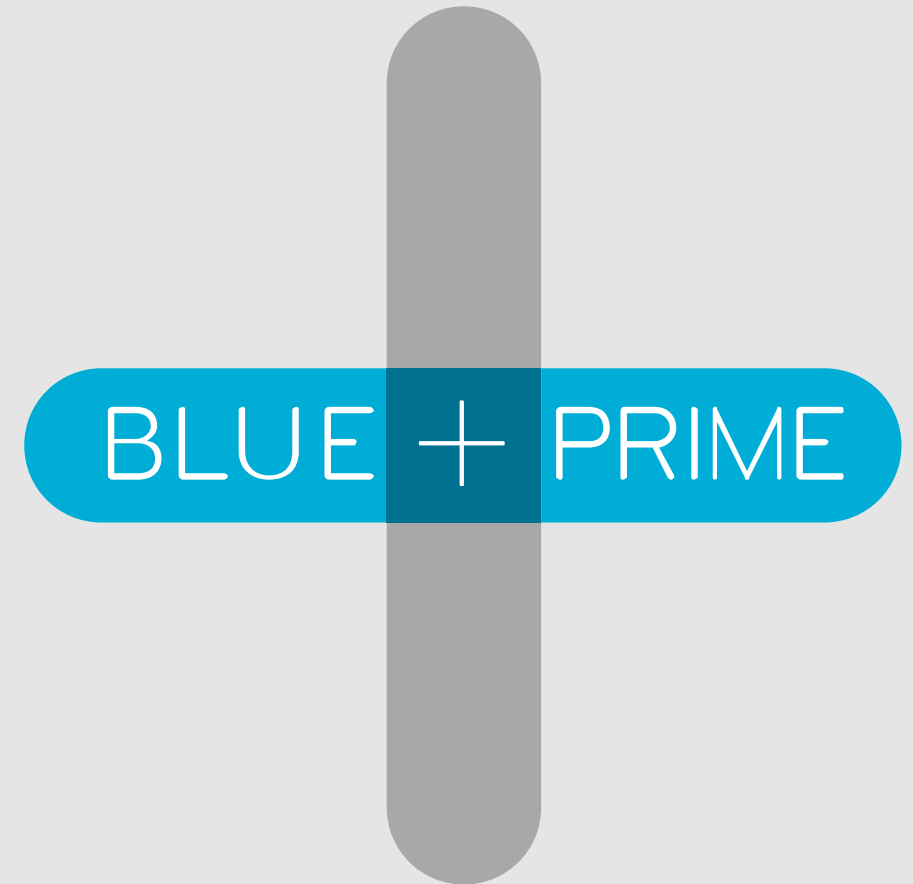


Managing Prescription Drug Costs

Special Committee on Financial Institutions & Insurance

LuGina Mendez-Harper, PharmD, RPh
Government Affairs Principal



The Role of Pharmacy Benefit Manager's in the Health Care System

- **Plan Sponsors choose to contract with a Pharmacy Benefit Manager (PBM)**
- **PBMs work for plan sponsors**
- **Plan sponsors always have the final say when creating drug benefits**
- **Plan sponsors retain full audit rights in their PBM contracts – ensuring transparency**

What is a Pharmacy Benefits Manager (PBM)?

Pharmacy Benefits Manager - PBM

- A health care company that contracts with plan sponsors/payers (insurers, employers, unions, and government programs) to administer the prescription drug portion of the health care benefit

BlueCross BlueShield	
Subscriber Name: JOHN DOE	
Identification Number: XOF123456789	
Group Number: 123456	Office Copay \$20
Coverage Date: 09/01/08	Emergency Copay \$100
	RX Generic Copay \$25
	RX Brand Copay \$50/\$100
SINGLE	RxBIN: 011550
	RxPCN: ILDR
	PPO PPO Rx

Who Do Pharmacy Benefit Managers (PBMs) Work For?



The Value of Pharmacy Benefit Managers (PBMs)



PBMs aggregate the buying clout of millions of enrollees, enabling plan sponsors and individuals to obtain lower prices for their prescription drugs.

