Implications of the New Medicare Prescription Drug Legislation for Pharmaceutical Manufacturers, PBMs and Health Plans

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Roles for PBMs Envisioned In HR 1

- Sponsor drug discount card plans
- Partner with managed care plans
- Partner with new regional PPOs
- Partner with employers
- Serve as PDPs
- Serve as PDPs with dialed-down risk
- Become the “Intel-inside” other PDPs
- Serve as federal fall-back plans

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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
- Develop medication therapy management programs
- Negotiate rebates and price concessions with drug manufacturers
- Facilitate e-prescribing to improve patient care, achieve better outcomes – and enhance formulary compliance

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
  - Majority of discount card lives today are group enrolled
  - Medicare's endorsement will be a major positive
- Required financial investment to participate
  - Build or buy call center capacity for initial open season
  - Long enrollment calls; low conversion rate
- Opportunity to build brand identification before 2006 benefit

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The Economics of the 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
- Phrma supported a private sector solution rather than a government run program
- Manufacturers must offer significant discounts and rebates to demonstrate that they will be constructive participants in making this private sector initiative work

Controlling Manufacturers' Prices

- HR 1 allows PBMs to use formularies and programs to ensure compliance
- PDPs and health plans can establish criteria for medical necessity exceptions
  - Exceptions must be based on objective information, specific to a patient -- not just physician preference
- Formulary categories delegated to USP
- Growth of e-prescribing will facilitate not only safety but formulary compliance

PBMs as the “Intel-inside” or as PDPs?

- Risk is mitigated in the early years, but still remains high
- Both the width of the risk corridor and risk assumed within each corridor increases in 2008 and beyond
  - No reliable utilization history in early years
  - PBMs have an after-tax profit of 1-2% per SEC filings
  - PBMs play the “Intel-side role today
- Key question: how many PDPs will offer in the initial years and will full-risk plans enter a market after a dialed-down risk or federal fall-back plan is instituted?

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Fall-Back

- Cannot be a PDP or subcontractor in any plan nationwide and still seek fall-back provider status
- May not establish brand identity
- How would formularies be developed and pricing concessions negotiated?
- Does the prohibition on government interfering with PDP price negotiations with drug manufacturers apply to 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 their success in offering a benefit
- Manufacturers are at a critical crossroad in responding to pricing pressure from both the government and the public