIV</td>
<td>5.6%</td>
<td>22.0%</td>
<td>$1,814</td>
</tr>
<tr>
<td>Cancer (oral)</td>
<td>5.3%</td>
<td>19.3%</td>
<td>$8,594</td>
</tr>
</tbody>
</table>

High-cost categories exert upward pressure on overall trend

- Offsetting cost relief from PBM management 5.2%
- Overall trend -0.2%

Source: Prime Therapeutics, Focus on Trend: Commercial, (Spring 2018).
Patients Should Always Pay the Lowest Price at the Counter

**Myth**

PBMs support “gag clauses,” which prohibit pharmacists from sharing the lowest price with patients.

**Fact**

PBMs support the patient always paying the lowest cost at the pharmacy counter, whether it's the cash price or the co-pay. This is standard industry practice in both Medicaid and the commercial sector.

PBMs oppose contracting that prohibits drugstores from sharing with patients the cash price they charge for each drug. These rates are set entirely at the discretion of each pharmacy and can vary significantly from drugstore to drugstore. Fortunately, to the degree this issue was ever rooted in more than anecdotal information, it has been addressed in the marketplace.
Improving Quality and Patient Outcomes

- PBMs utilize a number of tools that reduce medication errors and increase patient safety.
- 40% of patients use more than one pharmacy. PBMs are uniquely positioned with comprehensive information to monitor drug-drug interactions and alert pharmacies of any possible side effects.
- One study shows that over the next 10 years, PBMs will prevent 1 BILLION medication errors.
- The same study shows that annually PBMs improve adherence and drug therapy in the diabetic population to prevent:
  - 480,000 heart failures
  - 230,000 incidents of kidney disease
  - 180,000 strokes
  - 8,000 amputations

Source: Visante: The Return on Investment on PBM Services (2016)
Conclusion

• PBMs play a unique and central role in driving adherence, holding down costs, and increasing quality.

• It is crucially important to preserve the ability of PBMs to use their full range of cost-saving tools, including networks, utilization management, and formulary management.

• PBM tools deliver savings for plan sponsors and consumers, underscoring the success of the competitive marketplace.