

City of Boston



# PHARMACY BENEFIT MANAGEMENT PRESCRIPTION DRUG CARVE-OUT

April 12, 2016



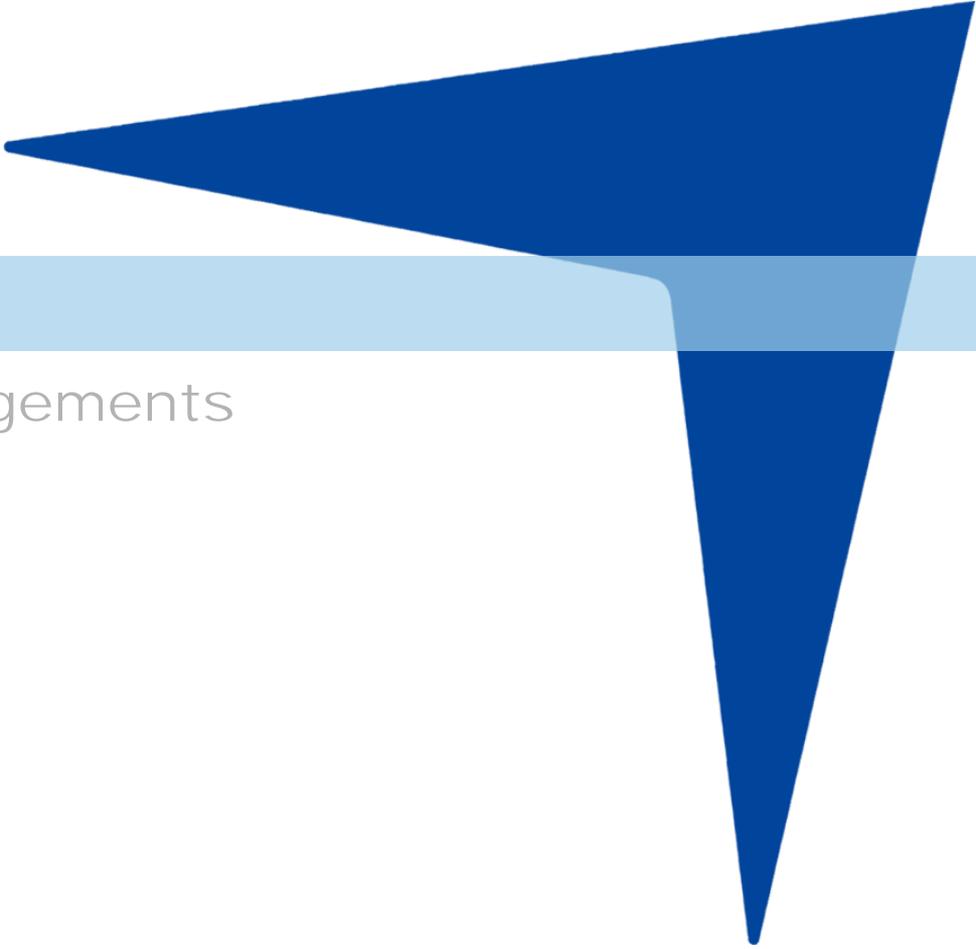
 Segal Consulting

# Educational Sessions Schedule

## *Medicare RFP and Prescription Drug Review*

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<b>PEC Meeting Date</b>	<b>Discussion Topic</b>
February 9	Medicare 101
March 8	Medicare Part C (Medicare Advantage)
<b>April 12</b>	<b>Prescription Drug Carve-out</b>
May 10	Medicare Part D (Prescription Drugs)
June 14	Review and Planning for RFPs



# 1. Carve-In versus Carve-Out

2. Overview of Financial Arrangements

3. PBM Market



# Carve-In versus Carve-Out

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- Pharmacy benefits account for approximately 20% of the City's total health care spending.
  - Pharmacy claim costs are projected to increase 13% annually in the FY 2017 working rates.
- The City of Boston currently contracts with health plans that manage both the medical and pharmacy benefits.
  - Harvard Pilgrim Health Care (HPHC), Blue Cross Blue Shield of Massachusetts (BCBSMA), Neighborhood Health Plan (NHP) and Tufts
  - This type of benefit plan management is known as a “carve-in”
- To “carve-out” the pharmacy benefit, means the City would elect to have the prescription drug benefit administered and managed separately from the medical benefit.
- The primary goal of a “carve-out” pharmacy benefit is to save money. An additional goal is to leverage a more City Plan specific focus in the management of prescription benefits.
- Specific factors the City must consider in evaluating carve-in versus carve-out of pharmacy benefits include:
  - Financial (savings and/or costs)
  - Resource requirements, including
    - Program management
    - Administration & member support
  - Member impact

