

# The PBM industry: an overview of industry practices

Presentation to the State of North Dakota  
Interim IBL Committee  
11/8/2005

by

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1

## Payment for the PBM Service

- PBM service / claims processing
  - Very valuable service
  - PBM deserves a reasonable return
  - **Key issue**
    - Hidden cash flows to the PBM to make up for artificially low (10-50 cents / Rx) PBM administration fees.
  - Purchasers generally **DO NOT** know the actual price of their PBM service
    - PBM cash flows go “under the radar” of purchasers
    - PBM industry claims transparency
      - **does not** appear to include disclosure of cash flows we will describe

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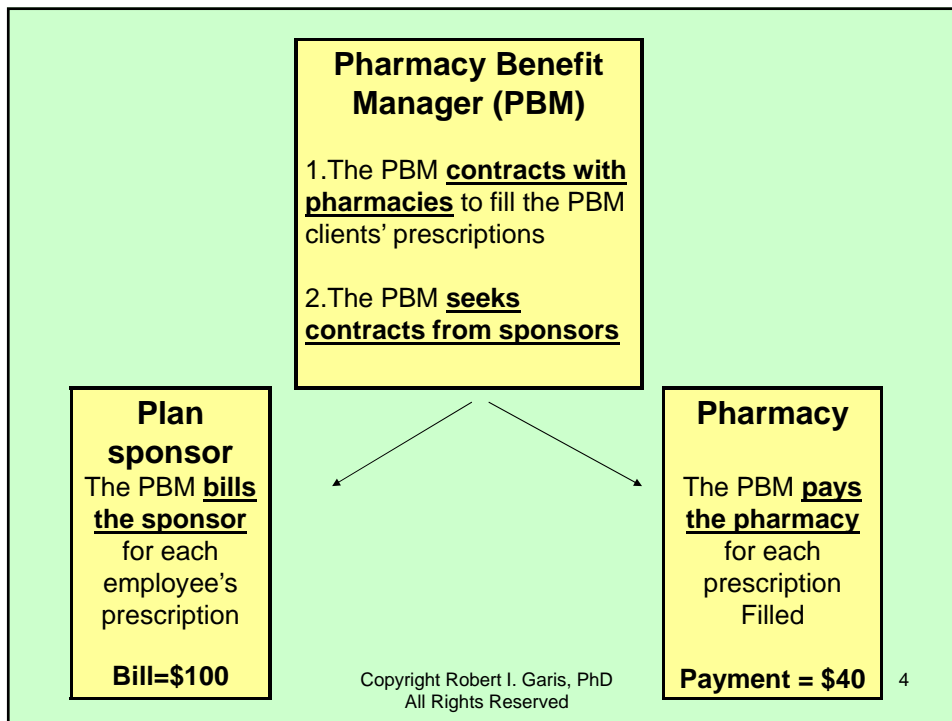
2

## Cash flows in the PBM industry

- Some PBMs charge a realistic and fair administration fee for their service—no other cash flows
  - Generally good value
- Other PBMs charge a very low administration fee
  - Augment the low fee with “markups” on individual prescriptions these are hidden cash flows
    - Spread pricing
    - PBM-owned mail order pharmacy—Excessive markups
- Plan sponsors are generally unaware of these hidden cash flows
  - Well over 90% of all plan sponsors are unaware
- ***Most sponsors don't know what they don't know***

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3



## How does this “Spread” arise??

- The drug pricing “standard” which forms the basis of the discounted prices
  - Is not necessarily standard
    - There is variation in the “standard” price
  - Is many times a grossly elevated price
    - Particularly with generic drugs
  - Is known as Average Wholesale Price (AWP)
    - We call AWP “ain’t what’s paid”!

