PRO PHARMA
PHARMACEUTICAL CONSULTANTS, INC.

Pharmacy Benefit News

Issue #337 | October 18th, 2018

01 | Commentary: Free Markets Will Save Healthcare. So, Why Are We Still Not Doing It?

The discussion of healthcare costs is at least as old as the story of managed care. The thinking goes that free markets which provide competition over price and access and place the patient at the center of the decision, can lead to a solution to the healthcare debate.

Costs were initially decreased with the adoption of managed care, but the trend line drove costs up again.

Why don't free markets work in healthcare? Perhaps the question should be – What is preventing free markets from working in healthcare? Recent articles point to insurance/hospital contracts as controlled by the hospitals to make markets more restrictive. The Wall Street Journal (9/19/18) has reported on hospital contracts where a hospital corporation has monopoly control over a market and charges premiums over less expensive care. Examples cited are New York-Presbyterian, Johns Hopkins, and OhioHealth. Other observers point to the 22 million users of health savings accounts (HSAs) that are hampered by "unnecessary" restrictions that limit their wider adoption. Advocates cite removing limits on HSA contributions, spreading their use to Medicare and Medicaid populations, remove restrictions on how HAS monies can be spent, etc.

One answer is the rapidly growing consumer market for healthcare. This market is very price conscious, but it requires that people shop for care. We have remarked in other columns that people believe what their doctors tell them, and often don't shop for care. Commercial interests are the bedrock of our US democratic system. If consumers are to change the healthcare trend, then cost-conscious commercial options must be made available to help patients make informed decisions. It is hard to shop for care. If the options do not provide incentives for the patient, and options don't force providers to compete, then the system is too complicated for individuals to make an informed decision.

Designers of health care systems must get more creative with options that allow individuals to buy care so that they can see "the suit" (an example of trying on and buying clothes), identify how much it costs and how much they want to spend, and ensure that lower cost solutions are not sacrificing quality for intangibles.

Analytics At Work | Maximum Allowable Cost List

Problem: 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.

A Health Plan client asked us to provide a custom MAC that detailed 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 coded as brand by the data sources, but that the client considered generic.

Methodology: We developed and created a custom MAC that met all 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.

Learn More >

02 | Commentary: If Medicare Is Running Out of Money, Then Are Benefit Reductions Next?

The argument goes that the Medicare trust fund will run out of money in 2028. Is that true? Medicare financing pays for hospital, physicians and drug payments. Medicare funds come from two sources.

First, Financing for physicians and drugs comes from the federal government's general fund. Financing for the general fund is predicated on political decisions about how to use the general tax revenue.

Second, this leaves hospital financing covered under the Hospital Insurance Trust Fund. This trust fund is financed by a 1.45% payroll tax. Tax revenues built up a fund that could run out of money in 2028, if nothing else changes. If the fund does run out of money, then what? The decision falls on Congress to make a choice. They have multiple options – (1) they could use income taxes to fund hospitals as for physicians and drugs; (2) they could raise the payroll tax to 2.2%; (3) they could establish means-tests to decrease benefits; or (4) use combinations of any of the other options.

As Merrill Goozner cites in Modern Healthcare (10/24/16) this is all predicated on the actuarial estimates published in the Medicare trustee reports. He further states that prior estimates have not been very accurate. For example, payroll tax collections are about 16% below projections, and hospital care per beneficiary was $5,019 in 2015 when they were projected to be $6,644.

As an analyst, predictions are grounded in assumptions that undergo sensitivity tests to identify what would happen if the assumptions were modified. This is really a probability problem and subject to the economy, politics, social changes, and other variables. Predicting short-term is more accurate than long-term. Hence, budget shortfalls and predictions should be discussed carefully, and not thrown around like a political football.

Professor Speaks | Watch the Latest Episode

Weekly Discussion on Issues that Matter.

New Episodes available Fridays on YouTube.

Watch the Latest Episode >

03 | Commentary: Big Data Analytics Is the Solution If It Were Not for The Privacy Problems

Big data and the analytical decision process are now well established in the health care system. There is still a wide gap between the levels of sophistication and technology used in health care versus other industries.

There is also a significant gap in education for health care professionals in how to interpret and use this data. Yet, this process is limited at present by privacy concerns. Data analytics is here to stay but fixing fundamental problems like privacy is a roadblock to further development.

Julio Hernandez of KPMG cites the privacy problem as a permission and presumption issue. Permission is the types of data that consumers will allow companies and others to collect. Presumptions refer to how the data will be used. He cites that customer protections should become even more restrictive than they already are.

The fundamental issue, as I see it, is what is in it for the consumer? Clearly other issues are important, but the basis of consumer interests is in their own personal benefit. Hence, if companies, technology companies, social networks, and other users of big data and analytics, are to use data, then they must construct clear benefits and scenarios for consumers to understand. The personal benefits are crucial. They drive the amount of personal information in any form that they are willing to share. Further, the limitations on the availability of this data must also be defined so that the consumer understands what they

lose if data elements are not available. Almost anything can be analyzed if the data is available.

As an analyst, customer demands always exceed current information. Privacy concerns should be much more robust so that all stakeholders understand the limitations on analytical outcomes. The difficult problem is that consumer demands change over time as current problems evolve. This is a dynamic process, but privacy discussions need to be robust, and clearly enunciated to ensure that consumers receive what they want at the time.

About | Pro Pharma

Pro Pharma is a woman owned pharmaceutical consulting firm. Established in 1986, Pro Pharma's services are built on a foundation of data analytics, which are then communicated to the client which provide results and recommendations.

Pro Pharma provides customized support to Health Plans, Self-Insured Employers, Physician Groups, and Workers' Compensation Companies, among others, both in the private and public sectors.

Learn More About Us >

ABOUT US

SERVICES

CONTACT

FOLLOW US

Questions? Contact us at 1-888-701-5438

www.propharmaconsultants.com