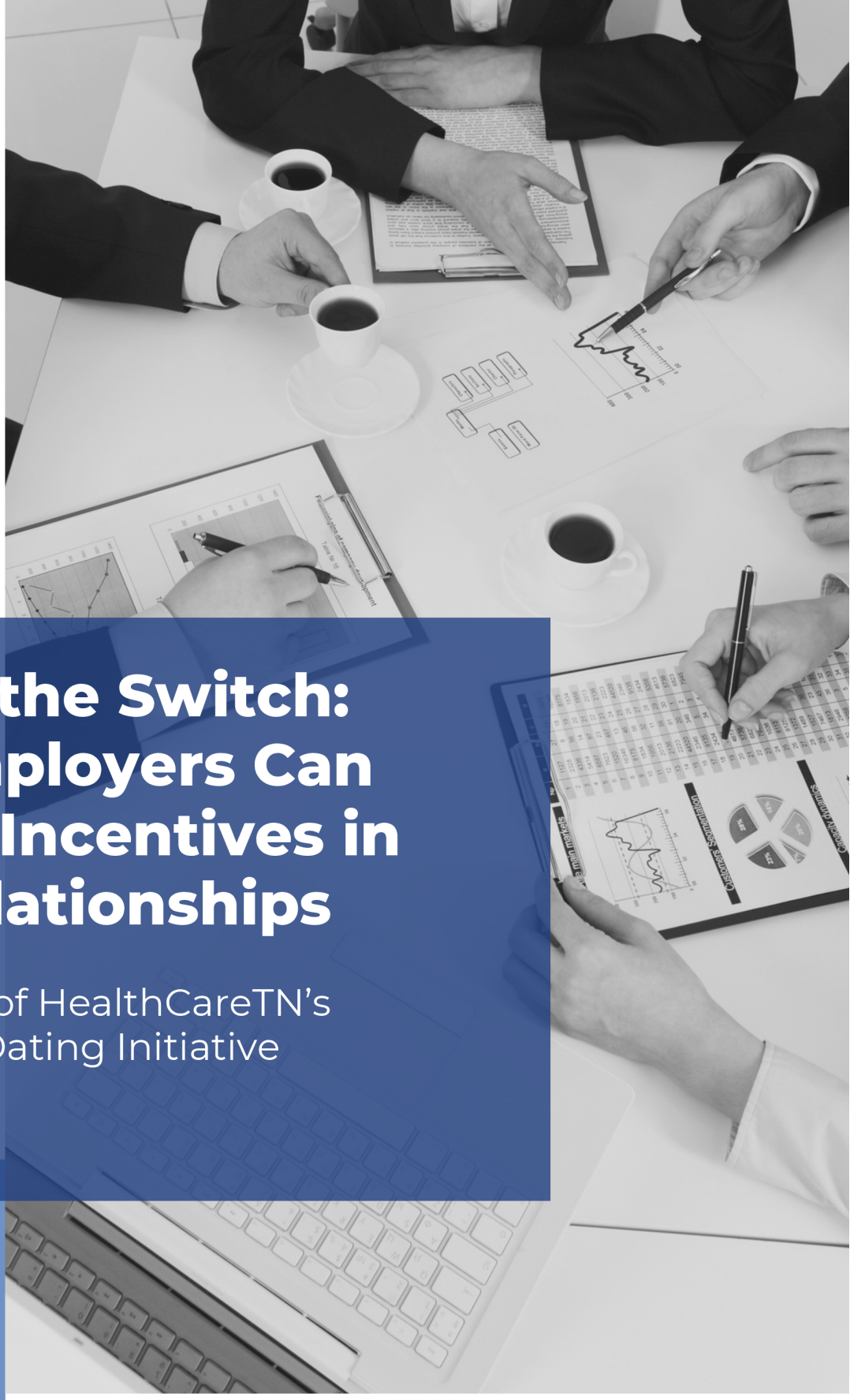
OCTOBER 2024



Making the Switch: How Employers Can Realign Incentives in PBM Relationships

A case study of HealthCareTN's PBM Speed Dating Initiative

HC/TN HealthCareTN
One Voice. One Focus. Leading Employers.

