



TAHP

The Texas Association of Health Plans

Keeping Prescription Drug Coverage Affordable: A Primer on PBMs

September 30, 2015

JAMIE DUDENSING, CEO

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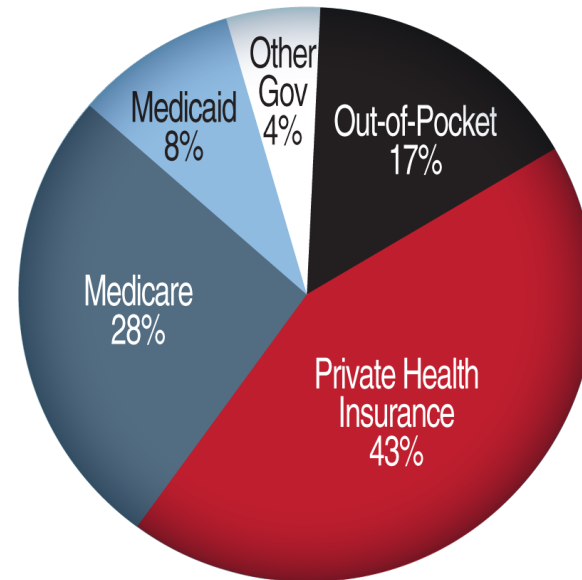
The Texas Association of Health Plans (TAHP) is the statewide trade association representing private health insurers, health maintenance organizations, and other related health care entities operating in Texas.

- Health plans - employer-sponsored coverage, the individual insurance market, and public programs such as Medicare and Medicaid
- 28 Health Plan Members, including the 19 Medicaid Health Plans
- Dental Medicaid Managed Care Organizations, Pharmacy Benefit Managers, Behavioral Health Organizations, Transportation Management Organizations
- TAHP advocates for public and private health care solutions that improve the affordability, accessibility and accountability of health care for many Texans

Rx - Prescription Drugs

- **Rx Most Used Coverage**
- **Texas in 2014**
 - Over 200 Million Prescriptions Filled
 - Over 7,000 Retail Pharmacies Used
 - \$17.6 Billion Dollars on Prescription Drug Costs
- **Most Texans Receive Pharmacy Benefits through a Pharmacy Benefit Manager or PBM**

U.S. Prescription Drug Spending in 2013



Source: Centers for Medicaid and Medicare Services, Dec. 2014

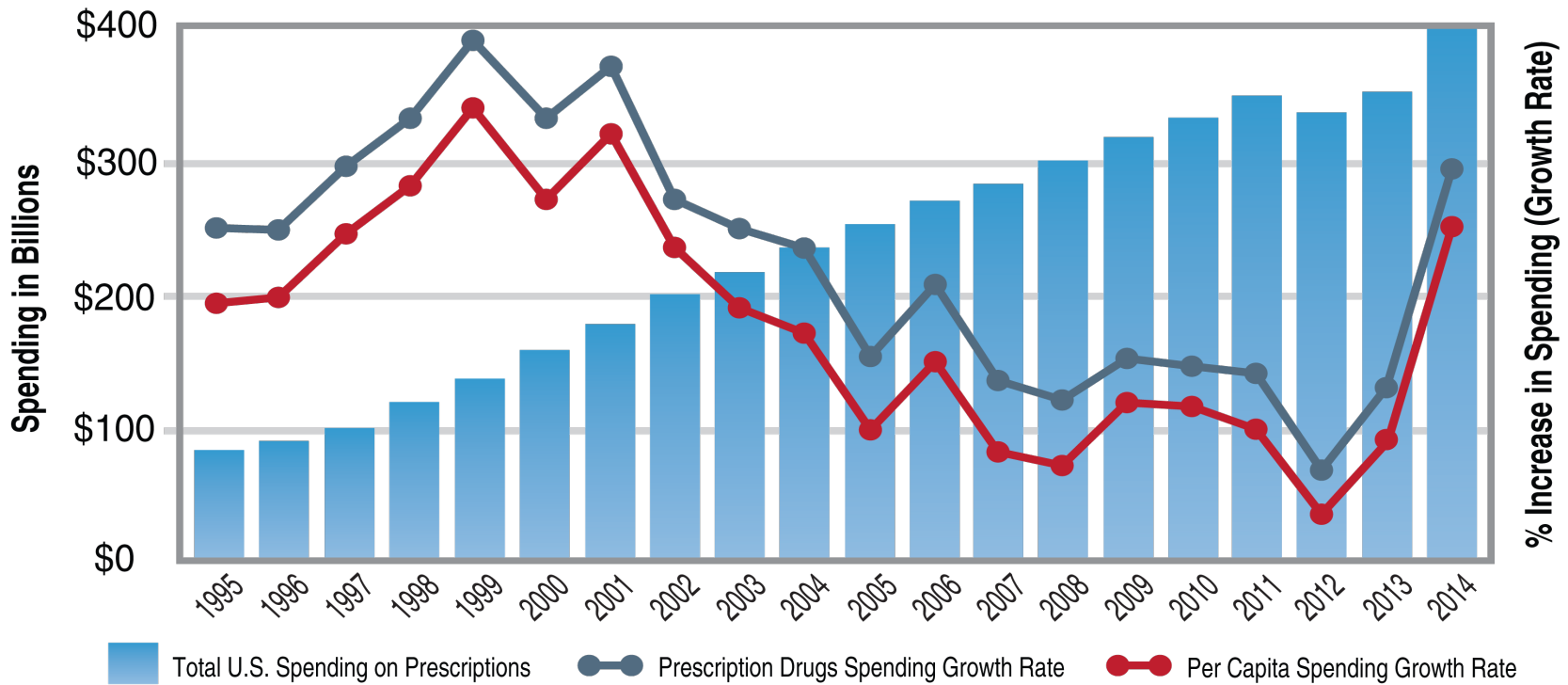
Pharmacy Benefit Managers (PBMs)

