
Comparative Evaluation of PBM Formularies & Developing Next Generation Payer-PBM Relationships

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Presentation Overview

- The importance of drug mix
- Comparing PBM formularies
 - Sample analysis
 - Preview of “reference pricing”
- Improving alignment of incentives between payers & PBMs



The Importance of Drug Mix

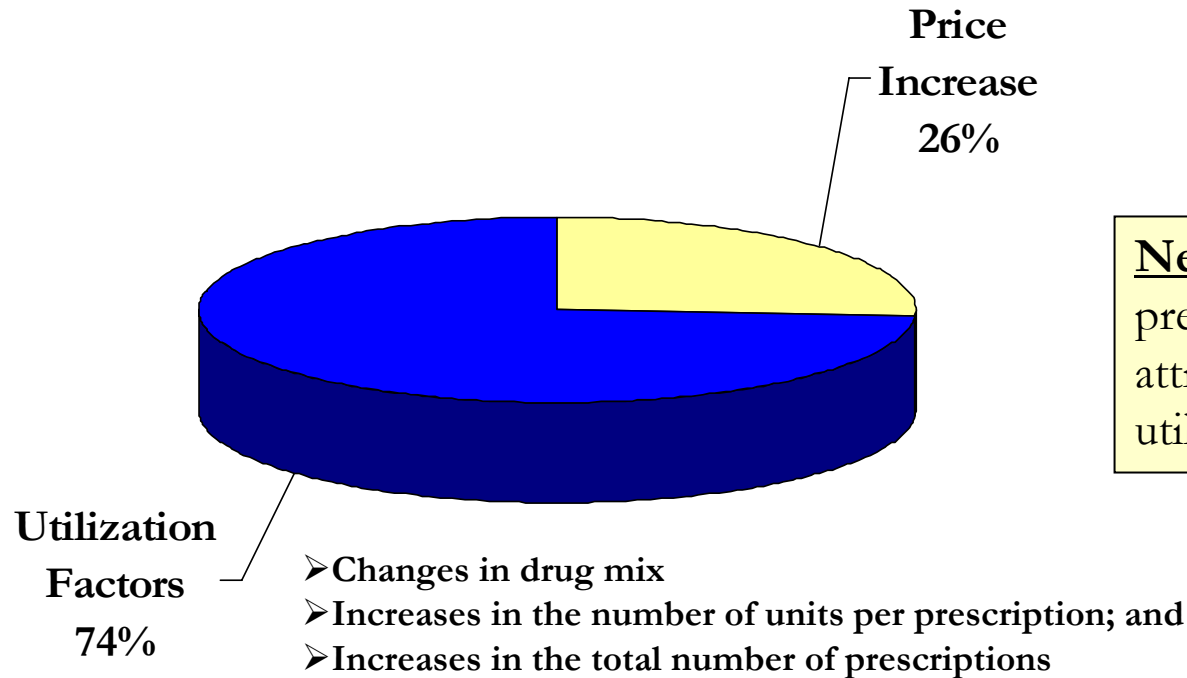


The Importance of Drug Mix

- We are reaching the limits of supplier discounts...new savings will have to come from changing the mix of drugs used by plan members
- The formulary management process at your PBM is a key influencer (along with plan design) of which medications will become utilized by participants in your plan