AUTHOR

Jeffrey Townsend, HCTN

ACKNOWLEDGEMENTS

HCTN gives special thanks to and acknowledges the National Pharmaceutical Council (NPC) for funding the development of this white paper. The views and conclusions expressed herein are those of the authors and do not necessarily reflect the official policies or positions of NPC.

ABOUT HCTN

HealthCareTN (HCTN) is a statewide non-profit, employer led coalition of healthcare leaders and other stakeholders with the mission to create ONE VOICE to build a value-based healthcare market. We represent 50+ members with approximately 600,000 covered lives in Tennessee. We are committed to improving the quality and cost of healthcare in the state of Tennessee through data driven collaboration between employers and providers.

Table of Contents

Executive Summary

This white paper details HCTN's experience and frustration with the three dominant pharmacy benefit managers (PBMs) and highlights opportunities for employers to select PBMs that offer services that better align with employer interests.

Key takeaways include:

The PBM model has become increasingly complex.

Today, the "Big Three" PBMs control about 80% of the market. Over time, increasing consolidation and complexity has lopsidedly advantaged the PBMs and disadvantaged the payor and employer plan sponsor.

Opportunities exist to improve the alignment between employers and benefit managers.

Employer coalitions have developed numerous strategies to help employers regain agency in their decision-making and select PBMs that align with their healthcare benefit goals.

HCTN's PBM Speed Dating program facilitates transparent, productive engagement between employers and alternative PBM vendors.

Recently, innovative PBM models from alternative PBM vendors have presented employers with fully transparent and pass-through options, offering enticing alternatives to the "Big Three." HCTN's PBM Speed Dating program aims to pair employers with alternative PBMs to improve transparency and customer service, while generating stronger negotiating leverage and cost savings.

Employers who participated in the program report positive experiences as a result of making the switch.

Employers who switched from the "Big Three" report:

- Greater transparency
- Clinical and formulary management programs that are better aligned with the employer's interest
- More agency in influencing formulary management

This case study demonstrates opportunities for other employer coalitions to replicate and implement strategies to improve their engagement with PBMs.

Looking ahead, it will be important to monitor alternative PBMs and their offerings to assess if they are delivering on their promised value.

HOW DID WE GET HERE?

A Brief history of the PBM model

When insurance companies began offering pharmaceuticals as part of the healthcare benefit back in the 1960s, pharmacy benefit managers (PBMs) were seen as an innovation intended to keep costs down by leveraging the purchasing power of a large group of employers and insurers to negotiate lower drug prices. What began as a simple union with a straightforward goal has since morphed into a complex web of relationships. However, throughout their complicated evolution, which has generally included consolidations and acquisitions, PBMs have given hints all along the way about how much power an entity that determines drug formularies potentially holds.

It seems PBMs were always desirable acquisitions, prompting the Federal Trade Commission (FTC) to step in in the 1990s to force pharmaceutical manufacturers to divest of their PBM holdings.[1] Separated from pharma, PBMs continued to find suitable partners, first horizontally, then vertically, which helped them develop into largely opaque, and significantly lucrative revenue centers, driving unsustainable costs for payors, employer sponsors, and patients, and generating profits for their parent companies. Notably, PBMs are back on the FTC radar, which recently published an interim report that is highly critical of the impact these middlemen have on access to and affordability of pharmaceuticals.[2]

What should have been simple - leveraging volume drug pricing and adjudicating claims - became hopelessly complex, and this complexity seemed to lopsidedly advantage the PBM and disadvantage the payor and employer plan sponsor.

