

# Role of the PBM In a Post-Medicare Reform World

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# Medicare Reform and the PBM

## Discussion Topics:

- The impact extends beyond Medicare
- Lessons learned from the endorsed discount card process
- Defining value in a skeptical and complicated market

# The Impact Beyond Medicare

## Medicare reform will impact the entire prescription drug market

- HRAs will accelerate employer movement to defined contribution for all business
- Potential CMS involvement will set the rules of engagement for the entire market
- Incentives for the market to move towards M+C will increase the leverage of the big managed care players

# For the PBM industry, Medicare will accelerate market movement

- Emphasis on cost control as business moves toward commodity pricing
- Expansion into non-traditional services to differentiate products
- Market responses to meet the needs of specific market constituencies
- Accountability and reporting requirements will change how business is conducted across all segments
- Increasingly complex business with decreasing margins

# Medicare drug reform impacts many types of organizations

- Employer groups
- Health care plans/M+C players
- State Medicaid programs
- Pharmaceutical companies
- CMS
- And, of course, PBMs

## End users include constituents who may or may not already have drug coverage

- Group retirees
- Individual Medigap purchasers
- M+C beneficiaries
- Medicare disabled
- Within these groups there are various sub-segments with different needs
  - e.g., new retirees will have different needs than older retirees

# Many are critical of the role PBMs play in the equation

**What value do PBMs add?**

**Does PBM involvement decrease the effectiveness of the entire program by not allowing CMS to negotiate?**



# PBMs will have to prove they add value to stay relevant

- Establish a culture of business partner or consultant to help navigate this brave new world
- Be a valued partner to CMS
- Demonstrate value
  - If PBMs do not demonstrate value, there is the risk of being locked out, which will impact how the entire market views the PBM industry

# Medicare drug reform is complicated, scaring many of its stake holders

- Sprint to the endorsed discount program
- Part D requires a full-risk solution
  - Sense that this will be huge, but not sure of how
- Many remaining questions such as actuarial equivalents and specialty pharmacy
- The only constant is that it will change

