



Pharmacy Benefit Managers

How PBMs improve quality and
lower the cost of care

Heather R. Cascone
AVP, State Affairs

The Value of PBMs



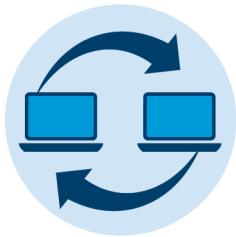
PBMs aggregate the buying clout of millions of enrollees, enabling plan sponsors and individuals to obtain lower prices for their prescription drugs.

What Role Does a PBM Serve?

- Pharmacy benefit managers (PBMs) negotiate on behalf of plan sponsors and administer the outpatient prescription drug portion of the health care benefit
- The ONLY entity in the drug supply chain responsible for putting downward pressure on the rising price of prescription drugs
- PBMs aggregate the buying clout of millions of enrollees, enabling plan sponsors and individuals to obtain lower costs for prescription drugs. PBMs are expected to save \$654B in 10 years nationally.¹

¹ Visante, Generating Savings for Plan Sponsors, Feb. 2016, available at: - <https://www.pcmanet.org/wp-content/uploads/2016/08/visante-pbm-savings-feb-2016.pdf>

Pharmacy Benefit Management Services



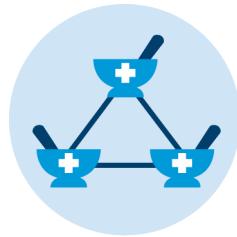
Claims Processing



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

Who Are PBM Clients?



Private Sector Employers



Public Sector Employers



**Commercial Health Plans/
Government Programs**



**Union Trusts/Taft-Hartley Plans
(ERISA-exempt)**

Why Do Plans Hire PBMs?

- PBMs help save plans 40-50% over unmanaged benefit, increase adherence.¹
- Reduce medication errors through use of drug utilization review programs.
 - Over next 10 years, PBMs will help prevent 1 billion medication errors.²
 - Improve drug therapy and patient adherence, notably in the areas of diabetes and multiple sclerosis.³
- Manage programs to address opioid use issues.

1 Visante, Return on Investment on PBM Services, Nov. 2016.

2 Visante estimates based on IMS Health data and DUR programs studies.

3 Visante estimates based on CDC National Diabetes Statistics Report 2014 and studies demonstrating improved adherence by 10+%).

How PBMs Drive Savings & Quality: Drug Manufacturers

- **Health plans and PBMs do not have any control over the price the manufacturer sets for a drug — but PBMs have some tools to drive down drug costs**
- Patient cost-sharing often represents only a small fraction of the total cost of the drug
- Brand drug manufacturers establish prices within a monopoly established by federal patent law
- Until other drugs are approved for the same disease or condition, manufacturers have little incentive to reduce their prices

How PBMs Drive Savings & Quality: Pharmacy Networks

- Plans need a broad variety of pharmacies for adequate networks, and expect pharmacies to compete on both price and quality.
- PBMs:
 - Contract with a variety of pharmacies (typically through PSOs) to ensure a robust network for health plan enrollees to access.
 - Efficiently process claims, provide real-time reimbursement information and timely payment.
 - Audit pharmacies for fraud, waste and abuse.

Independent Pharmacies & PSOs

- 80% of independent pharmacies in the U.S. are represented by Pharmacy Services Administrative Organizations (PSOs).
- PSOs pool purchasing power of many pharmacies to leverage strength and contracting strategies with payers.
- PSOs negotiate & enter into contracts with payers on behalf of independent pharmacies, including reimbursement rates, payment term, and audit terms.
- PSOs also provide inventory and back-office functions to pharmacies.
- The largest PSOs are owned by the three major drug wholesalers.
- **PBMs have no insight into private contract terms between PSOs and pharmacies.**
- Independent pharmacies are doing well & national numbers have been flat or trending up since 2010 – 37% of all pharmacies in US are small, independent pharmacies.¹

1 Quest Analytics of NCPDP Data, Jan. 2019.

PBM – Plan Contracts

- PBMs offer various design models depending on a plan's specific needs:
 - Plans choose how to compensate PBMs: traditional/spread, pass-through/fees, rebate share.
 - Performance guarantees and audit rights protect plans and ensure transparency.
 - On average, more than **90%** of rebates negotiated by PBMs are passed through to plan sponsors.¹
- The plan sponsor always has the final say when creating a drug benefit plan.
- Things not determined by a PBM: benefit design, cost sharing levels, deductibles, etc.

Conclusion

- PBMs have developed as a way to streamline access to prescription drug benefits and help put downward pressure on net cost.
- There are significant cost pressures through high pharmaceutical list prices, for both brands and generics.
- PBMs harness competition in the manufacturer and pharmacy markets when competition exists, aiming for both affordability and quality.
- While no plan is required to use a PBM, most do, because PBMs play a central role in **driving adherence, holding down costs, and increasing quality.**



Thank You