

**Controlling Pharmacy Costs**  
**Two Innovative Approaches**  
**For Hospitals and Community Partners**

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## Background

This white paper outlines two unique options that can be offered to qualified Plan Sponsors. Each option is intended to facilitate more effective management of the sponsor’s pharmacy benefit program.

## The Problem

Plan Sponsors need a different approach to employee pharmacy benefits because the existing traditional Pharmacy Benefit Manager (PBM) model is not working. Most Plan Sponsors worksites are labor intensive and the cost effective application of health benefits is critical to their ability to meet their longer term financial goals, and at the same time attract and retain qualified employees. In the past, pharmacy benefits have been a much less significant cost factor when compared to the total health benefit package. Today, pharmacy benefits are the fastest growing component of health benefits representing 25% or more of the Plan Sponsor’s health benefit cost exposure. This trend will not abate as the population continues to age and pharmaceutical manufacturers continue to advertise and fill the drug pipeline with new and more expensive drugs.

Traditional PBMs that Plan Sponsors have hired to manage these costs will not reverse these trends. The fact is that PBMs derive increased revenues as costs continue to rise for the following reasons:

- Pharmaceutical manufacturers pay PBMs rebates to endorse their products;
- PBMs may own pharmacy providers and generate more revenue from increased utilization;
- PBMs negotiate discounts with pharmacy providers but do not pass the entire savings through to their Plan Sponsor clients.

To optimize pharmacy benefit cost management, Plan Sponsors cannot continue to utilize a traditional PBM any longer. To move toward a solution, Plan Sponsors must construct pharmacy benefit programs with aligned incentives. PDMI offers two distinct options that will enable Plan Sponsors to take charge of their pharmacy benefit and more effectively manage these cost outcomes.

## Options

Two different options are offered for consideration with unique characteristics over the existing traditional Pharmacy Benefit Program that Plan Sponsors presently use. These options and distinct characteristics are:

<b>Existing Pharmacy Benefit</b>	<b>Option 1 – PDMI (National)</b>	<b>Option 2 – PDMI’s “Community Partnership”</b>
<b>Pricing</b>	Complete pass through	GPO “Own Use” pricing applied
<b>Pharmacy Network</b>	National Retail Rx Access	Direct Rx Contract w/national wrap around Rx network

<b>Savings Potential</b>	14 to 15.5%	15 to 30%
<b>Approach</b>	Transparent	Hospital Contracted GPO Rates
<b>Mail Order</b>	Independently Contracted	Independently Contracted

**Option 1** provides a transparent approach to pharmacy benefit management through PDMI, an Ohio based non-traditional PBM. PDMI is non-traditional because the only source of revenue is through the administrative fee that is charged to the Plan Sponsor; there is no provider or ownership; and the PBM operates as a vendor and adviser to the Plan Sponsor. The actual plan design can duplicate the present program. However, increased savings are achievable due to the fact that PDMI has aligned objectives with the Plan Sponsor and provides both complete transparency and complete pass-through of all savings.

**Option 2** offers an opportunity for the Plan Sponsor to take advantage of “Own Use” laws and dispense drugs to employees at the Community Partner Hospital’s drug acquisition costs which are significantly lower than retail rates (brand: AWP less 30% versus AWP less 15%, and generics: AWP less 78% versus AWP less 50%). This option incorporates a means for the Plan Sponsor to deliver these services through a few designated community pharmacy locations (preferred network).

These options are explained in greater detail in the sections that follow:

### **Option one PDMI PBM National Program**

Under the PDMI program, the full scope of the PBM services will continue to be provided to support the common goal of cost management. PDMI will provide access to all critical PBM component services including:

**Administration** - these services would include on-line pharmacy claims processing, customer service (pharmacy and/or member), data management, remote data access, ID card generation, and routine reporting. PDMI uses a virtual private network (VPN) to give the Plan Sponsor secure and efficient Internet connectivity. State-of-the-art administrative capabilities allow the Plan Sponsor to choose from a menu of services, so they only pay for the services they need. PDMI also charges on a per-paid-claim basis, whereas other processors may charge per-transaction.

