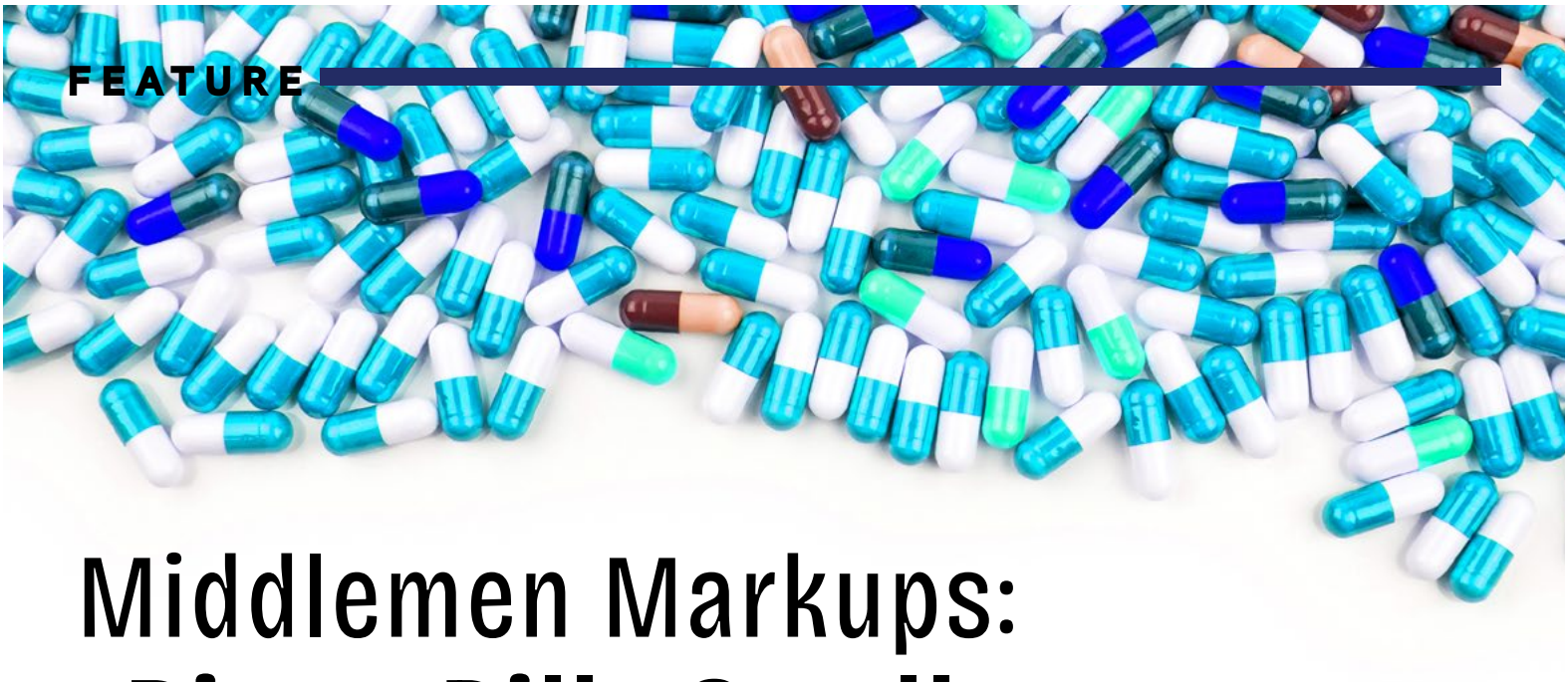


Middlemen Markups: A Bitter Pill to Swallow

Self-insured employers are moving beyond average wholesale price to better assess PBM value and secure true price transparency

Written By Bruce Shutan

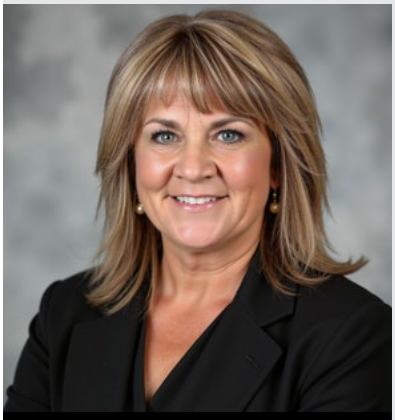
Significant change is afoot in the pharmacy benefits management space, where self-insured employers have struggled for decades to assess the true value of PBMs amid yeoman efforts to pull back the curtain on Rx price transparency.

