

# Pharmacy Benefits

Sarkis Kavarian, PharmD Candidate 2015  
Preceptor Dr. Craig Stern  
Pro Pharma Pharmaceutical Consultants, Inc.  
4/3/2015

# Introduction

- Pharmacy Benefits as “Riders” with Vision & Dental Plans + added to medical benefits
- Prescription Drugs vs Vision & Dental Care
  - Predictable but infrequently elective
- Focus now on Pharmacy Benefits
  - Prescription drug price inflation
  - Introduction of new medications
  - Increased outpatient drug therapy
- Soaring Drug Expenditures outpacing general CPI and CPI of medical benefit component → Goal is to decrease overall drug costs relative to medical CPI

# Definitions – Design of Pharmacy Benefits




Are members receiving effective medications at competitive prices?

Are benefits comparable to similar offerings within their respective industry(s)?

Are payers and their members receiving value for their pharmacy benefit dollar?

Have all unnecessary expenses been avoided, including potential fraud and abuse?

# Rules and Regulations



Point-of-sale/service (POS) for electronic claim adjudication

Maximum allowable costs for generic reimbursement

Formularies

Quantity Limits

Prior Authorizations

Step Therapy

# Usual Benefit Coverage

- Federal Prescription Drugs (formulary)
- State-Restricted Drugs (some states require doctor's prescription for nonlegend drugs)
- Compound Medications (containing federal legend drug or state-restricted drug)
- Injectable Insulin (+ needles/syringes when purchased with insulin in some cases)
- Medications or Devices (required by purchaser / common components in similar benefit plan offerings)
- Quantity Limits allowable per-prescription (number of Rx units)

# Common Benefit Exclusions

- Investigational Drugs (uncertain Tx outcome)
- Contraceptives (discretionary in some plans)
- Cosmetic Agents (not medically necessary)
- Immunizing Agents/Cost to Administer a Drug (usually covered under medical portion of benefit)

# Role of Pharmacy Benefits in:

- **Medicare Part D:**
  - Formulary Drugs
  - Medication Therapy Management
  - Vaccine Coverage (commercially available)
  - Drugs you get in hospital outpatient settings
- **Affordable Care Act:**
  - Prescription birth control
    - Generic = free
    - Brand - copay

# Definitions – Pharmacy Drug Benefit Design Options

Utilization Design

Cost-Management Design

Integrated Drug/Medical Design



# Utilization Design

Definition: address adversely selected populations who utilize more than the general population

Goal: Provide minimum/fixed number of Prescriptions PMPM

Assumptions: Medical Providers will manage risk that is insurable

- Maximize outcomes
- Minimize medical risk of complications
- at affordable cost

Difficulty

- Benefit limits < experience of population
- Population's utilization rate > expected
- As a result of difficulties → premiums raised or benefit levels reduced

# Integrated Drug/Medical Benefit Design

Definition: substitution of drug therapy for medical provider care (surgery or acute hospital care)

## Assumptions:

- Drug cost inflation needs to be applied to medical cost with an equal decrease in medical premium inflation

## Difficulties:

- Modification of entire medical delivery system to achieve economies of:
  - Scope = appropriate allocation of care sites including health care maintenance
  - Scale = efficiency and productivity increases across entire health care continuum

# Cost Management Design

Definition: emphasis on generic substitution, patient incentives, and benefit definition of covered and excluded costs

- Generic substitution → counteracts increasing expense of current medications and longer-term approach to limiting the impact of new medications

Assumption: patient incentives to encourage generic substitution and introduce price considerations into provider/patient drug selection

- Patient incentive = Lower copayment when generic drug is dispensed
- Provider incentive = Payment of additional surcharge for dispensing of generic

# Prescription Drug Reimbursement

Traditional Indemnity  
Approach

Card Plans

# Traditional Indemnity Approach

- Drugs are covered by comprehensive medical policies
- Member must fulfill annual deductible and afterwards pay coinsurance fee (~20% of medication cost)
- At the retail pharmacy, the patient pays entire cost of prescription, and if low cost → may not submit claim to employer.
- “Shoebox Effect” (15-17% of the time)
- As medications became more expensive and claims were filed electronically, shoebox effect and other hidden costs were reintroduced, adding cost to the benefit.
- Other Costs: noncovered drugs (due to less oversight of filling process)

# Card Plans

- Started in late 1960s due to collective bargaining between the “Big Three” automakers and the United Auto Workers
- The insurance company, Blue Cross/Blue Shield affiliate, contracts (regional or nationwide) with pharmacies.
- Pharmacy may accept or reject involvement
- Emphasis = volume purchasing of pharmacy services and wide access to pharmacies
- Advantage = Chain, discount, and mail-order pharmacies offering volume price discounts and access within 5 miles of physician groups or hospitals (vs independent pharmacies)
- Members pay a per-prescription copayment

# Advantages and Disadvantages of Card Plans

## Advantages:

- Financial predictability and data (monitoring benefit performance)
- Exclusions and copayments (for both traditional indemnity and card plans)
  - Net payout is manageable and budgeted
- Ceiling on provider reimbursement and predictable cost

## Disadvantages:

- Higher cost for card plan (vs traditional indemnity plan)
- All prescriptions are covered and 'shoebox' effect removed
  - Even minor drug costs are included in benefit
- Concern of prescription utilization rising due to the disincentive of member having to pay full price for medication

# Summary

- History and Evolution of Drug Benefits
- Rules & Regulations
- Pharmacy Benefits in Medicare Part D and the ACA
- Different Forms of Pharmacy Benefit Design include the Utilization model, the Integrated Drug/Medical model, and the Cost Management Model
- Inclusions and Exclusions for Benefit Coverage
- Prescription Drug Reimbursements
  - Traditional Indemnity Approach
  - Card Plans



# References

- C. Stern, “The History, Philosophy, and Principles of Pharmacy Benefits,” *J. of Managed Care Pharmacy*, 1999; 5(6): 525–31.
- C. Stern, “Pharmacy Benefit Management: New Strategies,” *Employee Benefit Issues: The Multiemployer Perspective*, 2001, 43(37): 306-311
- "Drug Plan Coverage Rules. Medicare.gov, Web. 03 Apr. 2015.
- "The Affordable Care Act." US Department of Health and Human Resources, 28 June 2012. Web. 02 Apr. 2015.

Thank you sincerely for your  
attention.

**Any Questions?**