

The PBM industry: an overview of industry practices

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

by

Robert I. Garis, RP, MBA, PhD
Creighton University School of Pharmacy
and

Win-Rx, LLC Pharmacy Benefit Consulting
Omaha, NE 68132

Voice: 402.280.3267

Fax: 402.280.3320

Email: rgaris@creighton.edu

Copyright Robert I. Garis, PhD
All Rights Reserved

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

Copyright Robert I. Garis, PhD
All Rights Reserved

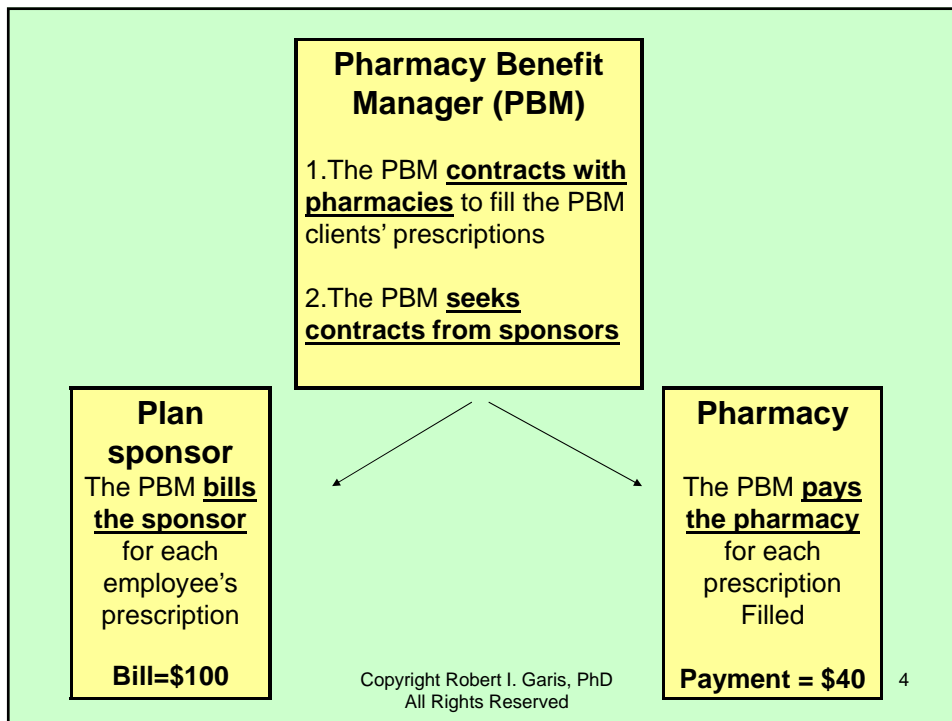
2

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***

Copyright Robert I. Garis, PhD
All Rights Reserved

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>
Andrix	\$ 266.80
Barr	\$ 266.81
Ivax	\$ 265.30
Par	\$ 266.81
Prozac Lilly (originator)	\$ 442.50
Maximum allowable cost (MAC)	\$ 25.20

Copyright Robert I. Garis, PhD
All Rights Reserved

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)

Copyright Robert I. Garis, PhD
All Rights Reserved

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

Copyright Robert I. Garis, PhD
 All Rights Reserved

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

Copyright Robert I. Garis, PhD
 All Rights Reserved

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

Copyright Robert I. Garis, PhD
 All Rights Reserved

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

Copyright Robert I. Garis, PhD
 All Rights Reserved

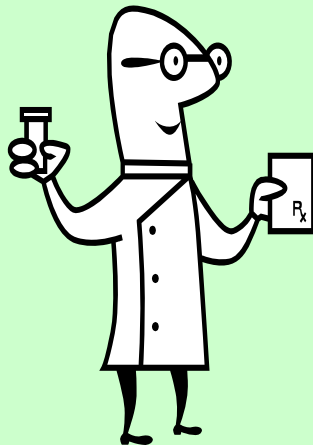
PBM-Owned Mail Order Pharmacy

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

Copyright Robert I. Garis, PhD
All Rights Reserved

13

“Community Pharmacy” a working definition

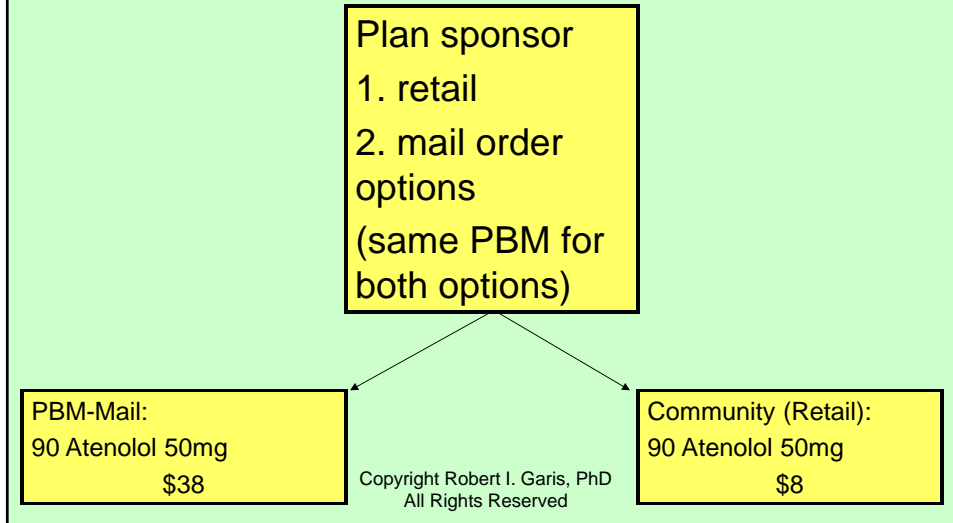


- Any chain or independent pharmacy in our cities and towns
 - Target
 - Walgreens
 - Medicine Shoppe
 - Sally’s Apothecary
 - Jim’s Corner Pharmacy
- Any pharmacy **EXCEPT** a PBM-owned mail order pharmacy

Copyright Robert I. Garis, PhD
All Rights Reserved

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

Copyright Robert I. Garis, PhD
All Rights Reserved

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

Copyright Robert I. Garis, PhD
All Rights Reserved

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

Copyright Robert I. Garis, PhD
All Rights Reserved

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

Copyright Robert I. Garis, PhD
All Rights Reserved

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

Copyright Robert I. Garis, PhD
All Rights Reserved

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	\$22.83
Alprazolam 0.5mg	100	\$36.28	\$11.95	\$24.33
Captopril 25mg	100	\$29.33	\$19.00	\$10.33
Cephalexin 500mg	28	\$17.04	\$11.50	\$5.54
Fluoxetine 20mg	100	\$106.40	\$25.00	\$81.40
Lorazepam 2mg	100	\$50.28	\$25.50	\$24.78
Ranitidine 150	100	\$61.78	\$49.89	\$11.89
Glyburide 5mg	60	\$17.44	\$16.95	\$0.49

Copyright Robert I. Garis, PhD
 All Rights Reserved

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 3rd Quarter 2004

Copyright Robert I. Garis, PhD
All Rights Reserved

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%”

Copyright Robert I. Garis, PhD
All Rights Reserved

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”**

Copyright Robert I. Garis, PhD
All Rights Reserved

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”

Copyright Robert I. Garis, PhD
All Rights Reserved

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



Copyright Robert I. Garis, PhD
All Rights Reserved

31