In Focus

Through the Looking-Glass

Business school-trained benefits managers don't often turn to Lewis Carroll's sequel to *Alice's Adventures in Wonderland* for reference points, except perhaps when it comes to describing their PBM relationships. Alice confronted confounding changes in time, space and direction. Benefits managers contend with similarly dizzying PBM pricing practices through which rebates sort-of get paid or "redirected" to fund discounts and at the same time also drive costly PBM formulary selection decisions. It is only the bravest benefits managers that even attempt to venture into the murky, but profitable, PBM wonderlands of MAC lists, mail order re-packaging and re-billing.

They Said It

From the URAC *PBM Purchasers Guide*: "PBMs will provide transparency and disclosures to a level demanded by the competitive market and generally rely on the demands of prospective clients for disclosure in negotiating their contracts. The best proponent of transparency is informed and sophisticated purchasers of PBM services."

Out of this fog comes a notice that at least one of the major PBMs will stop using First Data Bank as its source for Average Wholesale Prices ("AWP") and switch to Medi-Span, which also has supplied AWP data to PBMs and insurance carriers. The Medi-Span announcement gives benefits managers the occasion to re-think what it is they are doing by continuing to participate in and thus perpetuate what is called the "traditional PBM pricing-delivery model".

Under the traditional model, the PBM will deliver to the drug plan a significant discount off the "average" wholesale price. Less promoted in this model is that the PBM will retain most of the manufacturer rebates, use rebate maximization to construct much of its formulary lists and make a bundle off its generic drug spreads and mail order operations. (Perhaps not being sufficiently careful about what they wished for, consultants and benefits managers drove PBMs into this Alician world of behind-the-veil profits. Back in the day, benefits managers signaled that they did not want to pay PBM administration fees. Not surprisingly, PBMs switched to rebate maximization, price spreads and other techniques to cover their costs and feed their bottom lines.)

Do PBMs heavily promote this model because it saves employer-sponsored drug plans the most money? Think again. It is the traditional model that makes the PBM the most money. How? It's not just the administration fees. Its also the profitable manufacturer rebates and other incentives on the volume of drugs sold. This explains a lot of why PBMs' formulary lists contain the drugs they do. This also explains why a benefits manager's attempts to customize a formulary list will most likely result in a rebate reduction. A PBM's mail service pharmacy is another source of profit, one where PBMs' pill re-packaging and re-billing drive your dollars to their bottom line.

And then there is the spread between what your plan pays for a drug and what the PBM reimburses the pharmacy for that drug. This spread, especially regarding generic drugs, is one of the greatest PBM profit sources under the traditional model.

There are no doubt readers of In Focus who at this point want to raise their hands and say, “But wait! My PBM *is* transparent. It passes through the rebates and tells us all about their spreads and how they do their MAC list and all that”. OK. Let’s say you’re in the supermarket and you see the words “natural” or “all natural” on labels for everything from cereal to beer. Do those words mean what you mean when you say or think “natural”? Maybe, maybe not. We’ve gotten used to giving wide berth to how marketers use the Queen’s English. So it is with “transparency” and your friendly PBM. What they mean by transparency and what you mean may not be the same thing.

There is more, so much more, to discovering where and how the traditional PBM model has its focus on a target other than the least net cost for your drug plan. Suffice it to say, there is a way out of this unhappy wonderland. There are PBMs that will work for a flat fee, that will deliver significant AWP discounts, that will pass through the revenue from the drug manufacturers attributable to your drug volume, and let you prove it all to yourself without hesitation. Examining the offerings of these PBMs can be the catalyst for drug plan management that focuses on what you really want - the right drugs for your people at the least net cost.

Many readers know at least a little bit about all of this, and some readers know a lot. But still the traditional PBM model perseveres and propagates. Perhaps it is because it’s just so much easier to take the traditional deep discounts and direct our managerial energies elsewhere, to places where the challenges aren’t subterranean, where the labeling isn’t as confusing and where the solution isn’t a new name to the CFO. To that we say: “making things right doesn’t have to make things difficult.”

It’s time to consider other ways through the forest than one more trip down the popular path. When your current PBM contract is up for renewal, go for the clarity that just might bring you the least net cost. Identify and negotiate a truly transparent “pass-through” PBM arrangement for your plan. Obtain an arrangement where the cost is your price and where the fee is the PBM’s revenue. This is how you escape the maze, pay the least and do the right thing.

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