Eliminating Waste in PBM Contracts

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Lining the Pockets of the Big 3

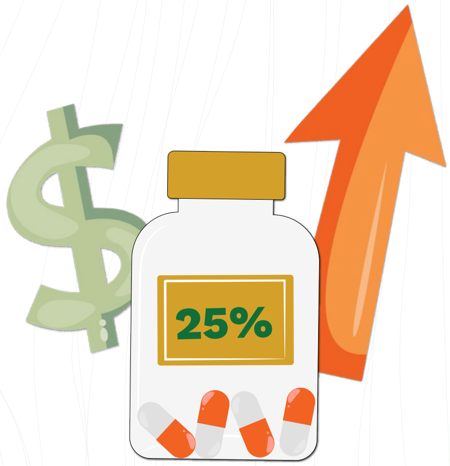
The "Big 3" PBMs—**CVS Health/Caremark, Express Scripts/Cigna, and OptumRx/ United Health Group**—have long been notorious for implementing strategies that drive additional revenue to their bottom line. Since these PBMs make money by either driving more claims or procuring/dispensing medications, many of these strategies consequently drive significant waste that falls on the shoulders of employers and their employees via higher plan and prescription costs.

The Big 3 by Market Share[1]

CVS Health/Caremark: **33 percent**

Express Scripts/Cigna: **24 percent**

OptumRx/UnitedHealth: **22 percent**



These increased costs are impacting consumers and employers nationwide in a big way. Average prescription drug prices in the U.S. are already higher than in other developed countries—and are becoming increasingly more difficult to absorb. In fact, prices for existing **drugs were up more than 25 percent from 2021 to 2022[2].**

Just in January this year (2024), drugmakers including Pfizer, Sanofi, and Takeda Pharmaceutical increased prices on 500+ unique drugs. This development comes amidst the Biden Administration's forthcoming publication of discounted prices for 10 high-cost drugs in September and ongoing challenges stemming from elevated inflation and manufacturing costs.

Three common strategies implemented by the Big 3 to drive additional revenue include:

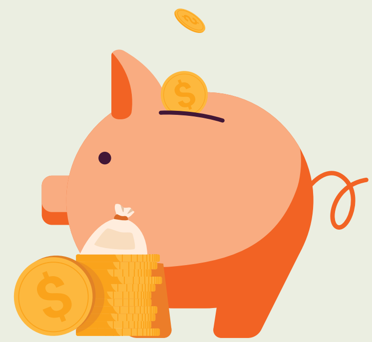
- Contracting
- Auditing
- Over Utilization

But how do these strategies actually work? How can we eliminate the waste? Let's dig in...

Contracting

Pricing: Traditional pricing, also known as ***spread pricing***, allows the PBM to make an unknown amount of revenue by reimbursing the pharmacy an amount less than the PBM charges the Plan Sponsor. The PBM also makes revenue in an unknown amount from rebates, manufacturer administrative fees, price protection payments from pharmaceutical manufacturer, price concessions and/or other direct or indirect compensation. This additional revenue has been historically retained by the PBM.

Across the board, PBMs rake in an estimated $315 billion annually.[3]



Contract Definitions: PBMs have notoriously left drug definitions vague and open to interpretation based on their discretion.

An example of this is how PBMs classify **Single-Source Generics (SSG).** Single-Source Generics are generic drugs that have recently come of patent and do not generate the high discounts that are typical for generic drugs. PBMs may create their own definition of what they considered a generic drug. They may define that a drug must have two or more manufacturers in order to be considered a generic. This allows the PBM to remove these poorly discounted SSGs from the generic “bucket” and count them as a brand, artificially improving their pricing performance of brand and generic discounts. **As a best practice, leveraging standard marketplace drug definition prevents this ambiguity.**

Multi-Year Agreements: This is an area where financial waste can happen that is rarely considered. PBMs will often offer multi-year agreements with minimal price improvements year over year. When reevaluated annually, Plan Sponsors often see better pricing that accounts for current marketplace changes and best practices.

