PBM Overview
What is a PBM?

- PBMs are the circuitry through which we provide our members widespread access to affordable prescription drugs in a safe manner.
How Much Volume Do PBMs Handle?

- **BCBSVT’s Volume** (167,000 members)
  - 1.6 Million Rx claims
  - $151 Million in drug spend
  - 8,592 pharmacies used
  - 14,141 unique drugs processed

- **Express Scripts’ Volume** (105,000,000 members)
  - 1.5 Billion Rx claims
  - $104 Billion in drug spend
  - 67,000 pharmacies used
  - 140,000 unique drugs processed

- **Caremark’s Volume** (63,000,000 members)
  - 880 Million Rx claims
  - $62 Billion in drug spend
  - 67,000 pharmacies used
  - 140,000 unique drugs processed

- **Catamaran’s Volume** (32,000,000 members)
  - 350 Million Rx claims
  - $25 Billion in drug spend
  - 67,000 pharmacies used
  - 140,000 unique drugs processed
What Services Do PBMs Provide?

- Claims Processing
- Patient Safety Edits
- Formulary Management
- Pharmacy Contracting
- Manufacturer Rebate Contracting
- ePrescribing Hub
- Mail Order Pharmacy
- Specialty Drug Pharmacy
- Customer Service
- Prior Approval Processing
- Academic Detailing
- Data Integration
- Account Management
- Market Development
- Fraud, Waste & Abuse Review
- Trend Analysis
How Does PBM Pricing Work?

- Brand Drug Discounts
- Generic Drug Discounts
- Specialty Drug Discounts
- Dispensing Fees
- Rebate Percentage
- Rebate Guarantee

Each of these items have different amounts for retail pharmacies and the PBM’s mail order pharmacy.

- Fees
How Do PBMs Make Money?

- **Discount Spread**
  - Example: PBM negotiates a 16.6% discount with the pharmacies and then negotiates a 16.5% discount with the plan sponsor.

- **Pass-through + Fee**
  - Example: PBM negotiates a 16.5% discount with the pharmacies and then passes the full discount onto the plan sponsor. PBM charges the plan sponsor a fee on each claim.

- **Rebates**
  - Example: PBM keeps a portion of the rebates it collects from manufacturers.

- **Float**
  - Example: PBM collects from the plan sponsor on the 1\textsuperscript{st} and reimburses the pharmacies on the 3\textsuperscript{rd} of the month.
Pharmacy Industry Margins

- PBMs have the smallest margins in the pharmacy delivery pipeline.

<table>
<thead>
<tr>
<th></th>
<th>Express Scripts</th>
<th>Rite Aid</th>
<th>Pfizer</th>
</tr>
</thead>
<tbody>
<tr>
<td>(as a % of revenue)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Margin %</td>
<td>7.7%</td>
<td>29.0%</td>
<td>81.3%</td>
</tr>
<tr>
<td>Net Income %</td>
<td>1.7%</td>
<td>2.0%</td>
<td>21.7%</td>
</tr>
</tbody>
</table>

Note: Data from 2014 SEC filings.

- BCBSVT passes through 100% of its discounts, fees and rebates onto its clients and makes no margin on Rx claims.
Legislation Key Points

- Increases health care premiums
- Increases public spending
- Burden on members with deductibles
- Negative impact on local independent pharmacies
Impact of Subchapter 3. MAC Bill
§ 3812 Sec (1)

- This section will require that generic drugs with only 1 or 2 manufacturers or non-AB rated be priced as a brand drug rather than as a generic drug.

- Brand drugs have much smaller discounts than the generic drugs.

- These cost increases will flow into BCBSVT’s member’s premiums.
Impact of Subchapter 3. MAC Bill § 3812 Sec (1) [cont.]

