

# PBM Overview & Proposed Legislation

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Senate Health & Welfare Committee

March 10, 2015

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# PBM Overview

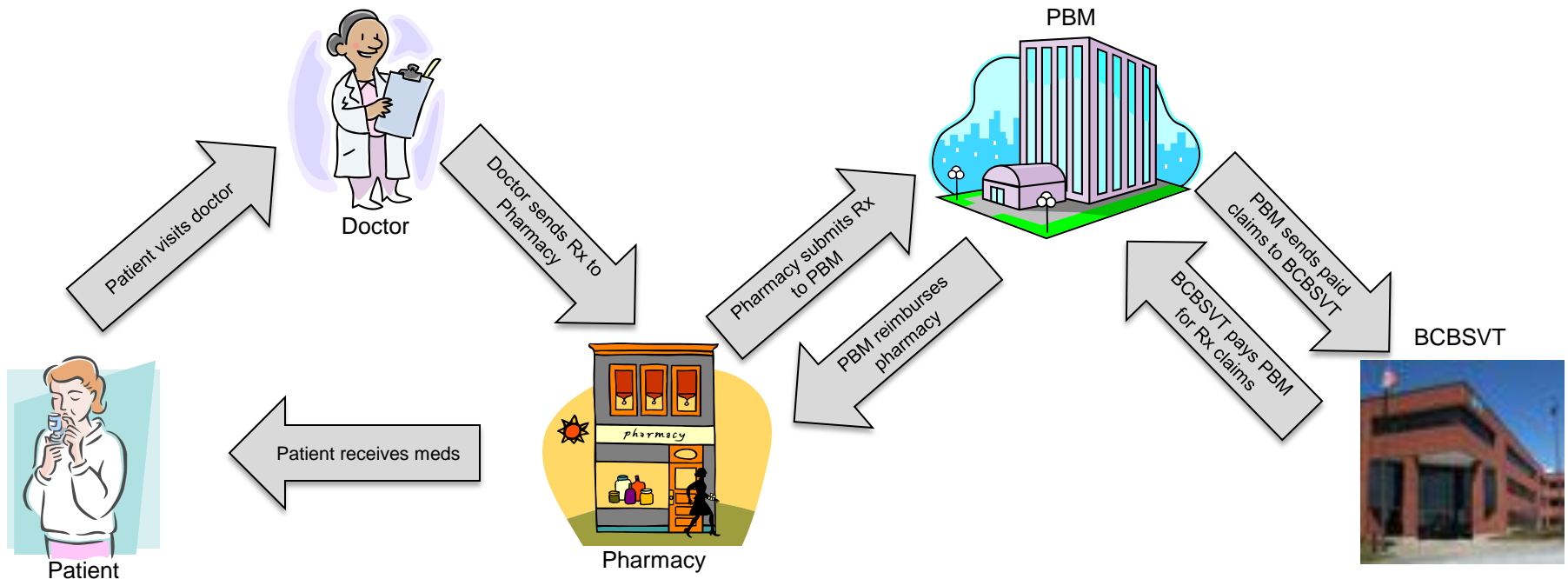
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# What is a PBM?

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



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# 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

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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 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

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# 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<sup>st</sup> and reimburses the pharmacies on the 3<sup>rd</sup> of the month.

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# Pharmacy Industry Margins

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

(as a % of revenue)	Express Scripts	Rite Aid	Pfizer
<b>Gross Margin %</b>	7.7%	29.0%	81.3%
<b>Net Income %</b>	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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# Proposed Legislation

## Chapter 79. Pharmacy Benefit Managers

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# Legislation Key Points

- Increases health care premiums
- Increases public spending
- Burden on members with deductibles
- Negative impact on local independent pharmacies

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# 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.

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# Impact of Subchapter 3. MAC Bill § 3812 Sec (1) [cont.]

