

Health Plan Perspective

PHARMACY BENEFIT MANAGEMENT

PHARMACY BENEFIT MANAGERS (PBMS)

- Pharmacy Benefit Managers negotiate prescription drug benefits for health insurers, large employers, and Medicare Part D plans for 266 million Americans.
- There are many pharmacy benefit managers nationally – the “Big Three” manage ~80% of prescription drug benefits in the U.S.
- PBMs use their scale to negotiate with drug manufacturers in the U.S. and internationally
- PBMs put downward pressure on manufacturer drug prices and save consumers money
- PBMs maintain national pharmacy networks

Vertical Business Relationships Among Insurers, PBMs, Specialty Pharmacies, and Providers, 2021



1. Cigna partners with providers via its Cigna Collaborative Care program. However, Cigna does not directly own healthcare providers.
 2. AllianceRx/Walgreens Prime is jointly owned by Prime Therapeutics and Walgreens Boots Alliance.
 3. Since 2020, Prime sources formulary rebates via Ascend Health Services. In 2021, Humana began sourcing formulary rebates via Ascend Health Services for its commercial plans.
 Source: Drug Channels Institute research; Companies are listed alphabetically by insurer name.

This chart appears as Exhibit 210 in *The 2021 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers*. Available at <https://drugchannels.com/pharmacy>

WHY DO WE CONTRACT WITH PBMS?

NOTE: THIS IS 2015 DATA

- Blue Cross and Blue Shield of Vermont = 158,000 members
 - 1.3 Million Rx claims 8,592 pharmacies used
 - \$168 Million in drug spend 14,141 unique drugs processed
- Optum Rx = 80,000,000 members
 - 1.3 Billion Rx claims 67,000 pharmacies used
 - \$911 Million in drug spend 140,000 unique drugs processed
- Express Script = 105,000,000 members
 - 1.4 Billion Rx claims 67,000 pharmacies used
 - \$100 Billion in drug spend 140,000 unique drugs processed
- CVS Caremark = 94,000,000 members
 - 1.9 Billion Rx claims 67,000 pharmacies used
 - \$134 Billion in drug spend 140,000 unique drugs processed

WHAT SERVICES DO PBMS PROVIDE?

- Claims Processing
- Patient Safety Edits
- Formulary Management
- Nationwide Pharmacy Network 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 DO PBMS MAKE MONEY?

- Pharmacy Discount Spread
 - PBM charges the health plan more than it reimburses the pharmacy for the drug.
Example: 16.6% discount with the pharmacies and a 16.5% discount with the health plan The 0.1% difference is the discount spread.
- Pass-through + Administrative Fees
 - Example: No spread, instead the PBM charges the plan sponsor a fee on each prescription or transaction.
- Rebate Sharing
 - PBMs negotiate rebates from manufacturers and may retain a portion of the rebate instead of passing the full savings on to the plan sponsor.
- PBM-owned Pharmacies
 - PBMs may own retail and mail order pharmacies.

TYPES OF DRUGS

Generic Drugs

- Drugs without patent protection and there are usually, but now always, multiple manufacturers
- About 86% of all prescriptions but only about 20% of the cost

Brand Drugs

- Drugs with patent protection and there is one manufacturer
- About 12% of all prescriptions but about 30% of the cost

Specialty Drugs

- Type of brand drugs that are very high cost and require special handling and care; usually used to treat chronic and rare conditions
- About 2% of all prescriptions but about 50% of the cost

Biosimilars

- A biopharmaceutical drug designed to have active properties similar to one that has previously been licensed
- Biosimilar drugs are usually 15%-75% less expensive than their specialty equivalent.

WHAT IS A DRUG FORMULARY?

- A drug Formulary is a list of prescription drugs, organized by preferential tiers. The Blue Cross formulary is called the National Preferred Formulary.
- The Formulary includes all covered drugs broken out by therapeutic class.
- Many drug classes have multiple drugs that treat the same condition with similar results, side effects, and costs.
- We want to encourage the use of the lowest cost drugs in each drug class by putting those drugs on our formulary and assigning them a lower copay.
- The Formulary is managed by a clinical Pharmacy & Therapeutics Committee comprised of doctors and pharmacists who meet quarterly. The P&T Committee approves the drugs on the formulary based on safety, quality, and cost-effectiveness. They review new drugs and manage each class of medications.
- The changes in the Formulary are driven by new drug introductions, new research and information, and the constantly changing drug landscape.