Pharmacy Benefit Manager (PBM) Core Services



**Claims
Processing**



**Formulary
Management**



**Drug Utilization
Review**



**Disease
Management and
Adherence
Initiatives**



**Price, Discount
and Rebate
Negotiations with
Pharmaceutical
Manufacturers and
Pharmacies**



**Pharmacy
Networks**

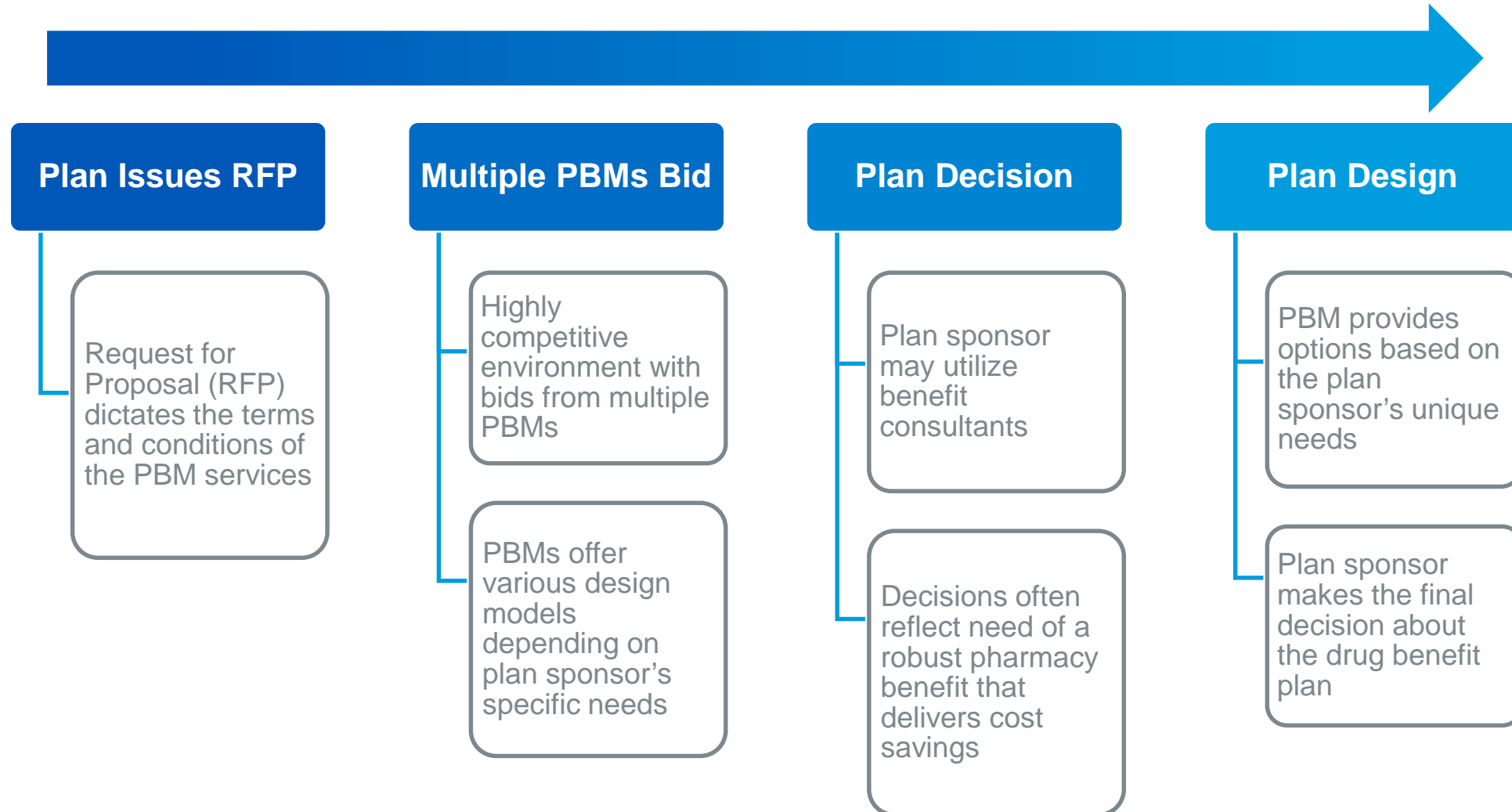


**Mail-service
Pharmacy**



**Specialty
Pharmacy**

