

# Demystifying Your PBM Contract

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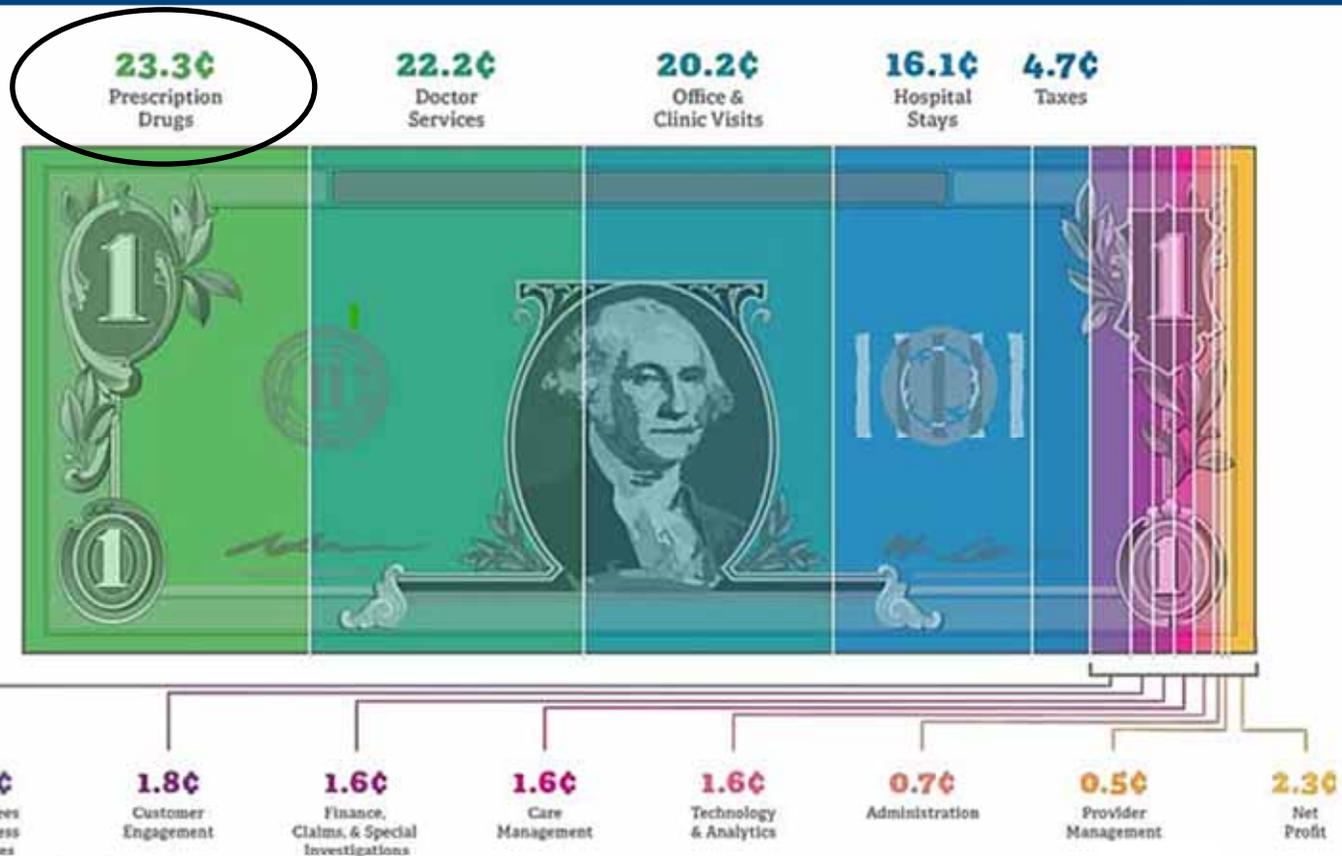
# Demystifying Your PBM Contract

- Introduction
- Pharmacy impact on U.S. Healthcare
- Dissecting contract elements
- Ensuring proper transparency
- Fiduciary responsibility
- In depth analytics

# Objectives

- Attendees will be able to identify key PBM contract components.
- Be aware of the impact of definitions on financial management of the benefit.
- Better understanding of the language of the industry and how to leverage it to the plan sponsors advantage.