EXAMPLE DRUG FORMULARY

Tier 1

- Zero or Low cost-share
- Generics and low price Brand drugs
- No prior authorization required

▪ Tier 2

- Higher cost-share
- Brand-name drugs and high-cost generics
- May require prior authorization

▪ Tier 3

- Highest cost-share
- Expensive Brand drugs and Specialty medications
- Requires prior-authorization and maybe Step-Therapy

Example:

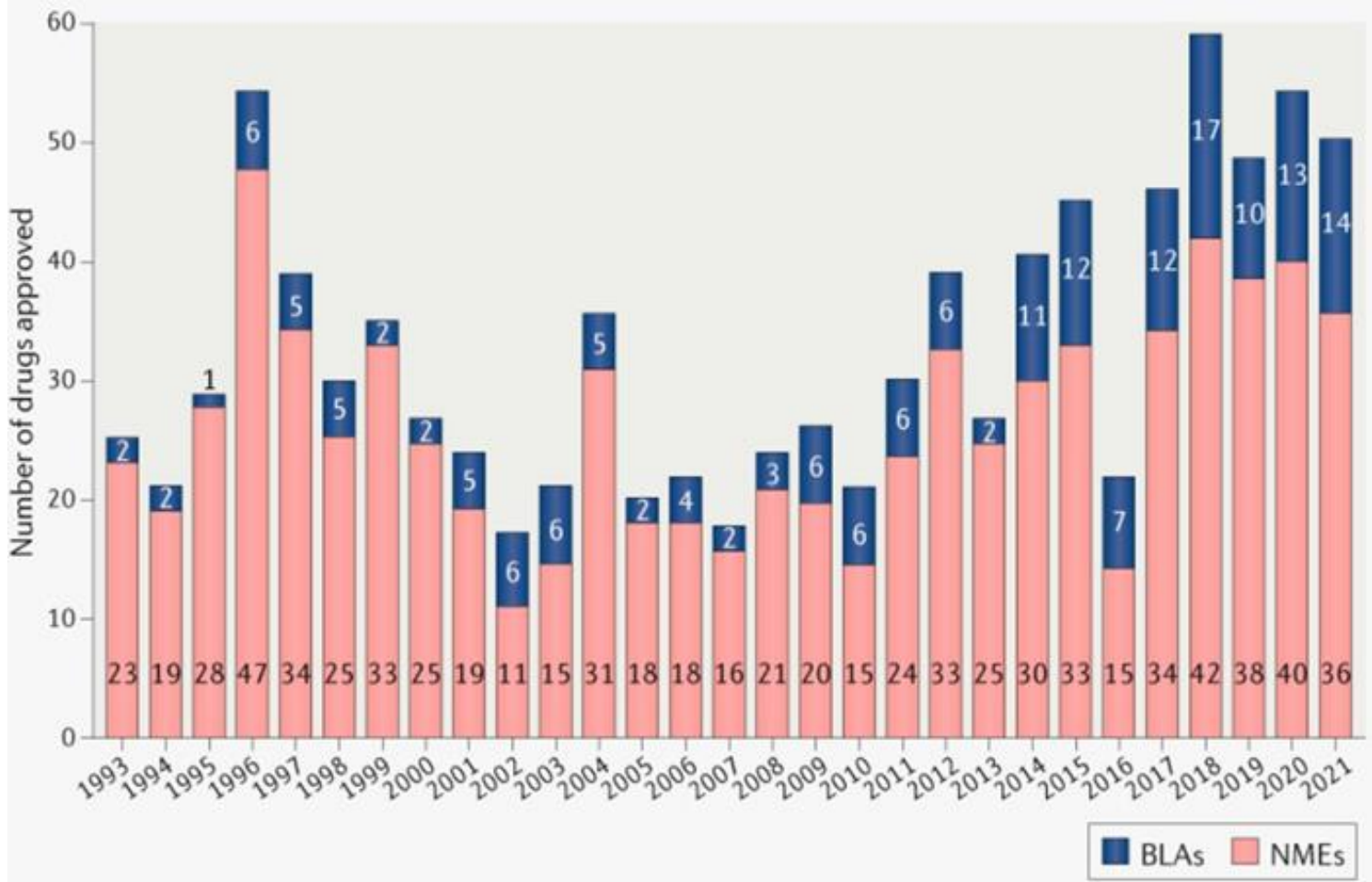
Proton Pump Inhibitors (PPI)
gastroesophageal reflux disease