## Generic Drug Pricing

- Generic drugs have two prices
  1. The AWP price
    - This is grossly higher than the drug’s actual acquisition cost in the supply chain.
  2. The “maximum allowable cost” (MAC) price
    - Relatively close to the actual acquisition cost

***An example will demonstrate the fluctuation in AWP for generic drugs***

## AWP Fluctuation of Generic Prozac 20 mg

Manufacturer	AWP Price / 100 tablets
	<small>Source: Price Alert 7/15/05</small>
<b>Andrix</b>	<b>\$ 266.80</b>
<b>Barr</b>	<b>\$ 266.81</b>
<b>Ivax</b>	<b>\$ 265.30</b>
<b>Par</b>	<b>\$ 266.81</b>
Prozac Lilly (originator)	\$ 442.50
<b>Maximum allowable cost (MAC)</b>	<b>\$ 25.20</b>

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7

## Differential Contracting

**Billing terms AWP - 50% to plan sponsor:**

**AWP = \$266.00 - 50% discount = \$133.00 / 100 tab**

**Payment terms to pharmacy:**

**MAC price = \$ 25.00 / 100 tab**

**Spread to PBM \$108.00**  
***(\$133.00 billed - \$25.00 paid)***

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8

## Ongoing research on the “spread”

- Ongoing research / consulting / auditing practice
- Nearly one million prescription claims
- Spreads on average of \$2.00 to \$4.00 per prescription are common for any given employer
- More examples in the “Spread” in the following slides

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9

### Employer 1\* Spread Pricing

Drug Name & Strength	Quantity	Billed Sponsor	Paid Pharmacy	Spread
Atenolol 25mg	30	\$3	\$2	\$1
Fluoxetine 20mg	30	\$18	\$12	\$6
Fosamax 70mg	4	\$62	\$62	0
Lotrel 10-20mg	30	\$70	\$70	0
Norvasc 5mg	30	\$42	\$42	0
Pacerone 20mg	30	\$51	\$28	\$23
Tamoxifen Citrate 20mg	30	\$61	\$36	\$25
Timolol Maleate 0.5%	10	\$17	\$8	\$9

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**Employer 2\* Spread Pricing**

Drug Name & Strength	Quantity	Billed Sponsor	Paid Pharmacy	Spread
Allegra D	60	\$79	\$79	0
Cyclobenzaprine 10mg	30	\$11	\$10	\$1
Flomax 0.4mg	30	\$55	\$55	0
Lipitor 10mg	30	\$68	\$68	0
Metformin 1000mg	60	\$18	\$17	\$1
Nystatin Suspension	200	\$37	\$34	\$3
Oxycodone 5mg	180	\$50	\$41	\$9
Temazepam 15mg	60	\$11	\$10	\$1
Terazosin 2mg	120	\$166	\$154	\$12

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**Employer 3\* Spread Pricing**

Drug Name & Strength	Quantity	Billed Sponsor	Paid Pharmacy	Spread
Amoxicillin 250mg	60	\$11	\$5	\$6
Alprazolam 0.25mg	90	\$17	\$4	\$13
Lipitor 10mg	30	\$62	\$60	\$2
Prilosec 20mg	60	\$250	\$242	\$8
Atenolol 100mg	90	\$80	\$7	\$73
Celebrex 100mg	30	\$44	\$43	\$1
Furosemide 80mg	90	\$36	\$7	\$29
Monopril 40mg	30	\$29	\$29	0
Propoxyphene N/APAP	200	\$104	\$40	\$64

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12

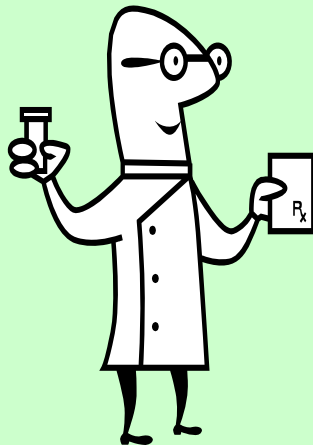
## PBM-Owned Mail Order Pharmacy

- Plan sponsors have been convinced that PBM-affiliated mail order is a “bargain”
- Channel their members **away from** community pharmacy and **toward** mail order