- Health plans and employers use PBMs as an efficient, effective way to manage prescription drug coverage and improve health outcomes
- **What is a PBM?**
 - Third Party Administrator that manages drug benefits
 - Negotiates drug prices with manufacturers
 - Negotiates rates and contracts with pharmacies
 - Develops drug formularies
 - Processes and pays claims
 - Provides clinical drug management
- **Sponsors contract with PBM: Plan sponsors (usually an employer) are in control of policy decisions for the PBM such as the formulary and drug management**
- **PBMs do not take on insurance risk as a third party administrator**

PBMs Keep Prescription Drug Coverage Affordable

- **35% Savings** on Rx costs through PBMs
- PBMs slowed Rx spending growth from **5.3% to 3.5%** in 2010 (CMS)
- **Another \$2 trillion in savings** to consumers and employers over the next decade (2012-2021)
- PBMs increased the use of lower cost generics by **32%** (2003-2013)
- Role of PBM is becoming even more critical as drug prices soar

U.S. Prescription Drug Spending 1995-2014

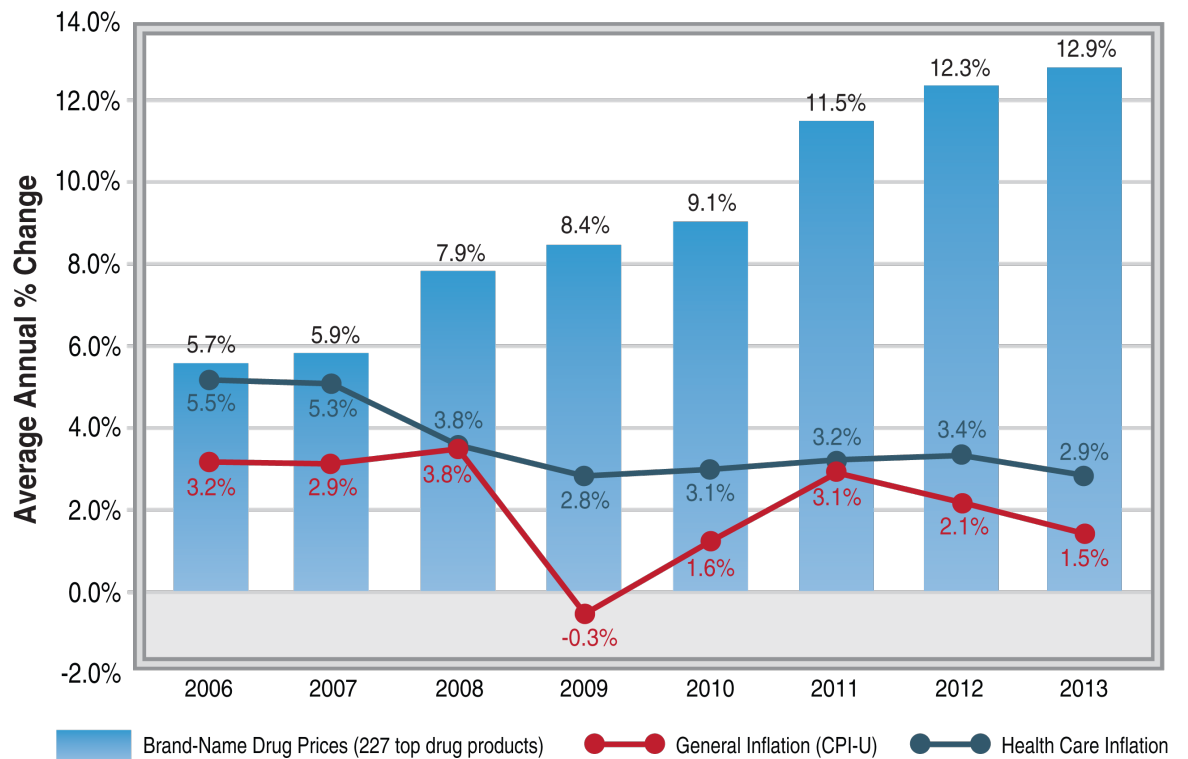


Source: IMS Health, National Sales Perspectives, Dec 2014; U.S. Census Bureau of Economic Analysis