The Plan Sponsor RFP Process

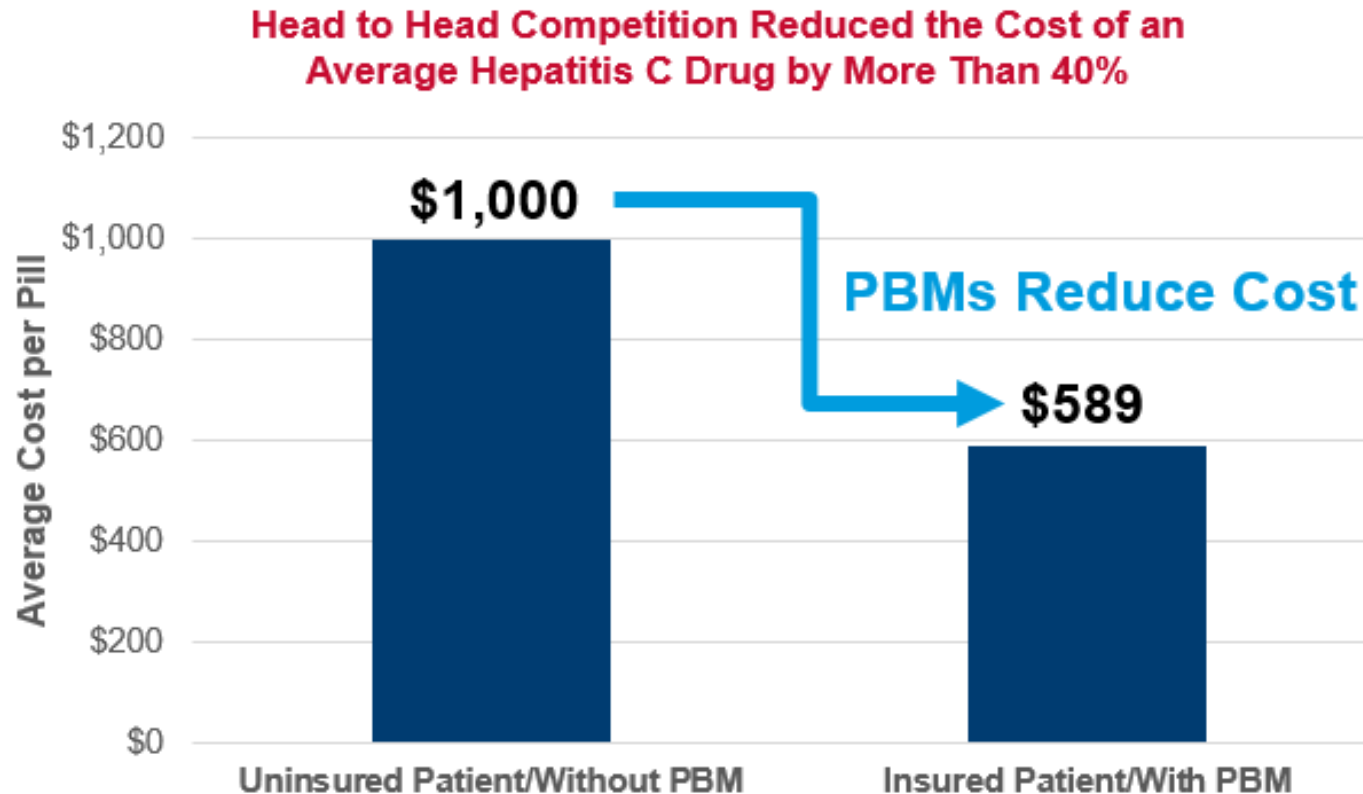


Tackling High Drug Costs

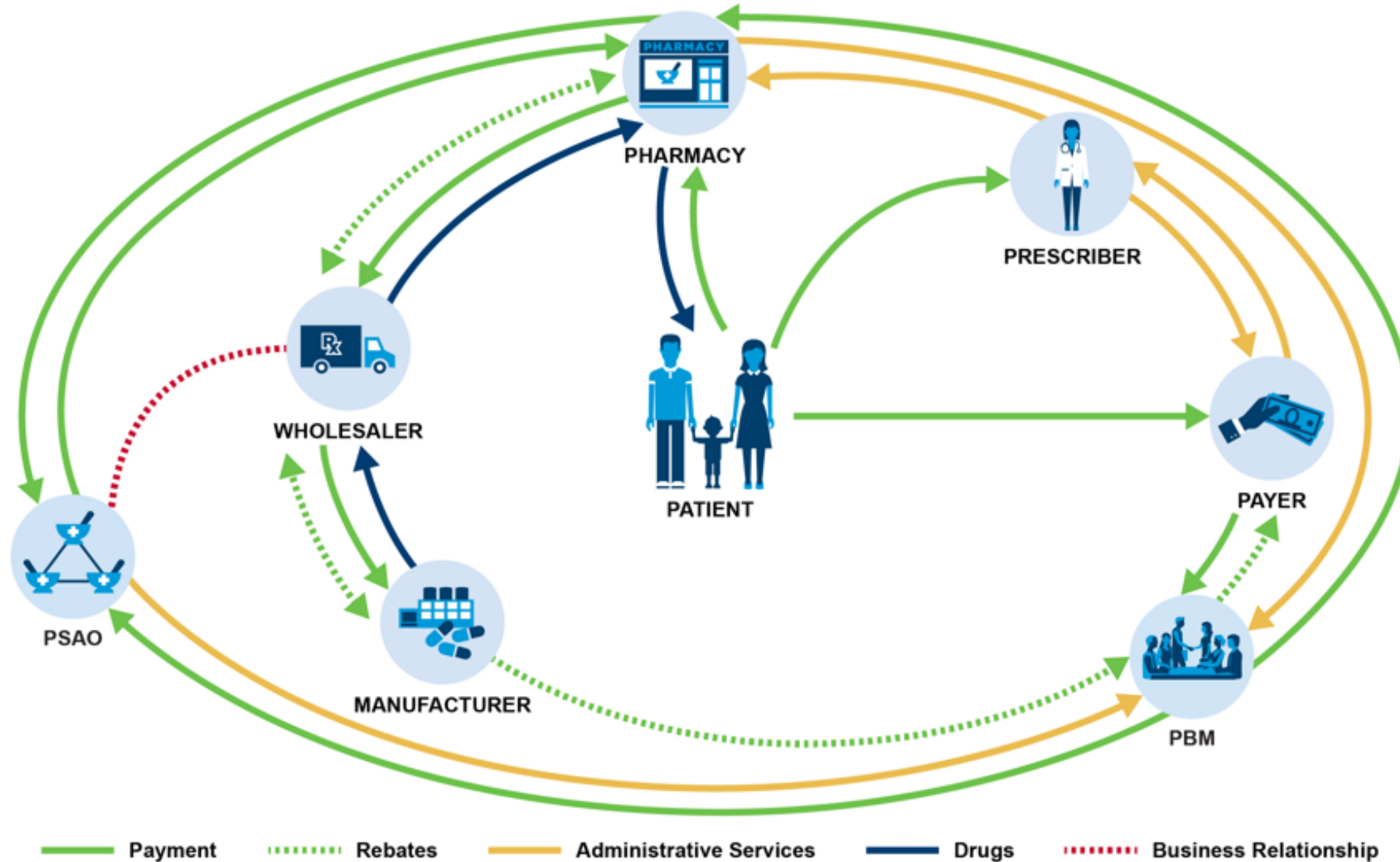
- **Health plans and Pharmacy Benefit Managers (PBMs) do not have any control over the price the manufacturer sets for a drug — but PBMs have some tools to drive down drug costs**
- Brand drug manufacturers establish prices within a monopoly established by federal patent law
