



How to Train Your Dragon; *Taking Back Your Pharmacy Benefit*

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With the 2021 plan year clearly visible from the rear-view mirror, now is the perfect time to reflect back on what went well, and what remains to be accomplished in the days and months ahead.

For many self-funded plan sponsors as well as their faithful health and benefits advisors, the first few months of the new year serves an ideal time to recalibrate, recharge, and strategize tactics for the new year.

Some folks might be thinking this is the year to drop in that shiny new wellness initiative, or perhaps it might be the right time to roll-out plans for a direct provider contracting strategy.

For the purposes of this piece, we're going to focus our attention on one of the fastest growing parts of any given plan sponsor's overall health and benefits bottom line – the Pharmacy Benefit.

I know what you're thinking – the pharmacy world is confusing, misleading, opaque, and ends up making you desperate for that mid-day shower.

Hang with me, as the goal of this piece is not to scare or frighten, nor is to restate what everyone already knows. Rather, the goal of this piece is to embolden and encourage you with tangible tactics that will help you become even more engaged consumers of the pharmacy benefit.

First, it's important for me to restate the obvious, i.e., pharmacy has become a very big deal.

Over the past several years, the sharp rise in pharmacy costs have caused employers, advisors, and vendor partners to find new ways to responsibly mitigate pharmacy costs, while also ensuring a cohesive continuum of patient access and quality care.

Recent analysis shows that pharmacy represents the fastest growing segment of healthcare expenditure for insurance carriers, self-funded employers, and consumers standing at the pharmacy counter. On average, thirty-three cents (\$0.33) of every American healthcare dollar spent today is representative of pharmacy cost expenditures.





Less than two percent (2%) of a given plan sponsor's participant population represents more than fifty percent (50%) of the overall drug cost. This sharp rise in cost is making it increasingly more challenging to provide a balanced benefit to employees that is both financially prudent, while also representative of a quality benefit.

What's more, the pipeline of newly launched specialty medications that have already received FDA approval, or are in the process of being approved, all target treating highly complex diseases. The average cost of these medications has risen so drastically in the past five (5) years that many self-funded employers are facing the difficult decision as to whether or not they extend coverage.

That's a long-winded way of saying, we've got one heck of a pickle on our hands, and it's going to take a multi-faceted approach to effectively tackle the problem.

All that to say, just because the challenge is great, it doesn't mean that plan sponsors are powerless in addressing rising pharmacy costs. In fact, this piece will walk through five (5) things Plan Sponsors can do to proactively mitigate further erosion of the quality in their pharmacy benefit program.

My kids love the hit Disney cartoon series 'Race to the Edge', which is a spin-off of 'How to Train Your Dragon'. It's actually a pretty good show, as I'm not ashamed to admit that I've been sucked into watching a few episodes.

The series features a cohort of brave kids that learns to work with their respective dragons, seeking to understand their nuances, character traits, establishing firm boundaries, and using their dragon super powers for noble causes.

I'd like you to imagine that your pharmacy benefit is a Dragon. At first glance, one might associate dragons as being dark, toothy, mysterious, and terrifying creatures, best characterized in Game of Thrones as fire breathing and menacing beasts that terrorize villages and eat town's people.

Much like the dragons within the cartoon, what if I told you that your PBM doesn't need to be a feared, scary creature, rather, with the right training you can make your PBM work with you and not against.

It's not fantasy – in fact, if done correctly, your PBM can become an incredibly powerful asset in the quest for developing a cost effective and quality-based health and benefits program.

In order to accomplish such a feat, one must pay close attention to the rules of dragon / PBM training.



Rule #1 – ‘Know Thyne Dragon’ / Understanding Your PBM & Their Model

In the Disney series, much of the narrative is based around getting to know which specific species of dragon you’re dealing with – The same applies to the PBM world.

It’s important to remember that the model you choose will absolutely impact the results you achieve. Every PBM is different, and some excel at setting forth one particular PBM model over others, and some PBM entities are proficient at putting forth multiple models. Point being, it’s important to understand the nuances between each model, and ensure you’ve aligned yourself with the best fit for your specific goals.