Claims processing features include:

- Core claims processing capabilities through proprietary software
- Data warehousing services
- Routine and ad hoc reporting capabilities tailored to the client's specifications
- Remote access to data through secure Internet connections
- Cash management options (designed for the client), if desired
- Dedicated customer service units for pharmacy and member needs
- A claim system that can accommodate any benefit design

- Client Internet VPN connectivity for eligibility transfer and data access
- ID cards, if needed
- Unbundled administrative services

PDMI processes all data transmitted from the pharmacy at the point-of-service to verify a participant's eligibility through the on-line eligibility system. The system contains eligibility status of all participants. When a pharmacist submits a claim, the participant's eligibility status is shown on screen within seconds. During this process, over 100 eligibility and benefit edits are performed. Prospective Drug Utilization Review (DUR) information is on-line and built into the adjudication process. State-of-the-art drug interaction data is used and kept current, with frequent updates.

**Network access** - PDMI offers access to a National Pharmacy Network. This network offers National coverage with over 55,000 participating pharmacies. Pharmacies are added at the point of service to improve access for Plan Sponsor employees on an ongoing basis. Net pricing for the network would be:

**Retail brand:** AWP minus 15.5% plus \$2.10 dispensing fee or UCR, whichever is less

**Retail generic:** the retail pharmacy MAC generates an AWP less 72% discount plus a \$2.25 dispensing fee.

**Overall generic:** the retail combined generic rate (MAC, UCR, AWP discount) generates a discount of AWP minus 70.2%

These discounts and dispensing fees are estimates or referred to as a blended rate since all pharmacies contract at different rates and PDMI passes through the actual negotiated discount. Other more traditional PBMs will retain a discount "spread" as revenue.

Mail order services are also available through PDMI's contracted Independent Mail order program. Mail order net pricing would be:

**Mail order brand:** AWP less 21% plus \$1.50 dispensing fee

**Mail order generic:** lesser of HCFA MAC OR AWP less 55% plus \$1.50 dispensing fee. The estimated aggregate discount is AWP less 76%.

**Formulary / Rebates / Consultation / Analysis** - PDMI has access to direct contracts with drug manufacturers for formulary development and subsequent rebate arrangements. PDMI works with the Plan Sponsor to structure a formulary for cost-effective outcomes and to generate balanced rebate revenues. Rebates may range from \$1.00 to almost \$2.50 (on average) per script, depending upon benefit design and the program's ability to move market share to preferred drugs within the formulary. The program is structured to balance drug rebates with the client's net cost, so the overall goal of cost containment is achieved. The PDMI balanced formulary has a proven track record consistently reducing net ingredient plan costs by the equivalent of an additional AWP discount amounting to 7% to 9%. This steerage outcome does require the use of a three-tier plan but results in the equivalent of an AWP minus 22% on brand drugs.

PDMI is paid a fixed fee basis to dissuade the collection of rebates to maximize revenue at the expense of the Plan Sponsor's goal for reduced ingredient cost management.

**Internet solutions** - software is provided to give members Internet access to drug information. This software offers product information and pricing to help a member make informed decisions and to motivate cost-effective behaviors for the benefit plan.

## **Option two - Community Partnership “Own Use” program**

The “Own Use” Community Hospital program provides a capability to fulfill Plan Sponsor employee and dependent prescriptions at the Community Partnering Hospitals' acquisition cost. The savings associated with this program can generate cost reductions of 15 to 30%.

This program removes this barrier by legally integrating community retail pharmacies into the hospital organization's employee pharmacy benefit program. Modeled after 340B drug pricing and services, the program utilizes the same software that links affiliated hospitals, clinics, and health centers to offer reduced drug prices for indigent populations.

Custom software enables the Plan Sponsor to realize the favored drug acquisition program. Essentially, local retail pharmacies agree to participate and receive a fixed dispensing fee as their only remuneration. The Plan Sponsor “borrows” the participating pharmacies drug inventory and the pharmacy dispenses the drugs at the Community Partner Hospital's actual cost. At the end of each business day, drugs dispensed as part of a Plan Sponsors employee drug program are replenished through an Internet-based software drug reordering program, which routes re-orders to the Community Partner Hospital's drug wholesaler. This program is unique in the marketplace and enables the Plan Sponsor to take advantage of the Community Hospital Partner's purchasing power for employees and dependents.