Note: AWP = Average Wholesale Price (set by Medispan)

## ■ 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 Fluoride | 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)**



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# Impact of Subchapter 3. MAC Bill § 3812 Sec (1) [cont.]

- 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

Pharmacy	Market Share	Increase in Reimbursement
RITE AID	29%	\$989,842
KINNEY DRUGS	15%	\$505,059
CVS	11%	\$369,775
HANNAFORD FOOD AND DRUG	9%	\$289,290
WAL-MART	3%	\$96,745
PRICE CHOPPER PHARMACY	3%	\$95,664
FLETCHER ALLEN OP PHARMAC	3%	\$95,501
SHAWS/OSCO	2%	\$82,200
RUTLAND PHARMACY	2%	\$81,832
MONTPELIER PHARMACY	2%	\$53,520

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# 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.

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# Impact of Subchapter 3. MAC Bill § 3812 Sec (6)(A)

- 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.

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# 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.

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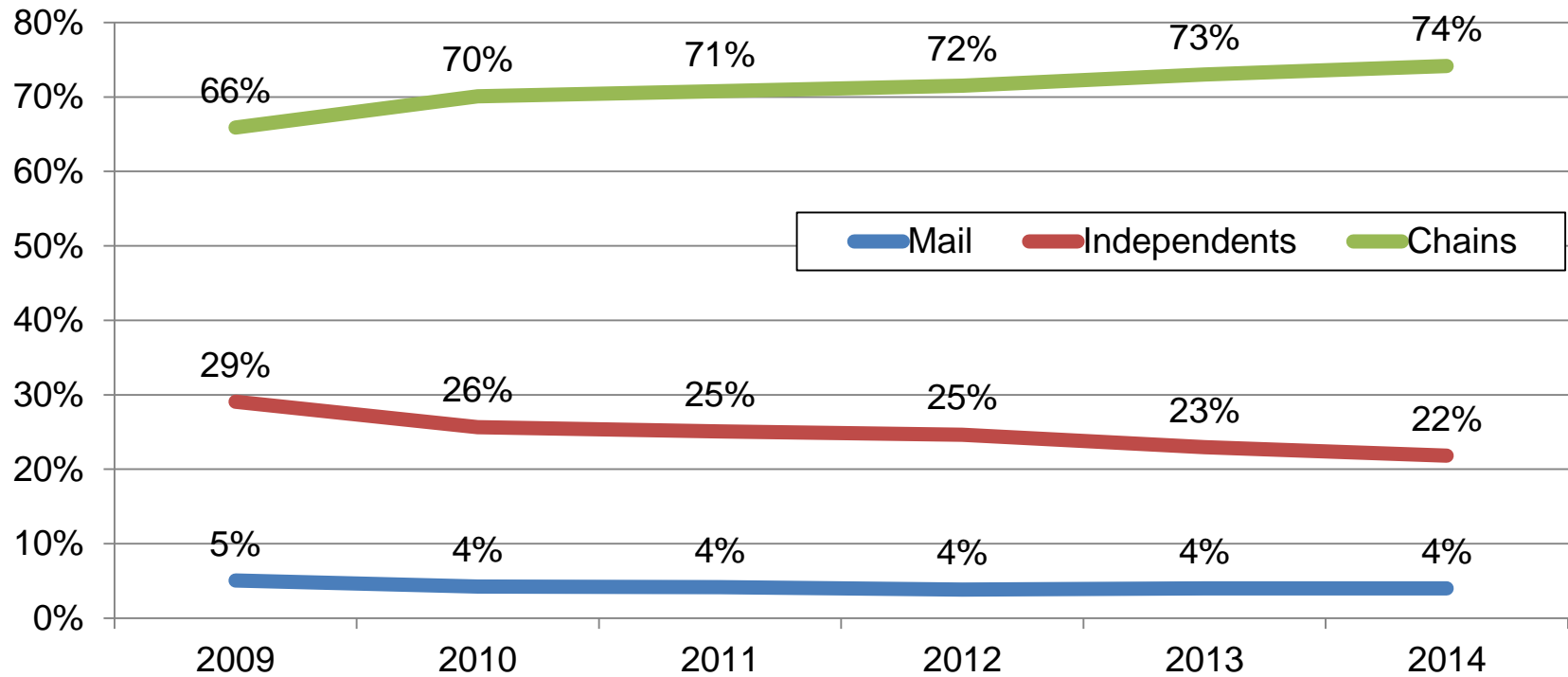