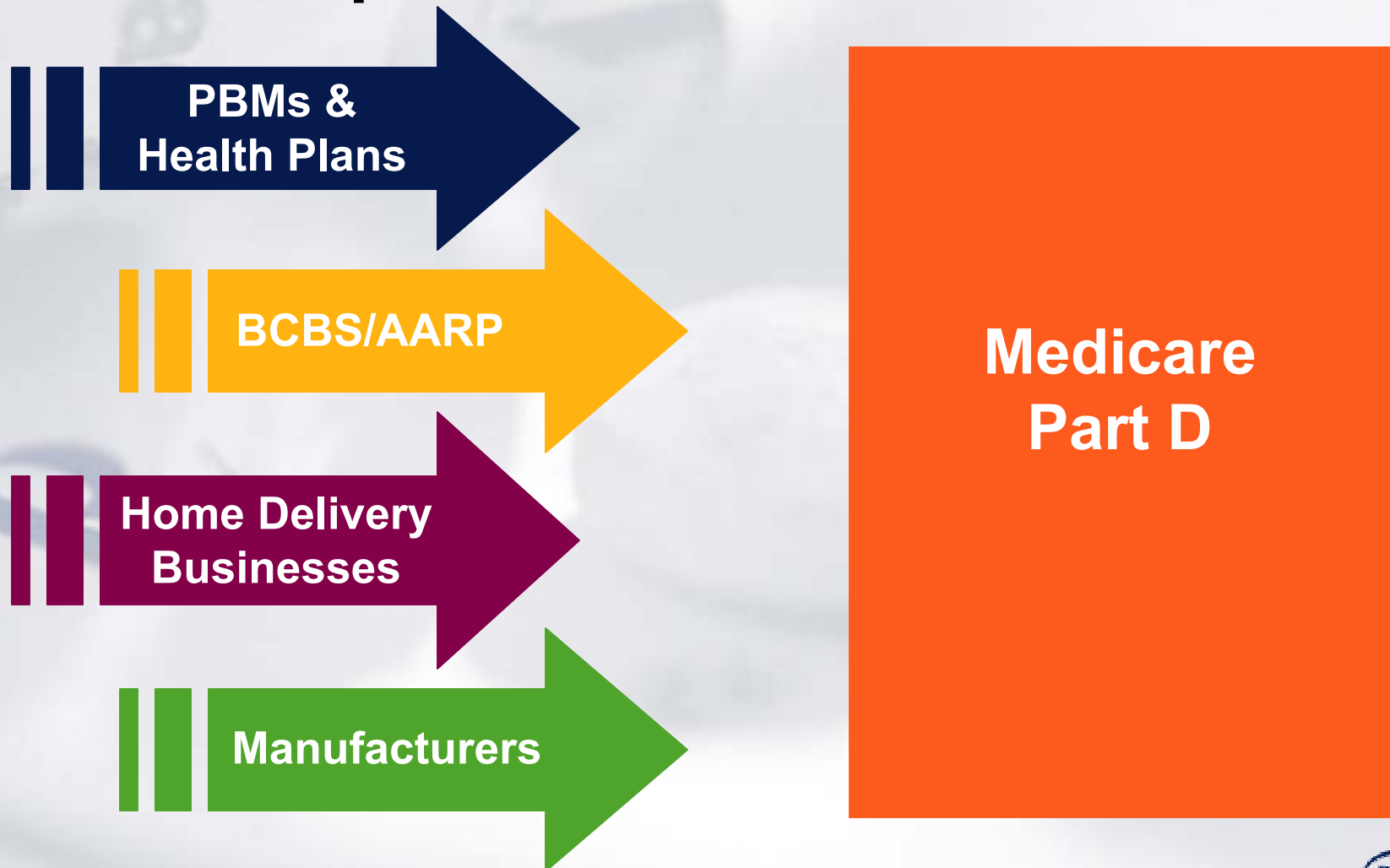
# Lessons Learned

## The endorsed discount program

- CMS is still learning about the drug business and is seeking industry input
- The rules favor M+C plans, but 93 percent of beneficiaries are not in M+C
- The rule making has been complicated and cumbersome

■ ■ ■ LESSONS LEARNED

**However, many organizations still came to the table to protect their interests**



## Observations about the Medicare Transitional Assistance program

- From a policy perspective, the Transitional Assistance program is Medicare's first venture into a funded Rx benefit
- CMS used the requirements for Transitional Assistance to create a Part D infrastructure prototype
- With rebates, the economics allowed players to break-even and potentially make money
- Huge potential market in some states, since the requirements measure income, but not assets

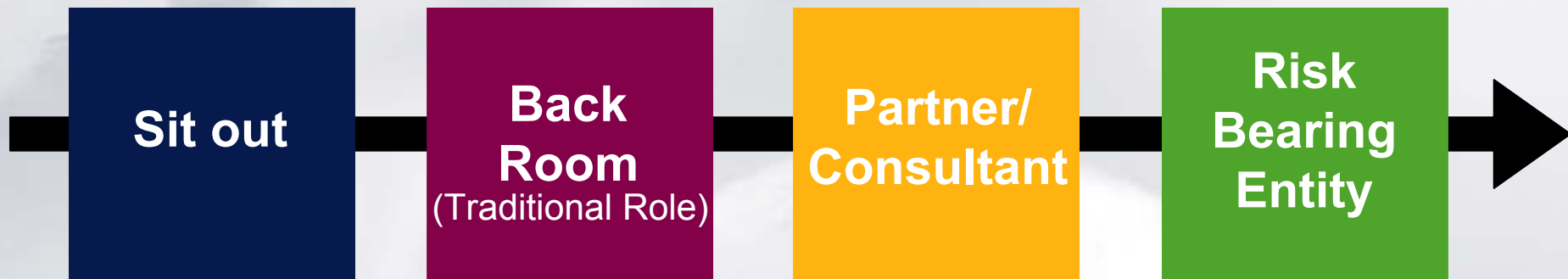
■ ■ ■ LESSONS LEARNED

## The discount process offered a paradigm for PBMs considering Part D

- PBMs performed/sponsored analysis and created the deal
- Offered a turnkey solution where the economics created an incentive for sponsors to play
  - PBM as prime contractor, with sponsors private labeling as subcontractors

