Pharmacy Benefit News

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COMMENTARY:
WHY ARE PLANS BUYING PBMS?

The recent purchases of the largest Pharmacy Benefit Managers (PBMs) by health plans makes a huge differentiation of captive PBMs versus independents. One could argue that the purchases indicate that plans want PBM profits, rebates, and management of specialty medications all under one roof. Yet, PBM profits have been estimated to be about 4.7% for the Express Scripts deal with Cigna, which isn't exactly earth shattering. CVS and United Health have similar profit estimates.

Recently, an analysis by Sanford Bernstein, research and brokerage firm, demonstrated another view of PBM profits. They studied the rate at which various members of the pharmacy supply chain convert gross profits into earnings. (Note: Specifically, gross profit is revenue minus cost of goods sold. Earnings are EBITDA or earnings before interest, taxes, depreciation, and amortization.) The results reported by the Wall Street Journal (WSJ, 2/26/18, B10):

- PBMs 85%
- Drug Distributors 46%
- Insurers 31%
- Pharmacies 20%

The reason for the disparity? Express Scripts includes the cost of the drugs sold in their revenue when only the mail service buys drugs. Yet, distributors, insurers and pharmacies all pay for drugs. This may be a major reason why large plans are buying PBMs. At the end of the day this reasoning works for investors, but forward viewing plans may see the management of specialty medications paid under the pharmacy and medical benefits as more important.

Analytics at Work: A Real World Example

Maximum Allowable Cost™

Several clients have asked what to do about generic pricing in the face of new generics and many generics priced as brands. The consideration is how can the generic MAC pricing act as an anchor to the fast-rising brand pricing? Further, since MAC spread is often a significant source of revenue for PBMs, the problem was how to keep some of these margins.

Problem: A Health Plan client asked Pro Pharma and Pro Data to provide a custom MAC that conferred generic pricing on all generics including true generics, over-the-counter medications, drug store private label and store brands, extended release products, diagnostics, and medications

Methodology: Pro Pharma in conjunction with Pro Data formulated a custom MAC that met all of the requirements of the problem. Pricing was set at wholesale acquisition cost (WAC) or below. The MAC is publicly available to the network pharmacies, updated weekly, and subject to change when necessary. Consideration was given to pricing at a State MAC and FUL, but was not implemented in the first round due to dispensing fee contracts.

Outcome: The Plan achieved over 23% savings over the prior MAC provided by the PBM. The MAC has been in operation for several years. Trend has been consistently at minus 10%-12% and has never been lower than a minus 2% on any month.

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COMMENTARY: DO PRICES RISE WHEN HOSPITALS MERGE?

Hospital mergers are becoming more common. Catholic Health Initiatives and Dignity Health are merging 139 hospitals, and recently, Bon Secours Health system and Mercy Health announced a merger. Ascension and Providence St. Joseph Health are also in talks to merge. Mergers are not new news, if we look at mergers over a time line of decades. Why now?

Research indicates that mergers of hospitals in the same market leads to higher prices for consumers. However, when they are in different markets there is little data about pricing. The current uncertainty in health care policy has some experts focusing on building up to “weather out the storm”. This would be an argument for mergers. There is a larger argument; namely, hospitals and insurers need to control physician utilization, while at the same time driving utilization out of hospitals and into ambulatory care settings. This argument focuses on lowering the cost of care and controlling the physician’s “pen” that determines which care is to be provided. United Health Group has followed this strategy by buying the DaVita physicians and clinics. Ultimately, the uncertainty in health care is driving States to make policy instead of the federal government. If hospital mergers have greater bargaining power in individual States, then these mergers make sense and pricing is negotiated on the State-by-State level. Unfortunately, answers to pricing questions may take years so answers are not immediately available.

Ref: WSJ 2/22/18, B3

COMMENTARY: WHO MAKES HEALTH CARE POLICY?

The uncertainty in health care policy has driven policy decisions to the individual States. However, not unsurprisingly, Democratic and Republican states view their health care policies differently. The result, health care will differ by the State in which you live. Why? The Republicans in the federal government couldn’t repeal the Affordable Care Act (ACA) so they pushed it to the States. About half of the States are controlled by Republicans who are attempting to repeal the ACA law. Democratically controlled states are doing the opposite.

How does this affect individuals? Under this scenario States control access, price and coverage. About 17 million Americans buy their own insurance and 29 million who don’t have any insurance. These are the individuals primarily affected by the divisions. The Medicare and Medicaid populations are not as affected by the States even though they are the primary beneficiaries of the ACA. Of course, many States are working to limit their Medicaid population through work requirements. Sam Richardson, a health economist at Boston College, stated that “You’re going to have blue states hang on to what they can. For red states, the more they can dismantle Obamacare, the more they’ll look like before Obamacare. They’ll have higher rates of uninsured, but other innovations.” (WSJ, 3/1/18, A3)

The problem is that human nature does not view well the effort to take something away. They may fight over whether to get a benefit, but once they have it, they don’t want to give it back. Elections might decide this question.

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PRO PHARMA
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MAC

Maximum Allowable Cost - Customizable MAC Fee Schedule

Generic pricing should provide normative (cost plus) pricing for both Plans and Pharmacies. MAC fee schedules should pass all savings to Health Plans and patients. To satisfy pharmacists and Plans the MAC fee schedules should be transparent, updated frequently, and based on customizable criteria.

Pro Pharma MAC lists can be accessable to all applicable pharmacists to review.

The Pro Pharma MAC is customizable by clients using approximately 50 criteria, including:

- Manufacturers
- Drug classifications
- Benchmark pricing standards
- Cost plus formulae
- Discounting
- Data sources for bases of cost
- Benefit design parameters, etc.

Changes are made based on access, shortages, and significant price changes.

Important client benefits are:

- *Anchoring overall trend by reducing generic trend*
- *Pharmacists can buy better when they know what they will be reimbursed*
- *Comply with State laws for transparency*
- *Improve relationships with pharmacy networks*

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Pro Pharma Pharmaceutical Consultants, Inc. has assisted payers and providers for over 31 years to maintain quality while controlling costs.

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