The Importance of Drug Mix

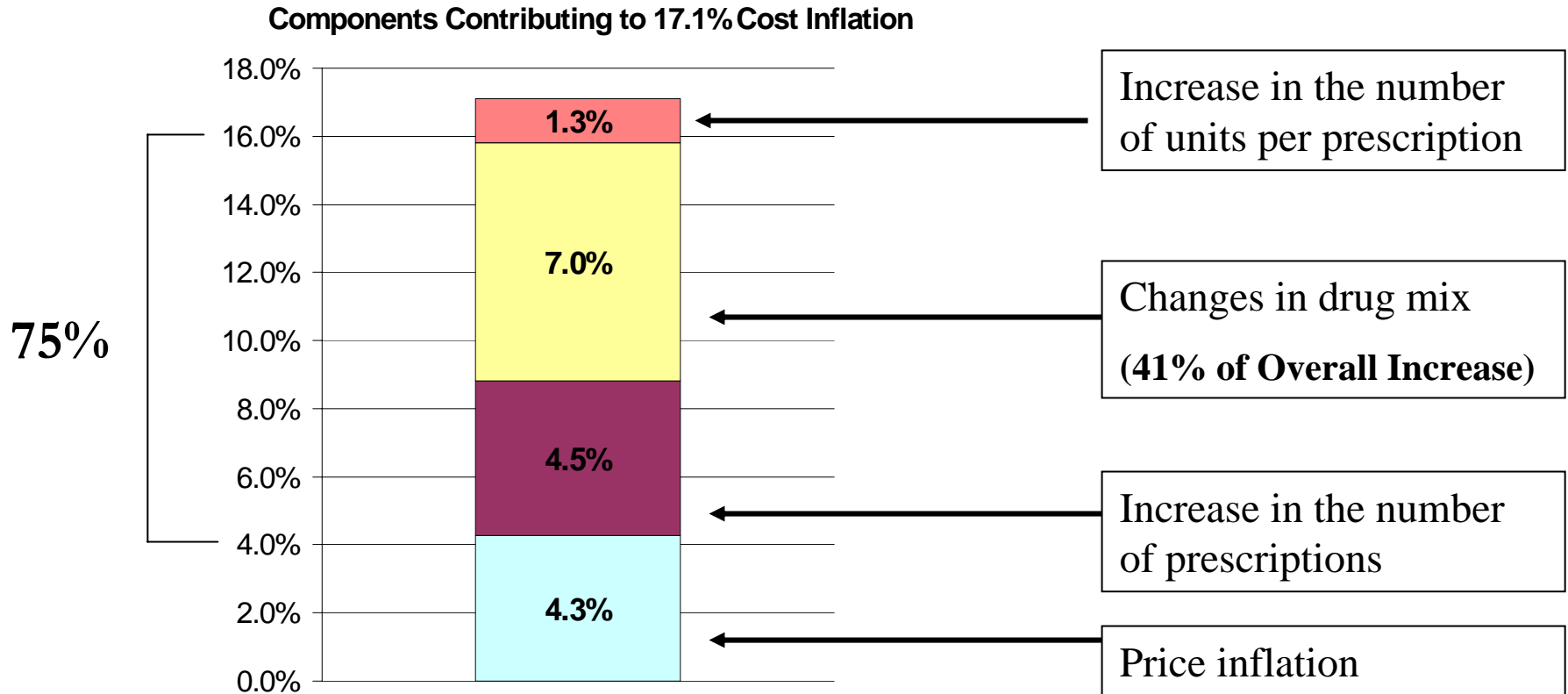


Nearly 75% of escalating prescription drugs costs are attributed to changes in utilization

Source: Kaiser Family Foundation, May 2003



The Importance of Drug Mix

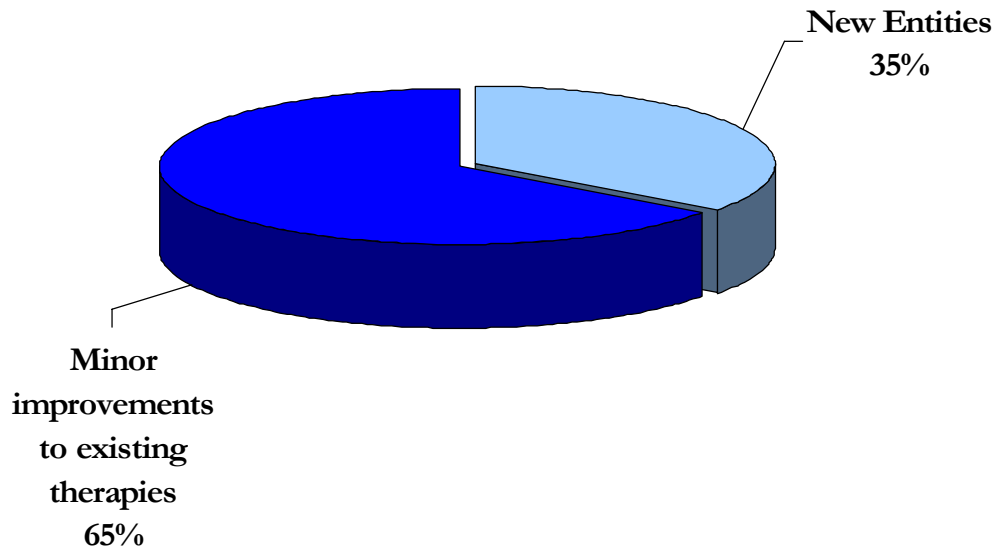


Source: Mercer Human Resources Consulting Report to CalPERS, 2003



The Importance of Drug Mix

Are new drugs always significant improvements over current therapies?



Out of > 1,000 drugs approved by the Food & Drug Administration (FDA), from 1989-2000, **only 35%** were for “new” drugs

Only 15% were considered significant improvements over currently available therapies

Source: National Institute for Health Care Management, May 2002



The Importance of Drug Mix

- In 2002, a landmark study found that older medications work better than newer medications in controlling many of the significant complications from hypertension
- The findings from the study suggested specific changes to hypertension treatment patterns, by:
 - Recommending older blood pressure medications (thiazide-type diuretics) as initial therapy
 - Rationale:
 - Diuretics are *more effective* in reducing the risk of hypertensive complications such as heart failure; and
 - Diuretics are *significantly less expensive* than newer, less effective, medications

Source: “The Verdict From AllHAT...” JAMA 2002



The Importance of Drug Mix

Class	Average Annual Cost Per Patient*	Total Users (Millions)	Estimated Total Cost
Ace-Inhibitors	\$300-\$500	12.7	\$3.8 - \$6.4B
Calcium Channel Blockers	\$600-\$700	9.3	\$5.6 - \$6.5B
Diuretics	\$30-\$40	6.9	\$207 - \$276M