# Carve-In versus Carve-Out

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- Most medical carriers utilizing a carve-in arrangement subcontract the management of the pharmacy benefit to a pharmacy benefit management (PBM) company.
- The City's current medical carriers subcontract pharmacy management as follows:
  - HPHC → MedImpact
  - BCBSMA → Express Scripts
  - NHP and Tufts → CVS Health
- Some medical carriers will sub-contract select services to the PBM while maintaining control over other services/functions.
  - For example, maintain formulary management and member service functions while subcontracting the pharmacy network and rebate contracting/administration services to the PBM.
- A few large medical carriers have acquired their own PBM and no longer need to subcontract those services.
  - United Healthcare → OptumRx
  - 13 Blue Cross Blue Shield Plans\* → Prime Therapeutics

\* BCBS of MA is not part of the 13 plan group

**Pharmacy benefit administration can be complex and challenging, having a PBM partner with expertise is key for successful management**

# Carve-In versus Carve-Out

- To “carve-out” the pharmacy benefit, means the City would contract directly with a PBM to administer the prescription drug benefit, removing the health plan as an intermediary.
- The PBM can provide either a comprehensive suite or a select set of services. Plan sponsors\* with limited staff resources typically opt for comprehensive services from their PBM.
- **Recommendation:** If the City decides to carve-out, it should contract for comprehensive services and consider adding additional resources to ensure adequate oversight and monitoring of the PBM’s performance.
  - When comprehensive services are selected, the PBM contract is structured in a manner that facilitates oversight:
    - Audit and Termination rights
    - Market Check language
    - Pricing and Service Performance Guarantees

PBM Service Provided	EXAMPLES OF SERVICES	
	Comprehensive	Select
Claims Adjudication	✓	✓
Network Contracting	✓	✓
Formulary Management	✓	
Rebate Administration	✓	✓
Clinical Programs	✓	
Member/Customer Service	✓	
Mail Service Pharmacy	✓	✓
Specialty Pharmacy	✓	✓
Reporting/Analytics	✓	

\* The City is a Plan Sponsor

# Carve-In versus Carve-Out

ADVANTAGES	
Carve-In	Carve-Out
<ul style="list-style-type: none"><li>• Integrated medical and pharmacy data available for clinical initiatives (disease management, wellness programs)<ul style="list-style-type: none"><li>– Potential for improved coordination of care</li></ul></li><li>• Costs to the Plan sponsor are capped under a premium if fully insured, minimizing risks</li></ul>	<ul style="list-style-type: none"><li>• Ability to implement programs with a specific focus on the City Plans versus programs implemented based on the medical carrier's book-of-business</li><li>• Higher level of contractual transparency from a cost perspective<ul style="list-style-type: none"><li>– Pricing guarantees (e.g., discounts, rebates) that are negotiable</li></ul></li><li>• Ability to structure contract language for Plan sponsor oversight of PBM performance guarantees</li><li>• Clinical program flexibility for optimum benefit management<ul style="list-style-type: none"><li>– Some clinical programs have ROI guarantees</li></ul></li><li>• Detailed reporting and analytics</li></ul>

