



Transparency Debate in PBM Industry
Consumer Driven Healthcare Summit
Sept. 13-15, 2006 in Washington, DC

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Session Objectives

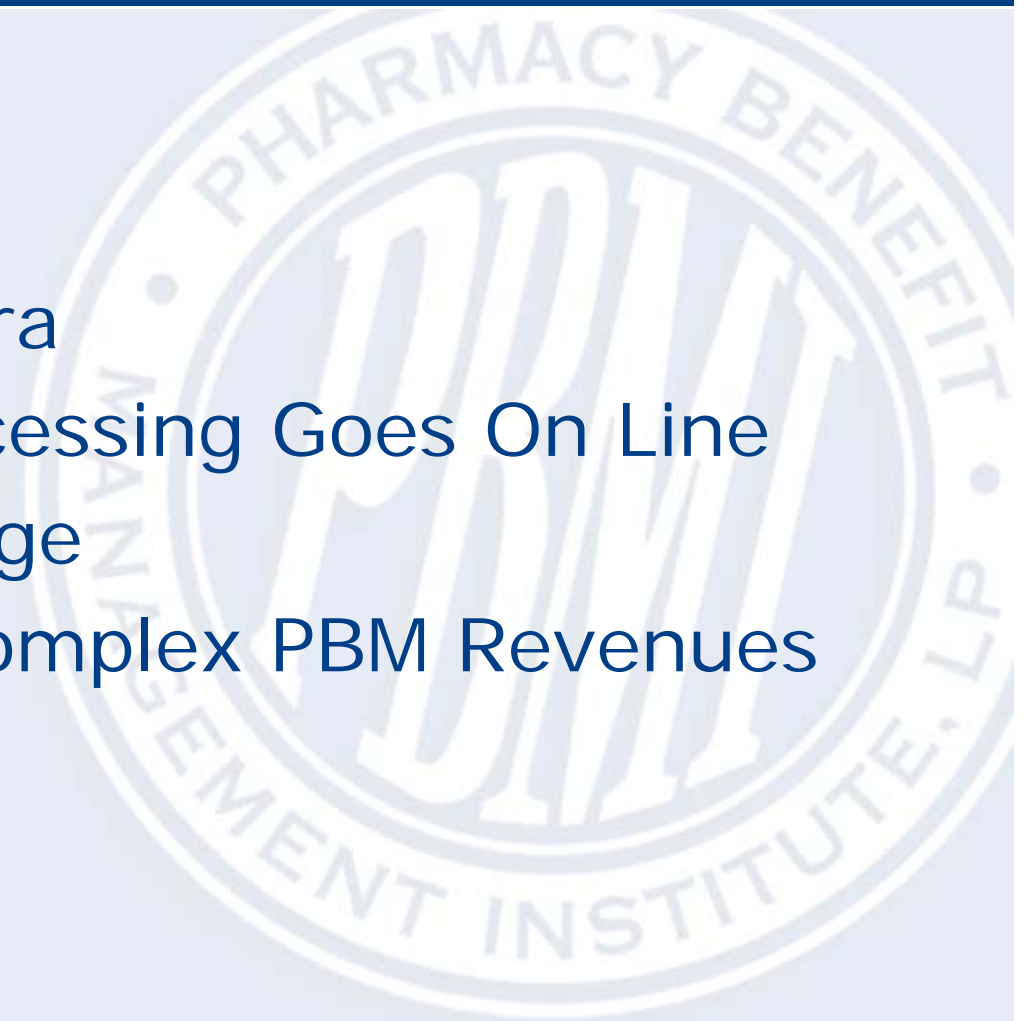
- Summarize Complexity of Drug Benefit Management
- Define Concept of Transparency in Drug Benefits
- Compare and Contrast Traditional PBM Pricing With Transparent Pricing Models
- Identify Critical Issues in Transparency Debate