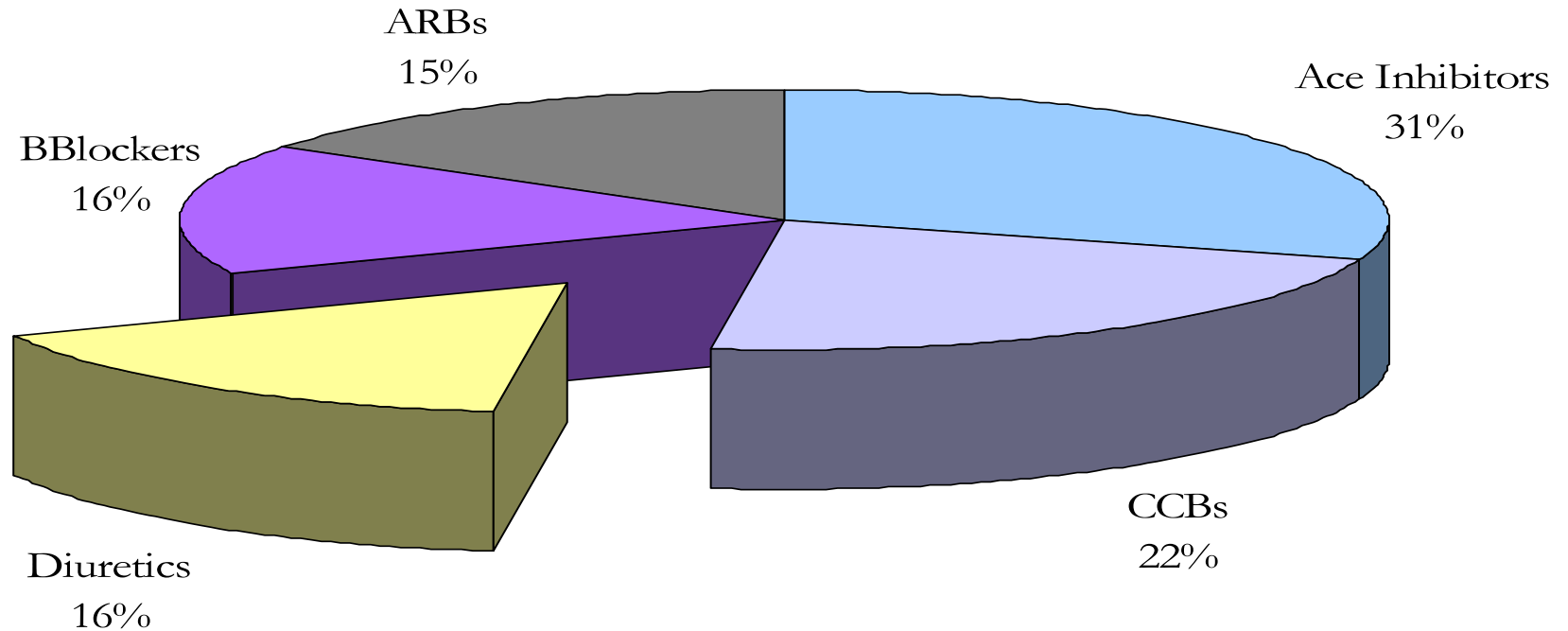
Source: Implications from ALLHAT, October 2003

* Based on the average cost for the most commonly used drug in the class



The Importance of Drug Mix

How Hypertension is Being Treated*



* SOURCE: Estimates from IMS Data, 2002

Subsequent studies have demonstrated a modest increase in % of Diuretics being utilized (2003)



How PBM Formulary Strategies & Clinical Programs Can Impact Drug Mix



The Importance of Drug Mix

Drug	Place in Therapy
Clarinet [®]	Similar to other medications in its class
Nexium [®]	Similar to other medications in its class
Vioxx [®]	No better at controlling pain than other medications; ability to prevent adverse effects has been questioned; proposed benefits are only relevant for a segment of the population



The Importance of Drug Mix

Candidates for Cutbacks

Clarinet
Schering-Plough

\$780

No proven advantage against allergies over Claritin, now available without prescription.


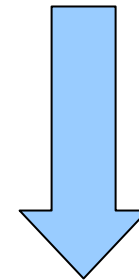


Image from Forbes, 3/17/03



In 2003, **4 of the top 5 PBMs** had Clarinet[®] on their formulary and / or Preferred Drug List



Almost 16% of new prescriptions written for an antihistamine in Jan 04' were for Clarinet[®]

IMS Health, 2004



The Importance of Drug Mix

Candidates for Cutbacks

Nexium
AstraZeneca

\$1400

Very slim advantage
over off-patent heart-
burn pill Prilosec.