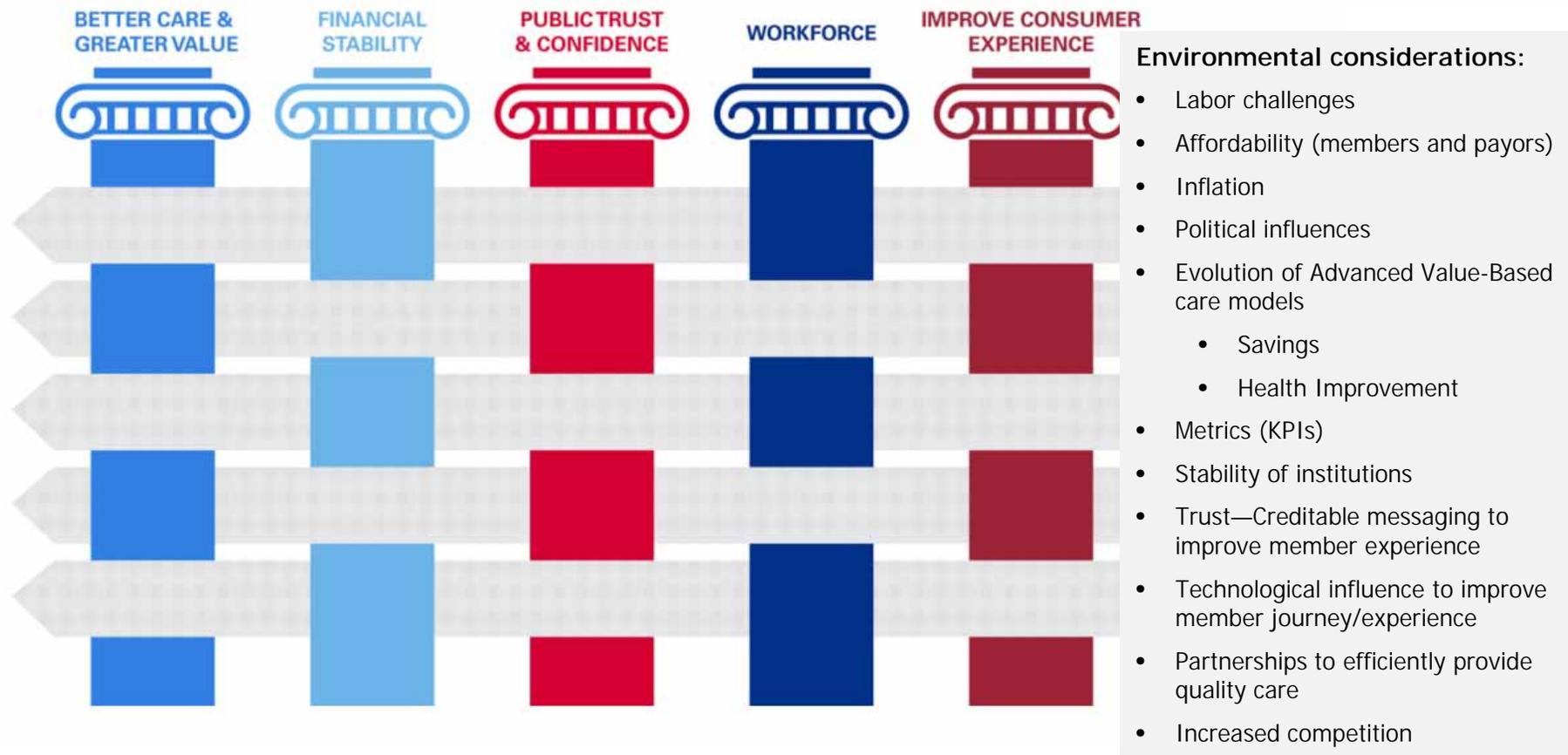
# Industry Evolution— Where Insurance Premiums Are Going



Expenditure estimates above produced by AHRP. Distribution of spending among administrative categories and taxes, based on analysis by Milliman, Inc. Milliman's analysis is available upon request.