Health Care & Rx Costs

- \$3.1 trillion on health care in US in 2014
- 5.8% growth per year for the next decade
- 2014: \$1 in \$6 on health care
- By 2024: \$1 in \$5 on health care
- Sudden surge in Rx Spending

Average Brand-Name Drug Prices Vs. General Inflation and Health Care Inflation

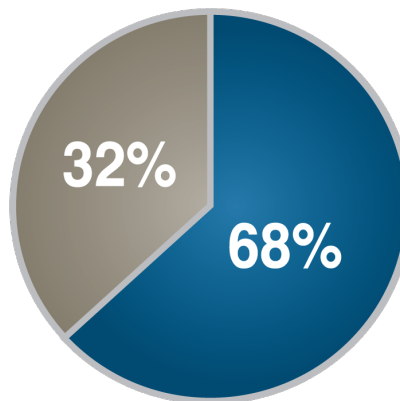


PBM Role Is Even More Critical

- **Highest Increase in US Drug Spending Over the Past Decade**
 - 13.1% increase in Rx spending in 2014
 - 6.5% increase in traditional drug prices
 - 25.2% increase in specialty drug prices
- **Example: 60-Year-Old Drug Goes From \$13.50 a Tablet to \$750 – Overnight - 5,000% increase – Daraprim**
- **Specialty Drugs: Hepatitis C Drug**
 - Sovaldi - \$84k per patient for treatment
 - Harvoni - \$94k per patient for treatment

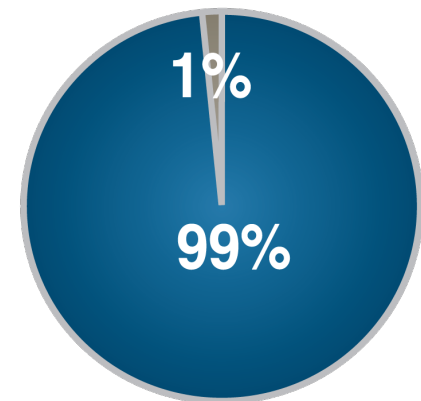
Specialty Drugs – New Threat to Affordable Coverage

- 2014: Specialty Rx only 1% of all US prescriptions, but 32% of all spending – an increase from 27.7% in 2013
- Expected to increase to 44% of overall drug spend by 2017
- Expected to increase per member from \$290 in 2012 to \$845 by 2018