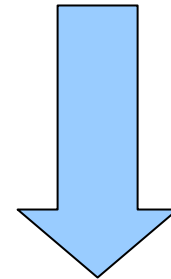


Image from Forbes, 3/17/03



In 2003, **3 of the top 5 PBMs** had Nexium[®] on their formulary and / or Preferred Drug List



In Jan, 2004 26% of PPI prescriptions were filled with Nexium[®]

IMS Health, 2004



The Importance of Drug Mix

Candidates for Cutbacks

Vioxx
Merck

\$900

Stomach-friendly painkiller overused for ordinary aches; possible heart risk (Merck denies).


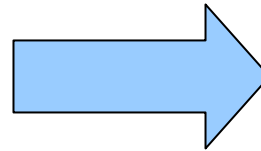
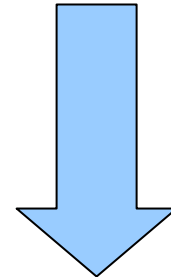


Image from Forbes, 3/17/03



In 2003, **4 of the top 5 PBMs** had Vioxx® on their formulary and / or Preferred Drug List



There are approximately 1 million prescriptions written for “Cox-II”’s **EVERY WEEK**

IMS Health, 2004



The Importance of Drug Mix

- PBM clinical program strategies can have a positive or negative impact on drug mix



Generic Sampling / Voucher Programs

- Medco Health Solutions
- Anthem Prescription Management
- PharmaCare
- Others



The Importance of Drug Mix

- Given the importance of drug mix on escalating pharmacy costs, it is important to understand how your PBM influences the mix of drugs used by your enrollees
- Analyzing the impact of PBM formulary strategies & clinical programs should also become a component of future PBM procurement processes



Comparing PBM Formularies



Comparing PBM Formularies

Evaluating the impact of PBM formulary strategies

1. Choose therapeutic classes to evaluate
2. Identify cost of therapies in the class
3. Understand the utilization of products in the class today, versus how that utilization could change under different PBM management approaches
4. Construct comparative financial analysis



Comparing PBM Formularies

- Criteria for selecting classes to evaluate
 - Presence of multiple therapeutic options, with similar clinical benefits
 - Differences in cost are present between therapies
 - Differences in PBM formulary management strategies are apparent
- The following example compares strategies for managing medications used to treat stomach problems (proton pump inhibitors)



Comparing PBM Formularies

Comparative Prescription Cost

Drug Name	Average Cost / Rx*
Aciphex [®]	\$118
Protonix [®]	\$122
omeprazole (generic Prilosec [®])	\$93
Prilosec [®]	\$120
Prevacid [®]	\$115
Nexium [®]	\$99

This example is oversimplified for ease of understanding. The actual analysis would include a more detailed review of mail penetration, unit costs, & other variables to ensure an “apples-to-apples” comparison is being made between drugs, and across multiple vendors.

* Average Cost / Rx = Comparative pricing based on the typical doses used to treat GERD. Pricing obtained from drugstore.com March, 2004.



Comparing PBM Formularies

Comparative Prescription Market Share*

Drug Name	Current	Vendor A	Vendor B	Vendor C
Aciphex®	15%	10%	20%	5%
Protonix®	22%	5%	20%	5%
omeprazole	30%	50%	20%	16%
Prilosec®	5%	9%	20%	22%
Prevacid®	10%	1%	10%	27%
Nexium®	18%	25%	10%	25%

* Market Share = the number of prescriptions for each medication divided by the total number of prescriptions for the entire category of drugs (i.e. assuming 1,000 Rxs are filled for proton pump inhibitors, the “current” market share of Aciphex® would represent 150 prescriptions)