By the early 2000s, signs of PBM side dealing, self-dealing, and wheeling and dealing were evident, but by that time they had become too big to challenge even for a sizeable employer. As PBMs evolved over time, so did the prescription drugs entering the market, and breakthrough medicines for chronic conditions, rare diseases, and oncology contributed to rising prescription drug costs.[3,4] As a result, rising list prices were met with higher negotiated rebates[5] (and larger profits for PBMs).

Employers, recognizing the predicament, tried with very little success to unravel the complex schemery that was increasing their drug spend. Unable to do anything of great consequence, at least they learned some sobering truths. They learned of AWP (which over the years has sarcastically been redefined as "Ain't What's Paid"), spread pricing, multiple MAC lists, and rebate buckets. Like magic, each year employers enjoyed deeper discounts, aggressive and regular market benchmarking and bigger rebate checks, as well as low or non-existent administrative fees. And yet, each year drug prices overall increased.[6]

Notably, annual increases in list prices for branded prescription drugs peaked around 2014 (13.5%) and have since slowed dramatically to an estimated annual increase of 5.4% in 2023, while net prices (which account for rebates, discounts and other reductions) have dropped every year since 2017, owing in part to rebates and other administrative fees paid to PBMs.[7]

This brings us to today. We have the "Big Three" PBMs - CVS Caremark, Express Scripts, and OptumRX - which dominate the market with 80% share.[2] Two of them are owned by large health plans and the other owns a large health plan. All three own offshore group purchasing organizations that help them aggregate rebates with deliberate ambiguity. However, alternative options are gaining momentum.There are many new PBMs, new in name and new in approach, who are hoping that employers choose transparency and trust over volume and scale, since volume and scale has done little to keep prices down. In light of the Consolidated Appropriations Act (CAA), and other legislation that is arming (as well as coercing) employers to reform the healthcare market, employers acting as health plan fiduciaries are beginning to flex their muscle and say no to the "Big Three."

1960s
PBMs emerge as an option to leverage purchasing power and negotiate lower prices

1990s
FTC requrires pharma companies to divest from PBM holdings

2000s
PBM consolidation accelerates

2010s
Annual price increases for prescription drugs peak in 2014

2024
The "Big Three" PBMs own ~80 percent of the market share

ENGAGING PBMS AND IMPROVING EMPLOYER DECISION-MAKING

Insights from Previous HCTN Strategies

HCTN has employed several strategies to coalesce employer members around PBM efforts. Implementation of these strategies has provided valuable insight into the challenges and opportunities associated with navigating a dynamic PBM landscape.

PBM carve out program

HCTN strongly encourages carving out PBM as a procurement principle, arguing that carve outs allow for more transparency and negotiating leverage, which generally results in better contracts and pricing. In 2001, HCTN negotiated the first transparent PBM contract with Walgreens Health Initiatives (WHI) and marketed it as a group purchasing opportunity to HCTN members, as well as other peer coalitions. The focus of the contract was to bring clarity and advantage of rebate distribution to employers, as well as offering a pricing model that eliminated spread pricing, where the difference was retained by the PBM. The venture proved enlightening, as managing the contract showed the ever-evolving power PBMs asserted through defining the terms, changing definitions like "generic" and "brand" when it was convenient, using multiple MAC lists for calculating generic guarantees, and penalizing employers for reasonable tinkering with the formulary. Notably, the program was successful in compelling the other PBMs in the market to meet HCTN's terms, thus moving the market 3-5% lower than before the coalition contract.

Employer data warehouse

In 2005, HCTN established an independent employer-led data warehouse and analytics project. The idea was to combine medical and pharmacy data in a single analytical tool, and then generate reports meaningful to employers. Managing an independent data warehouse provided employers the ability to query the data to inform their strategy, identify market trends including the emergence of "specialty pharmacy," and conduct member-specific analyses to finetune their pharmacy benefit design. However, as the PBM market consolidated horizontally and vertically over time, HCTN's access to data became increasingly restricted, resulting in reporting limitations.

