

# Drug Card and Self-Funding

## Introduction

Self-funding of the pharmacy benefit is basically retention of the financial risk in lieu of transferring that risk to another party, such as an insurer. Pharmacy risk is similar to health/medical risk in most every aspect, except pharmacy actually has a tangible product...medication(s).

Like the self-funding of the medical benefit, a pharmacy plan may use a third party administrator (TPA) to pay claims. TPAs are still the major payor of pharmacy claims through the major medical coordinated method of payment.

As the number of employers who are requesting prescription card programs increases and as the proliferation of prescription drug card administrators occurs, it has become important to understand how prescription card programs work. Additionally, plans need to know the advantages and disadvantages of PBMs and how to effectively evaluate their services.

Beginning in the late 1980's a new trend in payment and management of the pharmacy benefits evolved which *carved out* the pharmacy benefit from the medical benefit. This evolution created a new administrator for pharmacy claims. The third party administrator for pharmacy plans is defined as a pharmacy benefit management company (PBM). The PBM functions in similar capacities as the TPA, designing the plan specifications, paying claims and doing general administration of the program on behalf of the employer.

Probably the single most outstanding feature of prescription drug plans is computerization. Nearly all pharmacies in the United States are computerized. This allows for easy electronic transmission of information between the provider and the payor of services. Electronic transmission significantly reduces, if not eliminates the errors of claims payments.

There are two methods of administering a self-funded pharmacy benefit program:

- Major Medical Coordinated
- Drug Card Program

The major medical coordinated method of administering the pharmacy benefit is the traditional one whereby the participant pays for the prescription out of such participant's pocket and files a claim with the TPA. The TPA reimburses the participant the cost of the prescription in accordance with the plan documents. Percentage copayments and deductibles are usually part of this type arrangement. This method of delivering a pharmacy benefit is usually unmanaged and can be a significant contributor to rising health care costs.

The first drug card programs were developed in order to provide participants with low cost immediate access to prescription drugs. PBMs promoted the drug cards to plans based on the reduction in labor that would be needed to administer a card type program. Basically, PBMs were functioning in an outsourcing role for TPAs and insurers.

The self-funding of the pharmacy benefit has evolved from a paper filled trail of the early 1980's to an electronically communicated system of today.

## **Plan Design**

The cost of a prescription drug benefit depends on a variety of factors. Undoubtedly, the blue print in determining cost is plan design. Plan design established the percentage of cost to be shared between the plan and the participant and the medications approved for coverage among a variety of other factors.

## **Effective Date Of Plan**

The time required to adequately implement a prescription drug benefit is approximately 30 days from the receipt of a properly executed plan specification. This will allow for *testing* of the plan to insurer eligibility, plan design and network agreements have been established. Some PBMs may be able to implement new plans quicker, however a 30-day implementation period should greatly reduce possible oversights.

## **Role Of The TPA**

The TPA, in many circumstances will determine which PBM is utilized by the employer. Therefore, it is extremely important for a thorough evaluation of the TPA to be conducted.

The TPA is usually the provider/facilitator of eligibility for the prescription drug plan. In many cases the TPA will not only provide the PBM with eligibility, but will maintain eligibility throughout the life of the plan. Most PBMs are capable of providing the TPA with direct on-line access to their clients. This direct access allows the TPA to keep a client's eligibility file current to within twenty-four hours. The employer may ask that the PBM bill the TPA directly for services rendered on behalf of the employer. The TPA is responsible for paying the PBM as it would pay any other provider of service on behalf of the employer.

Another important role of the TPA is the maintenance of COBRA for prescription drug plans. The on-line access to the PBM allows the TPA to update eligibility as payments are received or suspend/terminate eligibility where applicable.

## **Card Design**

Many PBMs offer employers the ability to customize identification cards at a minimal cost. Should an employer choose to customize their identification cards, the

PBM will still require its logo on the card so the pharmacy can recognize who to transmit the card information to. Customized card features are normally reserved for larger employers.