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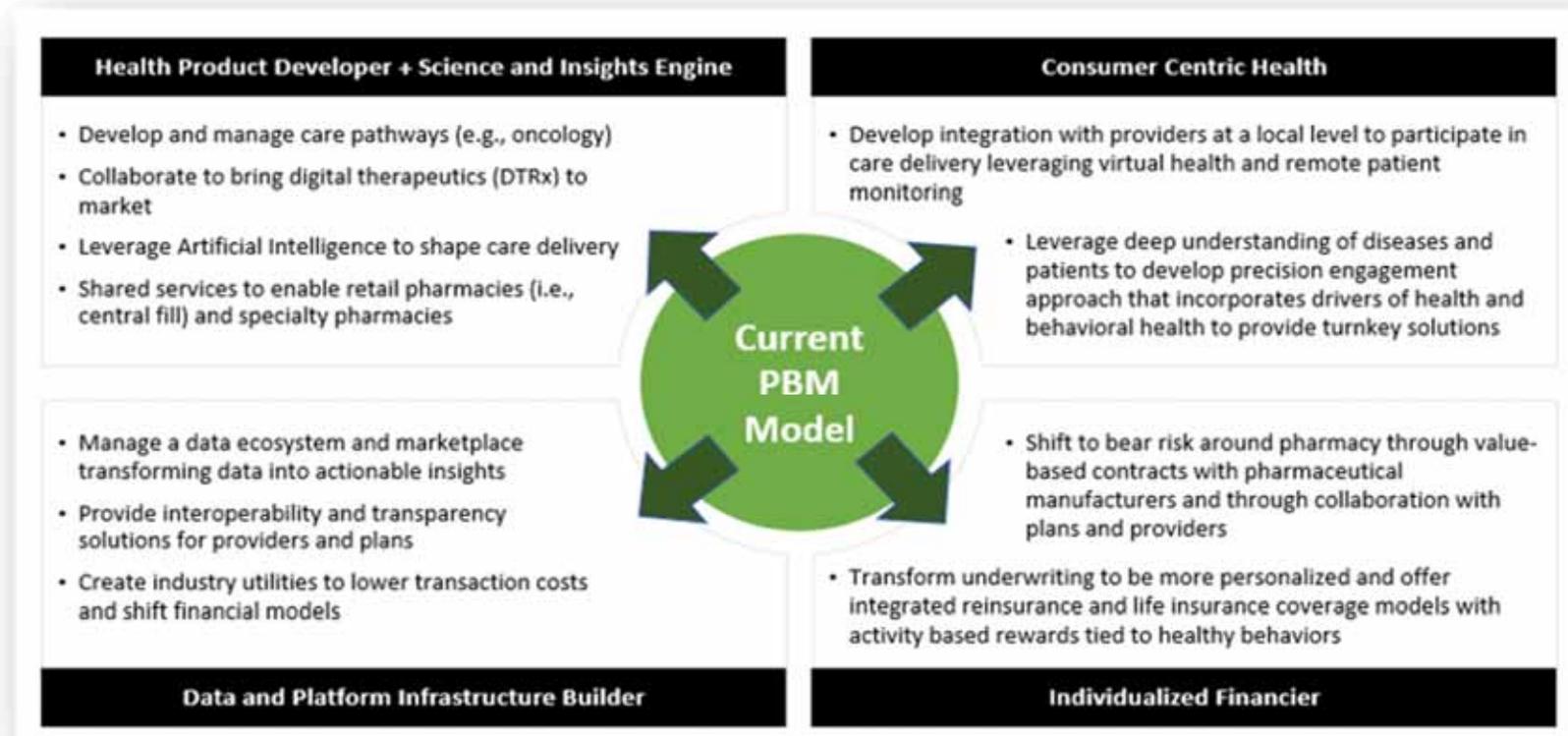
# Industry Evolution— PBM Technology Influencing Everything!



