CHAPMAN UNIVERSITY | SCHOOL OF PHARMACY

The U.S. Healthcare System: How Pharmacy Benefit Managers Impact Prescription Drug Use

Presented by Daniel Tomaszewski Pharmd, PhD

Medical Vs. Pharmacy Coverage

Medical Insurance

- Managed by an Insurance Company
- Covers outpatient clinic services
- Covers office delivered prescriptions
- Covers most inpatient costs
  - Services
  - Drugs
- May also cover vaccines
- Doesn't pay for pharmacy services
- ***Retroactive billing***

Pharmacy Benefits

- Managed by Pharmacy Benefit Manager (PBM)
- Covers all outpatient drugs
- Cover some vaccines
- May cover MTM or other pharmacy cognitive services
- ***Upfront billing***
  - Use mostly pre-approval techniques

Medicare (Cont.)

- Part A: Hospitalization
  - Pays to treat acute diseases in hospital
- Part B: Doctors Visits & Lab Tests
  - Pays to find problem & cause of disease
- Part C: Medicare Advantage (Plus Choice)
  - Pays to allow you choice of health provider type
- Part D: Prescription Drugs
  - Pays for outpatient prescription drugs and vaccines

What is a PBM?

- Prescription drug insurance company
    - Can be offered as a stand alone service or incorporated into a health insurance plan
        - Usually run as a standalone service
        - Rarely works alongside the health insurance program
    - PBM focus has been on
        - Process claims prospective (At time of purchase)
        - Serve as a cost containment measure

Pharmacy Benefit Programs

The goal of the pharmacy benefit program is to ensure:

- **Appropriate Medication Use**
- **Affordability of Medications**
- **Accessibility to Medications**

Primary outcome is:

- **Ensure cost-effective use of prescription medications**

Development of PBMs

The overall concept is:

If all of these people are all taking a single prescription drug, insulin, and they can either each negotiate separately or negotiate together the purchase price, which will result in a lower overall price?

Basic Benefit Design by PBM

Typically involve a formulary.

What is a formulary?

Basic Benefit Design by PBM

Typically involve a formulary.

What is a formulary?

- **List of preferred drugs**
- **Defines the cost sharing amounts for patients on individual drugs**
- **Effort by PBM to drive patient use of specific prescription products**

