



Solid Benefit Guidance  
ARTHUR J. GALLAGHER & CO.

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Conference & Exposition  
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2017  
SIRM  
SOCIETY OF INSURANCE  
RISK MANAGERS



## Pharmacy Program Management: Pitfalls, Challenges, and Best Practices

October 2, 2017

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### About Solid Benefit Guidance

- SBG is a unique benefits consulting firm with a **specialty** practice in pharmacy benefits.
- We engage with clients that collectively manage over **60,000,000 covered member lives**.
- Our experts have a combined 450+ years of **INSIDER Rx/PBM experience**.
- We have complementary skill sets in **all aspects** of pharmacy and healthcare management
- SBG was acquired by **Gallagher Benefit Services** in June 2015.



SBG offers clients an **INSIDERS' EDGE** that is unique in the marketplace.

- PBM Procurement and Contract Negotiation
- PBM Vendor Management
- Pharmacy Program Audit and Oversight
- Medicare Part D and EGWP Expertise
- Specialty Pharmacy Management Strategies
- Plan Design Modeling and Recommendations
- Financial, Clinical, and Service Benchmarking

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### The Current Landscape: Prevailing Themes

**Common Themes for Plan Sponsors Managing a Pharmacy Benefit in 2017**

- **Specialty drug costs continue to escalate**, with no easy solutions in sight.
- **The PBM business model is convoluted**, and incentives are misaligned.
- **A highly consolidated PBM sector** leaves fewer vendor options and diminished competition.
- **Questionable pricing and promotion tactics** have deteriorated trust in the supply chain.
- **A shifting political and regulatory climate** creates uncertainty about the future.

