



Pharmacy Benefit Management Institute's Transparency Practices

To help the marketplace understand how a transparent contract may impact pharmacy benefit manager (PBM) business practices, the Pharmacy Benefit Management Institute (PBMI) identified a number of practices consistent with transparent PBM relationships in February 2005. Although some might consider many of these "best practices" rather than transparency practices, PBMI includes them under the umbrella of transparency practices because of the potential impact on the plan sponsor's total drug benefit cost. Transparent PBMs should adhere to the following business practices in good faith and communicate openly about their performance.

Claim Pricing Calculations

- Use the National Drug Code (NDC) submitted by the retail pharmacy for purposes of pricing and reporting and do not change the NDC.
- Use the Average Wholesale Price (AWP) as of the date the prescription was filled as documented by the price database provider (*e.g.*, First DataBank or MediSpan); recognizing that some price database changes are retroactive.
- Require pharmacies to submit usual & customary (U&C) pricing on all claims and report this data to the plan sponsor.
- Calculate the prescription cost as the lower of the U&C price or the negotiated discounted ingredient cost or MAC price and the negotiated dispensing fee.
- Use original manufacturer NDCs and AWP prices rather than using repackager NDCs.
- Add drugs to the MAC price list as soon as the drugs are widely available from multiple sources.
- Establish MAC prices that take advantage of the deep discounts available for generic drugs.

Cost Sharing Calculations

- Calculate cost sharing as the lower of the prescription cost (as defined above) and the copayment amount.
- Calculate percentage coinsurance as a percentage of the prescription drug cost as defined above.

Pharmacy Interaction

- Do not collect fees from pharmacies to participate in a pharmacy network.
- Do not collect fees from pharmacies to submit transactions.
- Pay retail pharmacies the amount the PBM bills the plan sponsor for each claim.

Utilization Management

- Inform plan sponsors of all utilization management activities performed by the PBM and any funding (real or in-kind) for these services paid by external sources.
- Do not encourage prescribers to switch a patient from a lower net cost drug to a higher net cost drug.
- Do not sell patient or provider data profiles to manufacturers.

Formulary/Rebates

- Create formularies in which, among therapeutically equivalent drugs, lower cost drugs (net of rebates) are identified as preferred drugs and higher cost drugs (net of rebates) are identified as nonpreferred drugs. The calculation of lower cost, net of rebate, requires some reasonable assumptions about the potential rebate amount that could be obtained for the nonpreferred product.
- Assuming the competing products are relatively equivalent in terms of therapeutic value and quality, identify as preferred products those drugs that are expected to be available generically within a specified period of time.
- Negotiate rebate contracts on an individual drug basis rather than on a bundled basis.
- Submit and calculate rebate amounts separately for each customer rather than in the aggregate for multiple customers.
- Report the rebate amount received for each drug and strength and the net cost of the drugs after rebates.
- Report all fees paid or in-kind services performed or provided by pharmaceutical manufacturers for any purpose. These services include, but are not limited to, rebate programs, therapeutic substitution programs, disease management programs, and administrative services related or unrelated to formulary management. Share these manufacturer funds with the plan sponsor in a pre-negotiated distribution.
- Report the net cost of each drug in a manner that allows the plan sponsor to compare the cost of all drugs (including generics) in each therapeutic class.

Transparent PBMs have the choice of either agreeing to perform certain practices or communicating about the practices it chooses not to perform and the associated revenue. Plan sponsors must either negotiate a PBM contract that allows them to confirm these practices are being performed or that allows them to audit the amounts the PBM reports it receives. Plan sponsors should negotiate performance guarantees when and where appropriate.

Contact PBMI at 480-730-0814 or visit us at www.pbmi.com for valuable resources on designing and managing drug benefit programs. Learn more about transparency and other PBM-related issues at our annual Prescription Drug Utilization Management Conference to be held February 21-23, 2007 in Phoenix.