Carve-Out Solutions: PBMs make money by either driving more claims or procuring/dispensing medications. Due to this, Plan Sponsors are restricted from implementing solutions that would carve medications outside of the PBM. Opportunities such as **International, Alternative Funding, and Patient Assistance programs** would not be able to be implemented, thus prohibiting **significant savings back to the Plan Sponsor.**

Auditing

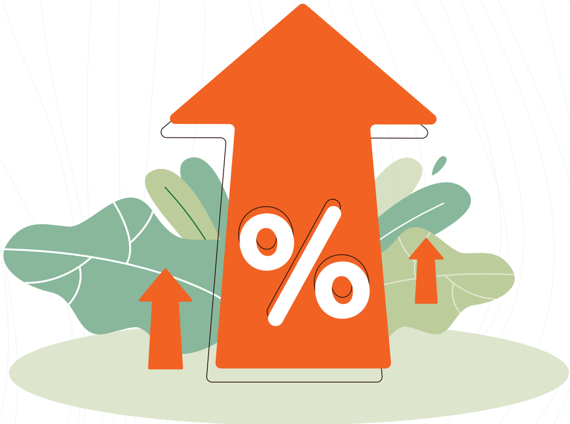
Contract Auditing: Including auditing rights in the PBM contract, and subsequently auditing the financial terms of that contract, are critical in preventing financial waste. Though the PBM contract has network discounts and rebate guarantees, the PBM may not achieve these guarantees. The ability to audit the PBM contract allows for the recovery of money owed to the Plan Sponsor. **Without the auditing process, the PBM would audit themselves, causing the Plan Sponsor to overpay for their prescription drugs.**

Channel Off-Setting: Other waste in the PBM contract as it relates to auditing can come from how off-setting is handled during the reconciliation in the auditing process. PBMs prefer to write contracts that allow them to use the overperformance in one channel to off-set the underperformance in other channels. **PBMs should be held accountable for any underperformance.**

Over Utilization

Mail Order Auto-refill: Mail Order auto-refill programs can be convenient for the member but can produce waste to the plan. With auto-refill, the member may stockpile medication due to medication being delivered prior to the member needing the prescription.

High prior authorization approval rates: High prior authorization approval rates are a common source of financial waste in a PBM contract. **Big 3 PBMs typically have the highest drug approval rates with over 90% approved.** Partnering with an independent PA firm or a PBM that has more stringent PA requirements is a strategy to prevent waste and often the approval rates fall within the mid-60 percentile.



Eliminate the Waste. Watch the Savings Grow.

Eliminating waste in PBM contracts begins with a thorough review of the contract with specific focus on the financial guarantees, definitions, terms, and ambiguous language. Ensuring that an independent third party audits the actual pricing performance based on the agreed upon contractual terms, protects the plan from money being left on the table. Lastly, the PBM should provide strategies on increasing generic utilization, stringent prior authorization review and focus on the lowest net cost.

Additional Sources:

[1] https://www.beckershospitalreview.com/pharmacy/top-pbms-by-2022-market-share.html

[2] https://www.pwc.com/us/en/industries/health-industries/library/behind-the-numbers.html

[3] https://info.rxsafe.com/blog/pbms-make-money-infographic#:~:text=How%20Do%20PBMs%20Make%2Money,administrative%20fees%2C%20and%20DIR%20fees

About Leaf Health

Our primary goal at Leaf Health is to help our clients reign in the rising costs of prescription drugs by providing innovative, results driven strategies for efficiently managing their pharmacy benefits in the most cost-effective way—without sacrificing patient care. Leveraging more than three decades of industry experience, our team utilizes a high-touch, customer-focused approach to create and execute a customized plan that meets the unique needs of every client. **Visit leafhealth.net to learn more.**

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