Objectives

1. Define and understand PBM and PBA business models
2. Understand opportunities that exist for self-insured employers
3. Understand the cost structure for mail-order and community pharmacy services that exist for the member and plan sponsor
4. Learn key strategies – conducting a feasibility study, establish buy-in, collaborate with key stakeholders

PBM Background – What is a PBM?

- Pharmacy Benefit Manager companies handle prescription drug benefits for an organization
- Provide cost cutting measures and negotiation to gain affordable prescription coverage for the organization and its enrollees
- Examples
  - Caremark®
  - Express Scripts®
  - MedCo®

PBMs and PBAs
Pharmacy discounts
- PBMs obtain large discounts in pharmacy prices by establishing pharmacy networks to serve an organization and its enrollees
- This creates purchasing power for PBM
- Purchasing power provides negotiation advantage with third party payors

Manufacturer rebates
- Negotiate manufacturer rebates directly with the pharmaceutical company
- For large purchasers, PBMs can negotiate rebates of up to $4.50 per prescription

PBM Background – How do PBMs work?

PBM Background – Types of Services Offered
- Claim Adjudications
- Customer Service – Call center
- Clinical Services – Prior authorizations, step therapy, utilization control
- Reports – Cost per script, online availability, utilization
- Mail-Order and Specialty Pharmacy

PBM Background – Cost Controlling Strategies
- Formulary restrictions
- Generic substitution policies
- Therapeutic substitution policies
  - Replace “like with like agents” (i.e. Prilosec® & Nexium®)
- Co-payment structure
  - Tier 1 (generic)
  - Tier 2 (preferred)
  - Tier 3 (non-preferred)
  - Specialty
- Prior Authorization Policies (choice of drug is justified by a pharmacist or physician)
PBA – What is a PBA?

- Pharmacy Benefits Administrators oversee PBM negotiations with manufacturers
- Maintain effective clinical oversight of dispensing practices
- Control and monitor inappropriate and utilization and offer flexibility of simple-to-use outpatient and mail-order pharmacy services

PBA Advantages

- Ensure transparency between PBM and third party payor (HCHD) regarding fiscal practices such as:
  - Manufacturer rebates
    - Major source of income for PBMs
    - PBMs do not pass these rebates onto the organizations
    - PBA would require a PBM to share or pass on rebates to the organization (HCHD)
  - Pharmacy discounts
    - PBMs do not serve the interest of the organization
    - Interest is to benefit the PBM network versus the organization (HCHD)
    - With a PBA, interests are aligned with organization (HCHD)
  - The “Spread”
    - PBMs pay pharmacies one price for a prescription, charge the plan another price then pocket the difference

Opportunities for Self-Insured Employers

An Example of the “Spread”

- According to a recent study, some PBMs billed organizations $80 for 90 tablets of the generic hypertension drug atenolol, 100 mg, then paid the pharmacy $7 and pocketed the $73 “spread.”
  - $7 Amount PBM Pays
  - $80 Amount PBM Bills
  - $73 Amount PBM Pockets (the “spread”)

Opportunities for Self-Insured Employers

Advantages of partnering with a PBM as a PBA

- Eliminate the “spread” and offer pass-through pricing
- Retain and expand the market share
- Maintain the competitive advantage and sustainability

Opportunities for Self-Insured Employers

Advantages of partnering with a PBM as a PBA

- Participate in review of standard contract and financial terms
- Ownership of data
- Benefit design consultation
- Drug cost optimization
- Transparency and rebates

Opportunities for Self-Insured Employers

Example of PBM/PBA business models

Current or “Traditional model”  Pass-through or “Transparent model” (Proposed)

PBM (Aetna)  PBA (HCHD)

PBA (Aetna)  PBM (Aetna or Successor)

Opportunities for Self-Insured Employers

Advantages of partnering with a PBM as a PBA

- Ensure transparent knowledge of pricing and revenue streams
- Access to published pricing benchmarks which are widely available and reported at the national level directly by drug manufacturers
  - Wholesale Acquisition Cost (WAC) pricing and
  - Average Wholesale Price (AWP) relative discounts
- Access to WAC pricing allows the opportunity to see AWP discounts

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Opportunities for Self-Insured Employers
Understanding the Cost Structure

Mail-order Pharmacy Services

- Limited to chronic or maintenance medications
- Incentivized for health plan participants and/or mandated by PBMs
  - Example: $6 for a 90-day supply versus $3 per 30-day supply
- Flat copayments for health plan sponsors have not kept pace with rising drug costs since each 90-day supply waives a copayment

Significance

- What if the pharmacy benefit management was carved out and handled by HCHD’s Department of Pharmacy?
  - What cost differences exist between mail and community pharmacy services and how do they translate into savings?
  - What are the current characteristics/utilization of HCHD’s health plan participants and sponsors expenditure patterns?