Basic Benefit Design by PBM

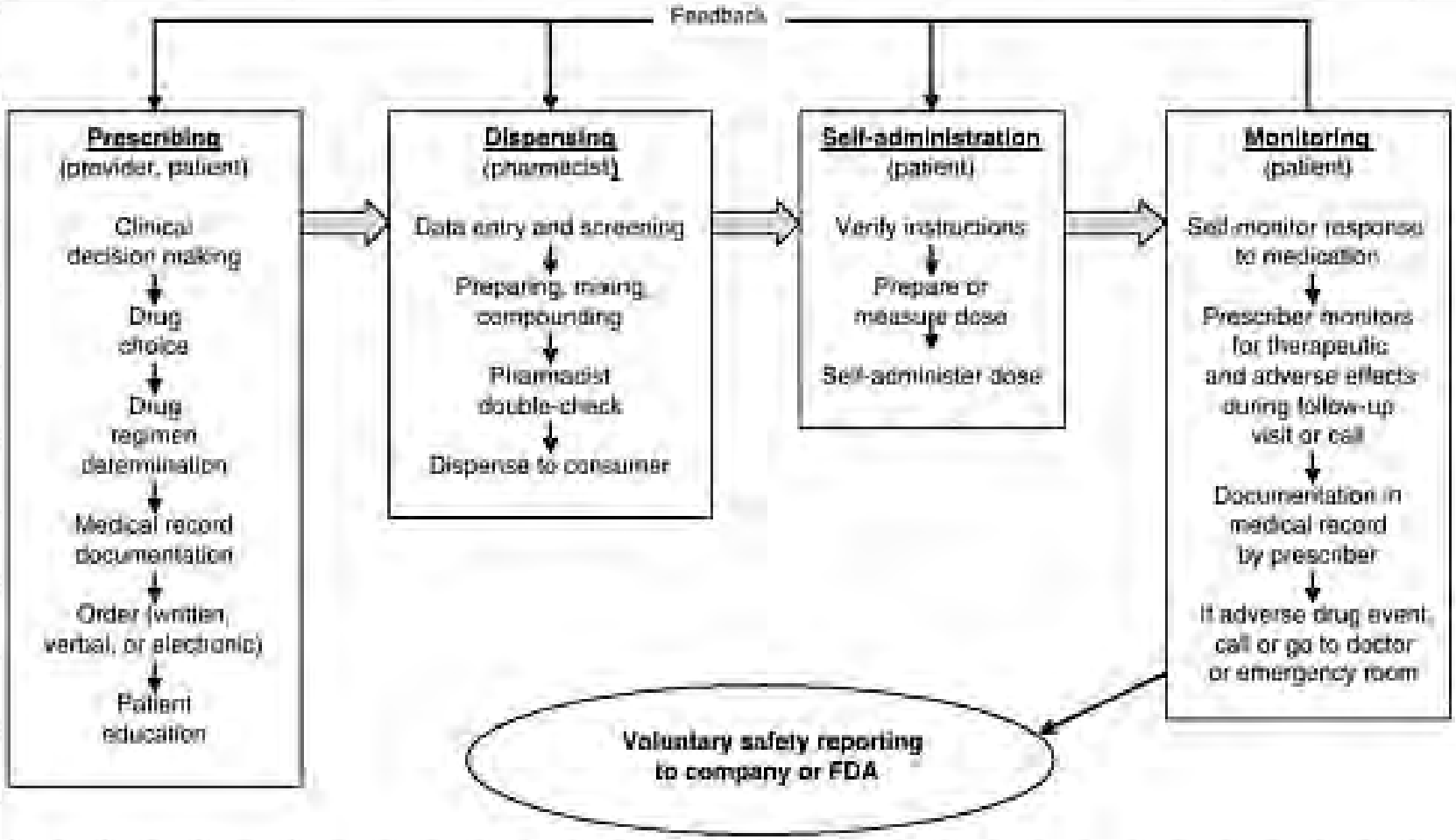
Formulary:

- Typically tier products (standard tier system has 4 levels)
- Tier 1: Lowest Cost Preferred products (Generics)
    - Typically associated with significantly lower cost sharing
- Tier 2: Higher Cost Preferred products (Brand-name agents)
    - Increased cost sharing
- Tier 3: Non-Preferred products (Brand-name agents)
    - Typically non-preferred branded products
    - Tends to be associated with a significant increase in cost sharing
- Tier 4: Specialty Pharmaceuticals

Goal of a Formulary

1. Drive “patient chose” to preferred drugs
2. Reduce overall costs for patients when using preferred drugs
3. Allow for PBMs to negotiate lower prices for those preferred drugs

The Medication Use Process



Formulary Development

- Pharmacy and Therapeutics Committee
  - Made up of physicians, pharmacists, administrators, and other professionals
  - Most PBMs try to make this a very independent committee
    - P&T committees are to have limited knowledge of rebates
    - Focus is suppose to be clinically focused
    - Financial considerations should not be primary focus
  - The P and T Committee is responsible for developing, managing, updating, and administering the formulary
    - Formulary is a “Living Document”
  - Implements policies and procedures

Formulary Development

P & T committee meets regularly to review:

- Medical and clinical literature
- Relevant patient utilization and experience
- Current therapeutic guidelines
- Updated scientific literature
- Healthcare provider recommendations
- Economic data

Formulary Development

P&T Committee evaluates:

- **Safety**
- **Adverse effects**
- **Contraindications, warnings, precautions**
- **Approved indications**
- **Patient administration, convenience, and compliance issues**
- **Cost**