Comparing PBM Formularies

Comparative Prescription Volume

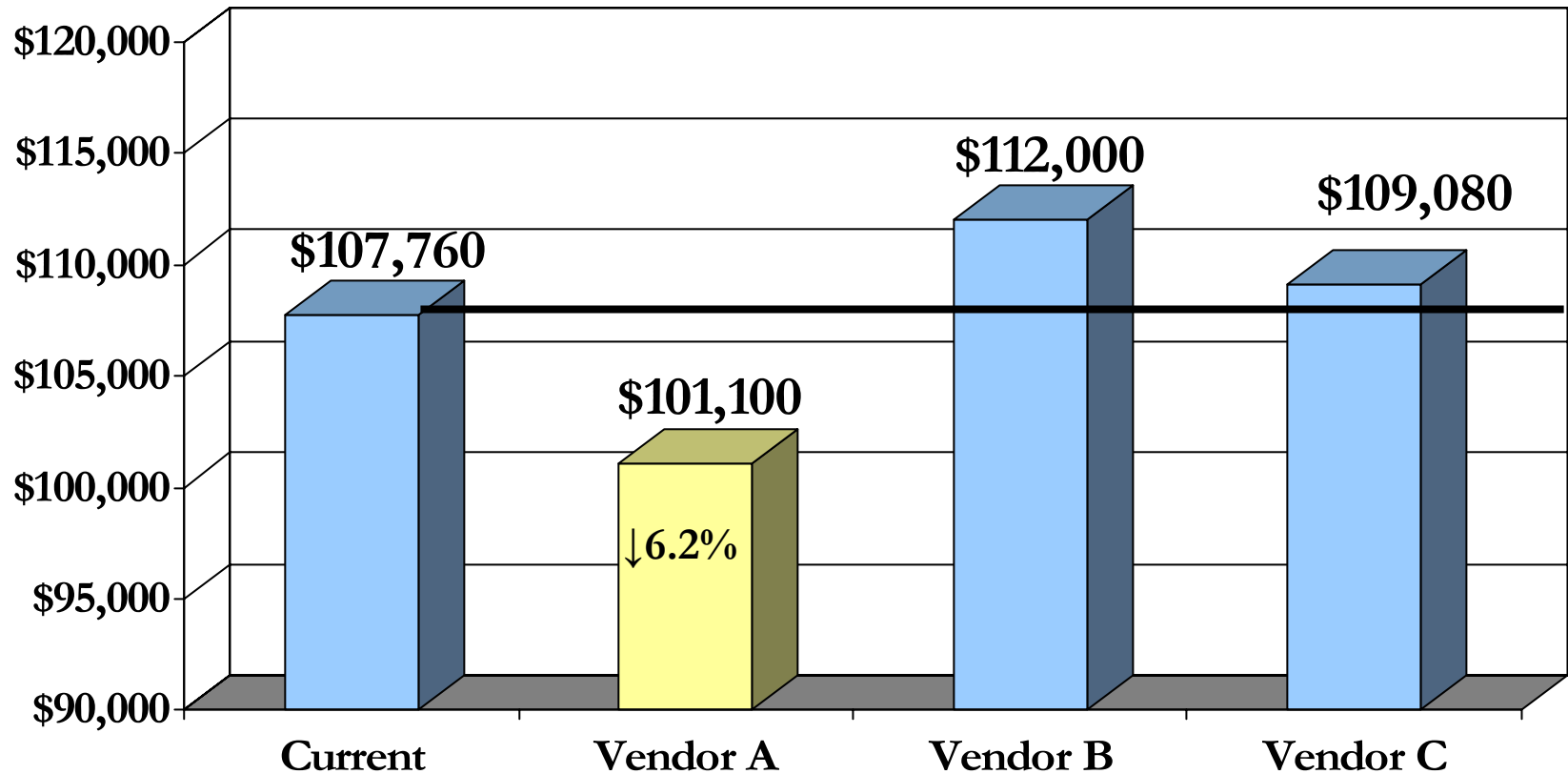
Drug Name	Current	Vendor A	Vendor B	Vendor C
Aciphex [®]	150	100	200	50
Protonix [®]	220	50	200	50
omeprazole	300	500	200	160
Prilosec [®]	50	90	200	220
Prevacid [®]	100	10	100	270
Nexium [®]	180	250	100	250

This example assumes there are 1,000 total prescriptions filled for a medication in this class during the year



Comparing PBM Formularies

Comparative Cost for This Therapeutic Class



Comparing PBM Formularies

- Additional disease areas to consider evaluating:
 - High blood pressure
 - Migraine
 - Pain
 - Cholesterol
 - Allergy



Comparing PBM Formularies

- A preview of reference pricing
 - Formulary management strategy designed to influence utilization of products to the most cost-effective agent within a defined therapeutic class
 - Can be a “lead-in” to consumer-directed care



Comparing PBM Formularies

- Key elements of a reference pricing strategy
 - Establish drug groupings
 - e.g. Proton Pump Inhibitors
 - Set a “reference-price”
 - This is the maximum reimbursement level provided, regardless of the actual medication received
 - Communicate the plan to MDs, consumers, and other constituents
- Who uses this approach?
 - Many countries outside of the U.S. use some form of modified reference pricing
 - Some plans in the U.S. are beginning to explore products



Comparing PBM Formularies

WellPoint Announces New Pharmacy Benefit -- Blue Freedom Rx; Georgia Members First to Utilize Reference Pricing Prescription Drug Benefit

THOUSAND OAKS, Calif.--(BUSINESS WIRE)--Feb. 2, 2004--WellPoint (NYSE:WLP) today announced **Blue Freedom Rx**, an innovative reference pricing prescription drug benefit. Blue Freedom Rx will provide the Company's Blue plan members with different levels of pharmacy benefits **based on the average price of a drug within a specific therapeutic class of prescription drugs** such as diabetes, hypertension and cholesterol. This will give members more value, choice and control in selecting and purchasing their wholesale prescription drugs