Pharma U

To improve understanding and transparency in the PBM market, HCTN launched its first annual half day, "all things PBM" meeting called Pharma U in 2012. These are employer-only events that include PBM subject matter experts (often niche consultants who are former PBM employees). Over the years, Pharma U has tackled pertinent topics including the rebate game, contracting, pricing models, specialty pharmacy, transparency, pass-through, cost plus, and wasteful drugs. However, most of HCTN's members, even the ones that had over 10,000 covered lives, are far too small to apply these learnings and make demands of their PBM partners.

The need for a new approach

Employers have generally tried to leverage the best deals they can from the "Big Three" or they have implemented coalition contracts negotiated by healthcare consultants that attempt to leverage volume for best pricing. However, these contracts tend to be very restrictive, inflexible, and may or may not achieve best pricing. These arrangements almost certainly benefit the consultant who enjoys compensation from the PBM, leaving the employer confused as to whether the consultant acted as the buyer's or the seller's agent.

Recently, innovative PBM models from niche consultancies have presented employers with alternatives to the "Big Three." In general, these niche or alternative PBMs provide options that employers generally accept are better aligned with their healthcare benefit goals, and these fully transparent and pass-through models are challenging old notions about PBM contracting. As innovative models have gained purchase with employers, new legislation has redefined employers' role in healthcare purchasing. In December of 2020, Congress passed the CAA, which emphasized employer fiduciary responsibility. Given the mandate from Congress, HCTN's employer members have expressed strong interest in standing up to their PBMs and/or finding new partners who better align with their interests.

A NOVEL APPROACH: A CASE STUDY OF HCTN'S PBM SPEED DATING INITIATIVE

Purpose

HCTN developed the PBM Speed Dating program to facilitate transparent, productive engagement between employers and innovative PBM vendors. The objective was to provide employers, many of whom were developing renewal strategies or bidding processes, with an introduction to alternative PBM vendors that were not one of the "Big Three."

Format

In May 2021, HCTN held its first PBM Speed Dating event. This was an employer-only event attended broadly by the coalition membership. HCTN invited 6 alternative PBMs, including Capital Rx, EmpiRx, Maxor, Navitus, Sona, and US-Rx care, to present to our employer members via webinar. Each PBM had 15 minutes - and a maximum of five slides - to introduce themselves to the employers and explain:

- who they are
- how they are different, and
- how they bring value to the employer

The PBMs were admitted to the webinar one at a time to keep each presentation exclusive for the presenting PBM. There was time after each presentation for Q&A and debriefing with the attending employers.

Value Proposition

Each of the PBM participants had a unique and compelling proposition:

- One challenged the current pricing models by allowing alternative pricing indexes
- Another spoke like a fiduciary and was willing to include fiduciary-like language in their contracts
- Another vendor leveraged outreach to the physician community to drive appropriate use and appropriate treatment
- Another emphasized absolute transparency and pass-through

Employers sensed these PBMs could be trustworthy partners. It was clear these PBMs were hungry for business, but they also seemed hungry to do "right" by their client.

Results

Of the 6 PBM participants, three had follow up conversations with employers, two were invited into selection processes, and one won the business. HCTN was encouraged by the employers' enthusiasm for this program, as well as the successful pairing of an employer and an alternative PBM vendor.

In 2022, HCTN ran its second PBM Speed Dating event. Three of the initial PBMs were invited (Capital Rx, EmpiRx and US-Rx Care) as well as two new ones (Rightway and SGRX). Employers appreciated the ability to preview prospective vendors and the vendors appreciated the opportunity to get in front of prospective clients. Due to the success of the program, HCTN now hosts a PBM Speed Dating program annually.

