

The Healthcare Savings Chronicle

brought to you by Coalition America, Inc.

The leader in Medical Claim Savings

January 2006

VOLUME 4 ISSUE 1

This Month's Topic

Managing Prescription Drug Costs

CONTENTS

Pass-Through Pricing in Employer-Sponsored Pharmacy Programs

Drug Strategies Past and Present

Insource Pharmacy Benefit Management While Outsourcing Transparent Claim Administration

Coalition America Update

ORGANIZATIONS OF INTEREST

HOME

Pass-Through Pricing in Employer-Sponsored Pharmacy Programs

www.PSGConsults.com

by Tim Watson, Pharm.D., M.B.A
Pharmaceutical Strategies Group

The hottest trend in employer-sponsored pharmacy benefit programs is pass-through pricing. In a pass-through pricing model, PBMs earn their revenue directly from the plan sponsor, rather than from a combination of direct payments from the sponsor and indirect payments from suppliers. This contracting trend has been driven by the market's desire for more clarity on PBM pricing strategies and tactics. Initially, only a handful of startup PBMs offered this pricing option. Many of the leading PBMs now offer pass-through pricing, as the approach has evolved from mere fad to something greater.

Will pass-through pricing lower program costs? Will it ensure that incentives between plan sponsors and PBMs are aligned? Or, as its detractors suggest, is it just the latest in a series of PBM procurement fads that won't really change the dynamics of the industry at all? These and other questions will be answered as the adoption rate of this contracting approach accelerates. For those evaluating a change in their PBM contracting strategy, there are several issues to consider.

Cash flow impact

In a pass-through pricing model, plan sponsors must be prepared for a significant increase in the monthly administrative fees charged by their PBM. These fees can be 5-10x the "typical" administrative fee charged under more traditional pricing mechanisms. Plan sponsors must be diligent to evaluate pass-through pricing offers (and subsequent program experience) to ensure that they are actually receiving enhanced supplier discounts, rather than paying more for the same basket of services.

Supplier performance risk

Without careful negotiations, PBMs that propose pass-through pricing may not agree to minimum supplier discounts for either network providers or for pharmaceutical rebates. In this scenario, plan sponsors bear the risk of pharmacy network pricing and rebate collection levels. Plan sponsors must appreciate this risk, and develop proactive strategies to ensure that this pricing risk is mitigated (i.e. investing in tools that will



PHARMACEUTICAL
STRATEGIES GROUP

Letters to the Editor

There are no letters for this article. To post your own letter, click Post Letter.

[Post Letter]

assist participants in choosing the most cost-effective pharmacy providers, and the most cost-effective drugs).

Reframing the service delivery model

Many publicly traded PBMs earn “net revenue” of \$3-\$5 per prescription. Under a pass-through model, PBM revenue declines to approximately \$1-\$3 per prescription. To ensure that this decline isn’t accompanied by a corresponding decline in net income, PBMs will look to slash operating costs. The drive for operational efficiency will result in a “self-service” delivery model. Sponsors who adopt a pass-through pricing approach must consider how service delivery might change under a pass-through approach.

Aggressive supplier discounts are only part of the pharmacy trend equation

Numerous studies have demonstrated that pricing-related elements (including supplier discounts) account for only a fraction of pharmacy program costs (20-30%). Achieving aggressive supplier discounts does nothing to address other significant drivers of program costs (e.g. inappropriate utilization, fraud and abuse, etc.) Plan sponsors, therefore, must develop approaches to balance the goals of aggressive supplier discounts against those of ensuring optimal utilization of pharmaceutical products.

PBMs serve an instrumental role in the pharmaceutical supply chain. Will their role continue to evolve as “benefit managers?” Or, will they be relegated to functions more similar to third party administrators? The overall adoption rate (and experience with) pass-through pricing models may hold the keys to answering these and other important questions about how to best contract for pharmacy benefit management services in the future

Determining if Pass-Through Pricing is Right for You

If you can answer YES to the following questions, you should consider pass-through pricing as an option for your pharmacy program:

- .. Do you want to more clearly understand the total cost of your PBM relationship?
- .. Are you willing and able to aggressively monitor supplier contract performance?
- .. Do you have effective tools to steer members to the most cost-effective providers?
- .. Do you have the budget required to fund the higher administration fees required by a pass-through model?
- .. Are you as concerned with implementing appropriate utilization management programs as you are about reducing the administrative cost of your program?

For more information please contact Tim Watson, Pharm.D., M.B.A at (972) 444-4360 or TWatson@PSGConsults.com, or visit their website at www.PSGConsults.com.

[PRINTER FRIENDLY VERSION]

Published by Coalition America, Inc.
Copyright © 2006 Coalition America, Inc. All rights reserved.
All Rights Reserved - 2002

TELL A FRIEND
View Archive

Powered by **IMN™**