Pharmacy Benefits 2020: Ready to Spend Half of Your Medical Plan Budget on Rx?

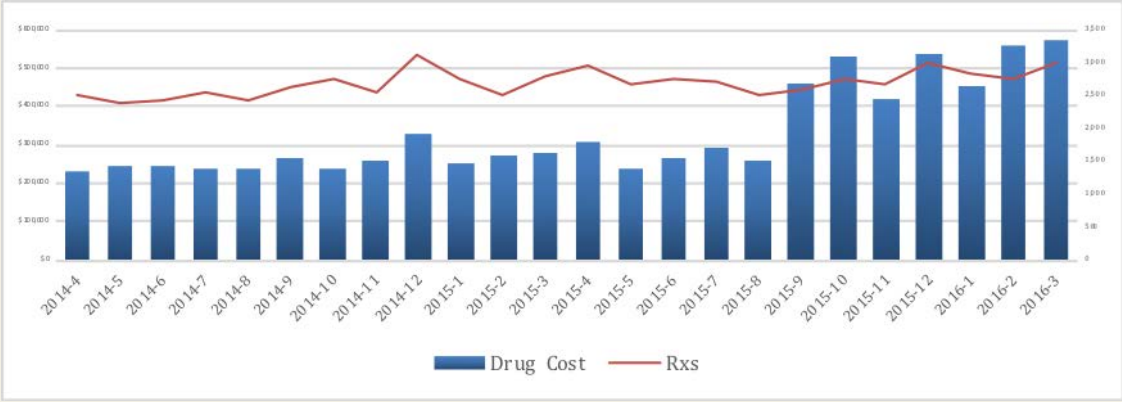
By Cory Easton

You move to a new town and walk into the local barbershop to get a haircut. You sit down to get the same trim you've had for years. You go to pay the barber and the barber says, "That will be $700." You respond with, "Are you kidding me? I'm not paying that!" The barber says, "Why not, that's the price, and I delivered the service." To which you respond, "Where does it say that I have to pay $700? I would never agree to pay that for a haircut." The barber replies, "Nowhere, that is just my price. But since you're new to town, I will give you a 60% discount…."

You would never tolerate that kind of business from your barber or hairdresser, but the fact is, this is an everyday reality within the health care system. As a benefits specialist, you are confronted with this reality when selecting health care plans for your company. Hospital and Physician PPO networks, Lab, MRI and CT Scans, among other things, are all subject to the "The Black Box" of health care pricing, the great mystery of health care. Nowhere in the vast, murky world of health care does this exist more than in pharmacy. In fact, pharmacy is the most utilized (average of 11 Rx's per active member per year; 50+ Rx's per retiree per year), the least understood, and yet the most complex of all health care benefits. Consider this: pharmacy experts predict two major dynamics will occur over the next two years:

- By 2019 Specialty Pharmacy (those high cost, typically injectable drugs) will consume 50% of a health plans drug spend;
- By 2020 Pharmacy will represent 50% of total health care spend for many groups.

To better understand the impact within pharmacy benefits, the chart below shows how a single new employee with a chronic, high-cost condition, can literally double pharmacy spending overnight. This depicts one employee joining the plan in September of a 1/1 plan year.



If you're a benefits specialist who is concerned about rising healthcare costs, driven primarily by double-digit unmanaged drug trend increases, this probably got your attention.

Like all good parents, students, athletes, and businesses, you should practice the disciplined fundamentals of your craft. Managing the single fastest cost driver in healthcare today is no different - it comes down to executing on fundamentals.

If your company is self-insured or is thinking about becoming self-insured, fundamental pharmacy benefit management begins with a direct contract between the buyer and either the Pharmacy Benefit Manager (PBM) or Insurance Carrier. Not a handshake, not a "trust me" statement, or a one-or-two-page addendum to a medical Administrative Services Only (ASO) agreement. A contract.

This contract should be a well-written, easy to understand document, specific to the pharmacy benefit, that outlines how much your comany will be paying for pharmacy benefits. Their contract should clearly describe and define how all discounts, fees and manufacturer rebates will be calculated and paid to your company. Their contract should also define their financial and operational performance guarantees and any penalties associated with underperformance on those guarantees. Their contract should spell out what rights your company has to their specific pharmacy claims experience, including details about each claim that their plan has paid for, if they are a self-insured buyer. Additionally, their contract should detail their audit rights to ensure they can validate that all guarantees made to them by the Carrier or PBM have been met.

The five fundamental questions of pharmacy contracting your company should be able to answer when purchasing PBM services:

1. Do they have a contract *specific* to their pharmacy benefit?
2. Does their contract clearly list out the discounts/fees/rebates that are applied to your claims utilization?
3. Does their contract clearly define under what circumstances those discounts/fees/rebates are applied to their claims?
4. Does their contract clearly state what detailed information they will have access to relative to their claims utilization and experience?
5. Does their contract contain audit rights that allow them to validate that their carrier or PBM is compliant with their financial obligations under the contract?

It should be noted that employers who sponsor benefit plans are not acting as fiduciaries when they design the plan and determine what benefits will be offered, which employees are eligible, and other decisions about plan design. But, they are subject to fiduciary rules when they make decisions about the interpretation of the plan and about payment of claims.

In Conclusion — It is no secret that there are many variables that impact what your company's pay for pharmacy benefits. There are just as many, if not more, games that can be played within the body of the pharmacy contract that can materially impact the outcome of their drug spend. It sounds complex, but it doesn't have to be. It does, however, start with the contract. It is the first fundamental of prudent plan management and ultimate transparency in managing pharmacy costs today and in the future.

If your company cannot answer a resounding "YES" to all five of the fundamentals listed above, it may be time for a change in the way your company buys their pharmacy benefits.

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