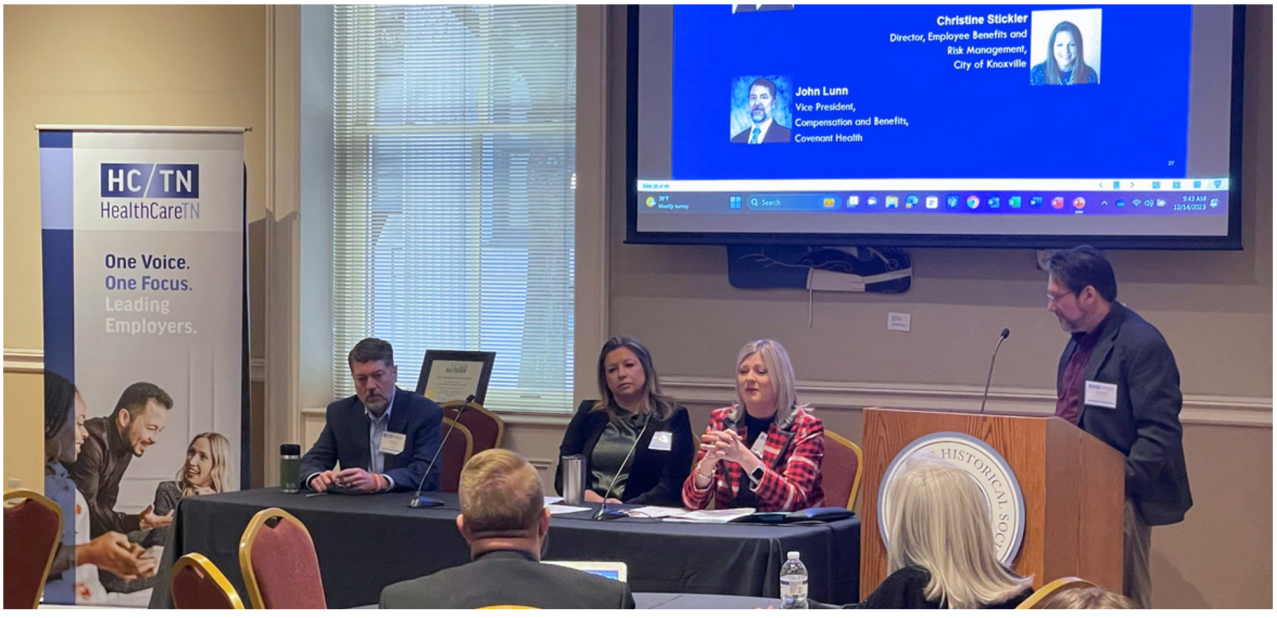
LESSONS LEARNED FROM EMPLOYERS WHO MADE THE SWITCH

"These speed dating events were really cool and a unique opportunity! We learned a lot about the vendors [in the market] from these events that helped us prepare for our own procurement project."

-Christine Stickler, Risk Manager, City of Knoxville

By 2023, several HCTN employers had moved from one of the "Big Three" PBMs to a smaller, more flexible PBM vendor. To engage in an informed discourse about the challenges and opportunities associated with selecting an alternative PBM, HCTN convened a panel of our employer members who had made the switch at the 2023 regional conference. Panelists included Christine Stickler (City of Knoxville), Jill Barnes (Helen Ross McNabb) and John Lunn (Covenant Health).

The employers were all self-funded and ranged in size from just under 1000 covered lives to over 10,000 covered lives. All employers had a long-term relationship with their "Big Three" PBM, and each had their own reasons for switching. However, during the panel certain themes emerged.



From left, John Lunn, Christine Stickler, Jill Barnes, and Jeffrey Townsend. Photo credit: Amanda Abshagen, HCTN

Employers cited multiple reasons for making the switch:

Poor customer service

Each employer lamented the poor customer service they experienced with the Big Three. They reported that good account representatives were often quickly promoted away, and poor account representatives were a source of ongoing frustration.

Lack of negotiating power

Even the largest of these employers admitted they felt too small to make demands and the smaller employers had to fight for services guaranteed in the contract, often struggling to get simple questions answered.