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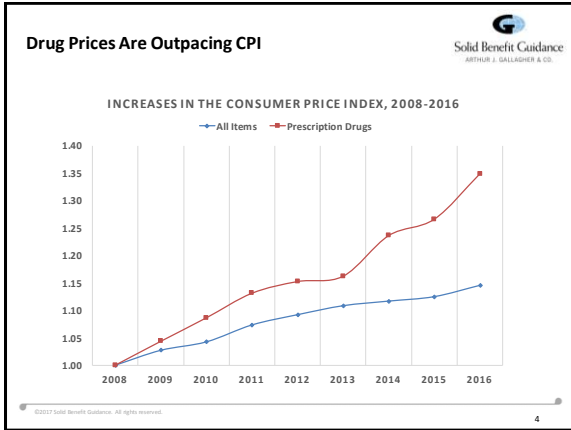
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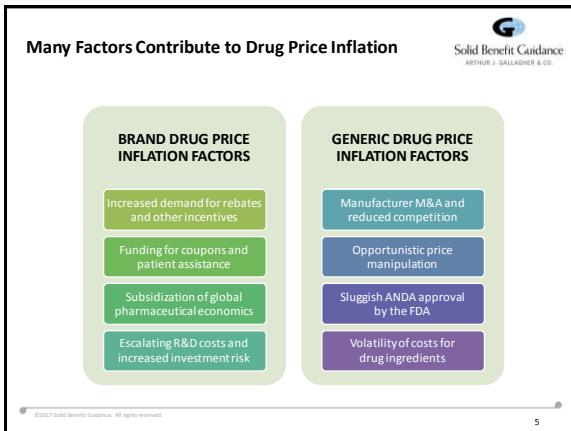
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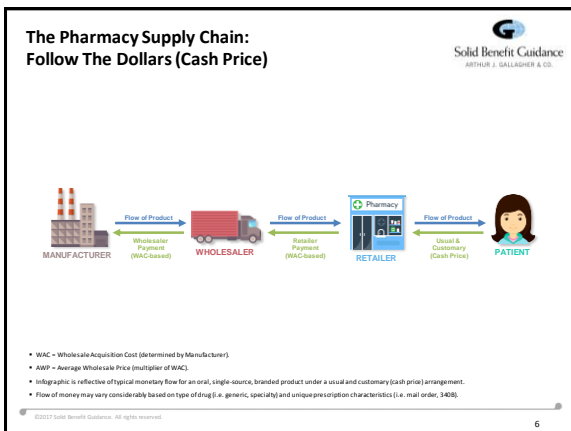
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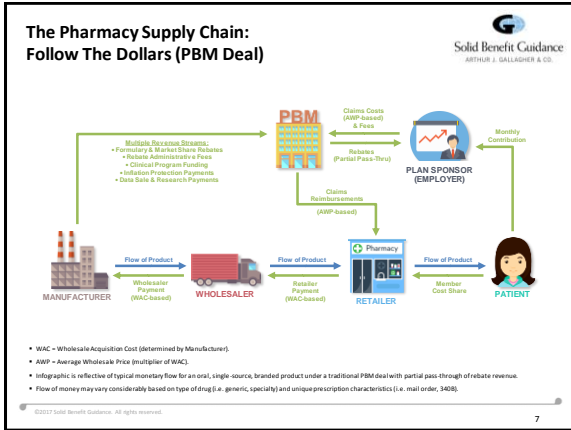
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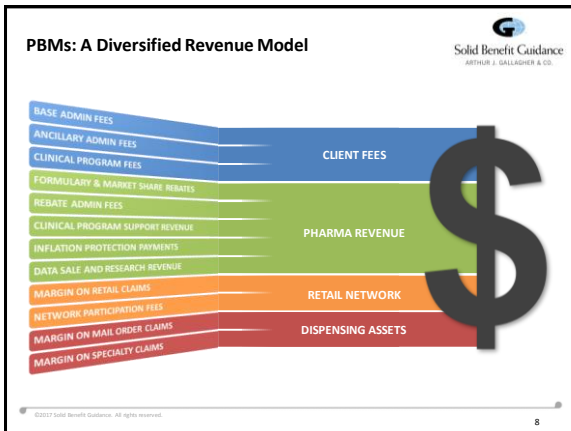
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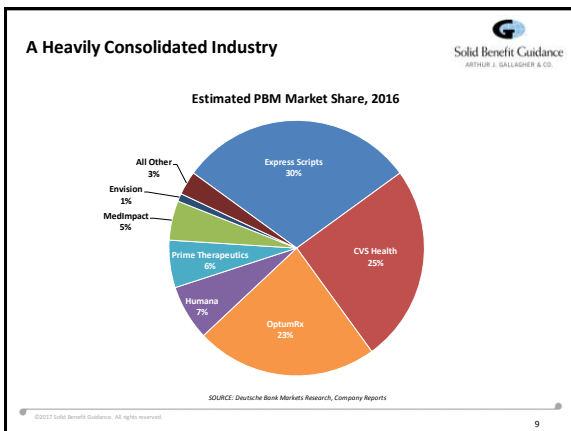
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### Searching for A Better Way to Price Drugs

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**Outcomes Based**  
Higher rebate paid on **Repatha** if patient's LDL outcome is not in line with clinical trial results.

**Event Based**  
Higher rebate paid on **Entresto** if the incidence of heart attacks is not reduced in the population.

**Indication Based**  
Price of several **oncology** drugs varies based on effectiveness for specific indications.

Logos: Harvard Pilgrim HealthCare, AMGEN, aetna, Cigna, NOVARTIS, EXPRESS SCRIPTS

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### Copay Cards: By The Numbers

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- There were 75 drugs that had copay cards on 2009. By 2015, there were **700 drugs**.
- An estimated **80% of specialty drug products** currently have copay card programs available for them.
- Copay cards were used in **10% of all prescriptions** in 2015, and this figure is increasing.
- One study suggests there will be **\$32B in additional healthcare costs** generated by copay cards over the next decade.

