PBM Contracting: Tips, Pitfalls and Opportunities

Kristin Begley, Pharm.D.
Chief Pharmacy Officer
Truveris, Inc.
New York, New York
Today’s Agenda

• Basics of the PBM business
• Contract pitfalls and tips to address them
• Audits and bill review
Why Am I Here?

- Caveat Emptor
- Market Failure
  - Moreover, since asymmetries of information give rise to market power, and perfect competition is required if markets are to be efficient, it is perhaps not surprising that markets with information asymmetries and other information imperfections are far from efficient.
    - Joseph Stiglitz, Nobel Prize Lecture, December 8, 2001

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An Example of Information Asymmetry: Spread Pricing

Pharmacy receives $12 on pharmacy MAC list

Plan Sponsor is charged $200 on a different MAC list

Atorvastatin script

PBM spread = $188
A PBM Fable

• Once upon a time . . .
• There was a PrinCesS (PCS)
A PBM Fable (continued)

Advance Paradigm to Buy PCS Health Systems
July 13, 2000 | Reuters

Advance Paradigm Inc. said it would acquire Rite Aid Corp.'s PCS Health Systems Inc. unit for $1 billion.

Caremark to Buy Rival AdvancePCS In $5.6 Billion Pact

By ROBIN SISSEL Staff Reporter of The Wall Street Journal
Updated Sep. 3, 2003 9:08 a.m. ET

In a transaction that illustrates the growing clout of companies that administer prescription-drug programs, Caremark Rx Inc. agreed Tuesday night to buy rival AdvancePCS Inc. for about $5.6 billion, mostly in stock.

CVS to Buy Caremark in $21 Billion Deal

By DEALBOOK NOVEMBER 1, 2006 2:52 PM

CVS and Caremark Rx said Wednesday afternoon that they agreed to combine in what they described as a "merger of equals," creating a company with about $75 billion in annual revenue. As is typical in such deals, though, one company emerged as the de facto buyer: CVS's shareholders would end up owning a
Through Acquisition and Market Evolution Core PBM Services Have Grown

- **Late 1990s:**
  - Beginning of PBM consolidation
  - Drug manufacturers increase formulary rebates
  - Increasing growth of PBM owed mail services
- **Early 2000s:**
- Creation and growth of specialty pharmacy
- PBM acquisition of specialty pharmacies
  - Medco buys Accredo
  - Express Scripts buys Curascript
- **2005**
  - Part D
Independent PBMs

- Express Scripts
- MaxorPlus
- MedImpact
- Navitus
- ProcareRx
- And the list goes on...
Store Affiliated

- Costco PBM
- CVS Health
- Walmart PBM
- Walgreens
  - RiteAid
  - EnvisionRx
Carrier Owned

- Aetna®
- Cigna
- OmedaRx
- OptumRx®
Transparent vs. Traditional

• Transparent
  – Admin fee
  – Mail or specialty fills

• How do traditional PBMs make money if there is no fee?
  – Retail spread
  – Rebates/Bona fide service fees
  – MAC pricing differentials
  – Administration fee
Tips and Tricks

• How to find if a contract is traditional, pass through or somewhere in between
  – Contract language will:
    • State $0 fee
    • And may state that PBM retains spread
    • Contract employs “offsets”
    • Contract does not tie the definition of brand and generic to an outside source like Medispan
Clinical Programs That You Need to Be Familiar With . . .

- Step Therapy
  - Claim automatically reviews history to see if patient has taken a lower cost drug

- Prior Authorization
  - Claims stops until PBM receives information from physician that medical criteria have been satisfied prior to the claim processing
Contracting Pitfalls
Vague Definitions

• A generic isn’t always a generic. A brand isn’t always a brand
• There is no third party that defines what is a brand and what is a generic. It’s not as simple as patent vs. no patent.
“Hatch-Waxman does not define the terms generic or brand name drug. But, the use of NDA and ANDA, along with their linkage to drug patents, the protection offered by Hatch-Waxman on marketing rights of the innovator drug and its generic competitors, and the bioequivalence determination listed in the FDA Orange Book Code are the legal drivers for the introduction and marketing of generic drugs in the US.”

In PBM Contracting, Nuances Matter . . . A Lot

“Generics shall be classified as multi-source generics with **two or more** manufacturers” vs.

“Generics shall be classified as multi-source generics with **more than two** manufacturers”
Discounts Are Guaranteed?

- Effective Discount Guarantees
  - Brands and generics
  - Retail and mail
  - Specialty
  - Dispensing fees
- Example
  - AWP—18% + $1.10
- What exactly is a brand?

**TIP:** Guarantees are worthless unless the constituent elements are clearly spelled out.
Guarantee Offsets

• Can overages on one guarantee offset a shortfall?

**TIP:** No, make them independent.
Drug Classification

• Single Source Generics
• “Patent Litigation Drugs”
• OTCs
• Single Source Innovators
## Zero Balance Claims

- No plan liability
  - Member pays full cost of claim
- 100% discount towards guarantee?