# Industry Evolution

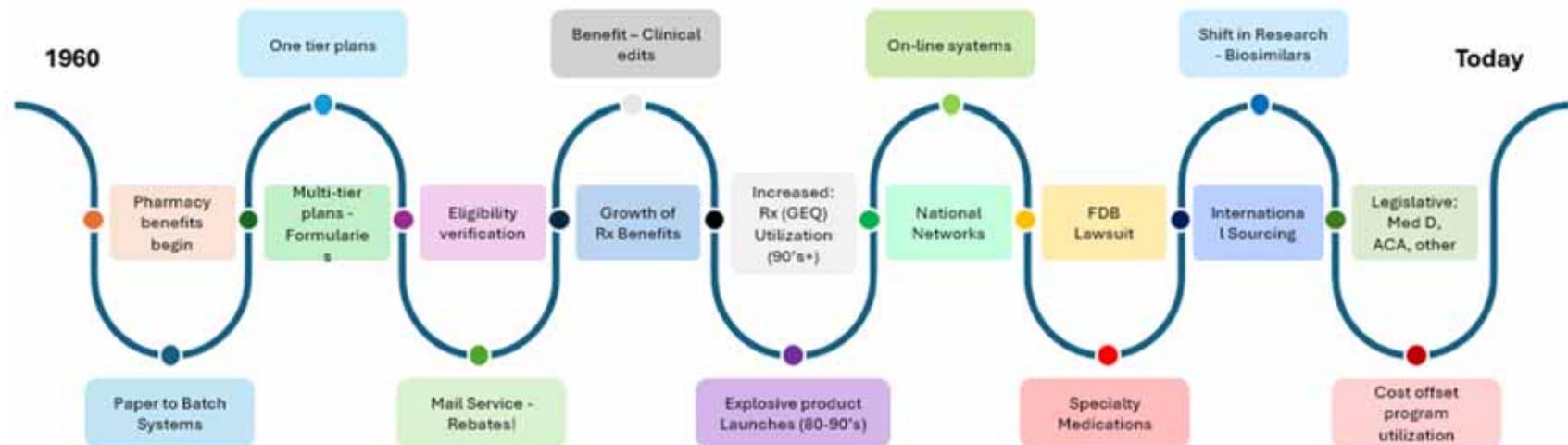
Medication	Worldwide Sales (2020)	LOE Date	Comment
Humira	\$20 Billion	Early 2023	Potentially 11 biosimilars
Keytruda	\$14+ Billion	2028	Oncology
Revlimid	\$12 Billion	2025-2026	Challenges have been common
Eliquis (small molecule)	\$9 Billion	2027-2029	Large risk for com.
Eylea	\$8+ Billion	2025-26	<u>Beovu</u> (Novartis) launch
Stelara	\$8 Billion	2025-26	Recent Growth 20%/yr
<u>Opdivo</u>	\$7 Billion	2028	Sales increasing
<u>Dovoto</u>	\$6 Billion	2027-2029	HIV
<u>Ibrance</u>	\$5.4 Billion	2027	Oncology
Januvia/Janumet	\$5.3 Billion	2022-2023	Decreasing recent sales
Trulicity	\$5.1 Billion	2027-29	Diabetes
Prolia	\$4.6 Billion	2025-26	Anticipates new product
Cosentyx	\$4 Billion	2025-26	Psoriasis – Taltz switch
Victoza	\$3 Billion	2022-23	GLP-1

# PBM Business Model Under Stress



# Evolution of a Benefit Manager Not Taking Risks

Nowhere in this evolution does a PBM take "RISK"  
ALL ADMINISTRATIVE FUNCTIONS and now financial arbitrage



# PBM Contracting Considerations

YOU OWN  
YOUR  
DATA!