- Until other drugs are approved for the same disease or condition, manufacturers have little incentive to reduce their prices
- Prescription drugs are paid for by patients and payers

The Value of Pharmacy Benefit Managers (PBMs)

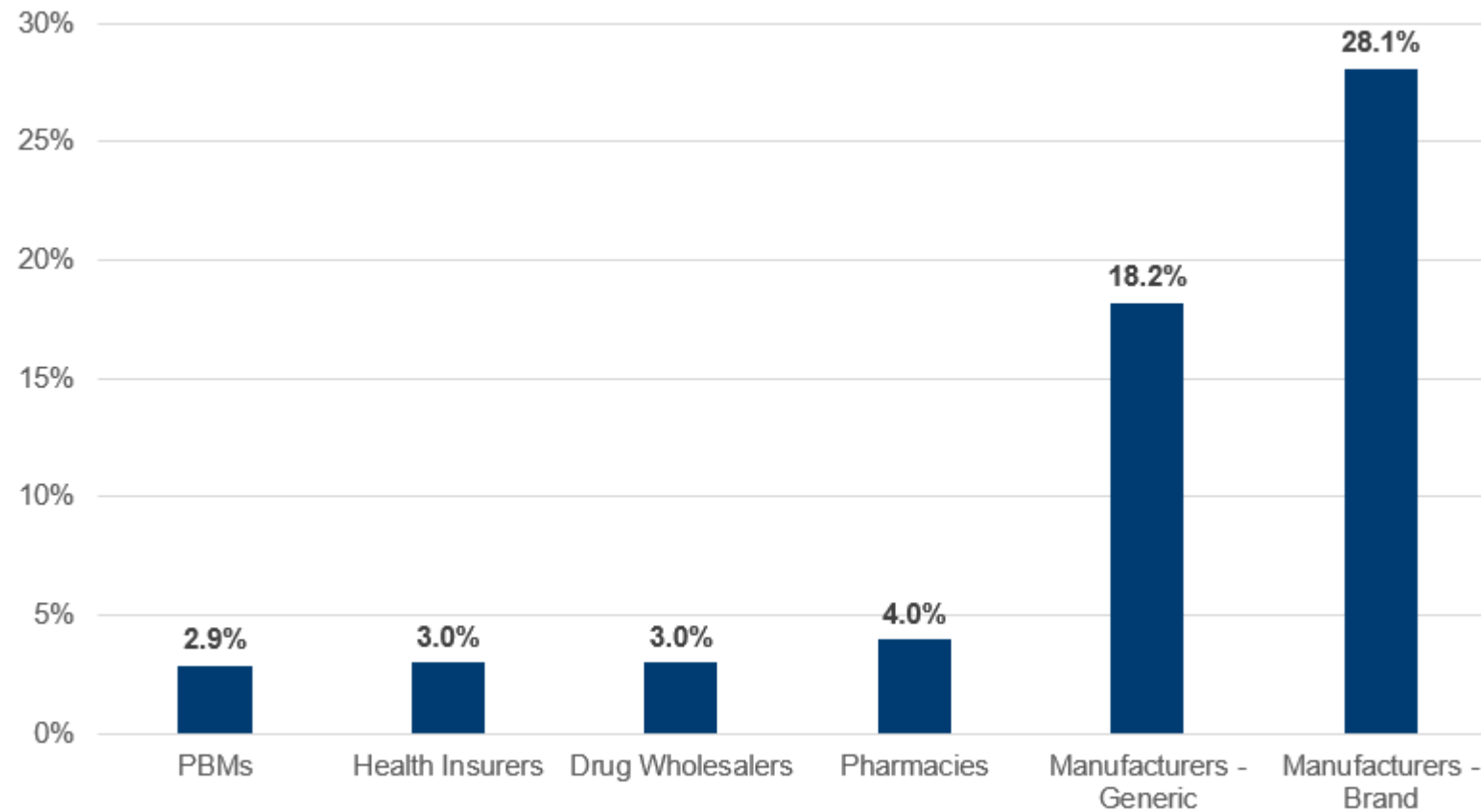
PBMs save plan sponsors and consumers an average **35%** compared to expenditures made without pharmacy benefit management