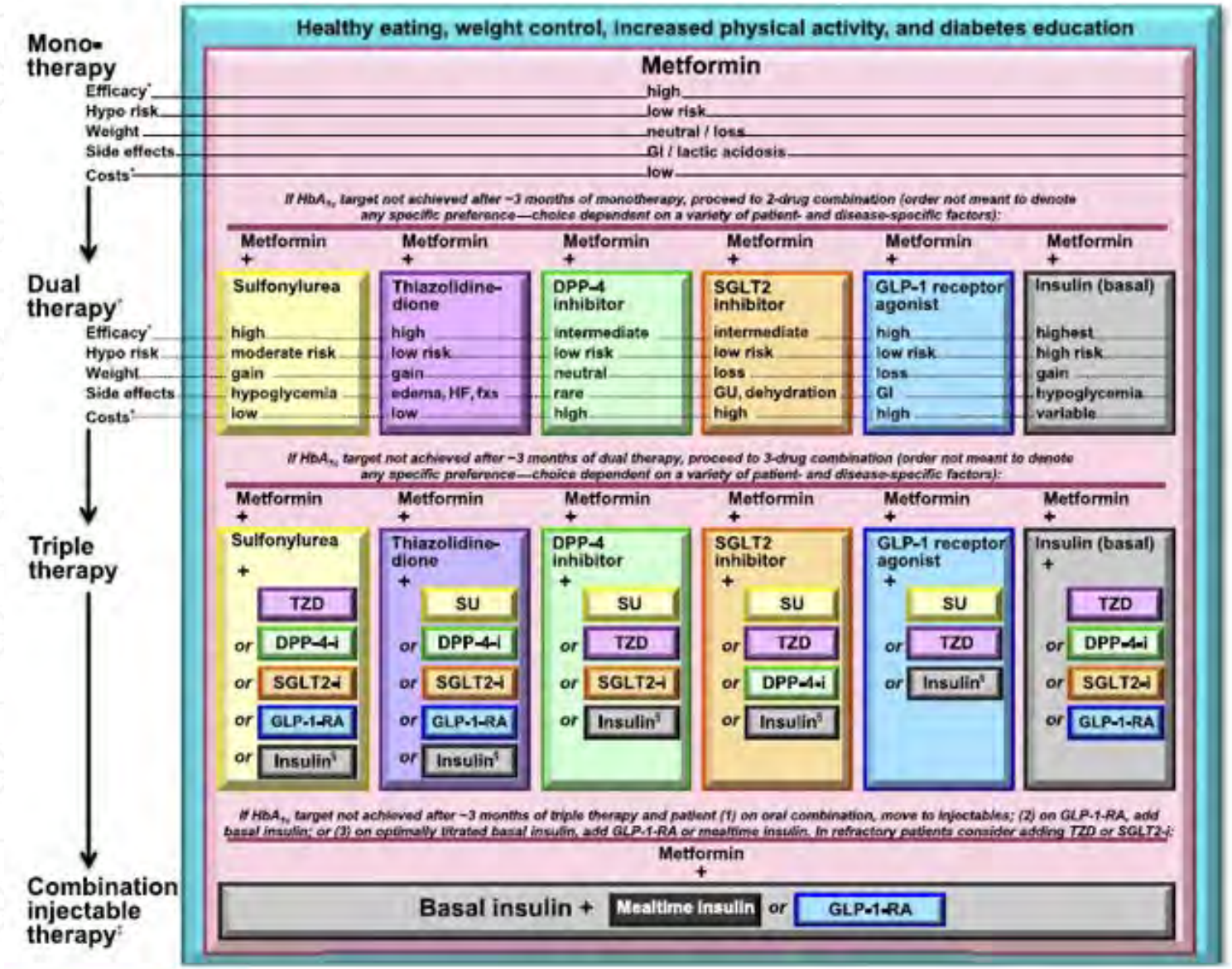
The Impact of Generic Drugs

Generic Drugs are made to be:

- Perfect substitutes for originator product
- No difference between each generic
- Many suppliers and many consumers

- Typically see a “race to the bottom”
    - Prices drop quickly
    - Final price is close to cost of making

EXAMPLE OF HOW THE FORMULARY WORKS TYPE 2 DIABETES



Medscape

Source: American Diabetes Association

Copayment Vs. Coinsurance

Copayment:

- **Fixed amount for a product**
  - **Examples:**
    - **Drug 1: metformin (tier 1): $5 copay**
    - **Drug 2: Jardiance (empagliflozin) (tier 2): $50 copay**

Coinsurance:

- **Percent of cost shared by patient**
  - **Examples:**
    - **Drug 1: metformin (tier 1): 10% coinsurance ($2.50/month)**
    - **Drug 2: Jardiance (empagliflozin) (tier 2): 25% coinsurance ($125.50/month)**

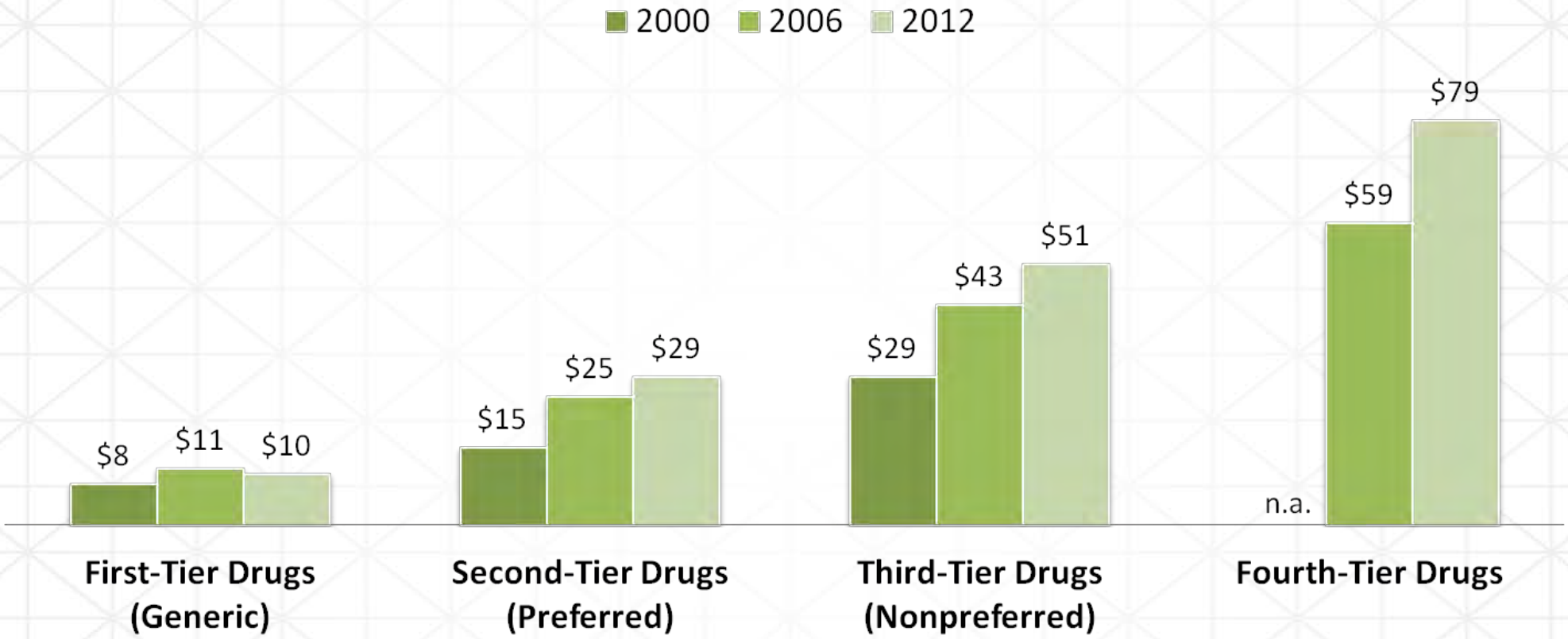
Impact of Formulary on Patient Use

- Different costs for different tiers intended to:
    - Encourage prescribing of low cost generics
    - Drive patient purchasing to lowest cost option
- By preferring lower-cost, more effective drugs:
    - Improve patient outcomes
    - Reduce overall costs
    - Prevent chronic conditions from getting worse
    - Improve medication adherence

PBM Patient Cost Sharing

- PBM Charges patient set price based on drug tier
    - Tier 1 generics tend to have low copayment & allow 90 day supplies
    - Tier 2 brands have increased copayment & may allow 90 days supply only
        - May restrict 90 day access to mail order only
    - Tier 3 brands have significantly increased copay & allow 30 days supply
        - May require all to go through mail order only
    - Tier 4 specialty drugs have highest copayment & restrict to 30 days supply or less
        - Often restricted to specialty pharmacy only

Average Copayments in Employer-Sponsored Plans, by Prescription Drug Tier, 2000-2012



Source: 2012 Kaiser/HRET Employer Health Benefits Survey. Data presented for Covered Workers with Three, Four, or More Tiers of Prescription Cost Sharing. Fourth-tier copayment information was not collected prior to 2004.