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13

## “Community Pharmacy” a working definition

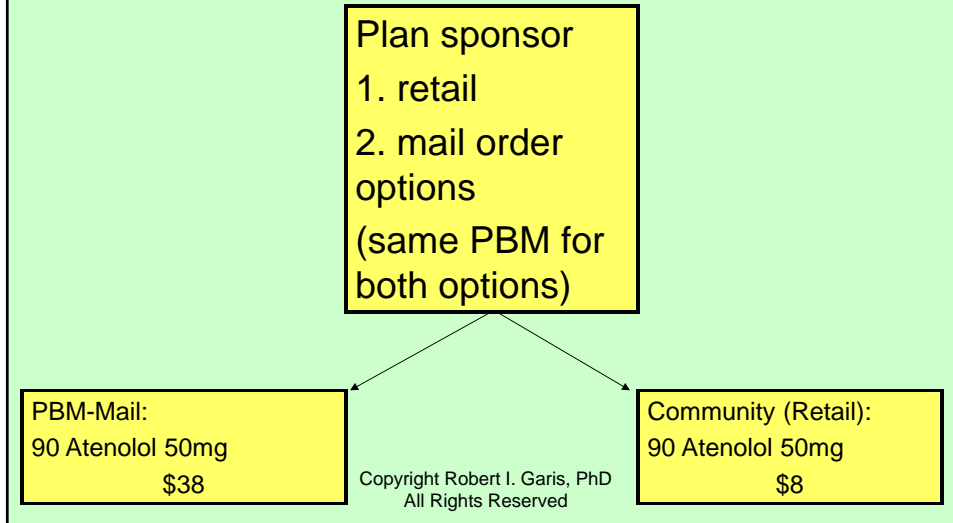


- Any chain or independent pharmacy in our cities and towns
  - Target
  - Walgreens
  - Medicine Shoppe
  - Sally’s Apothecary
  - Jim’s Corner Pharmacy
- Any pharmacy **EXCEPT** a PBM-owned mail order pharmacy

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14

## PBM-owned Mail order comparisons—how did we perform the analysis?



Employer 1\* Mail and Retail (Community) Pharmacy Prices Compared

Drug Name & Strength	Drug Qty.	Mail \$	Community \$	Saving in Community \$
Atenolol 50 mg	90	\$38	\$8	\$30
Cyclobenzaprine 10 mg	90	\$43	\$8	\$35
Fluoxetine 20 mg	90	\$120	\$54	\$66
Gemfibrozil 600 mg	180	\$112	\$39	\$73
Naproxen 500 mg	180	\$117	\$33	\$84
Temazepam 30 mg	30	\$13	\$5	\$8
Trazodone 50 mg	90	\$19	\$6	\$13
Verapamil 240 mg	90	\$73	\$32	\$41
Minocycline 100 mg	60	\$102	\$47	\$55

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**Employer 2\* Mail and Retail (Community) Pharmacy Prices Compared**

Drug Name & Strength	Drug Qty.	Mail \$	Community \$	Saving in Community \$
Alprazolam 0.25mg	90	\$31	\$10	\$21
Atenolol 100 mg	90	\$56	\$10	\$46
Avandia 8 mg	90	\$370	\$318	\$52
Captopril 50 mg	90	\$52	\$16	\$36
Cyclobenzaprine 10 mg	90	\$46	\$17	\$29
Doxycycline 100 mg	90	\$63	\$40	\$23
Evista 60 mg	90	\$177	\$159	\$18
Fluoxetine 20 mg Cap	90	\$120	\$56	\$64
Fluoxetine 20 mg Tab	90	\$126	\$86	\$40

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**Employer 3\* Mail and Retail (Community) Pharmacy Prices Compared**

Drug Name & Strength	Drug Qty.	Mail \$	Community \$	Saving in Community \$
Bupirone 10mg	90	\$58	\$38	\$20
Enalapril 20mg	60	\$41	\$30	\$11
Famotidine 40mg	90	\$136	\$62	\$74
Glipizide 5mg	90	\$15	\$11	\$4
Glyburide 5mg	90	\$31	\$25	\$6
Ibuprofen 800mg	100	\$17	\$13	\$4
Isosorbide Mono. 30mg	90	\$45	\$22	\$23
Metformin 100mg	120	\$59	\$41	\$18
Nortriptyline 50mg	120	\$61	\$29	\$32

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## Mail order studies go to College

- Creighton University Researchers
  - Research presented in June 2005 at AcademyHealth
  - Nearly 10,000 pairs of PBM-mail and community retail prescriptions for exact drugs and dates of service
  - Five employer groups (plan sponsors)
  - Conclusion
    - When the member co-payment is lowered to incent members to go with mail order service...

