

The Basics of Pharmacy Benefits Management (PBM) 2009

Andrew Kingery
Pharmacy Account Management
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Anthem | **Objectives & Introduction**

- **Provide basic components of a PBM**
- **Define PBM Industry and Trends**
- **Generic drug facts and trends**
- **Understand the specialty drug market**
- **Understand formulary management**
- **Understand utilization management programs**

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What is a PBM?

A Pharmacy Benefit Manager, or **PBM**, is an organization that provides programs and services designed to help maximize drug effectiveness and contain drug expenditures by appropriately influencing the behaviors of prescribing physicians, pharmacists and members.



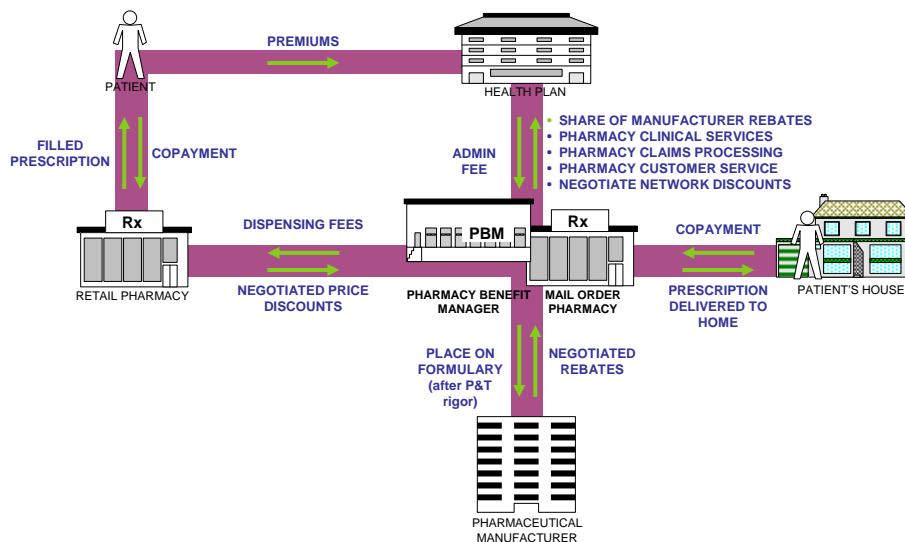
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What Services Do PBMs Provide?

- Serve as intermediaries between employers and wholesalers
- Administrative services in processing and analyzing prescription claims
- Contracting with a network of pharmacies
- Negotiating rebate arrangements
- Developing and managing formularies and prior authorization programs
- Operating mail order pharmacies and mail order claims
- Maintaining programs to ensure patient compliance
- Performing drug utilization reviews
- Implementing therapy or disease management programs
- Offering specialty pharmacy and distribution services

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How Does a PBM Work?



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Pharmacy Network Key Terms

NDC – National Drug Code

A number assigned and maintained by the FDA to identify drug products marketed in the United States.

AWP – Average Wholesale Price

A national average of list prices charged by wholesalers to pharmacies.

MAC – Maximum Allowable Cost

The maximum reimbursement price set for a particular drug.

U&C – Usual & Customary Price

The standard fee established for a specific drug by retail pharmacies.

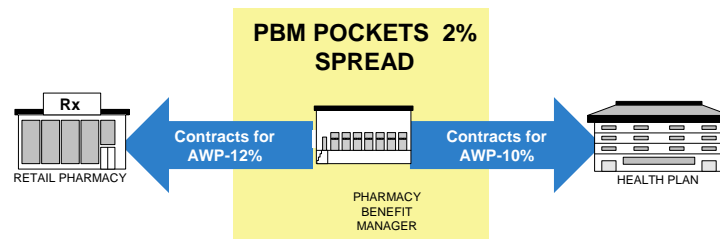
Dispensing Fees

The charge for the professional services provided by the pharmacist when dispensing a prescription.

