40 years

MBGH

Midwest Business Group on Health

*The Source for Leading Health Benefits Professionals*

# 5 Must Haves in Your PBM Contract

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# Midwest Business Group on Health

*The source for leading health benefits professionals*

40 years MBGH

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*The Source for Leading Health Benefits Professionals*

EmployeRxEvolution

*Transforming Pharmacy Benefits*

MHPC

Midwest Health Purchasers Collaborative

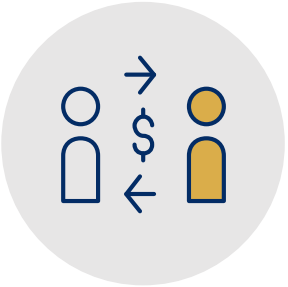
# Health Strategy

## We have been the leading pharmacy benefit consultant for the past decade

**> 400**
**Contracts Analyzed**

**>30**
**Clients with Customized Formulary**

**Our clients represent over $70B in annual pharmacy spend**



**> 70**
**Direct Pharmacy Contracts Negotiated**

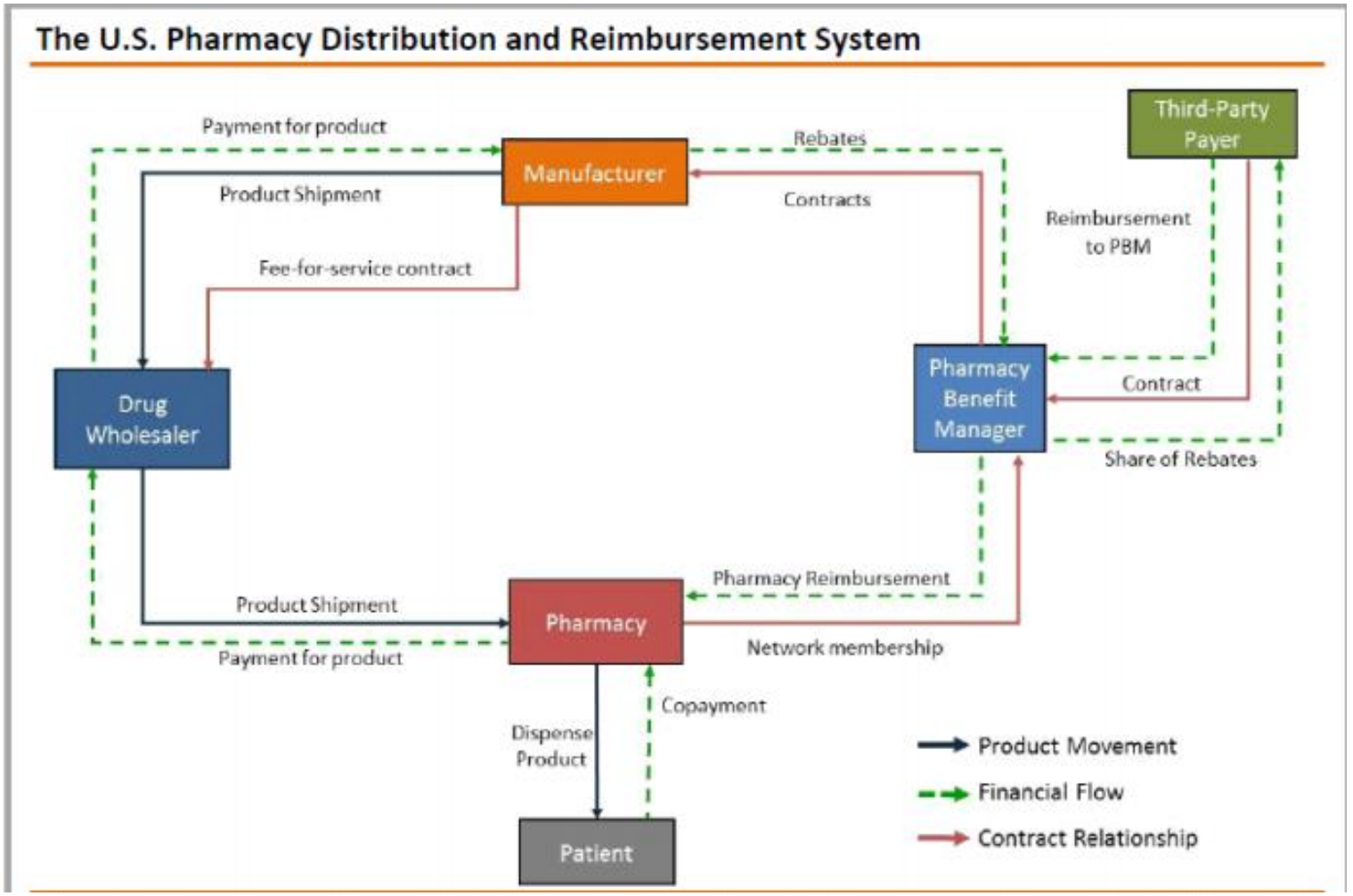
**3.0B**
**Pharmacy Claims In Data Warehouse**