Generic: Omeprazole

Brand: Prevacid

Brand: Aciphex or Nexium

FDA DRUG APPROVALS

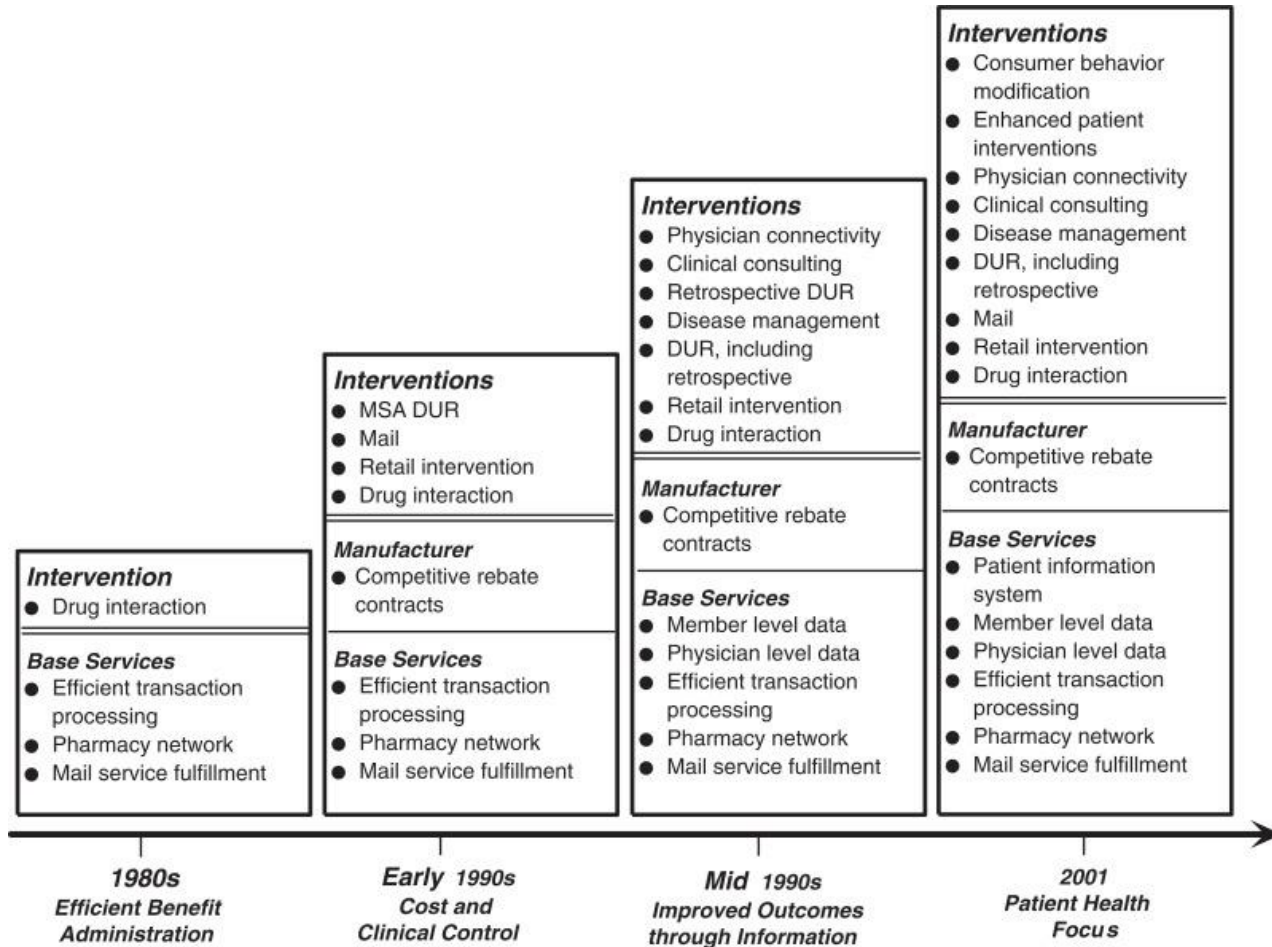


Source: [Nature Reviews 2021 FDA Drug Approvals](#)

HOW DO VERMONTERS BENEFIT?

- Medicare Part D drug benefit plans are managed by pharmacy benefit manager
- Self-funded (ASO) plans either use a health insurer PBM or a direct relationship to manage their drug claims
- Fully-insured plans' drug benefits, including the QHPs through the VHC Exchange – 2022 Blue Cross rates reflected at 5.7% savings due to pharmacy benefit management lower prices

SHORT HISTORY OF PBM MANAGEMENT



Source: [National Center for Biotechnology Innovation](https://www.fda.gov/oc/2014/01/21-nccbi-report)