**TIP:** Discounts should be calculated based on the cost prior to the application of the member cost share.

<table>
<thead>
<tr>
<th>AWP Discount</th>
<th>MAC</th>
<th>U&amp;C</th>
<th>Member Copay</th>
<th>Plan Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>$13</td>
<td>$11</td>
<td>$14.99</td>
<td>$15</td>
<td>$0</td>
</tr>
</tbody>
</table>

H22-21
Rebates

- What is a rebate?
- What isn’t?
  - Manufacturer administration fees
  - Formulary placement fees
  - Grants
  - Clinical programs
- Specialty drugs included?
- What is it paid on?
- Is the formulary exclusionary?
How Rebate Spread Works

**Rebate Contract:**
- Formulary rebates
- Marketshare rebates
- Data selling
- Human/clinical resources

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**Rebate Contract:**
- Formulary rebates
Rebates and Days Supply

- 30 day retail
- 90 day mail
  - What about 84 day birth control?
  - What about 10 day antibiotic or pain meds?
Dispense as Written (DAW)

• Physician and patient request brand
• DAW 4 generic not in stock
• DAW 5 brand dispensed, priced as generic
  – Use when dispensing a brand as a generic.
  – Claims submitted with DAW 5 will be reimbursed at the generic price.
Network Changes

• Does a plan sponsor get improved rates when a large pharmacy chain is taken out of the network?

Data Rights

- Who can you use to audit?
- Is all needed data available?
- Including full MAC?
- How far back can you go?

**TIP:** Require full access to every piece of data needed to substantiate the claim is process correctly.
Term and Termination

• What are the termination provisions?
• What is the penalty for early termination?

**TIP:** After 90-days notice, clients should be free to leave without penalty in the first year.
Define: Drug Classifications

• Brands
• Generics
• Rate guarantees
• What is included?

Based on the definition provided below please indicate from an adjudication and net effective rate true-up basis how your organization treats each component. Also indicate if there are a minimum number of manufacturers needed for a drug to be considered multi-source for multi-source generic and single-source generic determination.

- Multi-Source Generics: Indicated when using Medi-Span by a Multi-Source Code 'Y' or when using FDB by a GNI '1' and NDCCG '1'.
- Single-Source Generics: Indicated when using Medi-Span by a Multi-Source Code 'M' or 'N' with a Brand Name Code 'O' or when using FDB by a GNI '1' and NDCCG '2'.
- Multi-Source Brands (Non-Innovator): Indicated when using Medi-Span by a Multi-Source Code 'O' with a Brand Name Code not equal to 'I' or when using FDB by a GNI '1' or 'O' with an NDCCG '1' and INNOY of 'I'.
- Multi-Source Brands (Innovator): Indicated when using Medi-Span by a Multi-Source Code 'O' with a Brand Name Code equal to 'I' or when using FDB by a GNI 'O' or 'O' with an NDCCG '1' and INNOY of 'I'.

H22-29
Why Check Your Bills

• System Complexity
  – 24-7-365 uptime for adjudication system
  – Thousands of:
    • NDCs
    • Pharmacy rates
    • Multiple MAC lists
  – Drug prices constantly changing
Why Check Your Bills

- Human Error
- Incentives
  - 1:15 Loiacono’s Ratio\(^3\)
- Independent verification of PBM performance and accuracy

\(^3\)Truveris Internal Analysis 2013
“Although we strive for perfection when entering hundreds of NDC [drug] codes and testing our system for accuracy, we sometimes find errors like the one you brought to our attention. And just as we have in this instance, we act quickly to resolve the issue and notify our members.”

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2 Ornstein, Charles. “Baby’s Drug Co-Pay Jumps, and a Health Reporter is Stumped” nytimes.com 29 August 2014
Truveris Client Experience

- 1/1/13 Employer renews with PBM
- 4/1/13 PBM transitions the client to new claims platform
- 7/25/13 Truveris Quarterly report uncovers error in specialty pricing transition
- 11/1/13 Client receives credit for $92,000

**TIP:** Errors can happen at any time, not just when a plan starts
Hard Errors

- Wrong dispensing fee
- Drug Classification
- Incorrect AWP on date of service
- Incorrect discount
- Specialty rate not applied
- MAC not applied
- “Lower of” logic not applied
### Hard Error Example

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<tbody>
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</tr>
</tbody>
</table>

- Generic Effective Rate Guarantee of 75%
- $23 works out to AWP—82% for this claim
- Row one doesn’t break effective rate performance guarantee
- The plan still paid $3.01 too much
Error: Performance Guarantees

- Effective discount rates not met
- Rebate shortfall
Session #H22  

**PBM Contracting:** Tips, Pitfalls and Opportunities

- Talk to leadership about the growth in prescription drugs, impact of new drugs to contracts and importance of management
- Check contract for code based classification of drug type (brand/generic)
- Check for excluded drugs or offsetting across guarantee channels guarantees
- Check your audit rights or the ability to look at your bill for accuracy with each invoice (this includes your data rights)
- Check to see when you can go out to bid
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