Published on Drug Channels (http://www.DrugChannels.net) on September 20, 2012.

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- Note: UHG/AARP Average CoPay Trend

Utilization Management Tools

Additional PBM Tools

Step Therapy:

- **Must fail preferred products before using non-preferred**
- **Example:**
  - **Must fail omeprazole trial before moving to any of the following:**
    - **Pantoprazole or Lansoprazole**
  - **Must fail 2 of the previous before moving on to:**
    - **Nexium or Kapidex**

Additional PBM Tools

Prior Authorization Process:

- **Must submit additional paperwork to rationalize use of a non-preferred product**
  - **Submission reviewed by clinical**
  - **Evaluation based on medical necessity**
  - **May require use of alternative agents or contraindication of other products**
- **Decision may impact:**
  - **Coverage versus no coverage**
  - **Coverage at a lower or higher tier**

Additional PBM Tools

Days supply limits:

- **Limits the number of tablets over a certain timeframe**
- **May be clinically driven**
  - **Safety Requirements**
  - **Effectiveness standards**
- **May be cost focused**
  - **Limit cost per month for a single product**
  - **Require more patient cost sharing**

Additional PBM Tools

Disease Management

- **"A continuous, coordinated, evolutionary process that seeks to manage and improve the health status of a carefully defined patient population over the entire course of a disease…" - AMCP**
- **May include multiple forms of MTM**
  - **In-house tele-MTM**
  - **MTM community network**
- **Patient Mailings**

HOW DOES MEDICARE FIT IN?

Medicare Part D

- Outpatient prescription drug coverage
- Started in 2006
- Provided by private insurance companies
  - Must meet Medicare requirements
  - Originally provided a premium to signup
- Private companies place available plans on a single website
  - Medicare eligible individuals must choose initial plan
- Must signup when you turn 65 (7 month window)
  - Delay in signup results in penalty
  - Penalty follows you for the rest of your life

Part D (Cont.)