Average wholesale price (AWP) and other metrics for gauging PBM effectiveness have become obsolete as the market shifts to transparent solutions and PBMs face mounting pressure from regulators and lawmakers, according to Zac Hanson, senior director of revenue operations for RxPreferred Benefits.

Offering a glimpse of just how frustrating of a measure AWP has been, Rx insiders will wryly say the acronym stands for "ain't what you pay" largely because it's a made-up number for generic drugs, quips Amy Ball, president of Innovative Rx Strategies.

Understanding a competitive AWP discount requires insight into how pharmacies buy drugs, what they're paying, a PBM's profit margin when engaged in spread pricing and the discount employers are getting, she says.

While AWP may be on its way to intinction, it was never appropriate in the first place, opines Jim Lodge, senior vice president of sales and chief transparency officer for TakeCareRx. "If it's a brand drug, it's probably going to be AWP minus 20%," he says. "If it's a generic drug, it's going to be AWP minus 80% or 90%. But here's the deal: AWP just makes up a discount to get the price that they want it to be."


Amy Ball

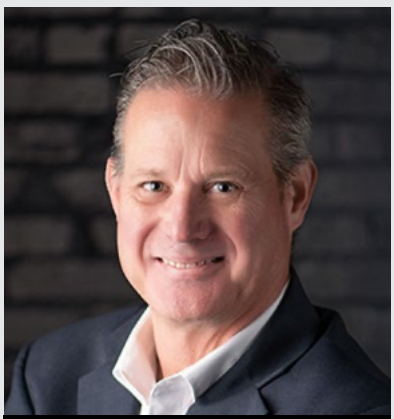
Over the years, he says PBMs have tried to make discounts look better by inflating ADP as manufacturers eventually pushed certain drugs to treat various condition. "In the late '80s and early '90s, more and more PBMs took rebates and considered them a reward for putting certain drugs on their formulary and doing therapeutic alternative programs" with pharmacists recommending scripts to doctors, he explains.

Having been accustomed to revenue generated from rebates, PBMs then started doing spread pricing to pocket the difference between what it pays the pharmacy and charges the employer. Moreover, big PBMs operate their own group purchasing organization or wholesaler that simply aggregate rebates and rely on bulk purchasing to secure better deals. In the embrace of this model, there has been a movement away from rebates.

But they're keeping much of the money in the form of marketing or formulary management fees, Lodge reports. As a consultant in the Rx space, his goal is to ensure that 100% of rebates are paid back to the employer client.

FROM NADAC AND WAC TO ACQUISITION COST PLUS

National average drug acquisition cost, known as NADAC, is a newer standard that the Federal Trade Commission is using for comparisons to uncover price gouging. Published in November 2013, an updated version was released in 2023. "When we did an analysis of it across our entire book of business, it was nothing but NADAC plus 3%," Lodge recalls.


Jim Lodge

What his organization does that most others do not is something called actual acquisition cost, reimbursing the pharmacy based on what it paid for each drug, plus a $10.50 professional fee for counseling the patient, as well as paying the light bill and for their technology. While most organizations use AWP or NADAC, he says there's also wholesale acquisition costs (WAC) with nine different ways to determine the cost of drugs and reimbursements.

The trouble with WAC, though, is not every drug has a WAC price, Ball notes. She says NADAC pricing is based on survey data from about 400 pharmacies across the country that routinely report on their acquisition cost.

"If you're a large pharmacy like a Walgreens or CVS, you probably have a lot better buying power than some of the 400 pharmacies or chain pharmacies that are reporting on NADAC," she observes. "If you buy better than NADAC, you make money as a pharmacy. If you don't buy better than NADAC, then you're losing money."

NADAC's intention is to get closer than AWP to a price point that doesn't put a pharmacy underwater on some claims and then have higher profit on other claims, Ball notes. And while the goal is to reimburse pharmacies in a more appropriate way, she cautions that there's a much higher dispensing fee with NADAC.

Another measure that's rarely used because it requires individually contracting with retail networks at the client level involves direct contracts with a pharmacy based on their acquisition cost plus a markup, Ball says.

Depend on Sun Life to help you manage risk and help your employees live healthier lives

By supporting people in the moments that matter, we can improve health outcomes and help employers manage costs.