Lack of transparency

Most of the employers believed that the incumbent PBM acted without transparency. One employer commented that their PBM's refusal to take an administrative fee as part of their pricing proposal made them realize that the PBM must be making a lot of money elsewhere. The final straw for this employer came with a data request that the PBM absolutely refused to honor. What was a deal breaking data request for the incumbent was not an issue for the smaller PBM that would eventually win their business.

Conversely, employers reported numerous advantages associated with switching their PBM. All employer representatives agreed that:

- The new PBM relationships brought **far greater transparency**
- With the new PBM, the **clinical and formulary management programs were better aligned with the employer's interest.** One employer reported that improved clinical management under their new PBM translated into **significant cost savings**
- These new PBMs seemed more willing to **allow the employer to influence formulary management** while explaining the rebate tradeoff
- New PBMs offered **improved customer service**

Looking Ahead

Early insights indicate that employers are pleased with their new PBM arrangements. However, thorough analyses of employers' financial data pre and post switch have yet to be shared. Moving forward, it will be important to examine how switching PBMs affected the employers financially and whether the advantages associated with alternative PBM offerings persist long-term.

Next steps for employers:

Monitor the landscape

Overall, empowering employers to switch from the "Big Three" in favor of an alternative PBM holds promise to improve transparency and achieve better alignment between employers and their PBM regarding clinical and formulary management. However, the market, starting with employers, will still need to monitor these innovations to make sure they are delivering the promised value.

Leverage lessons learned

This paper summarizes numerous efforts led by HCTN to champion the employer voice in healthcare decision-making. Across the US, other organizations, including National Alliance for Healthcare Purchaser Coalitions, have developed complementary resources to help employers and other plan sponsors to navigate PBM relationships and strengthen their negotiating posture. Helpful resources include:

- Time to Act: Understanding PBM Practices Enables Employers to Ignite Change
- A Playbook for Employers: Addressing Pharmacy Benefit Management Misalignment

REFERENCES

[1] National Association of Insurance Commissioners (NAIC). Pharmacy Benefit Managers. NAIC. Published online. Accessed August 26, 2024. https://content.naic.org/cipr-topics/pharmacy-benefit-managers

[2] Federal Trade Commission (FTC). Pharmacy Benefit Managers: The Powerful Middlemen Inflating Drug Costs and Squeezing Main Street Pharmacies. Accessed August 26, 2024. https://www.ftc.gov/reports/pharmacy-benefit-managers-report

[3] Congressional Budget Office (CBO). Prescription Drugs: Spending, Use, and Prices. CBO. Published January 2022. Accessed August 26, 2024. https://www.cbo.gov/publication/57772#_idTextAnchor027

[4] Yeung K, Dusetzina SB, Basu A. Association of Branded Prescription Drug Rebate Size and Patient Out-of-Pocket Costs in a Nationally Representative Sample, 2007-2018. JAMA Netw Open. 2021 Jun; 4(6): e2113393.

[5] Hernandez I, San-Juan-Rodriguez A, Good CB. Changes in List Prices, Net Prices, and Discounts for Branded Drugs in the US, 2007-2018. JAMA. 2020 Mar 3;323(9):854-862.

[6] IQVIA Institute for Human Data Science. Drug Expenditure Dynamics 1995-2020: Understanding medicine spending in context. IQVIA. Published 2021. Accessed August 26, 2024. https://www.iqvia.com/insights/the-iqvia-institute/reports-and-publications/reports/drug-expenditure-dynamics

[7] Fein A. Tales of the Unsurprised: U.S. Brand-Name Drug Price Fell for an Unprecedented Sixth Consecutive Year (And Will Fall Further in 2024). Drug Channels. Published January 2024. Accessed August 26, 2024. https://www.drugchannels.net/2024/01/tales-of-unsurprised-us-brand-name-drug.html