Marketplace allows customer choice

- **Multiple plan sponsors with multiple plans each**
- **Cost sharing differs greatly from plan to plan**

What is covered:

- **Outpatient Prescription**
  - **Requirements related to:**
    - **# of drugs**
    - **# of drug classes**
    - **Protected classes**
- **Immunization not covered by Part B**

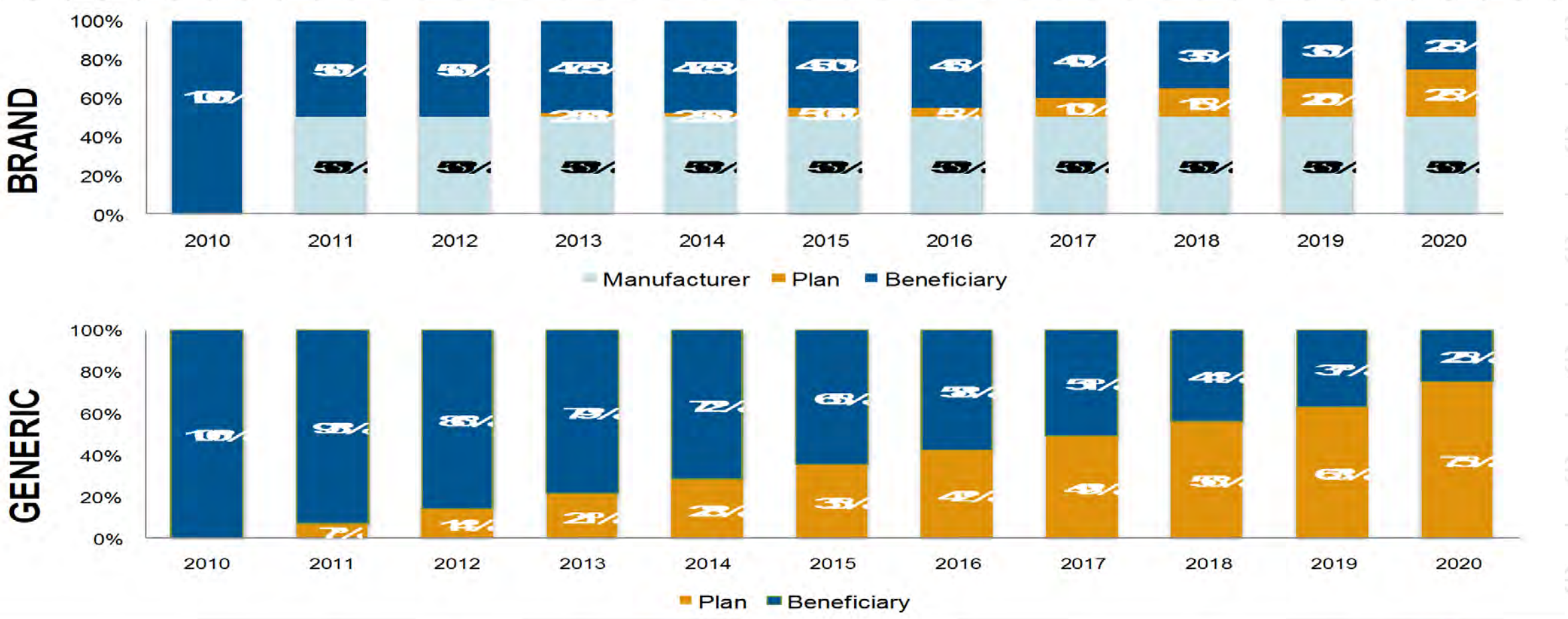
Part D Cost Sharing

- Varies by plan
- Plans with higher premiums tend to have:
  - Lower deductibles
  - Lower copayments
  - Better medication coverage
- Plans with lower premiums tend to have:
  - Higher deductibles
  - Higher Copayments
  - Less choice

Importance of Checking Drug Prices

- Understanding drug prices is difficult
- There are multiple “prices” for any one drug
- Important to understand the “cash price” of your prescription drug
    - If you reach donut hole, you may end up paying a percent of cash price
    - At times, cash price may be cheaper then copayment
    - If you choose to switch prescription drug plans, may help you choose between high and low premium plans
- Its becoming increasingly important to shop around
    - Especially for generic drugs

Closing the Donut Hole



Lilly
Answers That Matter.

What questions do you have?