Rx Management Challenges Grab Headlines

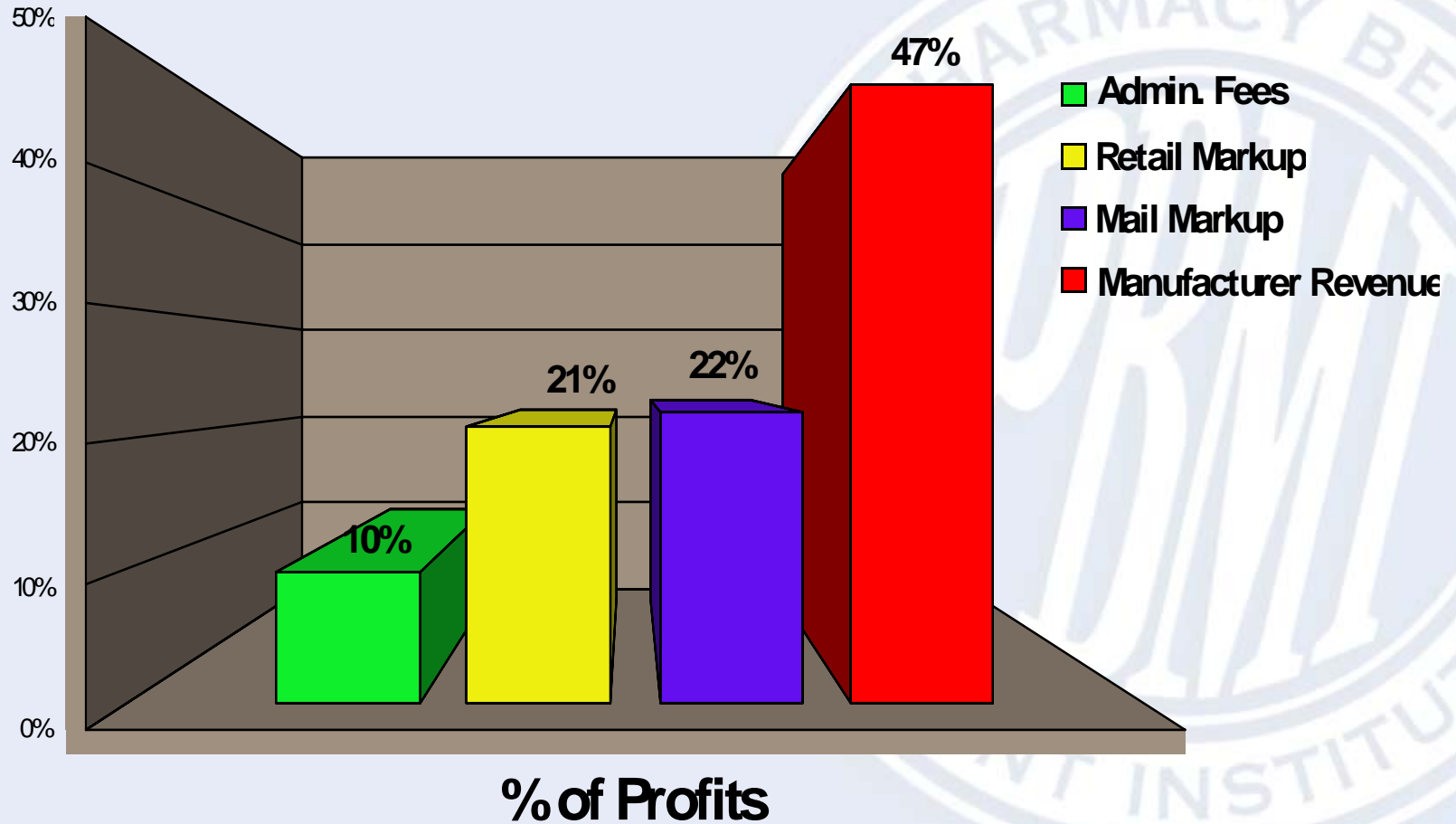


Drug Benefit Management Evolves Over Time

- 1970s: The Card Era
- 1980s: Claims Processing Goes On Line
- 1990s: PBMs Emerge
- 2000 & Beyond: Complex PBM Revenues Create Black Box



How Do PBMs Make Money?

