Payer Preferred Pharmacy Networks
and
Manufacturer Limited Distribution Networks

An Insider's Perspective regarding competing interests

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Session Takeaways

- Outline how a PBM develops a preferred pharmacy network;
- Outline how a manufacturer considers its channel strategy; and
- List some of the competing needs of PBM preferred and manufacturer limited distribution networks and their effect on the plan sponsor.

My Chance to Opine

1st – Consider Terminology

Medicare and Most Payers View Networks through One Lens

- Network
  - The facilities, providers, and suppliers your health insurer or plan has contracted with to provide health care services.
- Network pharmacies
  - Pharmacies that have agreed to provide members of certain [Medicare] plans with services and supplies at a discounted price. In some [Medicare] plans, your prescriptions are only covered if you get them filled at network pharmacies.
- Non-preferred pharmacy
  - A pharmacy that's part of a [Medicare] drug plan's network, but isn't a preferred pharmacy. You may pay higher out-of-pocket costs if you get your prescription drugs from a non-preferred pharmacy instead of a preferred pharmacy.

Centers for Medicare & Medicaid Services., U.S. Department of Health and Human Services, *Glossary, N*, on the Internet at https://www.medicare.gov/glossary/n.html (visited *March 08, 2017*).

2nd – Consider Your Goal

Are you likely to achieve either?

- Networks provide a means to achieve two desired outcomes

1. Improve Economic Performance (*Realized*)

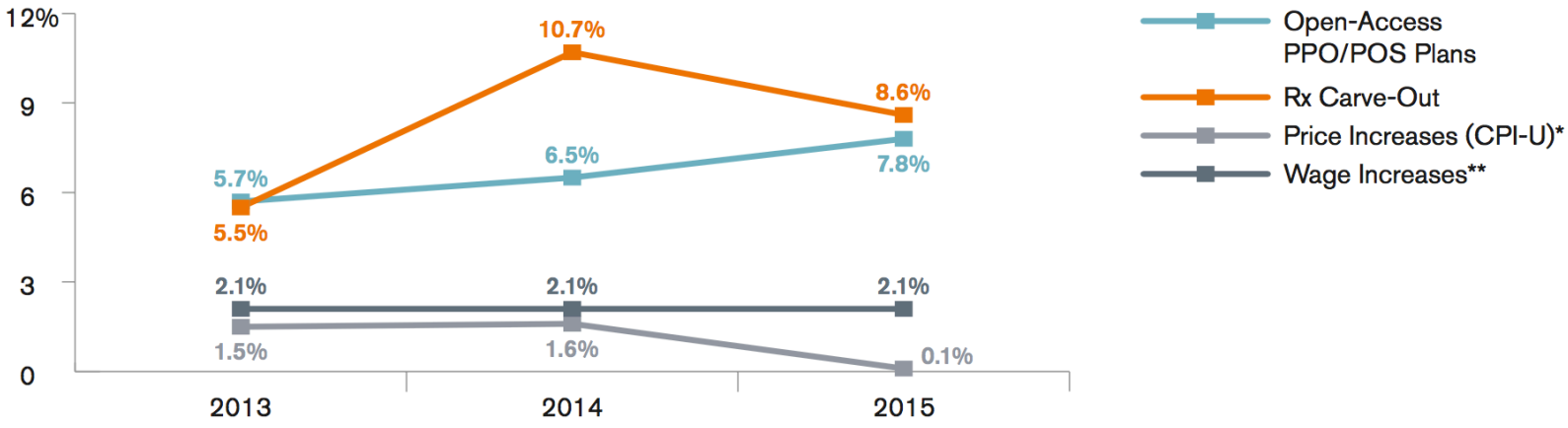
2. Improve Quality (*Hope*)

PBM Perspectives

Plan Sponsors are demanding lower costs, less member disruption, and higher quality

For many plan sponsors, the increase in prescription plan cost trends can be more than FOUR times the rate of increase in wages.

Comparison of Selected Trend Rates (2013–2014 Actual and 2015 Projected) to Price and Wage Increases



* The drop in CPI in 2015 is partially the result of declining energy and food prices.

** Bureau of Labor Statistics Table B-3. Average hourly earnings of all employees on private nonfarm payrolls, seasonally adjusted.

Segal Consulting, The Segal Group, Inc., 2016 Segal Health Plan Cost Trend Survey, Summer, 2015.