# Carve-In versus Carve-Out

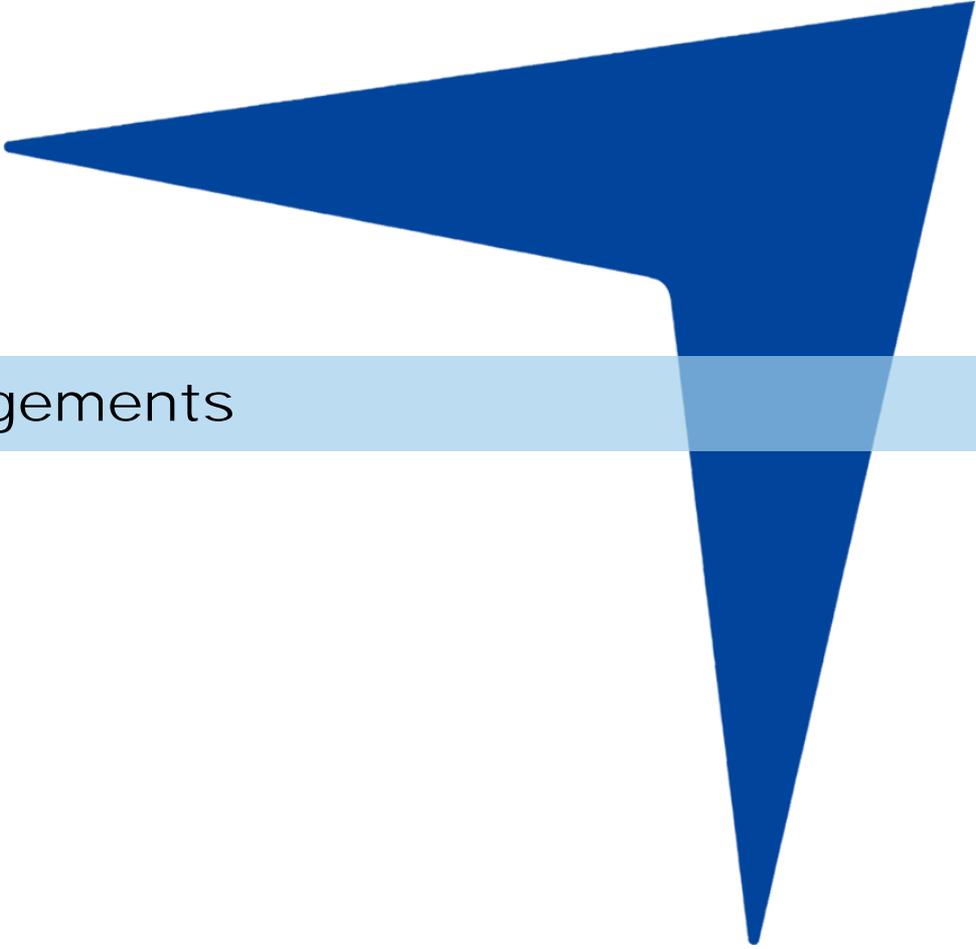
## CHALLENGES

### Carve-In

- Plan sponsor is not a party to the contract between the medical carrier and subcontracted PBM
  - Absence of audit rights and service/performance guarantees
- Lack of “insight”/transparency into prescription drug costs and management
  - Typically, no access to pricing guarantees or drug rebates earned by the Plan sponsor (City does receive rebates from the HPHC HMO with no minimal guarantees.)
  - Limited reporting on pharmacy utilization and trends

### Carve-Out

- Clinical Program flexibility
  - Requires the City to make decisions on PBM program recommendations to manage drug costs and utilization
  - The City would need an operating framework and a committee for ongoing management and decision making
- Additional administrative resources to support carve-out pharmacy program, and to monitor and oversee PBM service/performance
- Vendors (PBM or medical carrier) may charge data integration fee
- Potential increase in medical administration fees may mitigate pricing advantage for carve-out



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# Overview of Financial Arrangements

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## Glossary – Pharmacy Pricing and Contractual Terms

### ➤ Discount

- A negotiated price reduction from pharmacies at the point-of-sale of a prescription, commonly expressed as a percentage off average wholesale price (AWP)\*.
- Discounts vary based on type of drug (e.g., generic, brand) and distribution channel (e.g., retail, mail order).

### ➤ Rebate

- An amount returned by the manufacturer to the wholesale buyer (e.g., PBM, medical carrier) of the drug.
- Rebates are typically paid quarterly, approximately 3 to 6 months after the quarter end.
- Rebates are typical generated by brand name drugs and amounts may vary by distribution channel.

### ➤ Dispensing Fee

- Contracted amount in a traditional third-party prescription plan that is paid to the pharmacy in addition to the cost of the prescription.

### ➤ Pricing and Performance Guarantees

- Contracted guarantees that ensure the PBM (or medical carrier) administer the plan in accordance with the contract.
- Pricing guarantees focus on the financial terms, including discounts, rebates, dispensing fees, etc.
- Performance guarantees typically focus on the vendors administration of the plan, including plan design, account servicing, membership support, reporting, etc.

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\* Average Wholesale Price (AWP): A list-price benchmark for many pharmaceutical transactions. Despite its name, the AWP does not represent actual marketplace transactions and does not accurately measure average prices from wholesalers to pharmacies.