Comparing PBM Formularies

Establishing a Reference Price

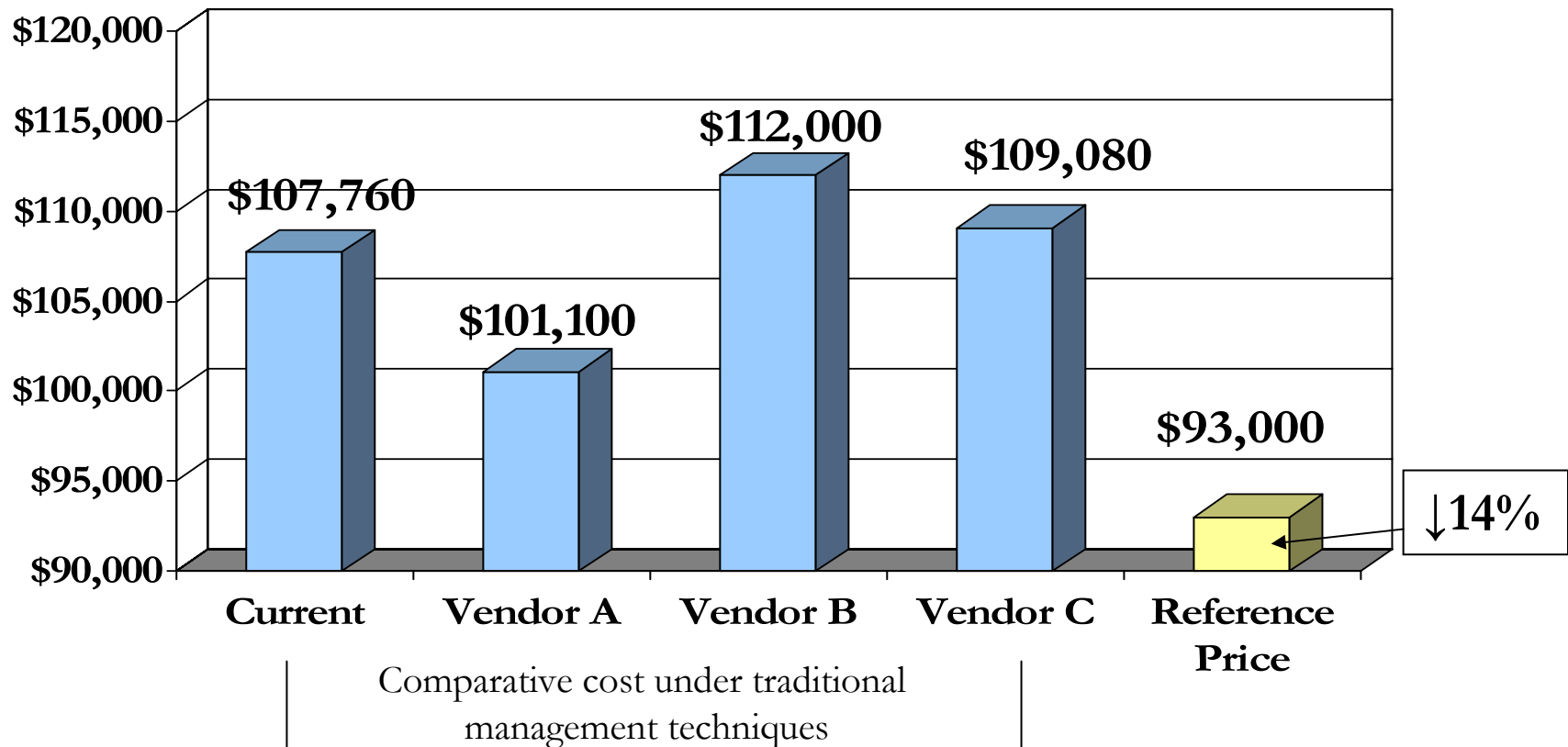
Drug Name	Reference Price*
Aciphex [®]	\$93
Protonix [®]	\$93
omeprazole	\$93
Prilosec [®]	\$93
Prevacid [®]	\$93
Nexium [®]	\$93

* In this example, the reference price is set at the average price of a 30 day's supply for generic omeprazole.