M-O-N-Y Codes and the  
impact on rebateable  
claim counts

All financial changes should be modeled,  
presented and manually negotiated!

Tracking program  
savings/savings  
guarantees—  
FORMULAS  
IN CONTRACT!

Outside validations for  
all information  
(NADAC, Medispan,  
etc.)

"We  
don't  
allow"

"One audit  
must be  
closed before  
another can begin"

"BoB Performance  
guarantees"

"Fiduciary responsibility"

Definitions (same  
throughout contract  
and AMENDMENTS/  
EXHIBITS!)

Clinical/PA programs  
require documentation  
(diabetic with GLP-1s)

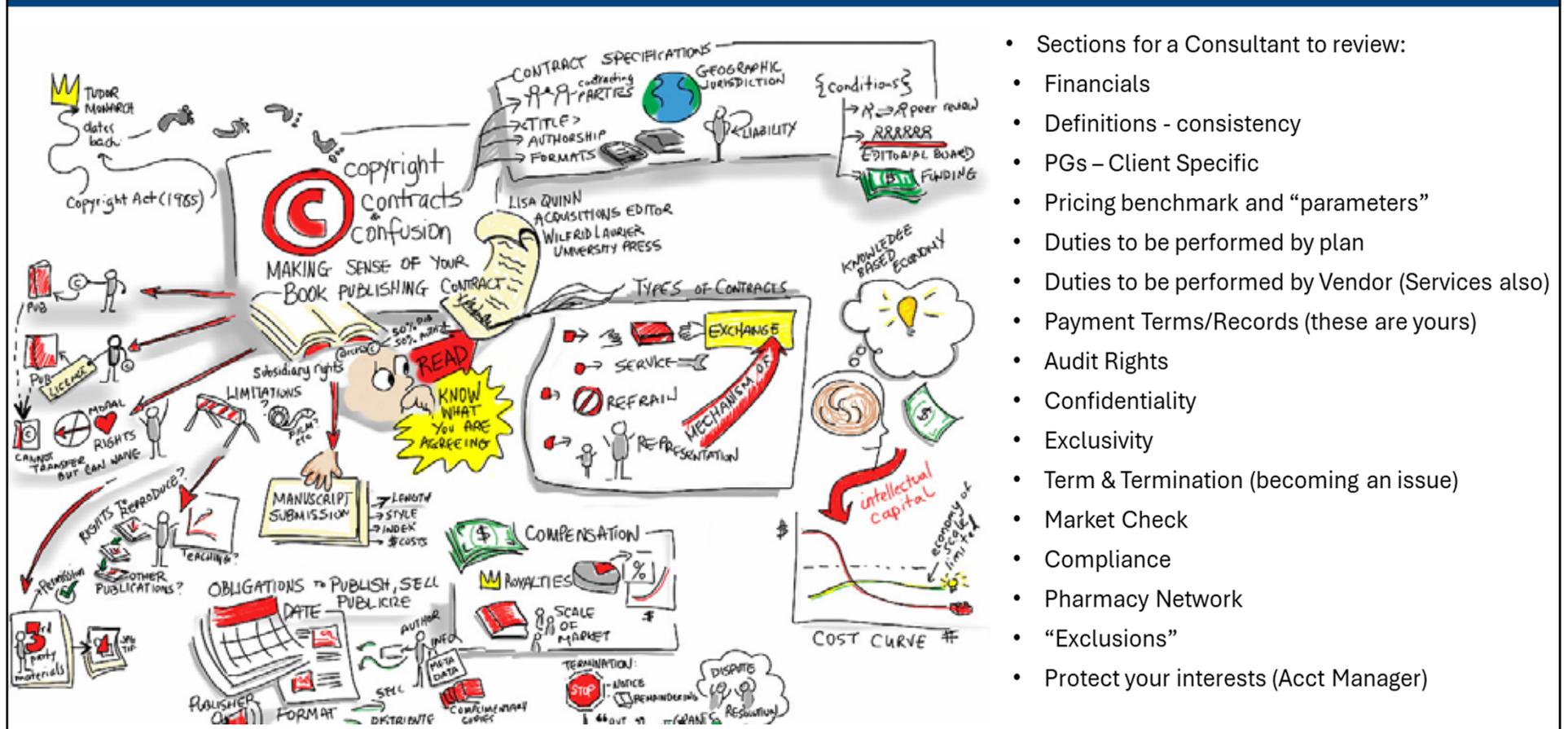
Rebate exclusion  
for 340b pharmacies  
(just the claims  
identified)

