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Fight for Clarity in Pharmacy Benefit Manager Contracts

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The concept of *transparency* is central to any discussion about pharmacy benefit manager (PBM) contracts. But what exactly does it mean?

Over the years, I've had this conversation many times. And while the circumstances vary, understanding the various nuance`s of transparency is absolutely critical to anyone responsible for a PBM plan. Critical, but not easy because PBM contracts are loaded with ambiguous terms arranged in a way to be full of pricing games and tactics – making them nearly impossible to fully comprehend.

Here, I will demystify four of the most pervasive examples surrounding PBM transparency and offer suggestions on what to consider when evaluating your plan. Hopefully, this will spare you future pain (and without the need for any of those highly-addictive narcotic pain relievers!).

1 If I as plan sponsor receive full pass-through, my deal is transparent

First, know that *pass-through and full pass-through* are not the same. Not only are the two terms used differently, their applications are as well. Generally, pass-through means the PBM is not keeping the funds it receives from manufacturers as part of placing their drug in a particular prominence or tier of availability. Instead, these funds are passed through to the plan sponsor or the patient.

This may sound attractive, but beware. In the hundreds of contracts I've examined, I've rarely seen true protection for the plan sponsor. In fact, most of the time the contract has no language at all in key areas, giving the PBM latitude to retain a substantial portion of the money it receives instead of passing it through.

> Pass-through and full pass-through are not the same.

Often, I see pass-through used colloquially as a standard feature brokers will seek as an anchor to help clients feel more comfortable. Furthermore, many believe it is a binary option – you either have pass-through or you don't. Unfortunately, the time required to properly negotiate these terms can be impractical and making matters worse, the executable contract isn't made available until long after the business has been awarded.

Suggestions:

- Ensure that the terms governing pass-through, regardless of what they are called, are well defined and include all forms of compensation received by the PBM.
- Insist that the contract has full audit rights to ensure accountability and recourse.
- Demand an executable copy of the contract (not just a sample) before awarding or renewing any business.

2 I have a transparent deal, therefore my PBM will be incentivized to do the right thing

Let's say you have negotiated a seemingly transparent deal. Your work is done, right? Wrong! To illustrate, consider just a few of the ways the underlying motivation of your PBM could still be at odds with what you want.

- PBM, pharmacy, wholesaler and manufacturer relationships are multi-faceted with complex, interconnected contracts. The revenue earned by the PBM comes in many formats: fixed, variable, by fill, by outcome, by duration, by tier, etc. Achieving full confidence that every nickel is accounted for in the supply chain and that all parties are aligned is very difficult.
- PBM incentives vary by product. Even if a full pass-through has been offered, the PBM is often focused on portfolios of business and their collective performance. This is why there are normally a limited number of options for how/what drugs to cover (the formulary). Without a lot of leverage yielding control over plan operations, this *"truly transparent"* deal might be a partial solution at best.
- Following the money extends beyond the supply chain. Consider the team that services your account (account executives, account managers, clinical advisors, etc.). They may have elements of their compensation that are misaligned with your objectives. Certain buy-up programs, perhaps even those without explicit fees, may be attached to bonuses. Under such a model, how can you be sure any recommendation is coming with the right motivation?

Suggestions:

- Probe as to who is being compensated from your company's pharmacy plan and under what requirements. This extends well beyond the PBM staff and includes commissions or insurance plan bonuses (overrides) being paid to third parties.
- Request audit rights and complete documentation of any such practices.

3 Transparent deals deliver more efficient plan utilization

While this sounds like it should be true; it is not. The utilization efficiency of a plan is tied to many things, such as which drugs should be covered. The formulary, or preferred drug list, is one tool a PBM can use to offer a better-looking deal to a plan sponsor.

This shouldn't be confused with the clinical decisions which would be made by the PBM's pharmaceutical and therapeutics (P&T) committee. The P&T committee will make purely clinical decisions of a drug's coverage independent of cost. The financial considerations come later – but they do come.