The software links the Hospital to the contracted participating retail pharmacy locations so employees have greater access within a close proximity to their residence; the Plan Sponsor significantly reduces its pharmacy benefit cost exposure; and retail pharmacy gets a boost in business. The Plan Sponsor can realize an immediate savings for its employee pharmacy benefit program and gain a unique entrée to other value-added services and new revenue.

### **Process**

Under this arrangement, the key components of the program are as follows:

1. PDMI: the Plan Sponsor will work directly with PDMI to structure a benefit design, develop a communication program, and manage the pharmacy benefit program. The Community Partnership Hospital shares its GPO pricing so the contracted rates can be loaded into the PDMI systems.

2. Special software links the Community Partner Hospital pharmacy’s inventory with the participating retail pharmacy. When the Plan Sponsor “borrows” the pharmacy’s inventory, the dispensed drugs are replaced the next day. The PDMI program provides all services associated with set up, program implementation, and maintenance.
3. Claims Management: this component provides the PDMI Administrative platform for checking eligibility, processing pharmacy claims, administering benefit designs, and managing data. The system interfaces with special software to provide a seamless delivery of services. At the same time, the system offers all the services of a traditional PBM program at a fraction of the cost so the hospital can more effectively manage its employee pharmacy benefit program.
4. A community network of pharmacies is contracted in strategic locations for convenient employee access. The participating pharmacy network agrees to let the Plan Sponsor “borrow” its drug inventory for employees; in return, it accepts a higher fixed dispensing fee for services rendered. The special software allows the network pharmacy to replenish its inventory by placing an order through the Community Partner Hospital’s GPO on a daily basis.

**Savings potential**

Exhibit 1 (attached) shows the savings potential of a Plan Sponsor that transitions its business from a traditional PBM to a Community Partner Hospital employee pharmacy benefit program. The attached exhibit is based on an actual participating hospital client.

**Advantages**

The following table illustrates the program’s benefits for all participants:

<b>Participant</b>	<b>Advantages</b>
<b>Plan Sponsor &amp; Community Partner Hospital</b>	<ul style="list-style-type: none"> <li>• Employee pharmacy benefit savings</li> <li>• Volunteer program – added benefit</li> <li>• Greater control of pharmacy benefit costs</li> <li>• No up-front investment</li> <li>• No additional FTEs necessary</li> </ul>
<b>Community Pharmacy</b>	<ul style="list-style-type: none"> <li>• Local pharmacy can increase fill volume</li> <li>• No up-front expenses</li> <li>• Software training and set-up provided</li> </ul>
<b>Employees / Dependents</b>	<ul style="list-style-type: none"> <li>• Reduce trend in drug cost to preserve benefit design</li> <li>• Use local pharmacies</li> <li>• No additional paperwork</li> <li>• No cost shifting</li> </ul>

### **Summary Comparison**

The following table reflects the differences between the 2 Options as a base for comparison and discussion:

<b>Feature</b>	<b>Option 1 - PDMI National</b>	<b>Option 2 – Community Partner Hospital “Own Use”</b>
<b>Network</b>	<ul style="list-style-type: none"><li>• Wide Access</li></ul>	<ul style="list-style-type: none"><li>• Restrictive Access w/2<sup>nd</sup> level for more options</li></ul>
<b>Benefit Design</b>	<ul style="list-style-type: none"><li>• Greater access</li><li>• All participating pharmacies treated the same</li></ul>	<ul style="list-style-type: none"><li>• Must use direct contract Rx to receive highest reimbursements</li></ul>
<b>Structure</b>	<ul style="list-style-type: none"><li>• PBM directed</li></ul>	<ul style="list-style-type: none"><li>• Hospital and Contracted Pharmacies</li></ul>
<b>Pharmacy Reimbursement</b>	<ul style="list-style-type: none"><li>• Discount off AWP or MAC whichever is less</li></ul>	<ul style="list-style-type: none"><li>• Fixes and increased dispensing fee with participating local pharmacy with full “Own Use” discount passed to Sponsor</li></ul>

### **Contact Information**

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