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### Levers of Rx Program Management

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**PLAN DESIGN**  
Member Cost Share  
Channel Management  
Mandatory Generics

**UTILIZATION MANAGEMENT**  
Formulary Strategy  
Prior Authorization  
Clinical Programs

**PRICE NEGOTIATION**  
Request for Proposal  
Renewal/Extension  
Market Check

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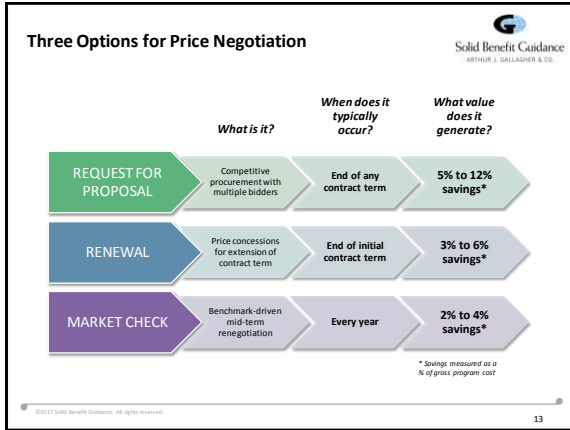
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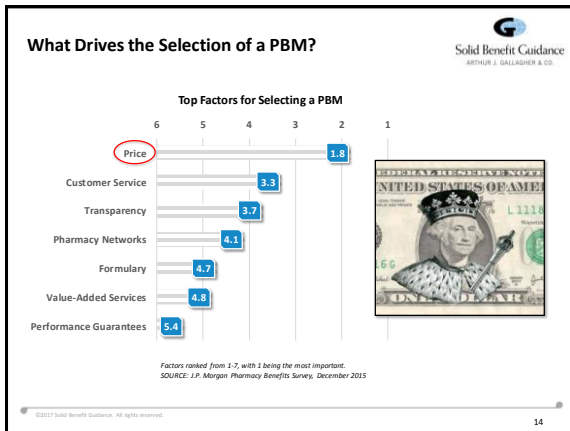
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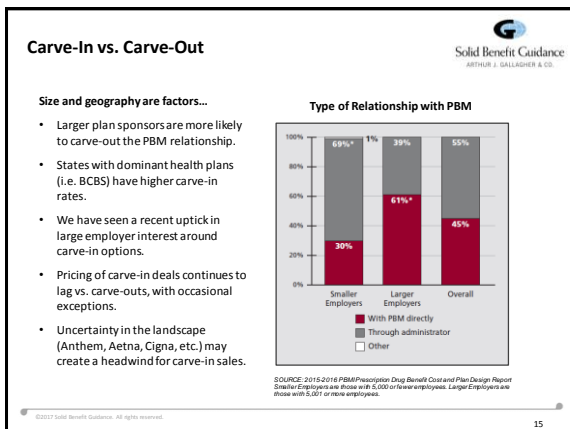
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## PBM Underwriting & Contracting

- The PBM bidding and pricing process is **extremely complex**.
- Like any high volume, low margin business, the **"fine print"** is where the money is made.
- PBM's capitalize on **constant movement** within the industry and the use of optics to improve margins.
- All deals are **situationally** priced.
- Specialty** pricing is playing an increasingly important role in total cost outcomes.
- "Business Transparency"** is used (and misused) widely in the industry, with mixed success.
- Most pricing **"gimmicks"** play games with weighted averages by manipulating definitions.



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## Pricing Optics Example: Guarantee Offsetting

- Offsetting allows PBMs to avoid paying out on "missed" guarantees during the year-end reconciliation by overachieving on others.

Channel	Drug Type	AWP	% Performance	Contract %	Surplus/(Shortfall)
Retail	Brand	\$28,000,000	16.20%	15.00%	\$336,000
Retail	Generic	\$30,000,000	77.00%	78.00%	(\$300,000)

At year end, client is owed...