PGs for  
legally required  
activity (Med D,  
generic substitution)

"We only pay those  
rebates if the cost of  
the drug is more than  
the guaranteed rebate"

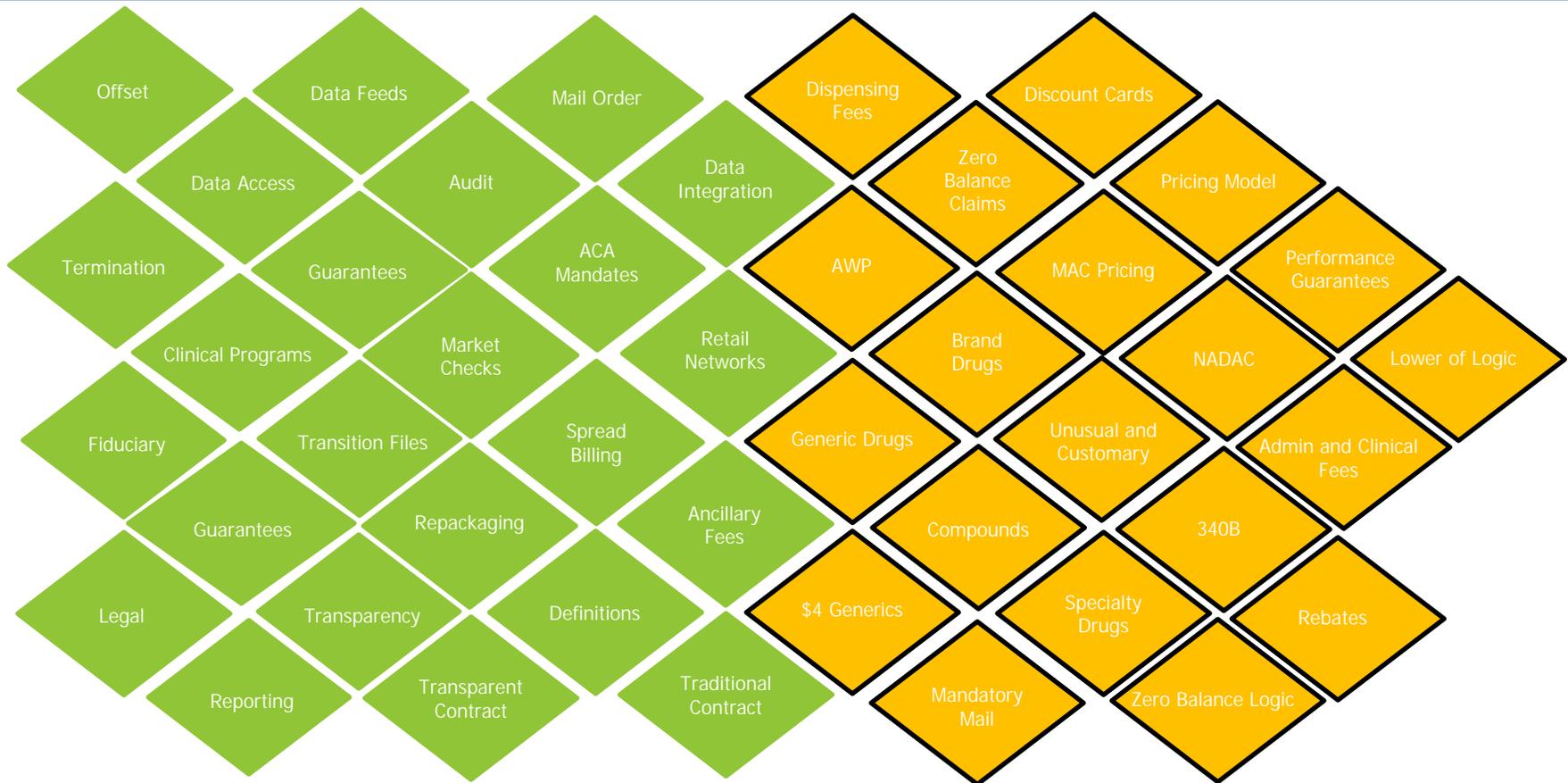
"Use of Approximately"