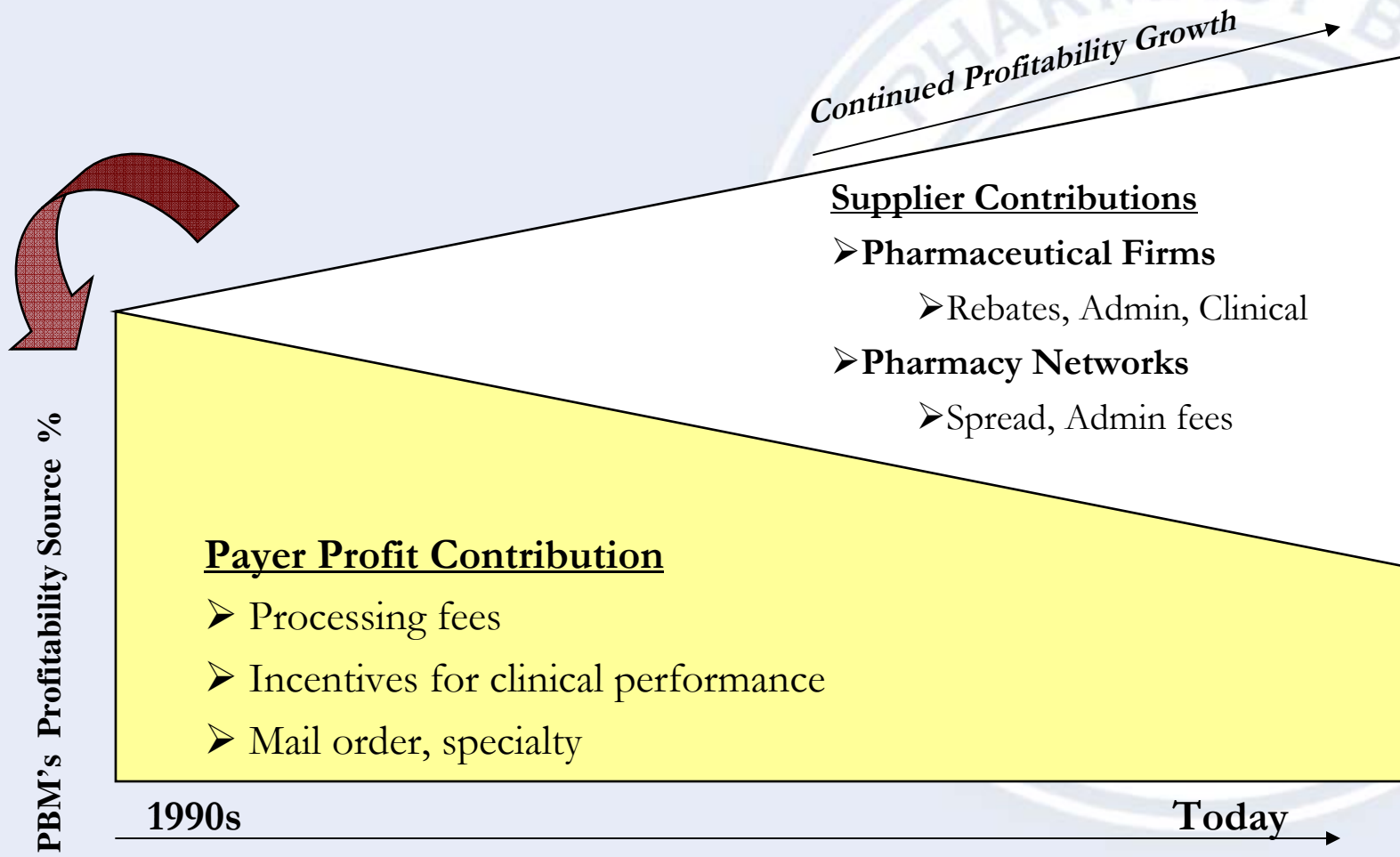


Some Definitions for Our Discussion

- PBM Administrative Fees
- Mail and Specialty Pharmacy Markup
- Retail Markup, Network Spread
- Manufacturer Revenues



The Changing Financial Dynamic



Defining Transparency for Drug Benefits

- Market Definition
 - PBM Discloses and Provides Full Extent of Pre-negotiated Supplier Discounts in Exchange for Flat Billing Mechanism (Per Claim, PEPM, PMPM, Etc)
 - Retail Network Pricing
 - Mail-order and Specialty Pharmacy Pricing
 - Manufacturer Rebates, Discounts
- Vendor Definitions
 - Disclosure only?
 - Disclosure + pass along some pricing?
 - Disclosure + pass along all pricing?