Prescription Drug Spending in 2014

Specialty Drugs
Traditional Drugs



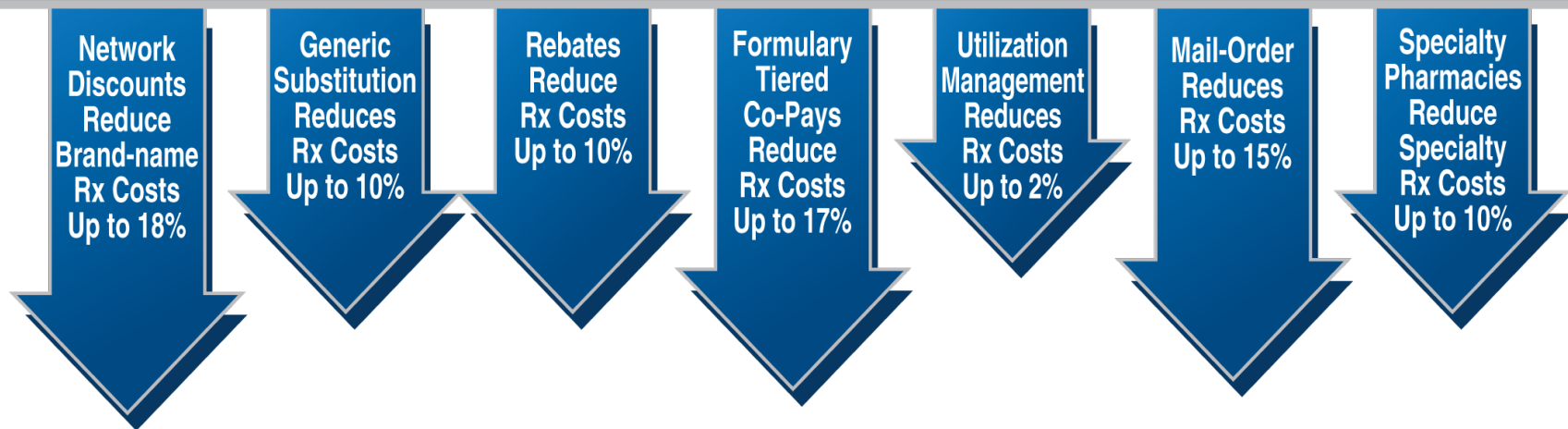
Total Number of Prescriptions for 2014

PBMs Keep Prescription Drug Coverage Affordable

- **Competition and negotiations keep drug prices affordable and improve safety for consumers**
- **While the prices of drugs continues to rise rapidly, PBM-negotiated rebates and discounts show another picture for 2015**
- **US brand name drug prices 2015 vs. 2014 in the 2nd Quarter:**
 - 0.7% increase 2015 vs. 4.4% increase 2014
- **Negotiations only work if PBMs use all of the drug management tools available to promote healthy competition in the market**

Difficult Mission: Increase Access, Reduce Costs, & Improve Safety

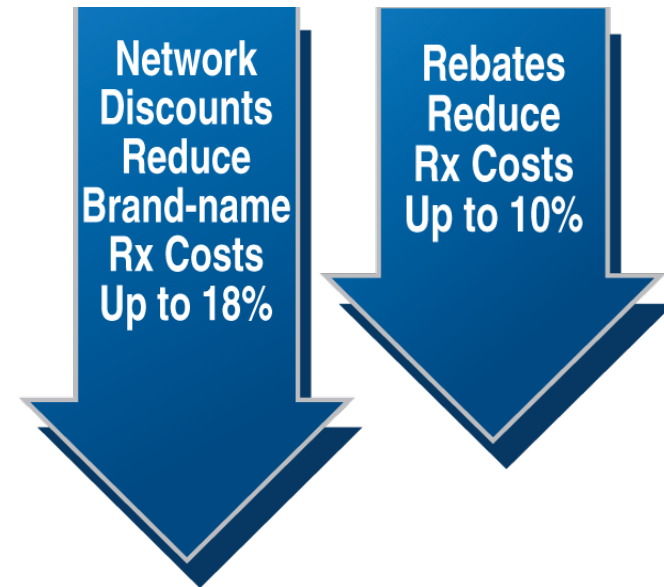
PBM Drug Management Tools & Best Practices Reduce Rx Costs by 20% to 50%—an Average of 35%



Source: Pharmacy Benefit Managers (PBMs): Generating Savings for Plan Sponsors and Consumers, Visante, Prepared for PCMA, September 2011 and Mail-Service and Specialty Pharmacies Will Save more than \$300 Billion for Consumers, Employers, and Other Payers Over the Next 10 Years. Visante, Prepared for PCMA, Sept 2014.

