What You Should Know About Drug Purchasing and PBMs
The News

PBMs invited to testify to Senate Finance Committee

Walmart, CVS Health Agree on PBM Pharmacy Network Rates

Walmart and CVS Health have agreed on terms that would ensure continued access to PBM pharmacy services for consumers.
PBM = Pharmacy Benefit Manager

- Began as Claims Processors
  - Processed claims
  - Contracted with a network of pharmacies
- Developed into “Full-Services”
  - Formulary
  - Prior authorization
  - Network pharmacies
  - Rates paid to pharmacies
  - Rebates
  - Appeals
  - Specialty pharmacy
  - Reporting
Why Use a PBM?

» Process Pharmacy Claims
» Network Pharmacy Contracting
» Drug Purchasing Scale
Why are Drugs so Expensive?

» Part of Problem is Nontransparent Pricing
  › Manufacturers, Wholesalers, PBM, Pharmacies, Health Plans
  › Can’t Tell How Much Each Part of Supply Chain Profits
Transparent Contracts

» Largely a Misnomer
» “Transparent” Only Means What Pharmacies Paid
» Nothing on Rebates or Other Parts of Supply Chain
» Usually Comes with Administrative Fees
» Discounts not as Aggressive as “Traditional” Contract
How Rebates Work

» Rebates: Post Service Payments by Manufacturers to PBMs

» Example:
  › 10% PBM Rebate by Putting Obecalp on Tier A
  › Rebates Paid Months Afterwards
  › Price is $4,500 and 10,000 scripts
  › Rebate of $450,000 ($4,500 * 10% * 1,000)

» Because Rebates are Paid after Dispensing:
  › PMBs, Wholesalers, Manufactures Benefit from High Prices & Health Plans get Rebates
  › Consumers Rarely Benefit
How Coupons Work

» Coupons Pay for the Cost Sharing Obligations of Consumers

» Example:
  › Tom is on a Traditional Plan with $150 copay for Obecalp
  › Sam has HSA Plan with $3000 Deductible + $150 Copay
  › Because Both have a Coupon, They Each Pay $5
  › That is the Good News...
# The Bad News

Members will switch to the generic... right?

<table>
<thead>
<tr>
<th></th>
<th>Obecalp Cost</th>
<th>Group Cost</th>
<th>Member Cost</th>
<th>Coupon</th>
<th>True Member Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Cost</td>
<td>$4,500</td>
<td>$4,350</td>
<td>$150</td>
<td>$145</td>
<td>$5</td>
</tr>
<tr>
<td>Generic Obecalp</td>
<td>$2,700</td>
<td>$2,550</td>
<td>$150</td>
<td>$0</td>
<td>$150</td>
</tr>
</tbody>
</table>

*Cost Sharing is Designed to Encourage Consumers to Use Less Costly Alternatives. Coupons Circumvent this Causing Consumers to Use More Expensive Drugs, Thereby Increasing Your Costs as the Plan Sponsor.*
In Sum...

• You buy drugs through a complex network of middlemen who benefit from high drug prices with little transparency
• PBMs process claims, establish Pharmacy Networks, and negotiate rates and rebates with Drug Manufacturers
• Rebates are payments to PMBs for using certain drugs. How much PBMs keep and how much they pass on is largely unknown; consumers are left out
• Coupons reduce costs for consumers but generally increase costs for plan sponsors
PEHP Approach

1. In-House Team since 2008
   › Pharmacists, Doctors, and Support Staff

2. Contract with National PBM
   › Process Claims, Pharmacy Network, Contracting Power for Drugs

3. Use Expertise to Get Best Value on PBM Contract Type
   › Currently using Traditional Contract at Sizeable Savings

4. Create Our Own Formulary
   › Best Way to Neutralize Cost Challenges
PEHP Approach

5. Negotiate Separate Contracts with Drug Manufacturers
   › Create Unique Cost Reduction Opportunities

6. Give Back 100% of Rebates
   › Core to Our Mission: Excellent Products at Cost

7. Find Creative Ways to Leverage or Beat Coupons
   › Maximize to the Benefit of Plan Sponsors
## Giving Cash Back

### Beating Coupons by Rewarding Selection of Lower Cost Drug

<table>
<thead>
<tr>
<th>Cost Description</th>
<th>Cost</th>
<th>Group Cost</th>
<th>Member Cost</th>
<th>Coupon</th>
<th>True Member Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Cost</td>
<td>$4,500</td>
<td>$4,350</td>
<td>$150</td>
<td>$145</td>
<td>$5</td>
</tr>
<tr>
<td>Biosimilar with cash back</td>
<td>$2,700</td>
<td>$2,550 + $400 cash back = $2,950</td>
<td>$150</td>
<td>$0</td>
<td>$400 cash back - $150 copay = $250</td>
</tr>
</tbody>
</table>