Generic Dispensing Ratios (GDR)

- GDR = number of generic prescriptions / total number of prescriptions
- A 1% increase in GDR yields a 1-2% savings in total pharmacy expenditures
  - GM spent $1.5 billion for health plan participants in 2005
  - 1% increase in GDR yields savings ~ $15M annually
Harris County Hospital District

- Self-insured entity
- Third party administrator – Aetna
  - Pharmacy Benefit Manager – Caremark®
- 4-tier formulary

<table>
<thead>
<tr>
<th>Retail – Per 30 day supply</th>
<th>Mail – Per 90 day supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1: &gt; $3 or 10% w/ max $9</td>
<td>Tier 1: &gt; $6 or 10% w/ max $18</td>
</tr>
<tr>
<td>Tier 2: &gt; $15 or 20% w/ max $45</td>
<td>Tier 2: &gt; $30 or 20% w/ max $90</td>
</tr>
<tr>
<td>Tier 3: &gt; $30 or 30% w/ max $90</td>
<td>Tier 3: &gt; $60 or 30% w/ max $180</td>
</tr>
<tr>
<td>ASRx $60</td>
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</tbody>
</table>

Understanding the Cost Structure

Pharmacy Claims Data Analysis

Analysis Objectives
1. Identify the top 20 highest expenditure therapeutic classes
2. Determine the differences between mail-order and community pharmacy in the cost per day for the plan sponsor and the member for the top 20 maintenance therapeutic classes
3. Determine and compare the GDRs for mail-order and community pharmacy channels for the top 20 maintenance therapeutic classes

Top 20 Highest Expenditure Classes

Understanding the Cost Structure

Paid pharmacy claims obtained from Aetna for FY 2009
- 158,908 prescription claims
- 13,989 health plan participants

Definitions to know:
- Plan sponsor – HCHD
- Plan member – employee and/or dependent(s)
- Chronic or maintenance medications
  - Defined after fourth consecutive paid claim for the same medication (per Aetna)
Understanding the Cost Structure

### Top 20 Maintenance (Mail-order) Classes

![Bar chart showing the top 20 maintenance classes.

<table>
<thead>
<tr>
<th>Pharmacy</th>
<th>Number of Claims</th>
<th>Mean Cost Per Day</th>
<th>95% CL Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communitym</td>
<td>40,745</td>
<td>$0.66</td>
<td>0.64 – 0.66</td>
</tr>
<tr>
<td>Mail-orderm</td>
<td>3,033</td>
<td>$0.58</td>
<td>0.56 – 0.59</td>
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</table>

**Member, P-value < 0.0001**

Cost differences for health plan member and plan sponsor

<table>
<thead>
<tr>
<th>Pharmacy</th>
<th>Mean Cost / day / class</th>
<th>95% CL Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communitys</td>
<td>$2.47</td>
<td>2.40 – 2.48</td>
</tr>
<tr>
<td>Mail-ordera</td>
<td>$2.92</td>
<td>2.72 – 3.03</td>
</tr>
</tbody>
</table>

**Sponsor, P-value < 0.0001**

### Cost differences for health plan member and plan sponsor

<table>
<thead>
<tr>
<th>Pharmacy</th>
<th>Mean GDR</th>
<th>95% CL Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community</td>
<td>0.29</td>
<td>0.15 – 0.43</td>
</tr>
<tr>
<td>Mail-order</td>
<td>0.25</td>
<td>0.12 – 0.38</td>
</tr>
</tbody>
</table>

**P = 0.79**
Learning Key Strategies

Buy-in from Senior Leadership

- Expense Savings
  - Via stringent formulary control
  - Comprehensive and innovative pharmacy benefit and medical benefit programs
- Optimize Revenue
  - Capture revenue currently being paid to our third party administrator
- Customer Service and Participant Satisfaction
  - Flexibility
  - Reduced out-of-pocket costs

Conducting a Feasibility Study

Optimize Revenue

- Capture revenue currently being paid to our third party administrator

Collaborate with Key Stakeholders

- Senior Leadership
  - Lead the change for employees and culture
- IT
  - Data mining, interpretation, and integration
- Human Resources/Benefits
  - Focus on disease management & employee behavioral modification
  - Use of mid-level providers
- PBM Consultant
  - To learn the PBM business model in depth to audit, review, synthesize, and analyze data to develop a predictive modeling process
RFP Selection, Implementation and Evaluation

- Be an active participant of the RFP process/committee
- Learn vendor medical requirements
- Learn vendor PBM/PBA requirements

Learning Key Strategies

- Use incentives for employees
- Integrate data in order to measure success
- Commit long-term

C-Suite Support
Nurture a Culture of Health
HR/Benefits
PBM / PBA business models

RFP Selection, Implementation and Evaluation

- Select partners based on quality outcomes and willingness to work within an integrated model
- Consider timeframe desired to achieve goals
- Measurement is critical to success
- Change management is critical

Conclusion

- To remain ahead of the competition we recommend develop a strategic alliance with a PBM and serve as a PBA
  - Expense Savings
  - Optimize Revenue
  - Increase access