***The mail order option costs the sponsor more than retail pharmacy***

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19

## Misleading Contract Language between sponsor and PBM

- Nuances of the pharmacy benefit vocabulary
- Seemingly favorable terms may not be a bargain
- Three examples follow

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20

## Deceptive Language in the Sponsor-PBM Contract

1. Generic Discount Guarantees
2. Multiple MAC lists
3. Rebates by many names

## 1. Generic Discount Guarantees

- In aggregate the PBM will guarantee terms of a specific AWP discount on generic, for example

**AWP – 60%**

DRUG	#	AWP- 60%	Transparent PBM MAC Prices	Saving With MAC
Atenolol 50mg	100	\$33.33	\$10.50	<b>\$22.83</b>
Alprazolam 0.5mg	100	\$36.28	\$11.95	<b>\$24.33</b>
Captopril 25mg	100	\$29.33	\$19.00	<b>\$10.33</b>
Cephalexin 500mg	28	\$17.04	\$11.50	<b>\$5.54</b>
Fluoxetine 20mg	100	\$106.40	\$25.00	<b>\$81.40</b>
Lorazepam 2mg	100	\$50.28	\$25.50	<b>\$24.78</b>
Ranitidine 150	100	\$61.78	\$49.89	<b>\$11.89</b>
Glyburide 5mg	60	\$17.44	\$16.95	<b>\$0.49</b>

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23

## 2. Multiple MAC lists

- Contract language leads the reasonable person to believe there was **one** MAC list
  - There are multiple MAC lists
  - The employers' MAC lists will be less comprehensive and aggressive than the pharmacy MAC list
    - Fewer generics with MAC pricing
    - Employers prices are higher than the MAC prices paid to the pharmacy
    - Pharmacy is paid with the lowest priced MAC list

***Transparent pricing sponsor price equals and pharmacy price***

### 3. Rebates by many names

- Contract language will give the sponsor the impression that there is one rebate—
  - There are multiple rebates
    - Access rebate
    - Administration rebate
    - Market share rebate
    - Other names as well
- Sponsors may get 90% “of the rebate”
  - Which rebate???
  - Mike Winkleman –
    - Medco rebate retention of 44%
    - From 10-Q for 3<sup>rd</sup> Quarter 2004

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25

### Rebuttal of Government Publications

1. GAO January 2003 (03-196)
  - PBMs save money over cash prices
2. PriceWaterhouseCoopers July 2004
  - PBMs should not be regulated, it would cost plan sponsors lots of money
3. Congressional Budget Office July 2004
  - PBMs “save 30%”

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26

## 1. GAO January 2003 (03-196)

### *“PBMs save money over cash prices”*

- In order to evaluate the PBM one must know the amount billed to the sponsor and paid to the pharmacy
  - GAO didn't look at invoices
  - GAO got their information by survey
    - Including the PBM prices
    - Quoting the GAO report **“we did not independently verify information provided by plans, PBMs or pharmacies”**

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27

## 2. PriceWaterhouseCoopers July 2004

### *“PBMs should not be regulated, it would cost plan sponsors lots of money”*

- This report was commissioned by PCMA, the PBM lobby
- If PBMs were so concerned with high cost to sponsor, where have they been the last 8 years
- Fatal flaw in logic—assumes that **any regulation** would **do away** with all benefit management tools
  - Auto maker saying, “regulation would make assembly lines and robotics cease to exist”

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28

### 3. Congressional Budget Office July 2004

***“PBMs save 30%”***

- Thirty percent off what?
- Called CBO, requesting the source of the 30%
  - 1997 article by Grabowski and Mullins
    - Data was a survey of the big PBMs

## Conclusion

- PBMs should disclose the source and magnitude of cash flows
  - Cash flows like spread pricing **obscure** the true price of the PBM service
- Plan sponsors do not have adequate information to protect themselves in PBM dealings
- Legislation is necessary to protect our citizens
  - Regulation of PBM would help lower cost for our employers

# Thank You



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31