- Without Cash Back, Members Likely to Get Expensive Drug
- Cash Back Saves Plan Sponsor $1,400 Per Prescription
- Member has $250 After Copay with Cash Back
Pharmacy Tourism

An Innovative Way to Offer Cash Back

<table>
<thead>
<tr>
<th>Tourism uses a 90 day supply</th>
<th>Cost</th>
<th>Group Cost</th>
<th>Member Cost</th>
<th>Coupon</th>
<th>True Member Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Cost</td>
<td>$13,500</td>
<td>$13,050</td>
<td>$450</td>
<td>$435</td>
<td>$15</td>
</tr>
<tr>
<td>Tourism with cash back</td>
<td>$7,350</td>
<td>$7,350 + $500 cash back = $7,850</td>
<td>$0</td>
<td>$0</td>
<td>$0 copay + $500 cash back = ($500)</td>
</tr>
</tbody>
</table>

- Member & Guest Fly to San Diego and Transported to Hospital in Tijuana as long as Safe to Travel
- Pharmacy Tourism Saves $5,200 per 90-Day Cycle
- Member has $500 After Copay with Cash Back
Benefits of PEHP’s Efforts

PEHP vs. National PMPM

- PMPM = Cost per member per month
- Does not include rebates
Lessons from Treatment Cost Comparison Tool & Cash Back Program
“Cutting Edge” Medical Care

WIDOW HAMMOCK
Shake Well Before Use

VEGETABLE COMPO
An Excellent Tonic and Gentle Cure
Cures ALL Complaints
Jaundice, Biliousness,
Wind, Costiveness,
Dizziness, Dampness,
Loss of Appetite,
of Knees,

The MOLBY
Revolving Hammock

Make Your Spine Young!
Stretch it with the Molby Revolving Hammock. Bring back health and vitality. Have a full chest and a small waist. Live longer and enjoy life more. All the keen relish of a healthful existence comes to the man or woman whose spine is straight, strong and supple, with no tension on the sympathetic nervous system and with every spinal nerve relaxed.

Write for Free Book! "How to Make the Spine Young," will be mailed to you FREE and prepaid. Ask for it TODAY!
The Molby Revolving Hammock Co., Dept. 5723, Baldwin City, Kansas.

RING NOSE
Be Yours
Model No. 26
Use it shapeless noses successfully, permanently, and at a distance. It is just as safe and efficient as a device that gives you a perfect nose. Over 50,000 sold at
For years recommended by leading physicians. 18 years in manufacturing at your service.

For children or adults, which tells the truth.

1460, Binghamton, N.Y.
“Patients want to know more about their cost information, and we as a healthcare system aren’t meeting that need...

“Transparency is important because it makes it harder for providers to charge higher prices without providing higher quality...”

Anna Sinaiko, MPP, PhD
Assistant Professor of Health Economics and Policy
Harvard School of Public Health
General Perception - Quality

Hospital ≠ Ambulatory Surgical Center ≠ Office/Clinic
General Perception - Cost

Hospital ≠ Ambulatory Surgical Center ≠ Office/Clinic
Find & Compare Costs for Treatment

Compare costs of medical services performed at different facilities and by different providers. Learn More

Treatment Name or Billing Code

Please enter a treatment name or billing code

Search

Popular Searches
- Colonoscopy
- Cataract Surgery
- Ear Tubes
- Knee Scope
- Deviated Septum
- Carpal Tunnel Surgery
- Kidney Stones
- Brain MRI
- Shoulder/Arm MRI
- Back MRI
- Hip/Leg/Knee MRI
- Abdominal CT Scan
- Birth Vaginal Delivery
- Birth C-Section
- Vasectomy
- Knee Replacement
- IUD Insertion
- Remove tonsils and adenoids

Browse Categories
- Conditions
- Other
- Surgery
- Vaccinations
- Lab
- Radiology
- Test/Screening
- Visits
See Common Costs at Different Locations