- We are the largest, conflict-of-interest free, Pharmacy Benefit Consulting firm in the industry
- We do not receive or accept compensation, fees or any revenue from PBMs
- We do not profit from, or operate, any reseller or coalition contracts

# Pharmacy Benefit Supply Chain

**PBMs have influence, and control, over all facets of the supply chain; they**

- Dictate which drugs an employer can cover, often receiving rebate payments from drug manufacturers
- Negotiate the price that pharmacies receive when a prescription is filled
- Negotiate the price that an employer / employee pays when a prescription is filled
- Negotiate with each party separately and offer limited transparency into their profit



# Five PBM Contract Must Haves

- Objective Definitions
- Broad Definition of "Rebates"
- Rebate Pass-Through
- Control over Formulary and Drug Coverage Decisions
- Market Check and Early Termination Rights

# Objective Definitions

| Term | Example | Issues |
|---|---|---|
| Generic Drug | The term "generic drug" shall mean a multisource drug set forth in First DataBank's National Drug Data File, or some other nationally recognized source, as reasonably determined by the PBM, that is available in sufficient supply from multiple FDA-approved generic manufacturers of such drugs. | • PBM gets to determine what is a generic drug<br>• No specific indicators or objective criteria are used |

| Term | Best Practice |
|---|---|
| Generic Drug | A Covered Prescription, whether identified by its chemical, proprietary, or non-proprietary name that (a) is accepted by the U.S. Food and Drug Administration as therapeutically equivalent and interchangeable with drugs having an identical amount of the same active ingredient and/or (b) has a Multi-Source Code field in Medi-Span of "Y" or a Brand Name Code field of "G". Generic Drugs shall also include Brand Drugs that adjudicate at MAC, Covered Prescriptions with a DAW code of 3, 4, 5, or 6, Single Source Generic Drugs, Biosimilar Drugs, Authorized Generic Drugs and any other Covered Drug that PBM adjudicates as a Generic Drug as a standard across its entire book of business. The parties agree that when a drug is identified as a Generic Drug, it shall be considered a Generic Drug for all purposes under this Agreement. |

# Defining Rebates

| Term | Example | Issue |
|---|---|---|
| Rebates | Rebates – all rebates received by PBM on behalf of Client, less administrative fees, will be passed on to the Client during the life of this Agreement. | • No definition of what a Rebate is |

| Term | Best Practice |
|---|---|
| Rebates | All payments, discounts, reimbursements and remuneration collected or received by PBM and/or its Affiliates from any manufacturer arising from or as a result of: (i) such manufacturer's product's formulary status or otherwise involving or relating to formularies, utilization management, prior authorizations, benefit designs, and/or Cost Share strategies of Client; (ii) market share for certain Covered Prescriptions within certain therapeutic categories whether measured at the Client level and/or any other part of the book of business in aggregate or otherwise of PBM; (iii) outcome- or value-based agreements; or (iv) AWP, wholesale acquisition cost, and/or similar price guarantees, including caps and/or restrictions on drug price inflation or increases attributable to Covered Prescription utilization by Covered Members. |