- **Sumatriptan Nasal Spray | AWP = $310.30**
  - Current generic price = $229.71 (26.0% discount)
  - Proposed brand price = $259.10 (16.5% discount)
  
  **Cost Increase = $29.39 (12.8% increase)**

- **Sodium Flouride | AWP = $19.75**
  - Current generic price = $12.78 (35.3% discount)
  - Proposed brand price = $16.49 (16.5% discount)
  
  **Cost Increase = $3.71 (29.0% increase)**

- **Verapamil SR | AWP = $116.15**
  - Current generic price = $83.72 (27.9% discount)
  - Proposed brand price = $96.99 (16.5% discount)
  
  **Cost Increase = $13.27 (15.9% increase)**
Based upon BCBSVT’s 2014 volume, this section of this bill will increase BCBSVT’s Rx costs by $3.36M annually.

Top 10 BCBSVT Retail Pharmacies

<table>
<thead>
<tr>
<th>Pharmacy</th>
<th>Market Share</th>
<th>Increase in Reimbursement</th>
</tr>
</thead>
<tbody>
<tr>
<td>RITE AID</td>
<td>29%</td>
<td>$989,842</td>
</tr>
<tr>
<td>KINNEY DRUGS</td>
<td>15%</td>
<td>$505,059</td>
</tr>
<tr>
<td>CVS</td>
<td>11%</td>
<td>$369,775</td>
</tr>
<tr>
<td>HANNAFORD FOOD AND DRUG</td>
<td>9%</td>
<td>$289,290</td>
</tr>
<tr>
<td>WAL-MART</td>
<td>3%</td>
<td>$96,745</td>
</tr>
<tr>
<td>PRICE CHOPPER PHARMACY</td>
<td>3%</td>
<td>$95,664</td>
</tr>
<tr>
<td>FLETCHER ALLEN OP PHARMAC</td>
<td>3%</td>
<td>$95,501</td>
</tr>
<tr>
<td>SHAWS/OSCO</td>
<td>2%</td>
<td>$82,200</td>
</tr>
<tr>
<td>RUTLAND PHARMACY</td>
<td>2%</td>
<td>$81,832</td>
</tr>
<tr>
<td>MONTPELIER PHARMACY</td>
<td>2%</td>
<td>$53,520</td>
</tr>
</tbody>
</table>
Impact of Subchapter 3. MAC Bill § 3812 Sec (1) [cont.]

- This will increase VEHI’s Rx costs by $700K.
  - VEHI’s costs are paid by property taxes

- This will increase the Rx costs for the VT state employees by about $450K.
  - Additional pressure on state budget

- UVM will see an increase of about $205K to their Rx costs.
This section says that if a pharmacy bought a drug for more than their reimbursement, their reimbursement will have to be increased to match their buying price.

- Impact to premiums is unknown.

- Burden to patients with deductibles who will have to pay the additional amount after they already paid once.

- Confusion to patients that are close to deductible and out-of-pocket maximums.
Impact of Subchapter 4. Choice of Pharmacy § 3821 Sec (a) & (b)

- This section says that we can neither exclude any pharmacies from our network nor prefer any pharmacy over another.

- BCBSVT has excluded Walgreens since 2012 due to high costs. Walgreens would have to be allowed back into our network.
  - Local independents benefited from BCBSVT excluding Walgreens.
  - Adding Walgreens will increase BCBSVT’s cost by another $800,000.
  - Local independents will be hurt by Walgreens reentering our network.

- This will prevent employers from offering “2 copays for 3 month’s supply” at mail order.
  - This could impact VEHI’s ACA grandfathered status if they have to increase their copays.
Vermont independent pharmacies are losing market share to the chain stores; not the mail order pharmacies.
Walgreens Impact

Number of Scripts at Rutland and Brattleboro Independent Pharmacies

- BCBSVT began moving members away from Walgreens in August 2011.
- Rutland & Brattleboro independents’ Rxs increased 25% afterwards.
- This bill would reverse this and hurt local independent pharmacies.
Questions?

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