PRO PHARMA
PHARMACEUTICAL CONSULTANTS, INC.

Pharmacy Benefit News

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NOTE | A Message from Dr.Craig Stern

In diplomacy there are three primary questions:

- What are we trying to do?
- What are we trying to achieve?
- What are we trying to prevent?

In this context, the end state is the goal, not the process! These questions are of course not just applicable to diplomacy. They apply to all strategic situations. So how do they apply to pharmacy, medical, and dental benefits?

COMMENTARY | Pricing Transparency – Does It Do What We Want?

Pricing transparency for medications is all the rage today. Intuitively, it makes sense. Let patients select therapy based on knowing the price of the medication just as they would to know the price of a car, clothes, food, or any other purchase. The arguments against focus on – (1) the First Amendment against compelled speech, (2) the CMS proposal (October 2018) to mandate television ads for branded medications to include the list price, (3) a contrary “value bias” from Boris Kushkuley (Executive VP of InTouch) where the more expensive the medications, the more desirable they become, and (4) that the list price is not what patients or insurers really pay so patients will be confused. PhRMA has

where television ads for branded medications would point to more information about pricing rather than the list price or the out-of-pocket costs.

What is the goal of price transparency? The answer to this question seems to be intuitive, but not necessarily well-defined. Intuitively, patients should know how much medications cost so that they can decide if they can afford the advertised brand or look for alternatives. The problem is – what are people supposed to do with this information? The doctor has prescribed the medication so it has some perceived value. Comparative therapies are generally not included in ads so the patient cannot do comparison shopping. List prices are confusing. The industry has a history of discounted prices due to rebates, insurance discount contracts, coupons to reduce out-of-pocket costs, and volume discounts to providers (pharmacies, doctors, hospitals). The First Amendment ensures free speech, but it does have limitations such as defamatory language without evidence, causes panic, and does not protect the safety of the public. Is pricing transparency an example of safety? This is something for the courts to decide.

Using the diplomacy strategic questions above, the answers seem to be –

- ***What are we trying to do?*** Provide pricing information for the patient.
- ***What are we trying to achieve?*** Allow patients to make their own decisions about affordability of a prescribed medication.
- ***What are we trying to prevent?*** Patients going broke to pay for treatment.

The ultimate goal here is for patients to be included in the treatment decision by choosing what they can afford, ask for alternatives if necessary, and ask their providers for alternatives of equal benefit. All discussions need to be patient focused rather than commercial arguments to protect market share or protect the current state of convoluted pricing.

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COMMENTARY |

Hospitals and Insurers Resist Price Transparency

The Wall Street Journal (WSJ, 5/12/19, A3) published a piece on hospitals and insurers resisting the push for price transparency for medical services. Their resistance is to the Trump administration proposal to publicly disclose negotiated prices for medical services.

The hospital argument against the proposal is that they would have to publish prices that don't help patients. The American Hospital Association argues that patients just want to know what they must pay out-of-pocket. The hospitals are also afraid that insurers will demand lower prices to compete with lower cost providers. The low-cost providers may also demand higher rates when they find out that other hospitals got a better deal.

The insurers argue that they negotiate rates that vary widely. (This is of course the ultimate reason for competitive market pricing.) The article cites a 2016 study in Health Affairs that published the average price of a pregnancy ultrasound in Cleveland, Ohio as $522, but $183 in Canton, Ohio. Canton is only 60 miles from Cleveland. The current rates are covered by gag clauses in restrictive contracts. Who gets the cheapest discounts? The Blue Cross and Blue Shield insurers get the deepest discounts. This will provide pricing pressure for other insurers to push for lower discounts.

The arguments above are concerned that a free market pricing system will disrupt the current negotiations. All concerns above are really arguments over competitive market pricing.

Referencing the diplomacy strategy above, the pricing transparency goal is to allow patients to pick their hospitals and insurers based on quality and price. The answers to the strategy questions are:

1. ***What are we trying to do?*** Provide the cost for the patient for common medical services and medications.
2. ***What are we trying to achieve?*** An equitable system for the patient to determine the value, price and low risk for each service.
3. ***What are we trying to prevent?*** Price competition that drives down quality and increases risk.

When we address the entire problem, then pricing transparency is placed in the context of what the patient needs to make decisions. This is the goal!

Problem: A client requested help with converting Average Wholesale Price (AWP) discounts to ASP, WAC, NADAC, AMP and other bases of cost. The client was a provider who was receiving contracts from Health Plans but did not know how to convert and verify the terms of the agreements for payment for specialty medication pricing. For example, the Plan wanted to pay at ASP +20%, but the provider wanted to know what that meant in AWP-Discount as had been previously paid.

Methodology: We developed the conceptual framework and provided the solution. An algorithm developed the conversion calculations and produced the results in tables that the provider could use for each specialty medication that was contracted. The provider was supplied fixed conversions from AWP-to-ASP and other bases of cost. The tables also included variable discounts so that the provider could calculate alternatives as the Plan offered alternatives.

Outcome: The provider achieved its goal of ensuring that contracted discounts resulted in the required profit margins. The provider also had a negotiation tool that allowed them to calculate costs vs. profits on various contracted discounts.

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COMMENTARY |

Dental Care Goes Retail!

CVS has announced that they will add retail services for teeth-straightening to some of its stores and that they will add SmileDirectClub to their overall health directed strategy. What is the plan? CVS customers get an image of their mouth made by a SmileDirectClub employee that is sent to a dentist or orthodontist for approval of the treatment. The patient is then shipped clear, removable aligners designed to straighten their teeth. The service cost is $1,850 before

stores and eventually roll it out to the 9,800 CVS stores across the U.S. They also intend to introduce this service to their Aetna Health Insurance business. UnitedHealthcare is also rolling out a similar service.

The American Association of Orthodontists criticized this service. They cite that patient health and safety are compromised stating that in-person visits to dentists identify gum disease, and X-rays that can detect bone loss.

What makes this service interesting is that it was presumably motivated by Amazon's move into health care which provides same day delivery to services provided by pharmacies in their front-end, non-prescription business. What also makes this service interesting is that health care is going retail in order to service people with low severity problems. This essentially modifies dental practice by removing the "easy", high margin services and leaves the dentist/orthodontist with the more complicated, higher severity problems. One consequence is the consolidation of dental practice into corporate models that are team based. Historically, retail services were tried with physical medicine in the past but were not widely adopted, since insurance models provided affordable alternatives. With costs of all health care rising, including medications costing in excess of $100k per year, the situation has changed. Now dental practice is affected.

How does this dental service play in the strategic model introduced in this newsletter?

1. ***What are we trying to do?*** Provide a low-cost option to teeth straightening.
2. ***What are we trying to achieve?*** Provide low cost, conveniently accessible (mail delivery), and a low risk solution for teeth straightening.
3. ***What are we trying to prevent?*** This model substitutes a low-risk solution for a more intensive prevention diagnostic, and orthodontist evaluation.

Dental services focus on prevention. The fear here is that a simple solution will place the patient at a higher risk of other complications. The real risk is if commercial services and professional dental practices don't cooperate to coordinate care for low to high risk patients.

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