

Pharmacy Benefit Manager Overview

House Health Care Committee
April 14, 2015

We'll see you through.

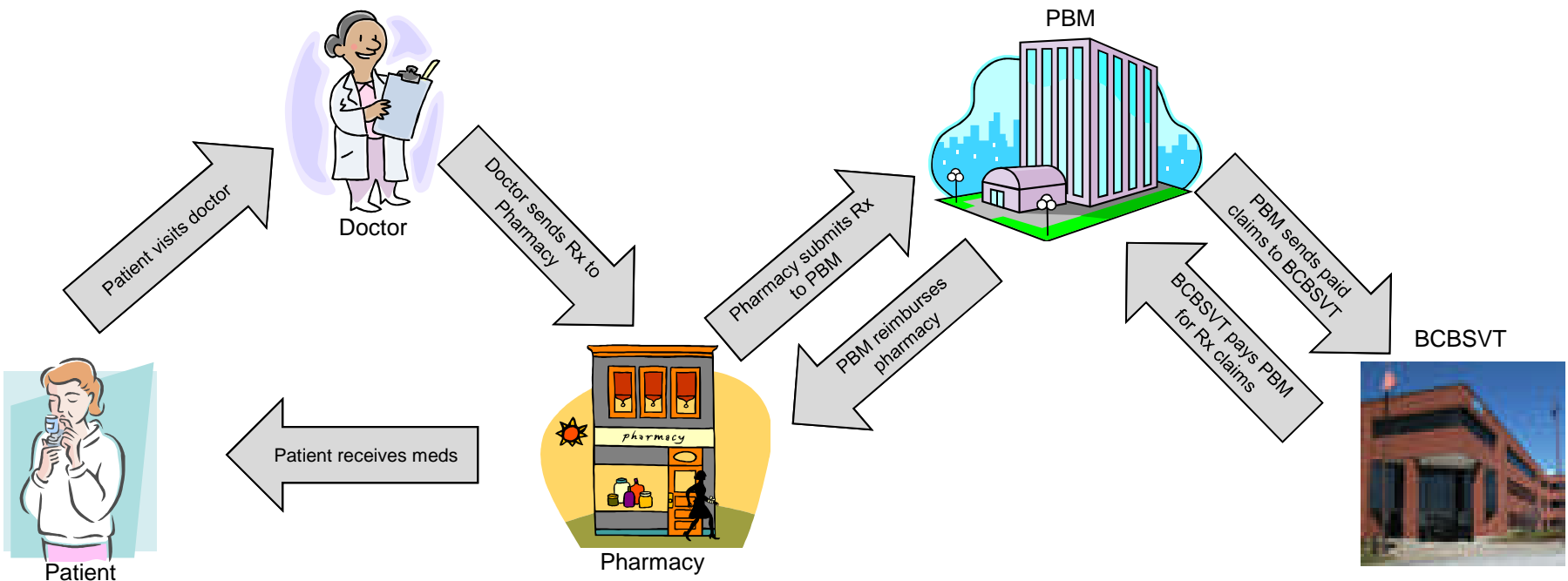


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What is a Pharmacy Benefit Manager?

- Pharmacy Benefit Managers are the circuitry through which we provide our members widespread access to affordable prescription drugs in a safe manner.