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What is Price Spread?

Price spreads occur when PBMs negotiate lower rates with the pharmacy network and use that revenue to offset administrative expenses.



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Various Types of Rebates

Flat/Access Discounts

A rebate typically offered for formulary positioning.

Example:

Discount	
25%	

Performance Discounts (Adjusting)

A rebate typically affiliated and compared to quarterly national market share figures.

Example:

Requirement	Discount
NMS - 1	20%
NMS	25%
NMS + 1	30%

Performance Discounts (Fixed)

A rebate typically affiliated and compared to a fixed/non-adjusting market share.

Example:

Requirement	Discount
20% Mkt Sh	20%
25% Mkt Sh	30%
30% Mkt Sh	40%

Combination Discounts

A rebate combination of flat/access discounts and Performance discounts.

Example:

Requirement	Discount	On
Formulary	20%	
NMS - 1	25%	
NMS	30%	
NMS + 1	35%	

Rebate data is aggregated, processed and submitted to manufacturers on a quarterly basis.
Manufacturers typically remit rebate payments within 60 to 90 days of receipt.

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What is Reference-Based Pricing?

Retail Cost of Equivalent Drugs in Same Therapeutic Class

Drug A	\$50
Drug B	\$100
Drug C	\$200

Insurer sets a reference price of \$75

If patient wants:

Drug A

Drug B or C

Patient pays:

Copay (Retail cost is lower than the reference price)

Copay plus the difference between the retail cost and the reference price

An insurer chooses the lowest cost drug (of equivalent substitutes) in a therapeutic class and sets a reference price. A patient may choose a more expensive drug in the class, but must pay the difference between the retail cost and the reference price covered by the insurer.

Factors Affecting Rx Trends

National pharmacy sales have increased 41% over the past five years.



IMS Health Reports (Business Wire) March 9, 2007 U.S. Prescription Sales Jump 8.3 Percent in 2006, to \$274.9 Billion

What are generics?

- FDA approved drugs which are identical or bioequivalent to name brand drugs after patent expiration
- By law, generics must be the same as name brands in:
 - Active ingredient
 - Strength
 - Dosage form
 - Intended use
 - Route of administration
 - Quality
 - Performance characteristics
- Generic Industry is growing at rate of 7.8% (source: IMS Health)
- 1% increase in GDR = 1% decrease in medical costs (source: Anthem data)

20 Years.....

69%.....

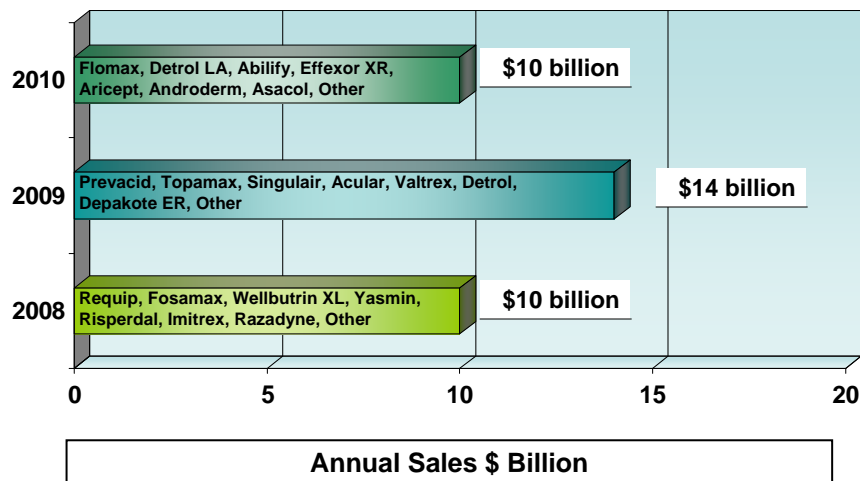
2.6 billion.....

\$34.34.....

\$119.51.....