Consider this example:

Brand-Name Drug	**Generic Equivalent** *(Identical Active Ingredients)*
Gross cost: **$2,500**	Gross cost: **$25** • Manufacturer offers no rebate to PBM
• Manufacturer pays $2,000 in rebate to PBM per filled Rx • PBM promises company $200 per brand Rx as rebate	• PBM offers no rebate to plan sponsor

In this scenario, the total cost of the drug to the patient and plan sponsor combined would be $25 for the generic and (at least) $500 for the brand-name drug after the rebate pass-through (assuming the plan sponsor receives every nickel). From the PBM's perspective, by including this brand drug on their formulary, it boosts rebate collections which allows them to offer bigger rebate guarantees to the customer while bolstering rebate retention and margin.

It would be easy to push blame on the PBM for the practice of covering an equally effective yet more expensive drug. But we cannot put all the blame there because one of the largest contributors to the problem is the way that PBM proposals are analyzed. Too often in the industry, the analysis is based on what are called headline rates, which are the most known and visible terms in a PBM deal; items like discounts off a drug's average wholesale price, rebates paid, and dispensing/administration fees. But this shortcut to valuation doesn't offer a credible answer to the comparative financials of competing PBM proposals. It's not even a fair approximation. Instead, it can fundamentally mislead the plan sponsor, and in my view, further pushes the industry in the wrong direction.

There are suboptimal products being covered for reasons other than rebate dollars as well. For example, sometimes a particular presentation of a drug is far more expensive than a comparable alternative, yet both are covered equally. If the 300mg capsule is $1 each while the 300mg tablet of the same drug is $0.18, should both be endorsed equally? Understanding these scenarios can help plan sponsors avoid excess cost.

Suggestions:

- Question the PBM's methodology of analysis and open a dialogue about measuring true value. One practical approach is to add a measure of "formulary quality" (which drugs are covered) in the evaluation of the expected cost between PBM bids.
- Choose a PBM partner that is either not including the "junk" on their formulary in the first place, or will permit you to customize it away. And remember, customization is an ongoing need, not a static one.
- Invest in resources and/or technology to mine the data and ask for justification for any coverage anomalies.

4 Transparent deals lead to effective clinical management

Another way of stating this is that a transparent deal means the right drug is dispensed at the right time in the right setting to the right patient. This is far from a universal truth.

Many PBMs are focused on customer satisfaction metrics such as Net Promoter Score. PBMs are giant conglomerates with all sorts of consumer-facing businesses (retail, mail-order and/or specialty drug pharmacies, infusion centers, provider groups, medical networks, ancillary insurance lines, risk-bearing entities, etc.). They want happy customers, and transparent contract or not, clinical management can often be at odds with satisfaction measures.

An example of this is the expensive treatment of a debilitating, but non-life-threatening condition. Let's say a patient is prescribed an $80,000/year drug to treat plaque psoriasis. The PBM's role is to administer clinical reviews such as a prior authorization (PA), which most drugs at this price point should have. At a minimum, questions asked in determining authorization should include:

1. How does inclusion of the drug line up with evidence-based guidelines?
2. Is the patient taking any other medicine that should or shouldn't be alongside the targeted therapy?
3. Has the patient practiced necessary lifestyle changes for the drug to be efficacious?
4. Have other drugs been tried and deemed ineffective?

We all know that patients want things quickly and easily and if that doesn't happen, they may complain. However, when talking about $25,000–$100,000+ in costs, properly structured protocols are more than reasonable. Remember that a cheaper alternative will likely save the patient money as well.

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The PBM is trying to keep both the patient and prescriber happy while delivering a great experience. If the PA is limited to a few simple yes/no questions and based on the honor system, this typically results in improbably high approval rates. In other words, if the data show that we should expect about 50 percent of people who are prescribed a particular drug to genuinely require it, then the PA approval rate should not be 99 percent.

Suggestions:

- In collaboration with your clinical experts, review the criteria used for clinical programs and consider customizations that maximize value for both you and the patient.
- Audit regularly to ensure the program has been administered as intended and results are in line with expectations. Question the results and demand the data to support the findings.

As we've seen, the term transparency, while seemingly simple enough, actually raises more questions than answers when it comes to executing a PBM contract. Make sure to push aggressively for information, challenge the status quo and never simply rely on the front-facing elements of a PBM proposal.

Keep fighting for clarity!

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