# Actions to Take?



- Sections for a Consultant to review:
- Financials
- Definitions - consistency
- PGs – Client Specific
- Pricing benchmark and “parameters”
- Duties to be performed by plan
- Duties to be performed by Vendor (Services also)
- Payment Terms/Records (these are yours)
- Audit Rights
- Confidentiality
- Exclusivity
- Term & Termination (becoming an issue)
- Market Check
- Compliance
- Pharmacy Network
- “Exclusions”
- Protect your interests (Acct Manager)

# Parts of a Contract



# Contracting Considerations

One year length

Or Multiyear length

Traditional

Or Transparent (or pass through)

MONY definitions

Or Proprietary definitions

Exclusive specialty

Or Open specialty

Aligned formulary

Or Non-aligned formulary

Rebate minimum guarantees paid qtrly.

Or Received from pharma paid qtrly.

Fiduciary like standards

Or No fiduciary responsibility

Audit rights

Or Not eligible for audit

Market check every year

Or Market check once every three years

## Goals of PBM Contract

- Optimize pharmacy benefit performance
- Clearly defined not open to interpretation
- Contract reflects RFP responses
- Transparency and fiduciary considerations
- Audit, financials and guarantees
- Reconciliation
- Data access
- Clear definitions

# Formulary DECISIONS

- Goal of a formulary
  - Encourage the use of safe, medically appropriate and cost-effective medications that result in improved health care outcomes at a reasonable cost.
- Grandfathering

## Successful formularies

- Encourage use of generics
- Maintain clinical integrity
- Secure competitive pricing
- Incorporate rebates to maximize financials
- Adapt to a changing marketplace
- More effective clinical management

vs.

## Open formularies

- Receive lower rebates
- Difficult to clinically manage
- Assume greater risk
- Lower disruption

# Market Checks

- Critical tool to ensure competitive PBM terms over the life of the contract
- Ensure market check language is in contract
- Stale pricing in second and third year
- Respond to rapidly changing pharmacy marketplace
- Timing and how many
- 1% delta

# Discount Terms, Exclusions and Reconciliation

- Understand your pricing model
  - Spread/pass-through/NADAC/AWP/?
- Medication category exclusions
- End of year reconciliation
  - PG on timing and payment
- Ingredient cost
  - No clinical program savings allowed
- Definitions/MONY codes vs. Proprietary

# Rebate Terms

- Clearly define rebate exclusions
  - If not excluded, rebate should be paid
- Are non-formulary medications rebateable?
- PBM does not receive a rebate on a medication but not specifically exclude
- Medication excluded from rebate guarantee but 100% rebate passed through (LDD)

Common Rebate Exclusions
<b>Biosimilars</b>
Coordination of benefit claims
<i>340B Claims</i>
COVID vaccines, test kits, and therapeutics (e.g. antivirals)
Subrogation Claims
Claims dispensed from an on-site or Sponsor or Plan owned pharmacy
<b>Limited Distribution Claims (LDD)</b>
Long term care pharmacy claims
Home infusion claims
Indian Health Services/Tribal claims
Member Submitted Claims
Compounds
OTCs
U&C claims
Vaccines

# Rebate Terms

- Minimum rebate guarantees.
- 100% pass-through of all rebates and forms of manufacturer revenue/compensation.
  - Guaranteed vs. earned
- On a quarterly basis, PBM pays the *minimum guaranteed amount* or what was earned whichever is higher.
- Pay rebates 90 days after the close of a quarter (commonly 180).