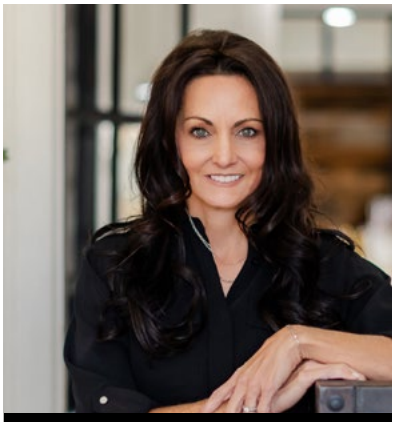
For over 40 years, self-funded employers have trusted Sun Life to help them manage financial risk. But we know that behind every claim is a person facing a health challenge and we are ready to do more to help people navigate complicated healthcare decisions and achieve better health outcomes. Sun Life now offers care navigation and health advocacy services through Health Navigator, to help your employees and their families get the right care at the right time – and help you save money. Let us support you with innovative health and risk solutions for your business. It is time to rethink what you expect from your stop-loss partner.

Ask your Sun Life Stop-Loss Specialist about what is new at Sun Life.

BRAD-6503-z

#1293927791 02/24 (exp. 02/26)

Lodge predicts a bright future for the net-cost model, citing as an example of this approach in action Rightway Healthcare's per-member-per-month guarantee that net cost will not exceed a certain amount. If it does, then he says the transparent PBM's stop-loss will activate inside the self-funded plan to reduce that medical spend.



Kerri Tanner

As AWP contracts disappear and give way to an acquisition-based model, however, the incentive to purchase at the lowest acquisition price is lost, which drives up prices, explains Kerri Tanner, chief pharmacy officer with PayerAlly.

She notes several areas of potential risk with acquisition cost plus models and contracts with PBMs because they don't typically have the same level of guarantee language, nor are they well-defined in the industry. They also may be internally developed and prone to shifts in cost-sharing because members are used to paying a very low amount for some of the cheaper generics that carry a higher price.

DISCOUNTING INFLATED PRICES

Whatever pricing model is used, the Big Six PBMs are pushing rebate guarantees and discounts, many of which are artificially inflated through their pricing methodology, threatening employers' ability to control costs, Hanson notes. These players include CVS Caremark, Express Scripts, OptumRx, Humana, Prime Therapeutics and MedImpact Healthcare Systems, with the top three controlling nearly 80% of the market.

With a spread-pricing model that lacks transparency, he says employers have no way of knowing how much they're being overcharged. These practices, of course, are detrimental to both self-insured employers and their health plan members and have led to litigation (more on that later).

"They can charge whatever they want for a drug, reimburse the pharmacy a set amount and charge the employer a higher amount," Hanson explains. "Meanwhile, the plan has no control over whether it's being overcharged and or the ability to track performance effectively."

When legacy PBMs are incentivized with high rebate guarantees or by retaining rebates, he says it positions them to prefer higher-cost medications to retain more profit. Employers can avoid this perverse model of misaligned incentives by partnering with a transparent, pass-through PBM that is independent of an insurance carrier and doesn't own pharmacies – unlike the vertically integrated model that has dominated the U.S. healthcare system.

"They need to understand that their PBM will prioritize true drug costs over discounts and rebates, allowing them to use their data to identify areas of opportunity for the plan while ensuring that the PBM's philosophy and processes align with plan goals," he observes. "Every plan needs to have access to claim-level detail when it comes to all claims and rebate payments."

Independent pharmacies are losing significant amounts of money on a number of drugs because their reimbursement is far below the actual cost to them, and therefore, they no longer can afford to carry those scripts, Lodge explains, noting how patients are instead referred to large drugstore chains to purchase them.

With some drugs costing as much as $20,000 to $30,000 a month, he says even if reimbursement is $5,000, they're still taking a terrible beating every time they fill that drug. He compares this dilemma to car dealerships covering their profit margins after selling vehicles below the manufacturer's suggested retail price.

These market challenges have caught the attention of Optum Rx, a Big Three PBM that recently announced it is shifting to a cost-based model to better align with the costs pharmacies face based on drug manufacturer pricing. The move, which will be fully implemented by January 2028, was initiated to help support more than 24,000 independent and community pharmacies the PBM works with, along with its members.