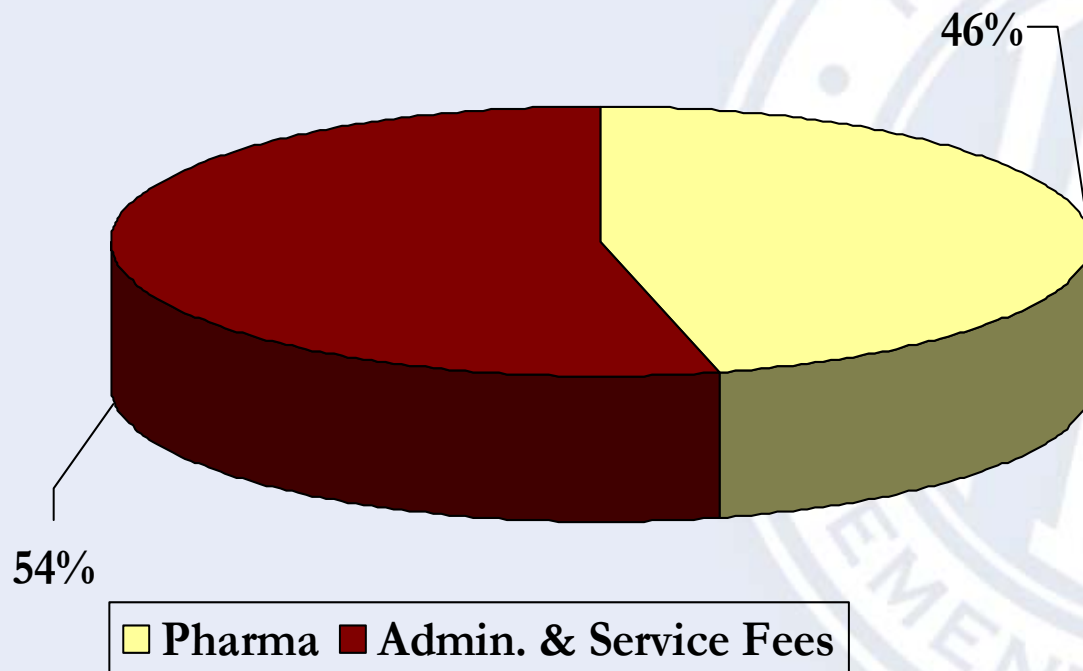
What Does Transparency Mean to My Costs?

- **Sample client**

- Midsized employer
- New PBM contract within the past 18 months, with competitive rates
- 3-tier copay



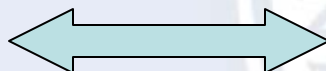
Net PBM Revenue of \$3 to \$5 Per Claim



PBMs Will Capture Revenue, Regardless of Model

PBM Service Costs / Rx

Traditional Revenue Model	
Admin Fees	\$xx
Network Spread	\$xx
Rebates	\$xx
Pharma Admin Fees	\$xx
Other Misc Fees	\$xx
Subtotal	\$3-\$5/Rx



Transparent Revenue Model	
<u>Flat Fee Per Rx, PEPM, or PMPM</u>	<u>\$3-\$5</u>
Subtotal	\$3-\$5/Rx

Traditional PBMs that are willing to offer clients a transparent pricing model may seek to obtain the same level of revenue, all derived from the client in the form of higher administrative fees. The market may be unable or unwilling to bear the pricing that will be required for traditional PBMs to succeed under this type of model.

PBM Perspectives on Transparent Pricing Model

- Some View Transparency As Marketing Buzz Word
- Majority of Large PBMs Offer Traditional and Transparent Pricing
- Many New Market Entrants Building Business Model on Transparency

Comparing PBM Pricing Models

Est. Net Cost Analysis Per Claim

Cost Element	Traditional Pricing Model	Transparent Pricing Model		
		Vendor A	Vendor B	Vendor C
Gross AWP				
- Network Discounts				
- Rebates				
- Network Fees				
- Cost Share				
+ Administrative Fees				
+ Dispensing fees				
Est. Net Cost				

This traditional pricing analysis should be supplemented by an evaluation of how drug mix could change under each management model based on each vendor's formulary, clinical program strategy, financial incentives etc.

Comparing PBM Pricing Models

PBM A

Bid:	AWP – 15%
	D.F. \$2.00
Rebate guar	\$5.00 min.
Rebate share	75%
Admin fee	\$.30/rx

Controlled Release

Drug = \$50

\$39.80

PBM X

Bid:	AWP – 16%
	D.F. \$1.75
Rebate guar	\$20.00 min
Rebate share	80%
Admin fee	\$ 0

Extended Release

Drug = \$80

\$48.95

Evaluating Financial Variables

- How Does Vendor A's Transparent Pricing Compare to Vendor B's?
- Which Vendors Will Offer a Guaranteed Effective Rate as Part of Overall Proposal?
- What Services Will Be Included in the Flat Pricing Offered?
- How Will Differences in Clinical Program Strategies Influence Net Costs?

Evaluating Financial Variables Cont'd.

- What Audit Rights Are Included in Contract?
 - Network Agreements
 - MAC Pricing Tables
- What Manufacturer Audit Rights Are Included?
 - Access to Top 15 Agreements Annually
 - Contracts, Invoices Submitted to Manufacturers, and Reconciliations

Evaluating Operational Variables

- What Service Bundle Will You Require the Vendor to Manage?
- How Effective Will Each Vendor Be in Executing on The Basics?
 - Claims Admin, Member Education, Reporting, Network Management, etc.
- What Experience Does Each Firm Have Serving Customers of Similar Size And Scope?
- What are the Service Guarantees?