# Rebate Terms

- America Rescue Plan Act/AMP Cap
- Rebate Credits = A credit towards the achievement of the rebate guaranteed amount (“rebate credit”) in the event of a change impacting the amount of rebates expected as a result of the availability of clinically comparable drugs eligible for a lower rebate
- Auditability

# Rebate Reconciliation

- Annual basis
- Timing (report completion and payment)
- Offsets
  - PAP, copay card, clinical, discount...
- Supporting documentation
- Performance guarantee

# Independent Contract Monitoring—Rebates

01/01/2023 to 12/31/2023		R30 Brand	R90 Brand	Mail Brand	Specialty	Total	Rebate Amounts	
Q1 2023	\$468,100	562	214	52	31	859	Retail Brand 30	\$275
Q2 2023	\$445,525	487	245	47	24	803	Retail Brand 90	\$800
Q3 2023	\$510,125	601	217	80	33	931	Mail 90	\$800
Q4 2023	\$495,525	531	265	50	30	876	Specialty 30	\$3,250
<b>Total</b>	<b>\$1,919,275</b>	<b>2,181</b>	<b>941</b>	<b>229</b>	<b>118</b>	<b>3,469</b>		

- Comparing PBMs rebate payment to the minimum guarantees
- Verify the classifying of drugs (exclusions and pass-through)
- Yearly increases

# Independent Contract Monitoring—Discounts

01/01/2023 to 12/31/2023

Channel	Drug Type	Specialty Ind	Claim Count	Contracted AWP Discount	PBM Calculated AWP Discount	Actual AWP Discount	Actual AWP Variance	Contract Variance
Retail 30	Brand	Non-Specialty	303	20%	35%	20%	0%	\$0
Retail 30	Generic	Non-Specialty	2,200	84%	86%	86%	2%	\$14,000
Retail 90	Brand	Non-Specialty	698	17%	31%	16%	-1%	(\$2,000)
Retail 90	Generic	Non-Specialty	11,842	87%	85%	85%	-2%	(\$33,000)
Mail Order	Brand	Non-Specialty	241	24%	40%	24%	0%	\$0
Mail Order	Generic	Non-Specialty	23	88%	88%	88%	0%	\$0
Specialty	Brand	Specialty	541	20%	30%	17%	-3%	(\$120,000)
Specialty	Generic	Specialty	19	50%	50%	50%	0%	\$0
<b>Grand Total</b>			<b>15,867</b>	<b>49%</b>	<b>56%</b>	<b>48%</b>	<b>-1%</b>	<b>(\$141,000)</b>



Scenario	Drug Name and strength	Total AWP	Ingredient Cost	Discount	Dispensing Fee	Member Cost	Plan Cost	Copay Card Amount
1	COSENTYX SENSOREADY PEN	\$8,000	\$6,400	-20%	\$0	\$1,000	\$5,400	\$1,000
2	COSENTYX SENSOREADY PEN	\$8,000	\$5,400	-32.50%	\$0	\$0	\$5,400	\$1,000
3	COSENTYX SENSOREADY PEN	\$8,000	\$5,600	-30.00%	\$0	\$0	\$5,600	\$1,000

Actual Discount with Copay Card Removed from IC -17% (\$1,040 Under Performance)

# Termination

- With or without cause
  - This agreement may be terminated by the sponsor for any reason or for no reason upon ninety (90) days' prior written notice of such termination.
  - Obligations upon termination: PBM will not withhold or delay payment of any rebates or any other such financials as a result of the sponsor terminating the agreement with or without cause.
- Transition files and fees

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