Comparing PBM Formularies

Comparative Cost for This Therapeutic Class



Next Generation Payer – PBM Relationships



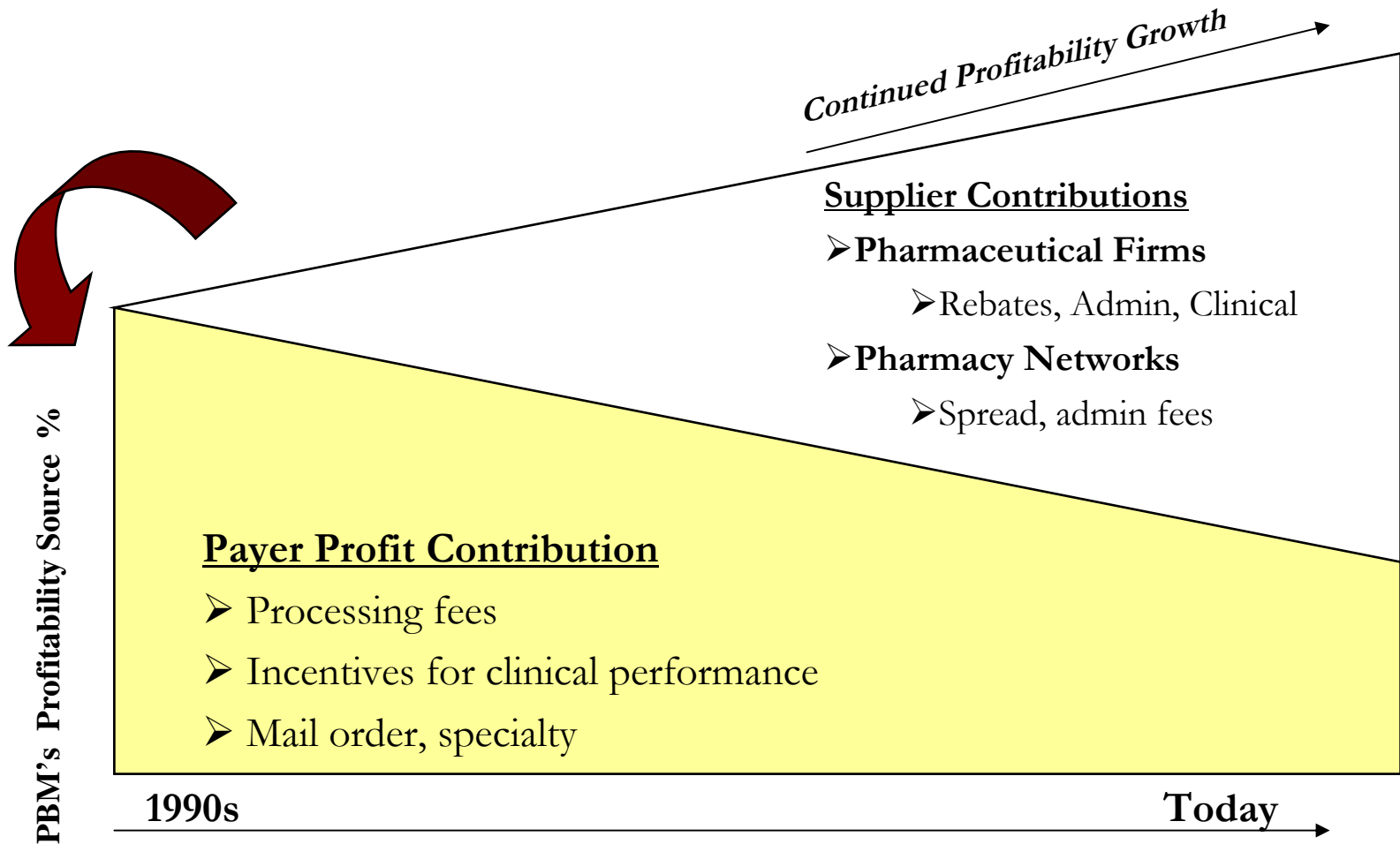
Next Generation Payer-PBM Relationships

"There is nothing more complex than the negotiation to try to figure out what you're purchasing," says Keith Bruhnsen, assistant director of benefits at the University of Michigan and who manages the university's pharmacy plan. "It's the most ambiguous and convoluted part of my job."

Comments in Managed Care Magazine, September 2002



Next Generation Payer-PBM Relationships



Next Generation Payer-PBM Relationships

Key Elements of the New Model

- Demonstrate transparency in supplier pricing arrangements
 - Network pharmacies
 - Pharmaceutical firms
- Implement effective strategies to improve clinical outcomes
 - Compliance, adherence to guidelines, etc.
- Recapture the role of educating providers and consumers on the relative value of medications
 - Become a key participant in evaluating the outcomes & costs of medications when used by patients in real world settings

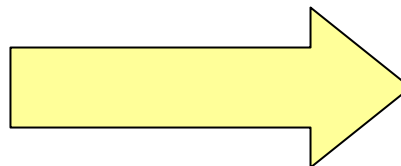


Next Generation Payer-PBM Relationships

Next Generation Formulary Management

“Old Strategy”

- Coverage strategy designed to balance rebates and costs
- Key metric is % of brands vs. % of generics



“Next Generation Strategy”

- Focus on the net cost of drugs
- Influence use of generics across a therapeutic class, not just brand to generic conversions
- Disadvantage products that do not provide comparative efficacy & pricing

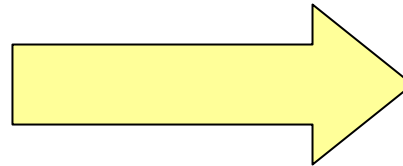


Next Generation Payer-PBM Relationships

Next Generation Clinical Program Management

“Old Strategy”

- PBM controls all clinical programming decisions
- Limited review of the financial incentives behind the PBM’s approach, tools, outcomes, etc.



