

## Generic Drug Mail Service May Not Save as Much as We've Been Led to Believe: *Protecting Plan Assets*

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A recent Wall Street Journal article reported on the practice of Pharmacy Benefit Managers' (PBMs) mail services charging drug plan sponsors considerably higher prices for generic drugs, such as diazepam (brand name Valium) or atenolol (brand name Tinormin) a blood-pressure medicine, compared to what individuals may pay for the same drugs purchased at some retail pharmacies for cash.

Employers that provide prescription drug coverage to employees often hire PBMs to manage those prescription benefits because they are set up to do so in an administratively efficient and cost-effective manner. Indeed, even when their employees order generic as opposed to brand drugs, employers save money on drug costs because the generic drugs are typically so much less expensive than the brand name counterpart. Nevertheless, according to the WSJ article, the savings to employers would be considerably more except for the fact that the PBMs include a markup on the prices they charge plan sponsors for generic drugs. In response, PBMs claim that their administrative and dispensing costs reduce significantly what might otherwise seem to be a huge margin. (See *Margins Through the Millennium*)

With this as background, this [insightout] outlines four strategies we urge employers to consider when contracting with a PBM to provide both generic and brand drugs.

- One strategy is to obtain fixed discounts, rebates, and fees for brand name and generic medications that the PBM would deliver through the mail service.
- Another strategy is to take a "pricing file" approach to generic prescription drugs. A pricing file approach is similar to an auto insurance company's approach when paying for automotive repairs. A damaged bumper on a specific type of car is worth a fixed amount of money. Similarly, a

generic prescription drug A at a specified strength is reimbursed to the pharmacy (and charged to the plan sponsor) at a predetermined negotiated amount called a Maximum Allowable Cost (MAC) or Maximum Reimbursable Amount (MRA) as identified in the generic drug pricing file.

Historically, this approach improves employers' ability to audit their costs and facilitates the disclosure of discounts from the vendor to the payer. Although a pricing file approach can benefit employers in specific areas such as retail generic prescription drug pricing, it can also leave them open to increased costs in other areas such as the pricing for generic drugs provided by the mail service highlighted in the WSJ article.

To protect themselves against this type of increase, employers commonly take a mixed approach, which features overall price guarantees and baseline, pricing levels. For example, in the case of brand name medications (which represent more than 75 percent of employers' total prescription drug benefit costs), employers usually opt for a fixed discount approach in mail service pharmacies and for the ingredient portion of the prescription reimbursement in retail and specialty distribution channels. This enables them to verify the baseline pricing of the product (e.g., the Average Wholesale Price as published by a recognized source). Because the identity of each brand name prescription drug product available is trackable and the pricing levels verifiable, this approach has offered employers a fair and auditable discount trail for these products. Regarding fees paid to the pharmacy, we often recommend a flat fee for each prescription in the retail or mail service (oftentimes differing amounts) commonly referred to as a "pharmacist-dispensing fee."

The scenario for generic prescription drug products is a bit more complicated. Although the flat dispensing fee per prescription part of the reimbursement formula is retained, the ingredient cost portion of the formula is modified. The rationale for this modification is there may be a dozen or more sources for a generic, or older, non-patent protected prescription medication. In order to provide some sense of comfort to employers that they are paying a reasonable amount for these medications, the vendor (PBM or carrier) establishes a fixed amount for specific generic drugs and strengths. This listing of pre-established prices (which is modified on an ongoing basis) is the MAC or MRA pricing file. Several considerations need to be evaluated when examining a generic drug pricing file such as:

- How many products and strengths are covered under the list?
  - Is the list covering the products utilized by the population?
  - Is the discount overall appropriate and fair to the payer?
  - Is the list updated regularly?
- A third strategy is for employers to obtain fixed rebates and fees for all retail prescriptions, fixed discounts for brand name medications and to take a pricing file approach to generic prescription medications.
  - Employers' strategy for specialty medications required for certain serious chronic conditions, such as multiple sclerosis or renal failure, should be to require a fixed discount level and a pre-established rebate level (fixed dollar amount or percentage share) for these drugs. The newer biological therapies are generally very expensive (\$1,400 per month of therapy on average) and, not surprisingly, there are few generic substitutes available for these medications. The distribution of these medications can be through the retail or mail service, or through a specialty vendor.

We do not recommend to our clients they have a mandatory mail service program without first exploring the impact of such a program. For instance, many PBMs provide employers with information indicating the way in which a mandatory mail service program for maintenance medications saves money. However, each employer must evaluate its own data and ask if:

- The additional discounts offset the additional costs of paying for 90 days of medication for employees who may no longer be employed by your organization.

- The potential increased costs for some generics, as examined in the WSJ article, offset savings on brand name medications.
- The impact of "wastage" of prescription medications due to normal business and life activity.

It is possible that a 90-day retail program (versus mail service) with less advantageous brand name medication discounts may be more cost effective for employers than a mandatory mail service program. The fact is that mail service is highly profitable for PBMs that own mail service operations.

Employers' best protection against excessive or inappropriate PBM pricing is to review their PBM vendor contracts and prescription drug benefit programs at least annually with their independent consultant or advisor. "At least annually" may be the operative phrase here as employers are likely to be hearing PBM vendors' version of the story a lot more often than once a year.

## MARGINS THROUGH THE MILLENNIUM

Merchants have always brought articles to sell in the marketplace at "wholesale" costs, and then offered them to purchasers for this basic cost plus a certain amount of profit. Merchants use this profit or "margin", the amount of revenue generated above the costs of goods sold, to cover their expenses as well as to create a profit. Opportunities to create this profit have historically driven people to own and operate businesses.

And so it was in the late 1980s and 1990's when the PBM industry began to grow rapidly. With that growth came the popularity of mail service or what is now known as "Home Delivery." Since generic medications were not such a large part of the overall prescription drug market in the 1980's and 1990's, several of these PBM vendors began to create a "spread" on these generic prescriptions in the retail environment to enhance profits. However, as generic drugs continue to become an ever-larger part of today's mail order market, PBMs have created a larger spread there as well.

## ABOUT THE AUTHOR

A registered Pharmacist, Mr Jacobs' 30 years of experience includes ownership of retail pharmacies, work for a large pharmaceutical manufacturer, an executive position in the PBM industry, and service as the head of a national HR consulting firm's Pharmacy practice. He can be reached at Michael.Jacobs@buckconsultants.com or 770.916.6018.