News & Views

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Managing Prescription Drug Plan Costs: Pricing Tricks Employers Should Watch For

Employers typically pay close attention to medical plan provider discounts, stop loss premiums, and administrative costs, but often overlook ways to manage prescription drug plan costs. Proactively controlling prescription drug costs in your self-funded group health plan can save your organization up to $40 per employee per month through better-negotiated pricing alone. For a 500-employee group, this amounts to over $240,000 per year without making any plan design changes that affect your employees. You can achieve further savings through more disciplined drug mix utilization with tools promoting greater generic use, step therapy, prior authorization, over-the-counter medications, etc.

The key to reducing your prescription drug costs is identifying and avoiding common practices that some pharmacy benefit managers (PBMs) have adopted to line their pocketbooks at your expense. Here are a few pricing tricks to beware:

1. Loose Definition of Generic Drugs

PBMs try to include single source generics (generics only made by one manufacturer) in the brand discount guarantee rather than the generic discount guarantee. For example, the PBM may quote their brand drug discount at 14% and their generic discount guarantee might be 60%. Single source generics often get a 35% discount. Including these medications in the brand discount makes it easier to hit the 14% bogey on brand drugs. In addition, excluding these drugs from the generic discount category makes it easier to hit the 60% bogey. PBMs commonly use this scheme to artificially inflate both their brand and their generic discount guarantees. The result is that your organization and your employees pay a discounted brand name price for a generic drug.

2. Zero Balance Logic – Lesser of 2 and Lesser of 3

Prescription drug benefits often have fixed dollar copays, and PBMs are very adept at manipulating this to their benefit. For example, many generic drugs cost much less than the copay for a 30 day supply. There are generally three price components: 1) the member copay 2) the usual and customary (U&C) cost and 3) the cost using the contractual generic discount plus dispensing fee. PBMs often pay the pharmacy based on the lesser of all three of these prices while charging your plan/your member the lesser of the two highest prices as illustrated by the table below:

	Lesser of 2	Lesser of 3
Copay	$10	$10
Usual & Customary Cost	$9.50	$9.50
Ingredient Cost + Dispensing Fee	$6.50	$6.50
Member Pays	**$9.50**	**$6.50**

If the PBM charges members "Lesser of 2," but pays the drug store "Lesser of 3," then the PBM is adhering to the contract, but is making an extra $3 on each transaction.

3. Changing Definition of Average Wholesale Pricing

Multiple sources exist for average wholesale pricing (AWP) such as First DataBank, Medispan, etc. The AWP can and will often vary between these sources for the same drug. PBMs often use the lower AWP to reimburse the pharmacy, but they like to use the higher AWP when they charge your plan and your participants for the drugs. In traditional spread price arrangements, the PBM has a clear financial motivation to do this at your expense.

4. Mail Order Discounts Based on 100-tablet Package

PBMs buy drugs in bulk (e.g., batches of 5,000) in order to get a lower cost. However, they don't want to use this AWP when they figure the discount and sell the drugs to your medical plan. They want to base their discount on the AWP for the 100-tablet package size because it is higher.

5. Manipulating Rebates

In their client reports, PBMs will disguise manufacturer rebates as something else or not disclose them at all. PBMs may also design preferred drug lists geared to maximize the rebates to the PBM rather than control costs for the employer and employees.

Pitfalls in PBM Contracts

Many employers do not have a contract with their PBM that includes minimum price guarantees. Sadly, those that do have contractual guarantees may not be any better off than those that don't. This is because PBMs carefully draft their contracts to provide numerous protections and pricing loopholes for the PBM. Indeed, PBMs have had many lawsuits filed against them in recent years due to a number of unsettling business practices. PBMs use all kinds of tricks to line their pocketbooks while simultaneously overcharging employers and employees for drugs. Carefully reviewing and negotiating the PBM contract is essential in controlling prescription drug costs.

Foster & Foster's Strategy to Help Clients Control Prescription Drugs Costs

- Make sure the PBM contract has minimum pricing guarantees. A PBM that passes the pricing it pays the pharmacies on to you (rather than charging you a higher price than the PBM pays the pharmacies for drugs) is a great way to help ensure the best pricing.
- Carefully review and negotiate virtually every word in the contract to ensure the PBM will actually deliver the pricing promised.
- Negotiate generous rights to audit the PBM. Even with a carefully negotiated contract, it's not at all uncommon for PBMs to breach the negotiated contract with complete disregard for its provisions. Therefore, be sure to perform periodic pricing audits of your PBM to make sure the PBM is in fact living up to its end of the contract.

Guarding your pharmacy plan against common PBM tricks will not only produce significant savings for both your health plan and your employees, but it will also do so without increasing deductibles and copays.

Foster & Foster Is Here For You

Foster & Foster works closely with employers throughout the U.S. to design, implement, communicate, and manage successful employee benefit cost control strategies. Give us a call for help in reviewing your PBM contract and getting your company's prescription drug costs under control.

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