“Next Generation Strategy”

- Payer reviews & provides input into clinical processes
- Payer implements performance measures for clinical programs
- PBMs clearly identify sources of financial support for clinical programs

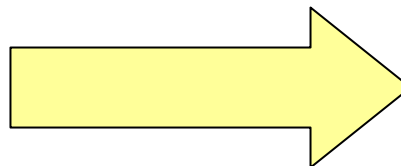


Next Generation Payer-PBM Relationships

Next Generation Performance Incentives

“Old Strategy”

- Operationally focused
 - Timing / accuracy of reports
 - Timeliness of card production
 - Efficiency of mail order operations



“Next Generation Strategy”

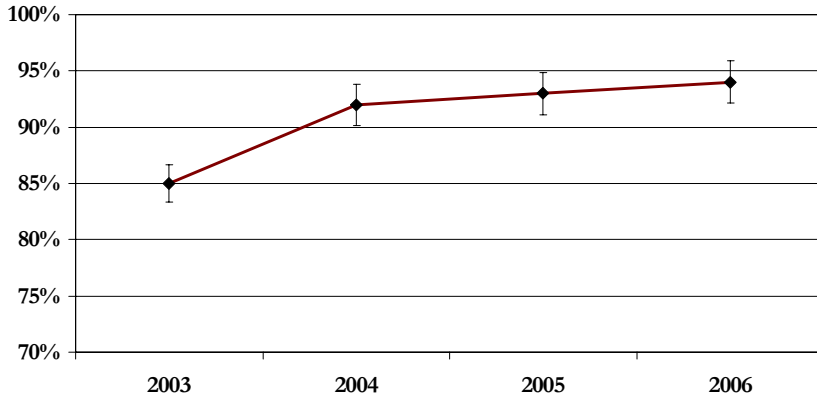
- Financial Improvement Guarantees
 - Ability to hold trend to a reasonable growth rate
 - Ability to improve generic dispensing by a measurable amount
- Clinical Improvement Guarantees
 - Ability to improve patient compliance
 - Ability to improve mix of drugs utilized



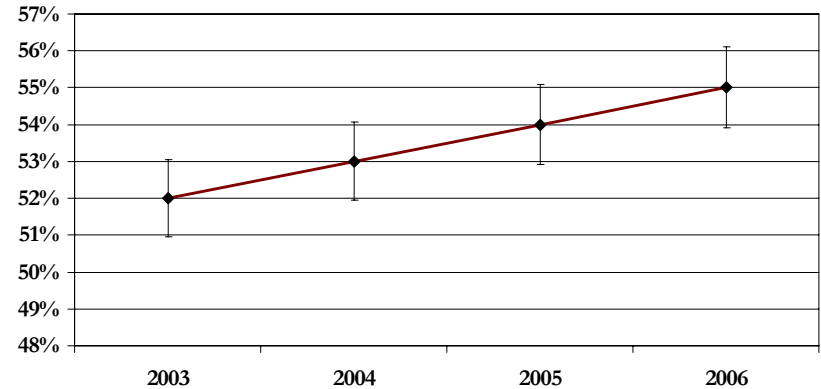
Next Generation Payer-PBM Relationships

Examples of Performance Incentives

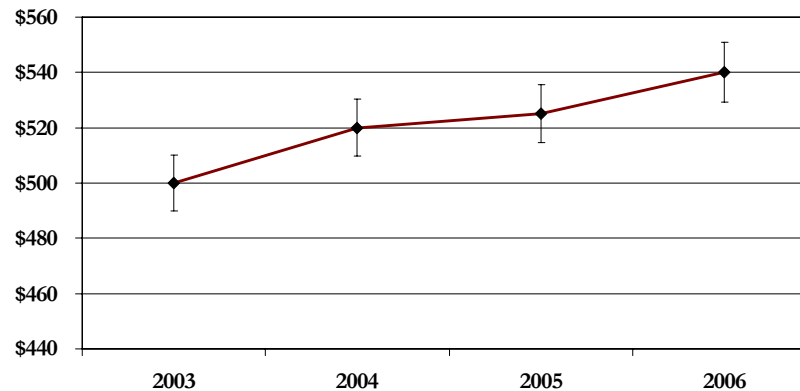
Patient Compliance



Generic Dispensing Rate



PEPY Target



Next Generation Payer-PBM Relationships

- Strategies to gain control over your pharmacy benefit program
 - Understand the financial drivers for your PBM
 - Obtain transparency of pricing / outcomes resulting from clinical programs, including formulary choices
 - Construct meaningful incentives / performance guarantees
 - Develop a strategy for ongoing monitoring of PBM activities



Additional Resources



Additional Resources

Organization	Types of Information Available	Website
National Institute for Clinical Excellence (NICE)	Drug Reviews Treatment guidelines	www.NICE.org.uk
Veterans' Administration Pharmacy Benefits Manager (VAPBM)	Therapeutic Class Reviews Step Therapy / PA guidelines Drug Reviews	www.VAPBM.org
Oregon Health Resources Commission	Therapeutic Class Reviews	www.OregonRx.org



Additional Resources

- Pharmaceutical Strategies Group
 - P: 800-687-4404
 - F: 972-409-0764
 - E: TWatson@PSGConsults.com
 - www.PSGConsults.com
- Selected Trade Journals
 - Drug Cost Management Report
 - Drug Topics
 - Drug Benefit Trends
 - Med Ad News

