

Will PBMs Participate in the New Medicare Prescription Drug Program

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Terry S. Latanich
Government Affairs Consultant
Medco Health Solutions



Potential Roles for PBMs

- 2004 Discount Card
 - ◆ Sponsor drug discount card plans
 - ◆ Provide “Intel-side” for M+C discount cards
- 2006 Funded Benefit (Direct Participation)
 - ◆ Serve as PDPs
 - ◆ Serve as PDPs with dialed-down risk
 - ◆ Serve as federal fall-back plans

Potential Roles for PBMs

- 2006 Funded Benefit (Indirect participation)
- Provide PBM services to traditional risk bearing organizations, e.g., insurers, health plans which choose to become:
 - ◆ PDPs
 - ◆ Regional PPOs
- Support employer-sponsored plans

Key Capabilities Provided by PBMs

- Develop pharmacy networks
- Implement POS technology and DUR programs for seniors
- Track patterns of prescribing by physicians and patterns of usage by seniors to improve care
- Facilitate e-prescribing to improve patient care and outcomes

Key Capabilities Provided by PBMs

- Specific obligations under HR 1
- Develop medication therapy management programs
 - ◆ Long sought by pharmacy
 - ◆ Source of reimbursement has been hurdle
- Negotiate rebates and price concessions with drug manufacturers

Discount Card Program

- Only deliverable prior to 2004 elections
- New business opportunity for PBMs which have historically been focused on selling to health plans, not in the direct to consumer market
 - ◆ Financial Investment Required
 - ◆ Cost of initial enrollment versus ongoing operations
- Build brand identification before 2006 benefit

Discount Card

- CMS' regulations recognize that \$30 enrollment fee will not cover the costs of enrollment and ongoing operations
- Expectation has been created that manufacturers will participate in funding savings, not just pharmacy
- Manufacturers must offer significant discounts and rebates to make the card successful

Controlling Drug Prices

- Price versus utilization as cost-driver
- Formulary categories delegated to USP
- Medical Necessity Overrides
 - ◆ Plans can establish objective criteria for approval
 - ◆ Must be specific to a beneficiary, not physician preference
- E-prescribing as formulary tool

PBMs role in 2006 Benefit

- Risk is mitigated in the early years, but still remains high
- PBMs have not assumed insurance risk
 - ◆ No reliable utilization history in early years
 - ◆ PBMs have an after-tax profit of 1-2% per SEC filings
 - ◆ PBMs will review current business model
 - ◆ How many PDPs emerge in early years
 - ◆ Will PDPs enter if dialed down risk or fall-back implemented

PBMs as Fall-Back Administrators

- Cannot be a PDP or subcontractor in any plan nationwide and still seek fall-back provider status
- May not establish brand identity
- Not a traditional role for PBMs
- Support current clients or move closer to an fiscal intermediary model
- Government role in developing formularies and negotiating prices in the fall-back plan

Conclusions

- First litmus test for success will be the discount card program; early indications are high level of interest
- Whether M+C, new regional PPOs, employer-based programs become widespread offerors or free-standing PDPs or reduced risk PDPs become the most prevalent offerings, PBMs will be key to the success of the program