Beyond the Spreadsheet: PBM Pricing Tips Part 1

There are quite a few PBM pricing “illusions” that require purchasers and their consultants to look “beyond the spreadsheet.” These subtle caveats are aimed at providing the illusion of more aggressive pricing through higher discounts and rebates on the consultant’s spreadsheet while reducing or changing the number or types of claims to which the guarantees apply. The end results are typically higher costs to the plan and its participants.

Tip 1: Days’ Supply Requirement: This caveat can apply to both mail and specialty claims and bases the rebate guarantee on a 90-day supply, or a more vague “clinically appropriate days’ supply,” of the medication being dispensed. As more plans adopt quantity limits, particularly on the initial fill of a specialty medication, fewer scripts will actually qualify for the full guarantee. Hence, if a plan or its consultant simply multiplies the guarantee by the total number of specialty scripts, it will overstate the total rebates the plan should expect to receive.

In a recent analysis for a prospective client, the days’ supply limitation would have impacted about 6 percent of mail order claims and about 4 percent of specialty claims. The resulting rebates were inflated about 6.5 and 5.8 percent, respectively. Given that the client in question didn’t currently have limits on its specialty days’ supply, the impact was rather minimal. For clients with existing limits, the impact can be much more dramatic.

Tip 2: Limited Distribution Drugs (LDDs): Rebate guarantees are stated by taking the expected rebates and dividing them across the desired claim count - most commonly brand claims. As expected rebates flatten or decline due to lower manufacturer inflation, lower hepatitis C utilization, new drugs launched at lower list prices, etc. and consultants and employers expect higher rebate guarantees, PBMs will exclude certain brand claims from the count. Hence, divide by a smaller number to get a higher per brand guarantee. Again, It doesn’t necessarily mean the total rebates you’ll receive are higher, but rather the number on the spreadsheet is higher.

A common example is to exclude limited distribution specialty claims from the specialty rebate guarantee. In the same recent case, LDDs represented about 13 percent of a plan’s specialty claims. By removing these claims from the guarantee calculation, the competing PBM was able to inflate their value by about 15 percent.

In the actual example above, the PBM was able to inflate the specialty rebate guarantee it put on paper by more than 20 percent by simply using these pricing caveats. In this case, the employer was unwilling to take the time to understand how these illusions worked and went with the competing offer. When plans award business to PBMs that play these games, other PBMs follow suit in order to compete, thereby creating some of the complexity that plagues the system.