Negotiating Networks, Discounts and Rebates

- **PBMs negotiate discounts with pharmacies**
 - Up to 18% Savings on Brand-Name
- **PBMs negotiate discounts and rebates with manufacturers for formulary placement**
 - Up to 10% Savings



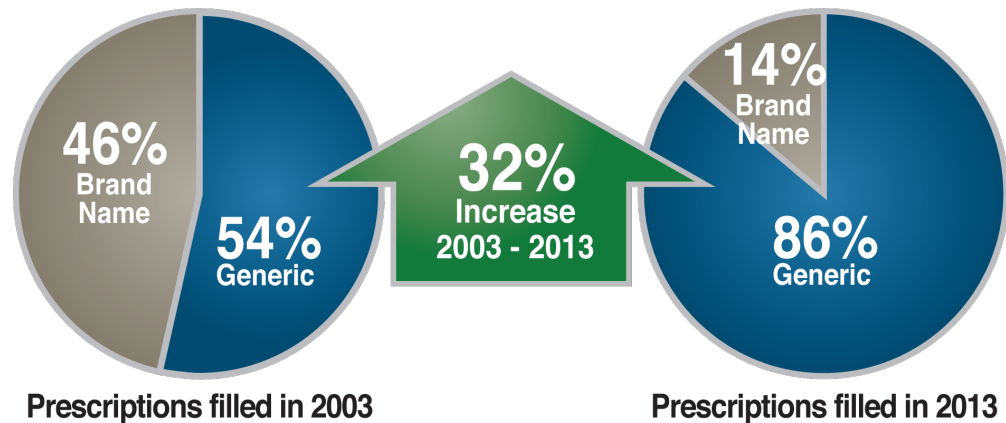
Strategically Using the Formulary

- **Formulary – A list of medications covered under a health plan**
- **Steer patients to best value and least costly medications**
- **Pharmacy and therapeutics committee**
- **Directed by a plan sponsor through the contract (often the employer)**
- **Usually 3 tiers, but new tier 4 for specialty drugs**
 - Tier 1: Lowest Co-Payment (usually generics)
 - Tier 2: Higher Co-Payment (preferred brand-name Rx)
 - Tier 3: Higher Co-Payment (non-preferred brand-name Rx)
 - Tier 4: Specialty or high cost medicines



Increasing the Use of Generic Drugs

- Generic drugs have saved the health care system over \$1.2 trillion from 2003 to 2012
- 80% of Rx volume, but only 27% of total Rx spending
- Identical composition and therapeutically equivalent



Using Mail Order Pharmacies

- Automate the process, reduce steps, and reduce costs – “Deliver Right to Your Door”
- Typically longer prescription fill: 90 days vs. 30 days
- Reduce Rx cost up to 15%
- Increases medication adherence
- \$5.1 billion in savings for 2015
- \$59.6 billion in savings over next ten years



Working With Specialty Pharmacies

- Specialized pharmacies with the capabilities to monitor and track the use of specialty drugs
- Necessary training and expertise to handle distribution
- Dedicated teams of health care specialists
- Reduce specialty drug costs up to 10%
- \$13.5 billion in savings in 2015
- \$251.5 billion in savings over the next 10 years



Government Mandates

- **Negotiations only work if PBMs use all of the drug management tools available to promote healthy competition in the market**
- **Mandates limit free-market negotiations, which can increase cost of Rx coverage and reduce quality of care:**
 - Any-Willing Provider
 - Banning Preferred Pharmacy Networks
 - Limiting Mail-Order Pharmacies
 - Inhibiting Specialty Networks
 - Obstructing Competitive Bidding

Pharmacy Reimbursement

Pharmacies are usually reimbursed for their administrative costs for dispensing a drug (dispensing fee) and the the estimated price of the drug, which is often referred to as “ingredient costs” or the estimated acquisition costs (EAC)

$$\text{PHARMACY REIMBURSEMENT} = \text{Dispensing Fee} + \text{Estimated Acquisition Costs (EAC or Ingredient Costs)}$$