Most common in the broader marketplace are three (3) primary PBM business models:

- 1) Traditional (Spread Based) Model** – Under a Traditional, or Spread model, the PBM guarantees one flat network discounted rate that the plan sponsor will be reimbursed at, and one guaranteed rebate amount per pharmacy channel that the plan sponsor will be paid rebates. Any overage earned by the PBM in any of these financial rate buckets is retained as spread / margin by the PBM. This model is most common today with the largest PBM entities in the marketplace.
- 2) Fully Pass-Through & Transparent Model** – Under a fully pass-through and transparent business model, the PBM may not earn any form of an overage, or spread / margin, between the network discounts paid to the participating pharmacy, nor may they retain any of the dollars received from pharmaceutical manufacturers, i.e., rebates, bona fides, manufacturer administrative fees / credits. Said plainly, this model is based on the plan sponsor paying exactly what the PBM paid the pharmacy, and receiving every dime paid to the PBM from the manufacturer. The only source of revenue to the PBM is their all-inclusive administrative fee.
- 3) Hybrid** – Less common than the Fully Pass-Through and Transparent and Traditional models, the Hybrid Model is common among administrative services organization (ASO) contracts, carrier-based models, etc. It’s typical for these models to blend some aspects from the Traditional model and Pass-Through model to achieve the preferred result of the PBM / Carrier. The Hybrid model is popular with organizations that wish to retain all or some rebate dollars, and instead underwrite some portion of rebate as administrative credits against medical or similar ancillary costs.

When you’re electing to align with any of the above PBM models, it’s critically important to ask yourself whether you have confidence that the terms outlined in your PBM agreement allow you and/or your advisor, or pharmacy consultant the ability to validate the PBM’s performance.



It's our experience that pass-through and transparent contracts tend to be more inclined to feature plain and easy to understand terms, clear measurement criteria, and a transparent path to seeking resolve if issues arise.

It's also our experience that if done correctly, a traditional offering can absolutely deliver industry leading value, however, a bit more challenging when attempting to validate performance.

Above all, it's most important that one know the model you're tied to, and know how to measure and validate the performance at any given point in time.

Rule #2 – 'Choose Your Words Wisely' – Dragons Make Lousy Shepherds

Like any good relationship, the words you choose matter. Whether you're training dragons or negotiating PBM contracts, it's vitally important that one be deliberate with the words you use when finalizing a pharmacy contract.

Specifically, PBM's are notorious for creatively altering contract language to serve their interests and not the interests of their client partners. Every PBM does this – even the ones you believe to be true-hearted are actively mitigating their risk by using language that will ensure favorable outcomes when calculating their financial exposure to the Plan Sponsor. Said differently, it's not in the PBM's nature to pay any penalties. By design, when money goes in, it rarely comes back out.

In order to ensure one has successfully elected the right language, consider capturing clearly defined definitions for commonly used terms such as Brand Drugs, Generic Drugs, Average Wholesale Price (AWP), Specialty Drugs, Specialty Drug Lists, Zero-Balance Due Claims, etc. Your contract with the PBM should always call out these and other defined terms in such a way that the application of the word has specific meaning when used in the broader context of the agreement.

Another important component of selecting the right language is directly related to being mindful of caveat language contained within most PBM contracts. PBM's, yes ALL PBM's, are incredibly skilled at writing nuggets of language within the agreement that contradicts some of the prior noted commitments. Specifically, it's common for many PBM contracts to extend guaranteed pricing for specific drugs, channels of delivery, etc., yet the caveat sections outline specific instances where the guaranteed pricing does not apply. It's important that you and/or your advisor and pharmacy consultant be vigilant in eliminating as many caveats as possible, so to avoid any instance for the PBM to skirt their contract obligations.



Rule #3 – Calibrate & Evaluate – Securing Claims Data

Your PBM may try to lull you into thinking that you don't need access to your pharmacy claims data, and that you should simply trust they are doing their best on your behalf. Plan Sponsors have a right to request a full claims utilization file from their PBM and/or Carrier / TPA on a regular basis. The claims data is your best way to validate performance, hold the PBM accountable, and to gain insight in planning for future initiatives.

When requesting your data from the PBM, it's important to ensure the data being produced is comprehensive and doesn't exclude critical data fields. Specifically, the PBM will often redact specific fields, making it near to impossible to extract meaningful insights specific to financial performance. Coordinating a readable format that allows the plan sponsor and/or their advisor or pharmacy consultant to measure, validate, and report specific findings is paramount.

Many Plan Sponsors believe that simply identifying a shortfall in performance will automatically result in the PBM having to account for the underperformance in the form of payout or reconciling with a credit. Unfortunately, if the PBM secured contract terms that allows for inclusion of contract exclusions or caveats as outlined above, the Plan Sponsor may not achieve the outcome they intended. Therefore, it's important for Plan Sponsors to use the data to corroborate the commitments in the contract between the Plan Sponsor and PBM. A well-crafted contract is easily substantiated by comprehensive data.