AUDITING PBM CONTRACTS

Given how PBMs represent one of an employer's largest vendors and areas of risk, Tanner suggests it's important to audit PBM contracts on an annual basis. She says there are typically changes in PBM contracts from one year to the next that go undetected, involving clinical rules being coded or prior-authorization rules not being put in place, as well as drugs moving on and off a formulary. The result may be that an employer pays for drugs it didn't intend to pay for, she says, adding that PBMs must be held accountable for not following their contractual terms.

Standard audits will examine business practices that are creating risk, as well as compare the output of claims activity to clinical rules and contractual obligations. A comprehensive PBM audit would include not only a financial component that examines rebate guarantees, plan design and cost-shares, but also a clinical rules validation involving adhering to prior authorization or monthly formulary updates, Tanner says.

Your business is unique — and so is AmeriHealth Administrators and the truly customized solutions we offer.

Everything about our approach to self-funded administration can be customized to your needs. We offer flexible benefit designs via our unique and highly configurable administrative platform, supported by data insights, health management programs, and flexibility to integrate vendors.

Learn more. Visit amerihealthtpa.com.

AmeriHealth® Administrators

"Typically, the errors that we see in the audit of PBM contracts fall into a few different categories," she reports. They include not reporting on rebate guarantees, failing to abide by a new amendment that was signed or updating pricing in year-over-year changes.

Another involves offsetting values when it comes to meeting a guarantee when dispensing in retail, mail-order and specialty channels and being very specific in the contract as to what is or isn't allowed, but then not replicated in the actual guarantee that they're delivering to the payer. In addition, there's often a failure to follow contract definitions around limited distribution or what is considered a specialty drug "that blow through into the exclusionary language," she says.

But an annual audit isn't enough. Tanner notes that there also needs to be ongoing monitoring of the contract, PBM performance and consideration of other yardsticks by which to measure them or contract arrangements.

The entity that's auditing a current contract and entity that's providing strategic advice and modeling future contract capabilities should be two separate organizations to avoid any conflicts of interest, Tanner suggests. "So even at our own company, there's a firewall," she says. "We don't share databases or details. They're different humans. They're different companies."

Zac Hanson

In today's environment, Hanson says the PBM or organization that owns the PBM is in control of patients from the time they're examined by a doctor to determine which prescription they can take, where they can get it filled and how much it costs. Since this has led to higher healthcare costs, he says there's a need to separate those responsibilities into independent organizations that will ultimately level the playing field, and that's going to be the only way to be able to have accountability within healthcare and rebuild trust.

echo
payments simplified

Payment solutions that give you more.

As a leading provider of innovative payment solutions, we deliver payments backed by 25+ years of expertise, enabling **more connectivity, more payment accuracy,** and **more bottom-line savings.**

Learn more at **echohealthinc.com**

Lodge says employers must understand their PBM contracts and do a reprice with a third party, as well as tailor a formulary around the medical profile of their employee base. In addition, he says it's best to separately manage specialty drugs, which typically drive 50% and 60% of costs and are huge rebate drivers but only affect 3% to 5% of plan members.

AVOIDING LEGAL LANDMINES

Mindful of high-profile class-action lawsuits against JPMorgan, Johnson & Johnson and Wells Fargo Bank over inflated prescription drug pricing and a breach in their fiduciary duty as health plan sponsors, Ball emphasizes the importance of fee disclosure. For example, oftentimes there's back-end incentivization under coalition deals.

"They get paid by PBMs to bring in and retain new business," she explains, "and those fees are not often fully disclosed. So, having an independent consultant who's not paid by anybody else in the supply chain is very important."

What she finds interesting about specialty generics, which sparked these lawsuits in the first place, is that the non-specialty space historically had been teeming with brands and generics. Since blockbuster generics began flooding the market in the 1990s, she says prices dropped significantly when there were multiple competitors.

Rounding out expertise may be the most prudent strategy of all when seeking partnerships. Finding experts who understand the intersection of pharmacy claims data with a PBM contract is critically important, according to Ball. "Just because you're an attorney doesn't mean you understand the business side of pharmacy," she cautions, noting that as a pharmacist she lacks the knowledge to reconcile a client's contract.■

Bruce Shutan is a Portland, Oregon-based freelance writer who has closely covered the employee benefits industry for more than 35 years.