



PBM's: PHARMACY BENEFIT MANAGERS

Advocating on behalf of Michigan's pharmacy professionals for quality patient care

KEY STATEMENT

Pharmacy benefit managers (PBMs) must be regulated to stop abusive practices. In doing so, government entities and employers can realize significant cost savings.

BACKGROUND

Legislators, government entities and employers are beginning to realize the impact of the abusive practices of PBMs. As a result, several pieces of legislation have been introduced in the last year to regulate this industry and require transparency in contracts to hold PBMs accountable. Last year, HB 5772 was introduced in the Michigan legislature to regulate PBMs, as well as protect patients. Congress also attempted to address PBM regulation, with the PBM Audit Reform and Transparency Act of 2010. Both bills languished in Committee. Also this past year, the State of Michigan overhauled its contract for prescription services for state employees and retirees and Michigan Public Schools Employee Retirement System, with recommendations from Michigan Pharmacists Association. However, many complaints have already been brought to MPA in regards to the new PBMs.

WHY IS PBM TRANSPARENCY AND REGULATION IMPORTANT?

- **PBMs coordinate prescription drug benefits and networks.** When it comes to contracts for prescription drug benefits, including costs for generics, it is the PBM, not the pharmacy, which determines the price. Within a PBM contract with an employer, prices are set for prescription drug benefits and administrative fees. However, PBMs also separately offer a non-negotiated contract to pharmacies for the reimbursement it will pay for distribution of those medications. **Often, the price discrepancy between these two contracts is wide, causing employers to pay much higher prices than necessary.**
- If PBM contracts were negotiated on a pass through model, full disclosure would be required so the employer simply reimburses the PBM for the amount paid to the pharmacy provider and the negotiated administrative fee. **Pass through pricing means that the PBM must pass through to the employers all financial benefits** (including, but not limited to, 100 percent pass through of all rebates, associated fees and revenue streams) obtained from all pharmaceutical manufacturers, wholesalers and other sources.
- **PBMs should be prohibited from paying their own mail order pharmacy more than another pharmacy for the prescription drug.** That negative preferential business model deprives patients of access and hurts pharmacy small businesses.
- PBMs currently can dictate therapy choices, instead of allowing a physician and pharmacist to treat a patient. **Prescriptions should not be allowed to be changed without a patient's consent, in consultation with a medical professional, NOT an insurance middleman.**

PBM PASS THROUGH CONTRACTS RESULT IN SIGNIFICANT SAVINGS. HERE'S HOW:

- Implementation of a pass through contract saved the Union DC-37 in New York millions of dollars. The union, with around 30,000 members, had a "traditional" margin-based pricing arrangement with a PBM. The contract included requiring their members to use a mail order prescription system, which resulted in **twotimesthe co-pay and mandatory generics with copay penalties.** The union was experiencing a trend of a 15-20



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percent annual increase in prescription drug costs. In 2006, the union switched to a pass through and auditable PBM contract, removed mandatory mail order and implemented a 90-day prescription supply retail agreement. **Actual savings were estimated to be between \$74-100 million the first year.**

- Pass through contracts have also been demonstrated to be successful at the University of Michigan. In 2006, studies revealed the discrepancy in pricing between the costs paid to its PBM as an employer and reimbursed to them as a provider of health care services. As a result, the University of Michigan renegotiated the PBM contract, with its prescription drug program that provides care for more than 80,000 people with an annual expenditure of \$70 million. The university realized **substantial cost savings of \$6.5 million** from improved drug pricing and the creation of several unique drug therapy projects, due to increased flexibility, drug plan decision-making authority and 100 percent pass through of drug rebates.

BOTTOM LINE

Regulating PBMs, requiring transparency and renegotiating pass through contracts is simply a smarter way to do business while continuing to provide quality health care benefits to employees.



Additional Information

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