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# BCBSVT Pharmacy Market Share



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

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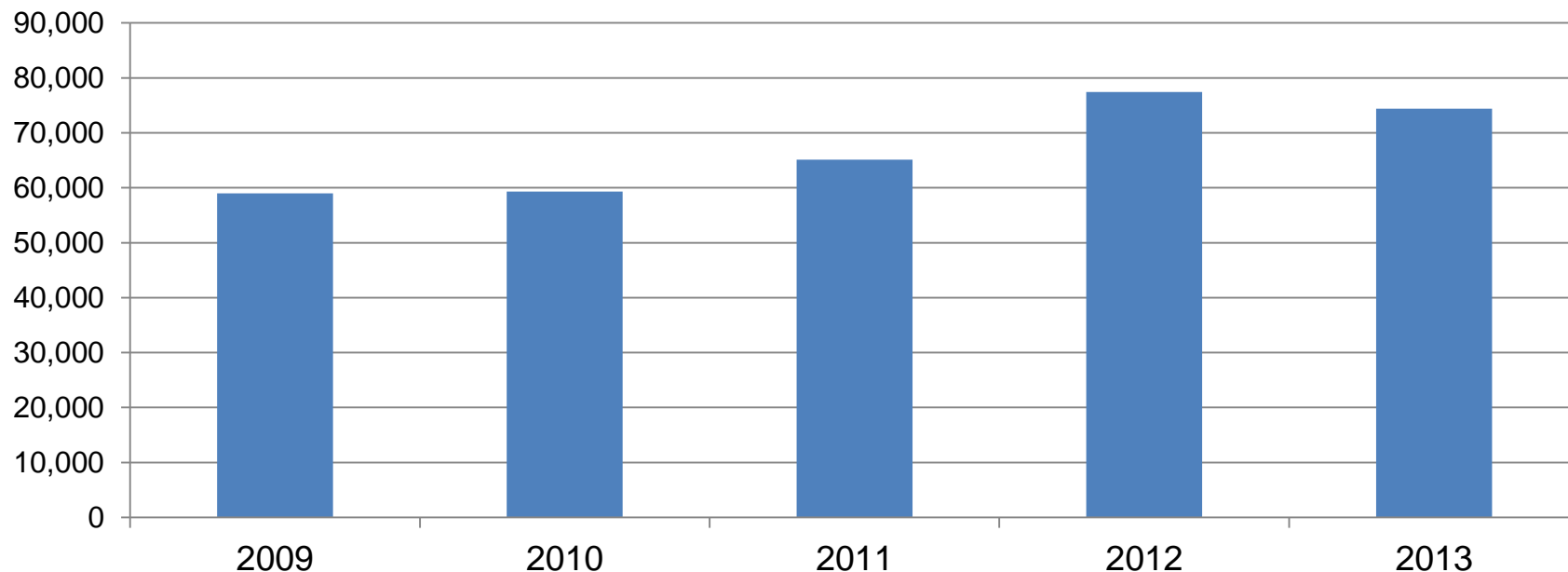


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# Walgreens Impact

## Number of Scripts at Rutland and Brattleboro Independent Pharmacies



- **BCBSVT began moving members away from Walgreens in August 2011.**
- **Rutland & Brattleboro independents' Rx's increased 25% afterwards.**
- **This bill would reverse this reverse this and hurt local independent pharmacies**

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# Questions?

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