Evaluating Clinical Variables

- What Resources Does the PBM Have to Help Drive Utilization of Cost-effective Medications?
- How Effective Have the Firm's Clinical Programs Been Historically?
- Are The Firms Willing to Guarantee the Effectiveness of Their Programs?

Drilling Down Into Transparency Practices

- PBMI Has Identified Practices Consistent With Transparent PBM Relationships in the Areas of:
 - Claim Pricing Calculations
 - Cost Sharing Calculations
 - Pharmacy Interaction
 - Utilization Management
 - Formulary/Rebates



Imperatives for Truly Transparent Contracts

- Demonstrated Transparency in Supplier Pricing Arrangements
 - Network Pharmacies
 - Pharmaceutical Firms
- Effective Strategies to Improve Clinical Outcomes
 - Compliance, Adherence to Guidelines, Etc.
- Recapture Role of Educating Providers and Consumers on Relative Value of Medications
 - Become Key Participant in Evaluating Outcomes & Costs of Medications When Used By Patients In Real-World Settings

What's the Appeal of Transparency?

- Simplify the PBM Procurement Process
- Leverage More Value From the PBM-supplier Relationship
- Reduce or Eliminate Potential for Perverse Incentives to Increase Costs
 - e.g. Pushing Higher Cost Brand Drugs to Obtain Rebates
- Obtain Better Information to Facilitate Better Plan Coverage and Management Decisions
 - Focus on Net Cost of Drugs
- Reduce Overall Cost of PBM Relationship

The Challenge of Transparency

- Could Create Negative Financial Position for Employers, Other Payers
 - Upfront Cash for Admin Fees May Not Be Offset By Incremental Supplier Discounts
 - Supplier Contracting Risk Shifts to Employer or Payer to Manage
 - Steerage Management Programs Must be in Place to Obtain Maximum Value From the Transparent Contracting Approach
- Audits May Be Required To Ensure Transparency
 - More Comprehensive than Past Audits
 - Different Audit Skill Set / Industry Expertise Required

The Challenge of Transparency Cont'd.

- Inexperience of New Market Entrants
 - Service Guarantees are Important
 - Service Bundle Expectations are Important
- Will PBMs Lose Their Interest in Negotiating Aggressive Supplier Contracts?



Before Making a Change...

- **Recognize the Appeal**

- Know What You're Paying
- Get Appropriate Value For Those Fees
- Chance to Strip Significant Cost From The System

- **Confront the Challenge**

- Difficult to Know If You're Really Getting Full Value of Supplier Discounts
- Fees Paid By Employers and Payers Could Go UP, Not Down (If Pricing Discounts are Not Supplied)
- Basic Service Levels Could Drop If Firms Choose Inexperienced Partners Solely for Their Interest, Ability to Adopt Transparent Pricing

Improve Performance of Your Rx Benefit Plan

- Create Incentives for Improving Clinical Performance
- Focus on Lowest Net Cost Drug that is Medically Appropriate
- Implement PBM Performance Guarantees
- Audit PBM, Manufacturers

Reframe Your PBM Relationship

- Clinical Performance
- Financial Performance
- Operational Performance
- Managing Your PBM *and* Your Plan



It's Still All About The Right Drug...

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PBMI Research Indicates Increased Collaboration

- PBMI's Annual Study of U.S. Employers > 2,500 Employees on Satisfaction With PBMs Shows Overall Increase in Alignment of Goals
- Trend Also Seen in 3 of 4 Individual PBMs With Two Years of Data
- PBMs Appear To Be Responding To Employers' Transparency Issues

Increase in Employer-PBM Alignment

Pharmacy Benefit Manager	2004 Percent of Employers Perceiving Goal Alignment	2005 Percent of Employers Perceiving Goal Alignment
All PBMs	82% N=472	85% N=416
PBM A	87%	91%
PBM B	76%	80%
PBM C	77%	78%
PBM D	100%	91%

The PBM Transparency Debate

- Background
- The Stakeholders
- In Whose Best Interests?
- Attempts to Regulate PBMs
- Market Pressures
 - Future Trend of U.S. Business Practices
 - Employer Coalition Leverage
 - CDHPs
 - Competition



The PBM Transparency Debate

“...[V]igorous competition, rather than regulation, in the marketplace for PBMs is more likely to arrive at an optimal level of transparency. Just as competitive forces encourage PBMs to offer their best price and service combination...to gain access to subscribers, competition should also encourage disclosure of the information that health-plan sponsors require to decide which PBM to contract.”

*- Improving Health Care: A Dose of Competition
Joint FTC/DoJ Report, June 2004*



PBMI is the industry's *only* membership organization exclusively dedicated to helping health care purchasers maximize the value of drug benefit plans.

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