■ ■ ■ LESSONS LEARNED

# Range of Part D options for the PBM industry





## For the PBM to play in Medicare Part D

- The traditional back room role will not work for most of the market because the stakes are much higher
  - There will be an exception for larger and sophisticated M+C Plans
- The discount customers can form the base for business partners, but there will be a shake-out
  - In terms of sponsors and PBMs

# Defining Value

■ ■ ■ DEFINING VALUE

# The first step will be to lead clients through the legislation and rule making

- **Decode Part D** and communicate it to the client base
- **Ask the right questions**
- **Get to the table** in the rule making process (the big PBMs are already there)
- **Offer solutions**, but realize it will not be one size fits all

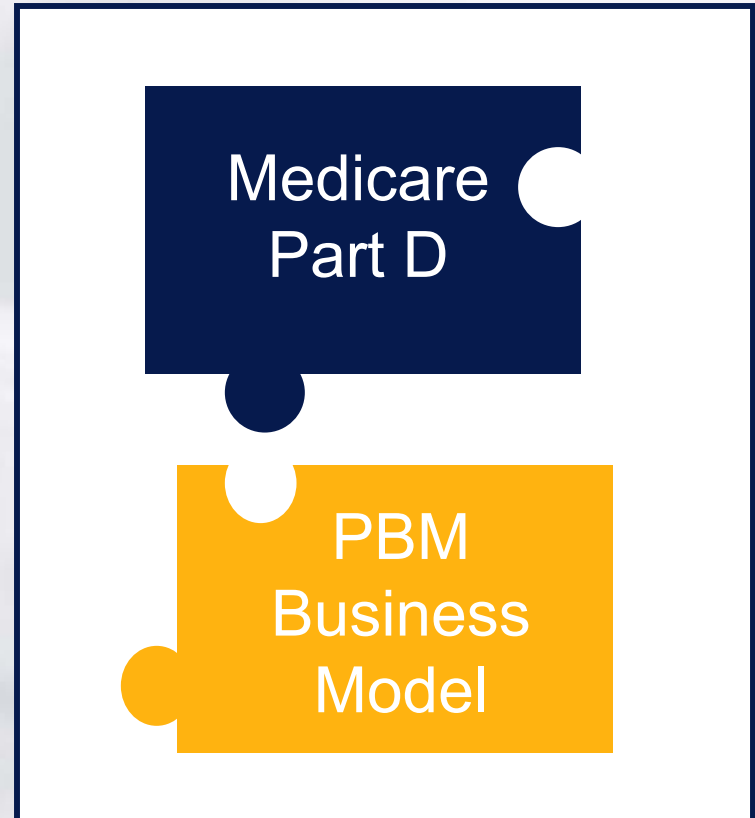
■ ■ ■ DEFINING VALUE

# Once we get past the “bar talk,” there are some very real issues

- Risk-assessment on the open market
- Marketing and cost control strategies
- Employer group markets and the trend towards defined contribution
- Specialty pharmacy
- Guarantee issue for the disabled

# How does Medicare Part D fit with the PBM business model?

- Fit with core competencies – success will require a lot of attention, it cannot be an afterthought
- Focus on providing solutions that fit the needs of the specific client; this may mean focusing on certain business segments to be successful
- Bring staff in-house or form strategic alliances with organizations that provide specific expertise



# The PBM needs to provide solutions that include

- Pricing and cost management
- Plan design
- Marketing and communications
- Reporting
- Analysis
  - Quick response is necessary as the market and your business changes