The PBM's product is access to products and access to pharmaceutical care at a fair price

- Networks are part of PBM product offerings
- Services and products
  - Focused on Quality
    - Verified via 3rd Party Credentialing
  - Monitor prescription safety
  - Offer convenience
  - Promote competition

To meet Plan Sponsor demands, PBMs utilize network management to achieve goals

- Lower reimbursements 
- MAC (maximum acquisition costs) erosion 
- Transparency issues 
- Mail-order / Specialty Pharmacy 
- Pharmacy audits 
- Narrower pharmacy networks 

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Manufacturer support is critical to the success or failure of Narrow Payer Networks

- Generally, lower payer costs cannot happen without reductions in input costs
  - Said another way “discounts”, “rebates”, “fees” offered to the pharmacy market drive viability
- Narrow networks cannot remain viable without lower product acquisition costs relative to reimbursement rates

Manufacturers control significant components that drive economic viability of PBM networks

Networks that lack manufacturer support, are underfunded leading to reduced services (level)

	Typical GROSS Cost recovery Model per Rx for Specialty Pharmacies		Supported	Unsuported
	WAC per Unit		$ 5,000.00	$ 5,000.00
Purchase from Wholesaler	Typical SP purchasing discount through wholesaler	2.50%		
	Pharmacy NET Acquisition Cost from Wholesaler		**$ 4,875.00**	**$ 4,875.00**
	AWP* assigned by Pricing Services (Medispan, FDB, WK, etc.)	**20.00%**	$ 6,000.00	$ 6,000.00
	LESS Pharmacy Network Rate	18%	$ 4,920.00	$ 4,920.00
PBM Contract Adjustment	PLUS Dispense Fee (median)		$ 1.50	$ 1.50
	Ingredient Cost plus Services		**$ 4,921.50**	**$ 4,921.50**
	Patient Co-insurance	10%	$ 492.15	$ 492.15
Patient Benefit Adjudication	Plan Paid Amount		$ 4,429.35	$ 4,429.35
	Total Amount Paid		$ 4,921.50	$ 4,921.50
	Less Shipping Cost		$ 13.00	$ 13.00
Shipping & Collections	Less Credit Card Processing Fee for Patient Out-of-Pocket	2%	$ 9.84	$ 9.84
	Plus Manufacturer Contract Discounts	3%	$ 150.00	$ -
	Total Pharmacy Cost Recovery per Rx		**$ 173.66**	**$ 23.66**

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Consolidating the pharmacy network allows the payer to utilize its tactics to help reduce costs for the plan sponsor

- In theory, Narrow Networks
  - Offer a pharmacy an opportunity to spread their economic risk across the formulary
  - Offer a PBM an opportunity to negotiate larger discounts, lower reimbursement, AND
  - Contract aggressively for procurement advantages when its pharmacies are part of the narrow network

Manufacturer Perspectives

Manufacturers use limited distribution networks to control product performance

1. Patient Experience
2. Costs of distribution (~$250K to ~$1.5M per Pharmacy*)
3. Maintain price integrity
4. Collect and Analyze Data
5. Augment or replace care
6. Access to marketing services
7. “Hall-Monitor”

Apogenics, Inc., Data on File, Typical set-up costs for non-orphan specialty product. 2016.

Many manufacturers utilize a criteria-based process to determine product distribution networks

- Some examples include
  - Cost Consideration
  - Service Offering Available
    - Information Gathering
    - Clinical & Reimbursement
    - Marketing Support
  - Experience
  - 3rd Party Credentials
  - In-Network Status

Perplexing questions arises when manufacturers actively limit a distribution channel

It’s my egg!

Competition is doing it

Lack of trust

Service Requirements

Marketing Programs

Did this at my last company

Providers will mess this up

Coverage

Improve Access

Marketing Programs

Patient’s do not know their benefits

Already pay a lot for my HUB

The series of Easter eggs created by Fabergé for the Russian Imperial family, from 1885 through to 1916, is regarded as the artist-goldsmith’s greatest and most enduring achievement.

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Competing Needs

Competing network models and concepts DRIVE up costs in the overall healthcare system

- Generally, manufacturer's have unwittingly introduced confusion into the specialty markets in order to maintain control
  - Prescribers have increased and un-reimbursed costs
  - PBMs loose network negotiating power
  - Patients face reduced choice and higher out-of-pocket burden
  - Duplicity of services is rampant
- PBMs may choose pharmacies that do not provide reduced costs to the manufacturer

There is NO evidence that Limited Distribution Networks HELP plan sponsors or patients reduce their costs

There IS evidence that PBMs account for just 4% of the net cost of a brand name prescription, while manufacturers account for 88%*

In Part, PBMs network management strategies are a major part of reducing plan sponsor costs

*Visante, Prepared by Visante on behalf of PCMA. *The Return on Investment (ROI) on PBM Services,* November 2016

Parting Thoughts

- Manufacturer
  - Access to your products should be simple
  - Consider the gains available by improving access points to your products, incremental costs are low
  - Resist ”cookie-cutter” approach
- Payers
  - Network viability comes from fairly reimbursed providers ability to provide required services

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