



# PBM: A Logical Approach to an Illogical Category

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Pharmacy pricing is a hot topic. Politicians and news editors lace their speeches or headlines with stories about hyper-inflated prices for select medications. Business executives and human resource departments continue to see pharmacy as the fastest growing component of health care trend. Patients experience the cost increases first hand as a greater share of the cost is pushed their way through high deductible plan designs.

Where does an employer start in looking for ways to save money on pharmacy benefits for its plan and its participants?

## THE COMPONENTS OF PHARMACY COST: PRICE AND UTILIZATION

You could fill a glossary with the number of different pricing metrics for pharmacy. For most employer contracts, pricing consists of several key components:

- Discounts off of a standard price benchmark called average wholesale price (AWP)
- Dispensing fees paid to pharmacies
- Administrative fees paid to the pharmacy benefit manager (PBM)
- Rebates paid by the drug manufacturer to the PBM

These components vary by the type of drug being used – brand product, generic product or specialty product. They also vary by where the drug is dispensed and at what quantity – a retail pharmacy, mail pharmacy or specialty pharmacy with a 30-day supply or a 90-day supply.

Employers have little, if any, control over the list price (AWP). They have much more control over how they procure the services of a PBM that will impact the discounts, fees and rebates. GPO models, for example, allow employers to leverage more aggressive discounts, fees and rebates based on the buying leverage of the entire group.



Price is only one component of overall cost. Utilization, including the quantity and types of drugs being dispensed, plays an important role as well. Employers have little control over some drivers of utilization – average age of your population, disease incidence, new drug releases, etc... Employers do have control over the tools they access to manage utilization, both in terms of the plan designs they offer employees and the PBM management programs available and implemented. A good GPO model not only offers a competitive price, but also supports its employers with good data and expert advice on how to best manage the utilization occurring within the plan.

#### PROCUREMENT: WHAT'S IMPORTANT?

Procurement for pharmacy benefits would be easy if the components of price and utilization were as simple as described above. They're clearly not. Pricing gets overly complicated by contract definitions that dictate how the pricing is applied to the utilization. Managing utilization usually means some form of disruption to a patient. Very quickly, things can get complex and emotional – a sure recipe for disaster. But managing the pharmacy benefit, and finding the right PBM partner, doesn't have to be so painful.



LET'S START WITH THE BASICS:

**Pharmacy is complex.**

A small percentage of consultants really understand pharmacy benefits, so find one that does.

**It's a game of scale vs. spread.**

Your PBM's scale generally determines their relative value in the marketplace. Your scale determines how much of that value the PBM shares or keeps (spread).

**Uniqueness doesn't drive value.**

It does, however, drive marketing for PBMs and some consultants. No one model is going to be best for all employers.

**Remember the human element.**

Pharmacy is a highly utilized benefit by your employee base. Create the proper perspective up front for balancing disruption vs. cost savings and find a PBM partner that values the experience for both plan participants as well as plan managers.

**Give pharmacy the attention it deserves.**

Pharmacy is now around 20% - 30% of total health spending and, as mentioned earlier, growing at a faster rate. Educate yourself on the benefit and the players in the market place.

The pharmacy benefit market place is changing rapidly. Consolidation continues as players position themselves for future sustainability and growth. The games in PBM contracting and pricing escalate as PBMs look for market share and consultants seek a differentiator. Employers need to take a more active role and need to ensure they have a partner that helps maximize value.

To learn more about how your fund can benefit from our national pharmacy benefits group purchasing program contact Mike Stull at 614 763 0007.

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