Offsetting Allowed	\$0
Offsetting Not Allowed	(\$300,000)

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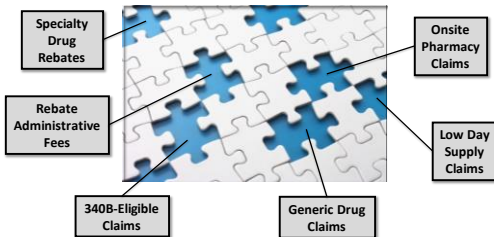
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## Rebate Guarantee Loopholes & Exclusions

- A full pass-through of "Rebates" likely does not capture all of the revenue that the PBM receives from pharmaceutical companies.



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## The Nuances of "Transparency"

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...for many PBMs means a pass-through of "A Rate", not necessarily the "Best Rate"

**Example:** These prescriptions were filled at the **same pharmacy** on the **same day** with two different plans that both had "transparent deals" with the **same PBM**:

Date of Service	Pharmacy Name	NDC11	Name	Qty	AWP	Ing. Cost	Discount
07/08/2011	Blinded	68180051703	lisinopril 40mg	30	\$46.24	\$12.90	72%
07/08/2011	Blinded	68180051703	lisinopril 40mg	30	\$46.24	\$15.50	66%

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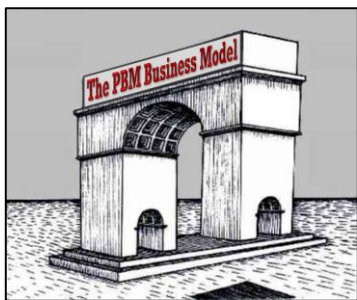
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## Beware of Optical Illusions

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## Trends in Pharmacy Plan Design

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- **Hybrid plan designs** (combining copays and coinsurance) are becoming more popular.
- **Exclusion-based formularies** are now ubiquitous.
- **Mandatory generic** policies are commonplace.
- **Separate tiers for specialty drugs** may be used.
- **Mandatory mail order** is common, particularly for specialty drugs.
- **Narrow retail network** strategies may be used, but don't often generate huge value.

Prescription plan includes copays, coinsurance or both

Category	Firm	Copayments	Coinsurance	Both
ALL	2,725	69%	8%	24%
Under 100 FTEs	1,201	72%	6%	22%
100 to 499 FTEs	839	72%	8%	21%
500 to 999 FTEs	248	67%	11%	22%
1,000 or more FTEs	376	52%	10%	38%

SOURCE: Arthur J. Gallagher 2017 Benefits Strategy & Benchmarking Survey

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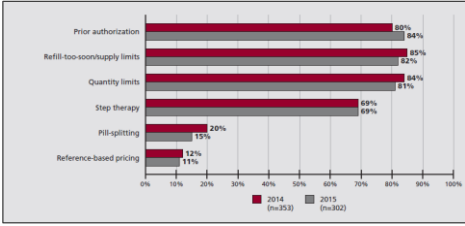


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### The “Old” Plan Management Toolbox

- Most plan sponsors have a comprehensive set of basic management protocols in place.
- PBM’s tend to sell these as “bundled”, fee-based solutions.

**Use of Utilization Management Tools**



Tool	2014 (n=1033)	2015 (n=1002)
Prior authorization	80%	84%
Refill-too-soon/supply limits	85%	82%
Quantity limits	84%	81%
Step therapy	69%	69%
Pill-splitting	20%	13%
Reference-based pricing	12%	11%

SOURCE: 2015-2016 PBMA Prescription Drug Benefit Cost and Plan Design Report

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### New Tools for New Challenges



Management programs tend to support the PBM’s underlying business model.

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### A Checklist for Plan Managers

- ☒ Run a **competitive bid process (RFP)** every 3 years.
- ☒ Conduct annual **Market Checks**, if permitted.
- ☒ Periodically **update your plan design**, to keep pace with drug price inflation.
- ☒ **Optimize clinical programs**, such as those designed to curb potential Fraud, Waste, and Abuse.
- ☒ Develop and maintain a **specialty drug management** strategy across your benefits.
- ☒ **Periodically audit** your plan, especially pricing terms.



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