Source <http://www.gphaonline.org/about-gpha/about-generics>

Brands Losing Patent Protection



WLP NRx Generic Pipeline; U.S. Sales 2006

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Defining Specialty Pharmacy

Specialty Pharmacy ...

- Services members with typically rare and chronic diseases
- Dispenses biotech drugs for these diseases, and schedules drug delivery either to the member's or to a physician's practice
- Provides telephonic therapy management to ensure safety and compliance
- Enhances services to members who previously received these medications from a retail pharmacy or from a physician's practice



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Hemophilia

Hemophilia Replacement Factor

Multiple Sclerosis

Avonex, Betaseron, Copaxone, Tysabri

Rheumatoid Arthritis

Enbrel, Humira, Kineret, Remicade

Hepatitis C

Peg-Intron, Pegasys

Cancer

Oral Chemotherapy, Procrit, Neupogen, Epogen

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What is the impact of specialty pharmacy?

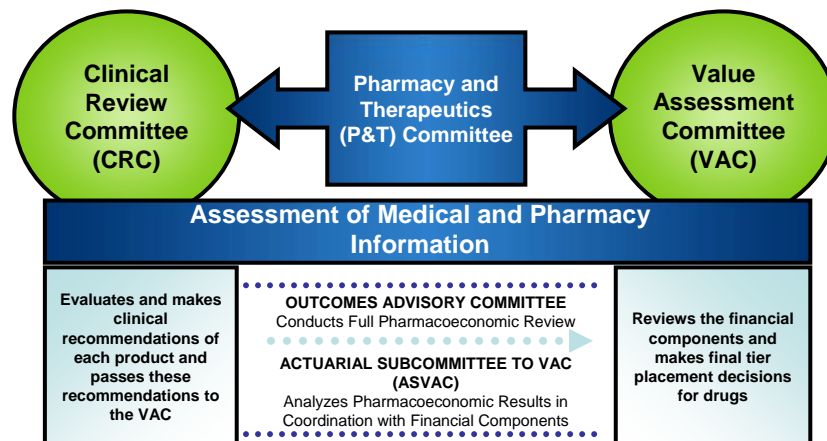
- Used by only 1-3% of the Plan's members, biotech medications (drug and administration) account for approximately 30% of health plan costs
- Specialty pharmacy costs are trending at an annual inflation rate of 22% year-over-year, the highest escalation of any sector
- The pharmaceutical pipeline is filled with biotech medications (~55% of all Phase 3 or Phase 4 molecules are specialty medications)

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- The pharmaceutical pipeline is filled with biotech medications (~55% of all Phase 3 or Phase 4 molecules are specialty medications)
- Employer groups are looking to the Plan for solutions to mitigate these trends

* from 2007 Anthem Specialty Pharmacy data

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- **What is a Formulary?**

- A list of pharmaceuticals an insurer covers

- **Types of Formularies:**

- **Open Formulary-** a relatively unrestrictive list of prescription drug choices available through an insurer
- **Closed Formulary-** a specific list of covered prescription drugs

After the P&T process:

- Drugs are placed on a tiered benefit plan design according to clinical and cost data
- Most insurers offer plans with 3 or more tiers
- Drugs placed on Tier 1 and 2 have the lowest copay and are typically generics and/or lower cost name brands
- Drugs placed on Tier 3 or higher have the highest copay and are typically higher cost name brands and specialty drugs

Utilization Management Programs include:

- Prior authorization
- Quantity limit
- Step therapy
- Dose optimization
- Compliance and safety programs
- Direct mailings to members, physicians and employer groups
- Health plan/DM data feeds

More...

- Consumer involvement in decision making
- Visibility of health care services, options and decisions
- Focus on the influences of pharmacy on the medical program
- Attempts at integration of medical, pharmacy, disease management and behavioral health programs
- Concentration on preventive care, quality outcomes and workplace productivity
- Attempts at legislative controls on PBM's
- Prevalence of preferred retail networks