# Overview of Financial Arrangements

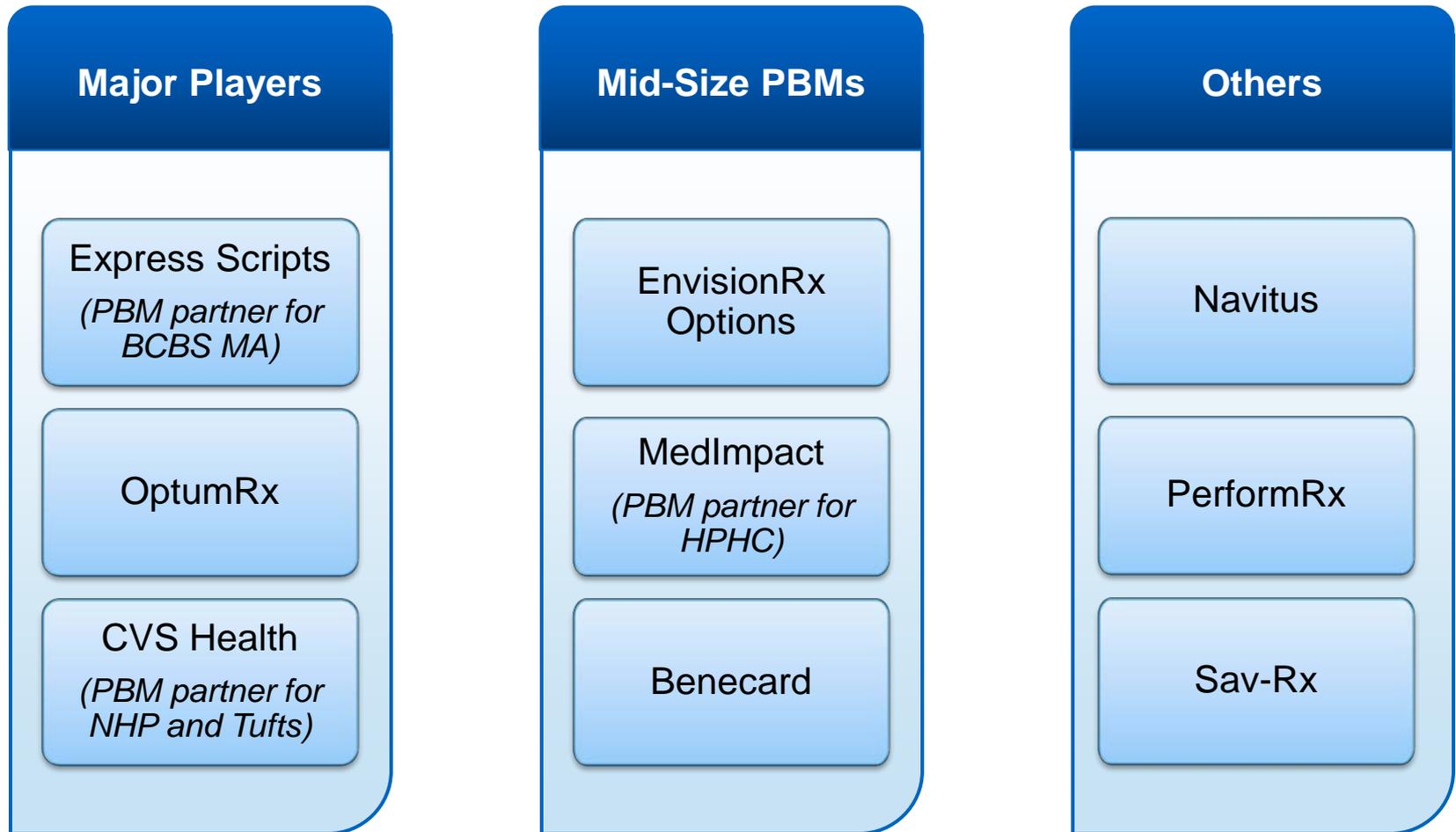
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- **Traditional** (“spread pricing”): Most PBMs employ this approach of negotiating aggressive contracted rates for drugs at lower prices and invoicing their clients at higher contracted rates, profiting from the difference or “spread”. The PBM also often retains a portion of the rebates.
- **Pass-Through**: PBMs charge clients a flat fee per claim or per member and pass the exact purchase price or reimbursement rate through to the client. Rebates are also passed through at 100%.
- **Hybrid**: A combination of both pricing arrangements. For example, the PBM is able to retain “spread” via the contracted rates; however, the PBM must pass through 100% of all rebates without charging the flat per claim or per member fee.
- Current “carved-in” pharmacy benefits operate similar to traditional financial arrangements, except the current arrangements:
  - do not include any pricing guarantees that are typically offered by a PBM; and
  - the City does receive 100% of rebate monies for the HPHC HMO Plan
- **Recommendation**: Hybrid arrangement
  - If the City decides to carve-out, the Hybrid arrangement will maintain the existing financial approach for the pharmacy network pricing **AND** give the City discount guarantees and pass through 100% of the rebate monies earned by the City.

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# PBM Market

## The Primary Players



Selection of one of the existing medical carrier's PBM partners may offer an advantage in facilitating some of the carve-out process and administrative requirements for the City.

# Final Thoughts

- Pharmacy benefits account for approximately 20% of the City's total health care spending, and industry annual trends are projected at 12%-15%.
- Pharmacy benefits can be complicated and costly if not managed properly. Medical carriers (carve-in) and Plan sponsors that carve-out, typically leverage the expertise of a PBM to manage the benefit.
- Contracting directly with a PBM removes the medical carrier as an intermediary.
- Plan sponsors can benefit from a carve-out:
  - Pricing transparency and guarantees, including access to earned rebates
  - Improved contracting language and PBM oversight (audit rights, market check, etc.)
  - Access to detailed reporting and insight into pharmacy costs/trends
- If carving-out Plan sponsors will need to:
  - Allocate more resources to manage/administer a carve-out program
  - Establish a framework and committees for program review
  - Define procedures and policies



# Thank you!

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