

Employee Benefit Adviser

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A golden faucet is shown dripping with coins into a pool of coins. The faucet is covered in water droplets, and the coins are falling into a pool of water, creating ripples. The background is dark, making the golden faucet and the coins stand out.

Rx revenue streaming

*Transparency offers
brokers and clients a
better view of how
revenue streams
empty into PBMs'
river of income*

BY KAREN LEE

As all aspects of health care costs come under greater scrutiny, prescription drug players — employers, brokers and at least some insurers and pharmacy benefit managers — are beating the drum for greater transparency in drug pricing.

But transparency is only useful to brokers if they understand the nuances of drug pricing. After all, while transparency does not necessarily give advisers and

Disclosure demand

Yes, medications now cost a great deal of money for a multitude of reasons. Benefit pricing, though, is very different from drug pricing. Benefit pricing takes into account amount of use, success of outcomes and a web of discounts, rebates and fees in order for employers to get the best value and PBMs to make their money.

Several years ago, the nation's largest

Rx revenue streaming



Ron Dutton, of RJ Dutton, suggests that advisers determine how PBMs set their prices in part by perusing previous contracts and RFPs.

employers control over the cost of prescription drugs, it does allow them the ability to land on the best side of an arrangement.

“You can’t control the fact that costs are increasing and specialty drugs are coming into the marketplace,” says Ron Dutton, president of Kansas City-based RJ Dutton. “You can make sure the client is getting market or better than market discounts and guaranteed rebates...The more we understand the workings of health care pricing, the better.”

So don’t expect immediate price reductions, if any, just because some PBMs now will open up their ledgers. However, if you know what revenue streams go into pricing — and how they can benefit your clients — you can use that knowledge to give yourself and the employers with whom you work leverage in negotiating the lowest net cost.

“Knowledge is power,” states Dale Brown, senior vice president of MedImpact, a PBM whose executives say they support price transparency. “You can’t manage what you can’t see or don’t know about.”

PBMs found themselves at the center of class-action lawsuits and overall scrutiny amid allegations of profiting from secret rebates with drug manufacturers — rebates that were not passed on to employers. One case, against Caremark subsidiary AdvancePCS, was settled last month for \$137.5 million.

The ensuing demand for disclosure, which has included state mandate proposals, has led to the advent of pharmacy benefit administrators, who define themselves as fully transparent alternatives to PBMs, and somewhat more open PBM arrangements. Insurance Solutions Inc. President and CEO Larry Ulvila believes the new emphasis on transparency “has made PBMs a lot more honest. They recognize that people will hold them accountable for the pricing components. We don’t just take their word for it.”

Of course, advisers and their clients need to make sure they are getting the best price they can get. For many of them, transparency is very nice but very secondary to the net cost.

What they want to know is what sort of value they are getting for the price they pay.

Generally, employers know the PBMs are making a tidy sum off the administration agreement. They just want to make sure they can save some money as well.

Tracking price components

And transparency can help them do it, by allowing them and their advisers to benchmark rebates and other revenue streams to find out whether what they pay is reasonable. Arrangements can be structured so the client does not pay upfront fees and the PBM receives a larger percentage of the rebates. Some discounts can be passed through to the employer and others might go to the PBM. But customers have to be educated enough to understand all the aspects of the drug equation and what is good for them, says John Jones, Prescription Solutions' vice president of government affairs and pharmacy policy.

"The one question I would have is how do you value other revenue streams," Jones remarks. "If the client understands what the rebates are and any other revenue streams out there, he would know whether he is paying a reasonable amount or too much."

There are certain pricing components that employers and brokers can see more easily when tracking pharmacy costs — which, therefore, prompts PBMs to eliminate as much flab from their prices as possible and try to offer sweeter deals with reduced or no administrative fees, increased discounts and more aggressive rebates. Jones advises brokers and employers to reinforce that openness by negotiating for the ability to hire an accountant to audit the contract and make

sure the PBM is splitting the rebates and accounting for them appropriately.

Moreover, Brown contends, transparency will help advance the case of consumer-driven healthcare by showing consumers how much their drugs really cost, thereby allowing them to make informed decisions about what kinds of medications they need.

However, brokers note that there are other ways besides transparency of taking control of the pharmacy negotiation process. For instance, Dutton says, self-funded clients can carve out the prescription drug piece from their health coverage and save significant dollars. One 2,300-employee company, he continues, did just that and saved \$248,000 in rebates, discounts and lower dispensing fees.

Indeed, carving out the pharmacy benefit and letting a third-party administrator manage it allows the broker and employer more control over the plan design and formulary and eradicates the need to put a margin on pricing for the plan, Ulvila notes.

What is more, advisers can use previous contracts and RFPs to determine how the PBMs detail their pricing.

"There is a contract someplace that spells out the pricing," says Dutton. "Give me a copy of that contract so I can see what the pricing is. By doing an RFP, you can do a benchmark to see how those prices compare."

Transparency, though, does give employers a good idea of what the PBMs themselves make on medications and how those revenue streams affect their total income.

"Any time you have disclosure and education, you have better understanding," Dutton asserts. — *K.L.*

RJ Dutton is a Benefits Advisory Firm headquartered in Kansas City, Missouri, that specializes in satisfying the employee benefit needs of corporations nationwide.



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