# Rebate Pass-Through

1. Ensure Rebates and Manufacturer Revenue are broadly defined

2. Contract should specify minimum Rebate Guarantees on a per script basis by channel
    1. Retail 30 Brand
    2. Retail 90 Brand
    3. Mail Brand
    4. Specialty

3. Contract should clearly state an drugs which may be excluded from the rebate guarantees

4. Plan Sponsor should receive all Rebates and Manufacturer revenue received by the PBM – not just the minimum guaranteed amount

5. Be wary of any Rebate credits being applied to a medical admin fee

# Drug Coverage Decisions

1. PBM contract needs to allow Plan Sponsor to exclude high cost drugs where a lower cost therapeutic equivalent drugs exists

2. PBMs may include high cost drugs on a formulary due to rebates they receive from drug manufacturers.

3. PBMs may even tell you why you need to include high rebate drugs on your formulary and make it appear as if you lose money by excluding these drugs

4. With so many high costs drugs coming to market, Plan Sponsors also need the ability to block
    1. New to Market Drugs without clinical evidence on outcomes
    2. High cost drugs which are simply a new dosage or release mechanism for drugs that already exist in the market
    3. High cost combination drugs where the individual drugs are much less costly

# Formulary Decision Examples

| Rationale | Comments |
|---|---|
| **Combo - OTC individual agents as alternatives** | Both products in the combo are available OTC - therefore not necessary to cover under the RX plan. There is no improved clinical benefit of taking the combo (examples: Duexis,Vimovo) |
| **Combo - Rx + OTC - use individual products** | This combination is created with a Rx drug and they add an OTC agent, put a high price tag on it and call it a new brand drug. There is no improved clinical benefit of taking the combo. |
| **Equivalent Alternatives - same chemical entity** | Same drug, but just a different salt added in manufacturing. Doxycycline monohydrate versus doxycycline hyclate. No impact on clinical effectiveness and produces same outcome |
| **High cost release mechanism** | The manufacturer creates a unique extended release mechanism, but the extended release mechanism does not provide any added clinical benefit. Example - metformin ER for Diabetes costs about $20 for a 30 days supply. Manufacturer came out with an osmotic release that costs over $2000 for a 30 day supply. |
| **Compound Kit** | Manufacturer increases cost by adding a vitamin, sunscreen or a face wash to the packaging to make it a kit. Sometimes it is two creams added to a kit packaging and the member combines them. |
| **Cream combo with OTC alternatives** | Combination cream or patch where the manufacturer adds an OTC ingredient and puts a high price tag on the product. For Example, they may add menthol (Vicks vapor rub) or capsacian to a cream or patch. There is no clinical outcome improvement seen when adding these random ingredients. |

# Market Check and Early Termination

1. Plan Sponsors do not want to go through the disruption of changing PBMs often
2. As a result, PBM contracts often three year terms
3. Discount guarantees and rebate guarantees should increase every year in the contract
4. The contract should allow for an annual "Market Check" where financial guarantees can be improved in future contact years
5. Even with a three year contract term, a Plan Sponsor should have a termination for convenience right so they are not locked in to a contact that becomes uncompetitive

# Our Process

**PBM Contract Optimization**

- Contract Terms & Definitions Set by Health Strategy to protect Plan Sponsor
- Any PBM can be included in RFP or renegotiation process; including incumbent
- Flexibility and carve-out rights which can be implemented at each employer's own pace

**Custom Formulary**

- Independent Drug Coverage Decisions
- Right to exclude high cost, low value drugs
- Right to review & block new to market drugs

**Retail Network Strategy**

- Direct Contracting
- Contracts based on the cost of the drugs rather than AWP
- Plan design to lowest cost options

**Specialty Drug Carve-Out**

- Customize Utilization Management & Prior Authorization
- Non-rebate driven approvals
- Carve-out procurement for lowest net cost

**Health Strategy provides independent claims monitoring, performance reporting and reconciliations to PBM contract terms**

# Questions?

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