Rule #4 – Don't Be Afraid – Take Control & Achieve Autonomy

Autonomy is critical in today's healthcare marketplace. One simply cannot trust the PBM, Carrier, and/or TPA to be actively looking out for the plan sponsor's best interests. With many PBM entities vertically integrating with large and regional carriers, consortiums, cooperatives, and coalitions, it's hard to tell who's on your side. Therefore, ensuring your contract and relationship with your PBM is based on your best interests, and not subject to binding and exclusive relationship standards, will ensure complete freedom to do what's good for you.

Although your PBM may lead you to believe that there's only one or few ways to manage costs and improve care, the industry offers several different models and mechanisms to help in achieving your goals.

It's also important to deploy tools to constantly be testing the marketplace and your options as a plan sponsor. PBM contracts have a tendency to become stagnated over time, which is why it's critically important to keep a respective finger on the pulse of the market. Keeping an eye on what other PBM entities or third parties offer in the form of pricing, clinical programs, and



operational efficiency is a solid way to keep your incumbent PBM on their toes and the Plan Sponsor in the driver seat.

Finally, it's important that the plan sponsor have access to well aligned tools, resources, and program solutions that all aim to lower costs and improve care, i.e., copay assistance programs, alternative funding sources, international sourcing, etc. Your PBM must be well aligned with your organization and your strategic initiatives. Cost savings can sometimes run-in conflict with what the PBM would prefer a Plan Sponsor adopt into their program offering. Aligning with PBM and TPA entities that will reasonably partner and align with alternative third-party solutions is critical in taking complete control over your pharmacy spend.

Rule #5 – Never Turn Your Back on a Dragon – Trust, Yet Verify

Your PBM made a series of hard and fast commitments to you, and it's your right to hold the PBM accountable to those commitments. Facilitating an annual financial reconciliation audit is a mainstay means to recuperate any shortfall in performance, as well as validate overperformance. Ensuring your organization has the ability to actively and comprehensively audit the PBM is critically important in ensuring the PBM is making good on their commitments.

Not only must the PBM be held accountable to their commitments to the Plan Sponsor, they must also be held accountable to trends in competitiveness as compared to the broader marketplace. Plan Sponsors should always be asking what the PBM is doing to lower costs and improving care. By effectuating different market solicitation tactics, i.e., Request for Proposal (RFP), Market Check, Competitive Intelligence Mining, the plan sponsor can keep the PBM engaged and dedicated to performing at a high level, while also getting a clear sense as to whether or not the current value proposition is market competitive. These tactics will provide the plan sponsor with the relevant leverage to secure preferred terms with the PBM, as well as give peace of mind that the PBM is performing in accordance with the contract.

Finally, if you've got to this point in the narrative and think to yourself that this is far too complex to wrap your hands around, don't be dismayed – Prism can help. The PBM industry is everchanging, with new complexities emerging on a regular basis. Now more than ever, Plan Sponsors require targeted and timely insights to guide decisions and shape pharmacy program initiatives. Aligning with an Independent Pharmacy Consultant like Prism will ensure market competitiveness and an ongoing heavy-weight in your corner, keeping an active finger on the pulse of your plan's performance.

A qualified and independent pharmacy consulting firm should be able to apply principles of quality contract management, performance monitoring and analytics, as well as ongoing subject matter expertise to support your plan's long-term health.



You Can Do This

There's no question that like a dragon, the PBM industry can often take on a scary persona. That said, with discipline, dedication, and patience, one can begin to apply the above concepts to re-write the narrative and begin to take back control over their pharmacy benefit.

Behind the teeth, claws, and scaled skin lies a powerful resource that has the potential to help lower costs and improve care. Ensuring you meaningfully seek to understand and invest the time and attention necessary to getting the most out of your pharmacy benefit, will surely yield favorable outcomes.

About the Author

The Prism Health Group, LLC (Prism) is an independent pharmacy consulting firm that provides a wide array of pharmacy specific consulting and analytics solutions that lowers the cost of care, improves care delivery, and enhances the quality of a plan sponsor's pharmacy program performance.

Prism was founded in 2019, on the premise that the healthcare industry lacked an independent and objective voice to those struggling to reign-in and understand their pharmacy program's performance. In addition to deploying conventional pharmacy consulting solutions, Prism assists self-funded plan sponsors, health plans, and third-party administrator (TPA) organizations thoughtfully develop and implement uniquely tailored enterprise pharmacy strategies and solutions.

Specifically, Prism's industry expertise and exposure to multiple national pharmacy delivery models affords them a unique perspective for client partners seeking to develop and deploy intrinsically unique enterprise pharmacy consulting and analytics solutions.

If you or someone you know is interested to learn more about the pharmacy industry, how to effectively negotiate with a PBM, or aim to engage with an independent pharmacy consultant like The Prism Health Group, please don't hesitate to reach out to at sales@theprismhealthgroup.com / or by phone at 385.993.3600.

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