Benefits Insights

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Considerations For Evaluating a Pharmacy Benefits Manager

A pharmacy benefits manager (PBM) is an entity that acts as an intermediary between stakeholders in the pharmacy benefits marketplace. These entities connect with employers, drug wholesalers, plan members, pharmacies and drug companies. Many employers use PBMs to interface with drug manufacturers and process prescription drug claims, which can help improve health outcomes while lowering overall health care costs.

According to the Pharmaceutical Care Management Association, PBMs can save payers and patients 40% to 50% on prescription drugs and related medical expenses compared to what they would spend without PBMs. Therefore, it's crucial that employers carefully evaluate their options before selecting PBMs. This article outlines the key benefits of PBMs and provides considerations for employers to keep in mind when evaluating and choosing such entities.

How Do PBMs Help Employers?

PBMs can curate pharmacy benefits plan options with employers and help plan members access the medications they need at affordable prices. PBMs work directly with drug manufacturers and wholesalers, enabling them to receive quantity discounts negotiated from wholesale acquisition costs. This, in turn, can reduce both employer and employee health care spending. PBMs can also help employers by recommending different pharmacy plan designs, clinical programs and other cost-saving measures.

Employers typically contract with PBMs for three years at a time. In the initial phase of the relationship, both parties work together to create a pharmacy benefits plan that fits organizational needs, including choosing from different deductibles, copayments and coinsurance. Once the employer has chosen their plan, the PBM is responsible for administering prescription benefits, including processing claims, managing rebate reimbursements, running clinical programs, reviewing drug utilization and educating workers about their options. PBMs typically offer call centers, websites or mobile applications to provide customer support and answer questions about employee benefits plans.

Considerations for Selecting a PBM

The right PBMs can reduce employers' health care costs and improve employees' understanding and utilization of their benefits. However, finding the right PBM can be challenging, and choosing the wrong one could negate the potential benefits. Employers can consider the following when selecting PBMs:

- **Clarify the contract language.** PBM contracts are often difficult to understand, but taking the time to sift through them is crucial to ensure employers understand the PBM's contractual obligations. Even seemingly self-explanatory terms, such as "generic," may mean different things to PBMs. Thus, employers need to get clarification during the contract process. In particular, employers may find it beneficial to look at the contract sections on rebate caveats and exclusions, administrative fees, and per member per month costs.

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- **Review the formulary and product mix.** The U.S. Food and Drug Administration (FDA) approves medications based on their safety, not their efficacy. As a result, not all FDA-approved drugs have clinical value or are useful to all people. Many manufacturers have created lower-cost combination products or new formulations of medications that are safe but not necessarily valuable to patients. Employers can ensure their PBMs are supplying valuable medication by reviewing the formulary and product mix in their contracts. Organizations can also ask PBMs to use standard formularies for medications or to create a list of high-cost, low-value drugs for their review.

- **Evaluate pricing options.** There are two common pricing arrangements for PBMs: transparent and traditional. With traditional pricing, PBMs earn revenue through discount or rebate spread and typically don't charge administrative fees for their services. With transparent pricing, employers typically pay administrative fees, as well as any additional ancillary or program fees incurred. This means that the employer group will receive the full value of rebates on claims, and the employer group will be charged the same amount that the PBM pays the pharmacy. Both of these pricing options have pros and cons. Before signing a contract with a PBM, employers should evaluate which pricing arrangement works best for them.

- **Look for a PBM that uses a drug price index.** Finding a PBM that uses a drug price index, such as the National Average Drug Acquisition Cost (NADAC), to determine the cost of medications can help employers reduce their net costs. The NADAC price list is publicly available here and shows the model many PBMs use for pricing drug costs. Selecting PBMs that use a drug price index can ensure they're making money for administering benefits plans and not on prescription drug spending.

- **Review the discount and rebate guarantees.** Successful rebate negotiation can offset a significant amount of employers' health care spending. Yet, discount and rebate guarantees are not typically included automatically in PBM contracts. Employers can maximize their savings by requesting discount and rebate guarantees from potential PBMs and reading the fine print in their contracts to ensure these savings are passed down to employee groups.

- **Assess specialty drug management.** Specialty drugs account for a large percentage of overall health care spending. These high-cost prescription drugs are often used to treat chronic and complex conditions, such as cancer and multiple sclerosis. Finding a PBM with practical tools to manage the rising utilization and cost of these drugs is critical to achieving a low-cost health care solution. Employers may find it beneficial to ask PBMs about their prior authorization approval rates, how specialty drugs are dispensed and any measures PBMs have in place to prevent over-inflated prices before signing a contract.

- **Evaluate refill thresholds.** Over-dispensing prescription drugs commonly occurs with popular auto-refill programs. To prevent plan members from forgetting to refill prescriptions, these plans automatically fill prescriptions when they reach their refill threshold. This threshold is commonly set around 75%. While this can help some plan members who would otherwise forget their medication, it can also lead to over-dispensing and overspending on drugs. Employers can address this issue by asking their PBMs to raise the refill threshold during contract negotiations. This can help eliminate drug waste and unnecessary spending.

Conclusion

Effective PBMs can help employers optimize drug spending, protect employee well-being and ensure the success of their benefits plans. However, it's crucial that employers do their due diligence when selecting PBMs to ensure these entities are the right fit for their organizational needs and staff. While this process may seem daunting, employers who take the time to carefully evaluate their options may experience significant savings and increased benefits utilization.

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