Pharmacy Reimbursement

- **Dispensing Fee**
 - Fixed, per prescription
 - Slightly less than \$2 per Rx for past 10 years
- **Ingredient Costs (Estimated Price Paid to Purchase the Drug) or Estimated Acquisition Costs (EAC)**
 - Cover cost of the drug (drug price)
 - Price Lists
 - List Prices – Brand-Name
 - MAC List - Generic

$$\text{PHARMACY REIMBURSEMENT} = \text{Dispensing Fee} + \text{Estimated Acquisition Costs (EAC or Ingredient Costs)}$$

Brand Name Reimbursement – List Prices

- For brand-name drugs, pharmacies are usually reimbursed for ingredient costs from list prices, a publically reported benchmark of prices
- Most common are Average Wholesale Price (AWP) and the Wholesale Acquisition Costs (WAC)

$$\text{BRAND NAME Rx REIMBURSEMENT} = \% \text{ of AWP or WAC} + \text{Dispensing Fee}$$

Brand-Name Reimbursement – List Prices

- **Wholesale Acquisition Costs (WAC)**

- Manufacturer list price to the wholesaler
- Does not include rebates or discounts

- **Average Wholesale Price (AWP)**

- Wholesaler list price to pharmacies
- Does not include rebates or discounts



Drug Manufacturer



Wholesaler



Pharmacy

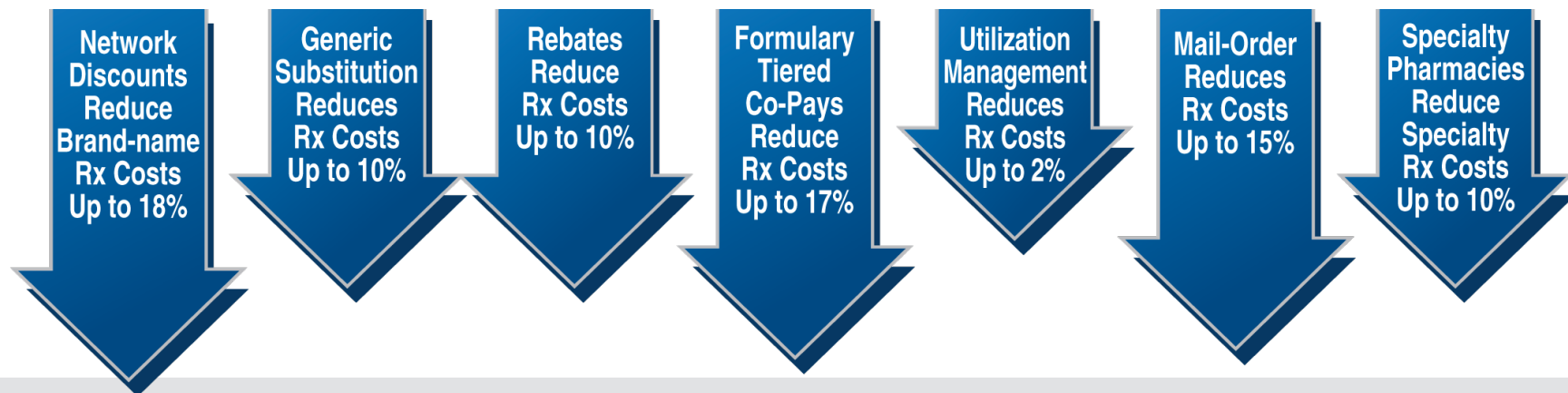
MAC Lists - Generic Drug Reimbursement

- Maximum Allowable Costs (MAC) – Most commonly used reimbursement list - PBMs develop and maintain their own competitive and proprietary MAC lists
- Standard reimbursement list for identical generics – More competitive rates
- Used to reconcile an inflated AWP

$$\text{GENERIC Rx REIMBURSEMENT} = \text{MAC} + \text{Dispensing Fee}$$

PBMs Keep Prescription Drug Coverage Affordable

- PBMs improve safety and savings
- Role even more critical with the sudden increase in drug prices
- 35% average savings over the next decade – with the use of drug management tools and best practices





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