The Drug Supply Chain



Pharmaceutical Supply Chain Profit Margins



Independent Pharmacies Use the Power of Large Wholesaler-Owned PSAOs to Contract with PBMs

- **Over 80% of independent pharmacies contract with PBMs through Pharmacy Services Administrative Organizations (PSAOs)**
 - PSAOs pool purchasing power of many independent pharmacies to leverage this collective strength when negotiating contracts with PBMs
 - PSAOs negotiate reimbursement rates, payment terms, & audit terms on behalf of independent pharmacies
- **PSAOs give independent pharmacies significant bargaining clout in negotiations with payers**
- **PBMs have no insight into private contract terms between PSAOs and pharmacies**

Drug Wholesalers Own 3 Largest PSAOs

Pharmacy Franchise and Marketing Programs, 2016

PROGRAM	Health Mart	Good Neighbor Pharmacy	Medicine Shoppe/Medicap	CARE Pharmacies	Sav-Mor Drugstores	Benzer Pharmacy
Ownership	McKesson	AmerisourceBergen	Cardinal Health	Independent	Independent	Independent
# of Participating Pharmacies	4,800	2,800	515	82	65	71
2016 Prescription Revenues (billions)	\$10.2	\$7.3	\$1.9	\$.07	\$.03	\$.02

McKesson's PSAO – HealthMart Represents More Pharmacies Than Wal-Mart

How Would the World Look Without Pharmacy Benefit Managers (PBMs)?

Without management of benefits, 40-50% more in costs¹

- No one to make drug manufacturers compete with each other
- No competition on price or quality in the pharmacy space
- No auditing of pharmacies for fraud, waste, and abuse
- No utilization controls that reduce waste and increase adherence
- Paper claims, longer claims processing times, inability to have real-time reimbursement and coverage information for consumers at the pharmacy counter
- Less utilization of generic drugs

The Role of Pharmacy Benefit Manager's in the Health Care System

- **Plan Sponsors choose to contract with a Pharmacy Benefit Manager (PBM)**
- **PBMs work for plan sponsors**
 - Offer pharmacy benefit design models
- **Plan sponsors always have the final say when creating drug benefits**
 - There is no one-size-fits-all model - each plan sponsor has unique needs
- **Plan sponsors retain full audit rights in their PBM contracts – ensuring transparency**

Enacted Kansas PBM-Related Laws

- **Mail-Service Pharmacy**
- **Pharmacy Audits**
- **Pharmacy Networks**
- **Generic Substitution & Therapeutic Interchange**
- **Maximum Allowable Cost**
- **Prompt Pay Law**
- **PBM Registration and Maximum Allowable Cost Appeals**
- **Clawback and Gag**

Thank you

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