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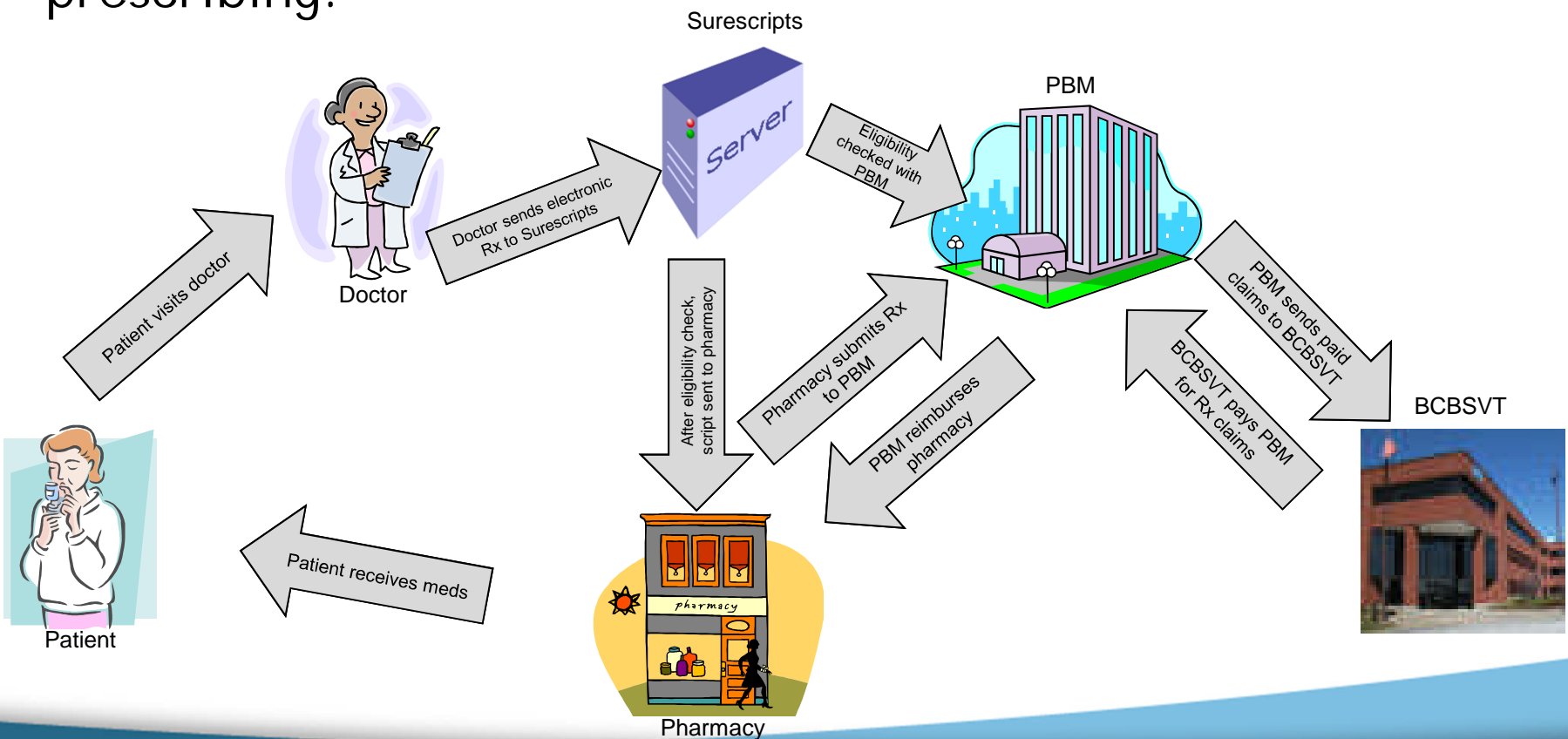


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Electronic Prescription Path

- VT has one of the highest percentage of doctors prescribing electronically. As of 2014, over 80% were e-prescribing.



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Why Do We Contract with PBMs?

- **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

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Hepatitis-C Medication Cost

- Gilead released Harvoni to treat hepatitis-C in 2014 at about \$98,000 (12 weeks of therapy).
- BCBSVT spent about \$3.6M on Gilead's products in 2014 to treat hepatitis-C.
- Abbvie received FDA approval for Viekira Pak in December 2014 to treat hepatitis-C.
- Harvoni and Viekira Pak have similar success rates.
- ESI used its volume of 105 million members to negotiate lower prices for BCBSVT members.
- Harvoni is now \$61,000 (42% less) and Viekira Pak is \$46,000 (53% less).



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History of Pharmacy Benefit Management

- *1980's*: Basic claims processing & mail order pharmacy
- *1990's*: Two-Tier Drug Cards
 - Members were incented to use generics
 - Formulary management and rebate contracting
 - Pharma buys PBMs
- *1996*: FDA Expands Pharmaceutical DTC Advertising
 - By 2005, \$4.2B spent on DTC advertising
 - Another \$8.4B on pharmaceutical representatives
- *Early 2000's*: Three-Tier Drug Cards
 - Meant to combat advertising on non-formulary "Me Too" drugs
 - Pharma sells PBMs
 - State Attorneys General sue PBMs for transparency.
- *Late 2000's*: Big Pharma offers members copay waiver cards
 - Negates impact of three-tier drug cards
 - Plan sponsors respond with Step Therapy, Prior Approvals and Quantity Limits
 - Industry consolidation

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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

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How Does Pharmacy Benefit Management 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

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How Do Pharmacy Benefit Managers 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 1st and reimburses the pharmacies on the 3rd of the month.

