Pharmacy Benefit Managers: What we do

Dan Danielson, M.S., RPh.
Lynnwood, WA & Franklin Lakes, NJ
Director Clinical Services
Medco Health Solutions, Inc

Steve Boekenoogen, Pharm.D.
Poulsbo, WA & San Diego CA
Manager, Clinical Services & Integration
MedImpact Healthcare Systems, Inc

Agenda

We will discuss the following:
- Pharmacy Benefit Managers (PBM)
  - What they are, who they work for
  - What they do
  - PBM’s place in U.S. Health care

My Career Path

Dan Danielson
Pharmacist for 16 years
’94-00
- Long-term Care
- Community
- Group Model HMO
’00-02
- Master’s in Pharmcon/Health Policy
’02-07
- Manager Network Pharmacy Benefits
’07-now
- Director Clinical Services
- Future: ?????
Pharmacy Benefits Work
A Brief Review

- Pharmacy
- PBM
- Insurance Co.
- Purchaser (usually an Employer)

Of course it could get complex

- Pharmacy Network 1
- PBM 1
- Insurance Co. 1
- Purchaser (usually an Employer)
- Employee/dependents

- Pharmacy Network 2
- PBM 2
- Insurance Co. 2

- Pharmacy Network 3
- PBM 3
- Insurance Co. 3

What is a PBM?

- A company that specializes in the management of pharmacy benefits for their clients.
  - A PBM's clients may be insurance companies, employers, unions, federal, state and local governments (generally referred to as Insurers)
  - PBMs receive and store massive amounts of data
    - Member information (name, date of birth, address)
    - Benefit information (co-pays, limitations on coverage)
    - Drug information (National Drug Codes, therapeutic classes, chemical descriptions, manufacturers, prices)
    - Drug Safety information
    - Claims information (physician, patient, costs)
    - Pharmacy information (Registration number, address)
PBM Ownership

- Publicly Traded: Medco Health Solutions, ExpressScripts
- Private: MedImpact, Catalyst
- Insurance Plans: Wellpoint
- Chain Pharmacies: CVS/Caremark, Walgreen’s

PBM Customers

- Insurance Plans
- Managed Care Organizations
- Managed Medicaid
- State Medicaid
- TPA’s
- Employers
- Federal and State Governments
- Unions

What PBM’s Do

- Claims Processing/Adjudication
- Benefits Set-ups/Coordination
- DUR/DUE
- Pharmacy Networks
- Customer Service
- Rebates/Contracting
- PART D-HUGE

- Formulary Development
- Clinical Consultation
- Prior Authorizations
- Specialty Pharmacy
- Mail Order
- Data Management/Integration
- Disease State Management
- Clinical Management (Pharmaceutical Care)
What do PBMs do?

Core Functions
- Core activity to all PBMs is pharmacy claims adjudication (processing).
  - Predominantly electronically transmitted claims (online and in real time)
  - Also paper claims
- PBMs also contract with pharmacies for dispensing services and pharmaceutical manufacturers for medications

Processing Pharmacy Claims
1. The dispensing pharmacy will enter prescription information into their computer and transmit it to the PBM.
2. The PBM will analyze the claim to make sure that:
   - The patient has coverage currently in place
   - The medication is covered under the patient’s benefit
   - The patient is not on any other medications that may interact with or duplicate the actions the requested medication
   - The dosage of medication is appropriate
3. If the claim passes these inspections and is not otherwise restricted, the PBM will approve the claim and immediately notify the pharmacy. Usually takes less than 60 seconds.

How Pharmacies are Paid for Approved Claims
- Pharmacy collects partial payment from patient
- PBM pays pharmacy balance due for prescriptions, typically every 2 weeks
- PBM bills insurer for remaining drug costs for their members, typically every 2 weeks
- Insurer
Contracting with Pharmacies

- The PBM will contract with a network of pharmacies to provide services to their clients.
  - Will negotiate selling price discounts with the pharmacy
    - Currently a percentage discount based upon a standard estimated cost called Average Wholesale Price (AWP)
    - Negotiated prices are usually substantially lower than those charged to “cash” customers.
    - Pharmacies will contract to be in a network to ensure that they will not lose business to other pharmacies.

Contracting with Manufacturers

- PBMs negotiate the purchase price of medications with manufacturers.
  - May be a percentage discount from AWP
  - Also may include rebates based upon a particular product’s or set of products sales volume and market share
    - Rebates may be passed to the insurer or kept by the PBM, depending on the contractual arrangement between the PBM and the insurer

Cost Containment

- Working with their clients, PBMs develop and implement cost containment strategies with the goal of:
  - Increasing the appropriate use of generic drugs
  - Increasing the appropriate use of favored (rebated) brand drugs
  - …which are intended to lower the cost of pharmacy care for the insurer, the insurer’s clients and the member (insured person)
Cost Containment Tools

- Cost containment tools include:
  - Formularies (lists of preferred drugs)
  - Coverage restrictions:
    - Step edits: use an appropriate generic or preferred brand drug before using a more costly brand drug
    - Prior Authorizations: require a clinical review of the physician's use of particular medications before coverage is approved
  - Distribution restrictions: patient must use a mail order pharmacy after two or three fills of a drug at their local pharmacy

PBM Job's

- Clinical Services
- Pharmaceutical Relations
- Networks
- Sales
- Account Management
- Consultant
- IT Services/Data Management
- Management
- Drug Distribution-Mail & Specialty & Retail

Future of PBM's

- Regulatory Control
- PBM's become a Commodity
- Market Consolidation
- Medicare Drug Benefit
- Electronic Prescribing
- Consumer Directed Health Care
- Other Challenges and Opportunities