

# **Purchasing Pharmacy Benefits: A Request for Proposal (RFP) Overview**

## **Overview**

- Pharmacy benefit managers' (PBM) clients – including health plans, insurers, major employers, unions, the federal government, and state and local governments – are sophisticated purchasers of health care that rely on PBMs to manage their drug benefits.
- Purchasers dictate the terms and conditions of the services provided by the PBM by identifying in the Request for Proposal (RFP) process what they want, what options are available to them, what resources they have available, and how much involvement they want to have in setting the benefits and policies.
- Most purchasers hire pharmacy benefit consultants, who have the expertise to guide them through an RFP process, to solicit bids from PBMs. These consultants advise and work with the purchaser to develop questions to ask the PBMs about the services they provide, sources of revenue, potential conflicts of interest, pricing structure, etc. Purchasers do not enter this process blindly and take many steps to protect their interests in providing a robust pharmacy benefit while being mindful of available options that will provide cost savings.
- With the help of pharmacy benefit consultants, purchasers create an RFP, which includes the services and options they want included in their drug benefit plan contract. The RFP is then submitted to multiple PBM vendors.
- Upon completion of the RFP process, the purchaser will award a contract to the PBM which they determine best meets the purchaser's plan goals and objectives.

## **Competitive Bidding on the RFP**

- Since PBMs operate in an extremely competitive marketplace, multiple PBMs will bid on an RFP, offering varying models based on the purchaser's needs. Purchasers review and evaluate each response and can ask for more information on terms included in a PBM's response.
- Purchasers then narrow down the pool of eligible PBMs by choosing only those that submit responses most in line with their needs. These PBMs move along in the RFP process and may be asked to provide presentations or interviews. Once a purchaser narrows which PBMs they wish to do business with, they ask the PBMs for a best and final offer before making a final selection.
- The purchaser always has the final say when creating a drug benefit plan. There is no one-size-fits-all model because each client has unique needs and is free to negotiate the best plan at the best available price.

## **What is included in an RFP?**

- Purchasers of PBM services consider a number of elements when putting together an RFP to create a pharmacy benefit for their members. PBMs are flexible when it comes to benefit design, and will work to construct the level of coverage or type of services their customer wants to provide if they wish to win the business.
- One of the key elements that a purchaser must consider when creating a drug benefit plan is pricing arrangements. For example, an RFP will typically address the treatment of manufacturer payments in the creation of a pricing structure for the benefit. PBMs negotiate with manufacturers and use their scale to compel the manufacturers to compete with one another for formulary placement based on the price and value of their products.
- Pharmacy benefit consultants and purchasers are well aware that these manufacturer payments exist. Ultimately, the purchaser chooses how it wants to benefit from these revenues (whether the purchaser wants all manufacturer revenue passed through directly; whether the purchaser wants its PBM to retain an incentive to generate these dollars; or even whether it wants to negotiate a guaranteed or per-claim rebate from the PBM).
- In addition, an RFP usually includes disclosure requirements related to sources of revenue, discounts, rebates, any potential conflicts of interest, administrative fees, data usage, etc. A purchaser can reject any proposal that does not adequately respond to these requirements.
- A typical RFP will also contain an inquiry about the types of distribution channels offered including retail, (chain and independent), mail-service pharmacy, long-term or specialty pharmacies; the services offered within each type of pharmacy; and the geographic area served by each pharmacy. Purchasers routinely balance the accessibility and availability of pharmacies against the desire for cost savings based on the needs of their members.
- Purchasers may choose to utilize clinical programs such as formulary development, disease management, step therapy, prior authorization, etc. Depending on the goals of the purchaser, some or all of these programs can be implemented to achieve cost-savings and are included in the RFP.
- PBMs also provide a number of other services in addition to administering the benefit, such as claims processing, data access, and audits. A PBM will work with the purchaser to decide which services will work best with its benefit plan.