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Pharmacy Industry Margins

- Pharmacy Benefit Managers have the smallest margins in the pharmacy delivery pipeline.

(as a % of revenue)

	Express Scripts	Rite Aid	Pfizer
Gross Margin %	7.7%	29.0%	81.3%
Net Income %	1.7%	2.0%	21.7%

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.

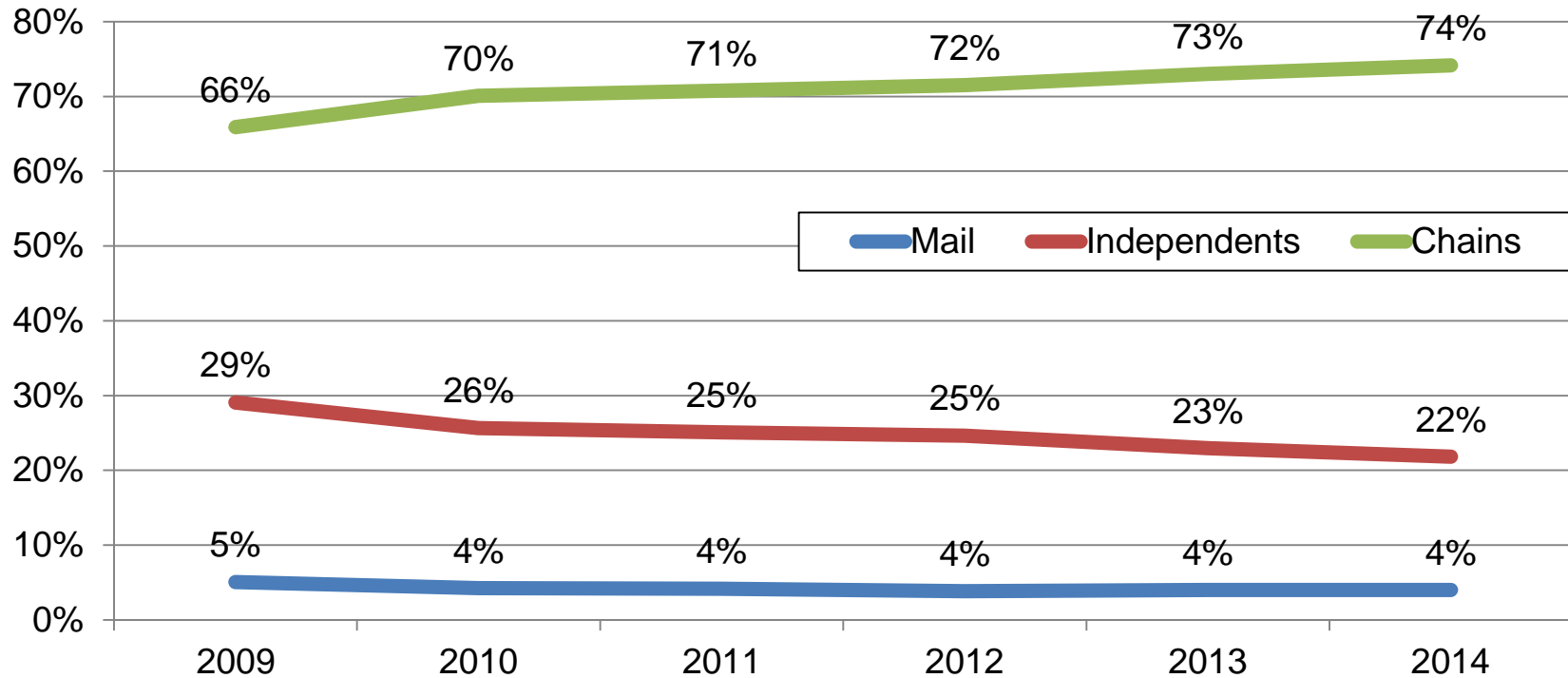
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BCBSVT Pharmacy Market Share



Vermont independent pharmacies are losing market share to the chain stores; not the mail order pharmacies.

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Questions?

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