### Treatment Costs

**Network:** Summit Network

**Search Results for:** Intestinal exam (colonoscopy)

<table>
<thead>
<tr>
<th>Facility Type</th>
<th>Common Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office or Clinic</td>
<td>$1,057</td>
</tr>
<tr>
<td>Physician</td>
<td>$1,057</td>
</tr>
<tr>
<td>Ambulatory Surgical Center</td>
<td>$1,673</td>
</tr>
<tr>
<td>Facility</td>
<td>$1,187</td>
</tr>
<tr>
<td>Physician</td>
<td>$486</td>
</tr>
<tr>
<td>Outpatient Hospital</td>
<td>$2,579</td>
</tr>
<tr>
<td>Facility</td>
<td>$2,195</td>
</tr>
<tr>
<td>Physician</td>
<td>$384</td>
</tr>
</tbody>
</table>

**Your Current Benefit Limits**

- **Deductible**
  - User, Test: $0.00 of $350.00
  - Doe, Baby John: $0.00 of $350.00

- **Out-Of-Pocket**
  - User, Test: $0.00 of $3,000.00
  - Doe, Baby John: $0.00 of $3,000.00

[View full Benefit Summary]
Find Cash Back Opportunities

Search Results for: Ambulatory Surgical Center
We found 11 facilities
10 items per page

Locate Near Zip Code
Search Radius
Submit

CENTRAL UTAH SURGICAL CENTER
Costs based on 10+ claims

Facility
Laboratory
Physician
Total
$398
$0
$426
$824

Cost
$380 - $398
$0 - $70
$395 - $504
$823 - $853

Cash Back Opportunity
Must contact FDM before receiving services. Call 801-366-7555 to apply or submit the Cash Back Form via the Message Center (Cash Back) to start your application.
Choose Between Available Doctors

<table>
<thead>
<tr>
<th>Located Near Zip Code</th>
<th>Search Radius</th>
<th>Submit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enter Zip Code</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Bodily, Kurt O
- **Address:** 1055 N 500 W, PROVO, UT 84604-3365
- **Phone:** 801-374-1268
- **Gender:** Male
- Rating: 4 stars

### Dickinson, Thomas A
- **Address:** 1055 N 500 W, PROVO, UT 84604-3365
- **Phone:** 801-374-1268
- **Gender:** Male
- Rating: 4 stars
Lessons from Cost Comparison Tool

• Healthcare *costs can vary significantly* based on where services are received, between providers of the same specialty, and different specialties.

• Important to help members *see these price differences* (ex. Colonoscopy w/in Summit Network: $824 - $4,975).

• Site of Service is the single most important factor in understanding significant cost differences: Office, Free Standing, Hospital.

• The next most important is general cost differences between Hospitals.
Lessons from Cash Back

• Program *allows members to benefit in three ways:*
  • Lower out-of-pocket costs
  • Cash in their pockets
  • Lower Costs & Premium Rates = Preserve Benefits

• Cash back can take many forms:
  • Generally range from $50 to $500
  • Handful up to $2000
  • Medical services and prescription drugs
  • Pharmacy Tourism
Navigating Healthcare

- Drug Purchasing
  - PBM, Formulary, Cost Sharing, Cash Back
- Cost Variance
  - Cost Tools and Cash Back
- Surprise Bills
  - Warnings, Data Analytics, Member Advocacy
- Fragmented Care
  - Care Coordination
- Poor Health
  - Wellness Programs, including Tracker
Unnecessary Care

• Overkill, Atul Gawande, New Yorker 2015
  • 2010 Institutes of Medicine Report
    • 30% of Spend or $750B > US Budget for K-12
  • Not New: Dartmouth Atlas & Regional Variance
    • More Care Doesn’t Result in Better Outcomes
    • Often Worse Because of More Complications
  • Roemer’s Law: Demand Expands to Consume Oversupply of a Medical Resource
    • If you Build it, Medical System will use it.
  • Gawande’s Patients: 7 or 8 overtreated
    • MRIs, Genetic Test, Neck Surgery, Knee Surgery
  • Rise of High Stakes Marketing
    • Drug Space, ER Services, Full Body Scans
  • Our Expectations & Provider’s Role
Is There a Way Forward?

- Utilization Review
  - Good Clinical Policies
- Data Analytics
  - Trends and Outliers
- New Payment Arrangements
  - Disincentivize Overtreatment
- Choosing Wisely Website & App
  - Incredible Resource for Patients & Providers
Five Questions

1. How would this test or procedure help me?
2. What are the downsides?
3. Are there simpler, alternative options?
4. What happens if I don’t do anything?
5. How much will it cost?
Key Legislative Issues

• Chronic Meds Before HSA Deductible
• Converting HSA to Cash Benefit
• RFP for Value-Based Payment Arrangements
• Mental Health Visits at School
• No Caps on Autism