

WHAT'S TRENDING: PBM SPREAD

Written by Adrienne McCormick, CPA and Abby Stoddard, PharmD, MBA



In recent years, the conversation around the cost of prescription drugs has gained a new audience. Drug manufacturer annual Securities and Exchange Commission filings, Pharmacy Benefit Manager (PBM) trend reports, and Medicaid budgets that were once the purview of industry insiders and academics have suddenly hit the public eye. Consumers who have never filled a prescription can read about Medicare drug negotiations and manufacturer global pricing in the Washington Post and New York Times and hear interviews with PBM CEOs on Good Morning America. Throw in a few tweets from the Commander in Chief on the topic, and pharmacy benefits have officially gone from a health insurance add-on to front and center of the health care landscape.

All the discussions from consumers, policy makers and industry experts center on one key question – why does the drug cost so much? The answer, of course, depends on who you ask and fingers have been pointed up and down the supply chain. In the resulting gridlock on solutions, stakeholders have coalesced around one buzzword: transparency. The drug supply chain is rife with opportunities for transparency, from manufacturer profits, wholesaler contracting, and retail mark ups. This article will focus on one portion of the supply chain actively under the microscope: PBM spread pricing. As this topic gains steam, Mercer and our clients should be prepared to answer questions on PBM spread; how it impacts the work we do and the cost of health benefits.

PBM TRANSPARENCY INVESTIGATIONS

A pricing spread is any difference between what a product costs and what a purchaser is charged. There are several aspects of PBM contracting that stakeholders may refer to as 'spread', such as rebate contracting, program fees and pharmacy network pricing. The type of PBM spread pricing we are discussing refers to the spread between what a PBM pays a network pharmacy provider and what a payer (e.g., employer or Managed Care Organization (MCO) is charged for an outpatient prescription drug).

WEST VIRGINIA AND OHIO TAKE ACTION

After having to increase rates by \$120 million due to rising drug costs, the West Virginia Department of Health and Human Resources (DHHR) contracted with a vendor to provide an independent analysis of options to help reduce Medicaid prescription drug costs. A finding that West Virginia was over-paying by \$30 million per year for their prescription benefit due to administrative costs and spread, currently managed by Medicaid MCOs and their PBMs, was seized upon by policymakers, advocates, and independent pharmacies. DHHR decided to carve-out the pharmacy benefit from managed care effective July 1, 2017 and transition it back to traditional Medicaid Fee-For-Service coverage. While the original savings estimate was \$30 million, DHHR reported that after six months of pharmacy carve-out experience they anticipate saving \$70 million annually¹.

The results of the West Virginia carve-out were not lost on nearby lawmakers. In March 2018, legislators in Ohio requested their state auditor perform a similar analysis for the Ohio Department of Medicaid (ODM). In June 2018, the auditor released his findings. The auditor's report top finding was clear – PBM spread was over \$223 million across one year of ODM claims². Shortly after the report was released, ODM issued a letter to its five MCOs requiring them to terminate contracts with their PBMs that contained spread pricing and adopt new practices based on transparent, "pass through", models effective January 1, 2019³.

THE IDEA CATCHES ON

The publicity around West Virginia and Ohio turned what was a few regional grumblings about PBM practices into a nationwide roar. States wasted no time asking what role PBM spread played in their Medicaid, state employee, and even commercial employer benefits. Recent activity includes:

- Virginia – In 2017, Virginia mandated all Medicaid MCOs report the amount paid to the pharmacy provider and the amount charged to the MCO on pharmacy claims. The first report to their General Assembly showed a spread of \$13 million on one quarter of data⁴.

¹ West Virginians for Affordable Health Care Report. Stoll, Kathleen. "State Policy Options for Controlling Prescription Drug Prices and Spending". June 9, 2018.

² Auditor of the State of Ohio Report. Ohio's Medicaid Managed Care Pharmacy Services. August 16, 2018.

³ Schroeder, Kaitlin. "Pharmacy Middlemen Could Lose Billions In Ohio Medicaid Contracts." Dayton Daily News. August 14, 2018.

⁴ Memorandum. Commonwealth of Virginia Department of Medicaid Assistance Services. "Report on Managed Care Pharmacy Benefit Manager (PBM) Transparency". December 1, 2017.

- Montana – The legislature is currently debating Senate Bill 71. SB71 was authored by the State's Commissioner of Securities and Insurance and is intended to prohibit the use of spread in pharmacy payments⁵.
- Pennsylvania – The State Auditor held a series of public hearings on PBM practices in 2018, culminating in a report in December 2018. The report calls upon legislators to pass bills enacting a full audit into PBM practices, give the Auditor oversight of PBM pharmacy contracts and mandate PBMs in the state be paid via administrative fees only⁶.
- California – The new California governor, Gavin Newsom, signed an executive order in January 2019 directing the state Department of Health Care Services "to take all necessary steps to transition all pharmacy services for Medi-Cal managed care to a fee-for-service benefit by January 2021." The executive order also directs the State to "develop and implement bulk purchasing arrangements for high-priority drugs."⁷

IN CONCLUSION

With most state legislatures heading into session this spring, the flurry of activity on this subject will only increase. Mercer has the opportunity to show our value to clients as they consider the impact of PBM spread on their pharmacy benefit. Mercer's services on this topic range from recommendations of PBM transparency contract language to sophisticated models that identify trends and calculate PBM spread.

For More Information, email us at mercer.government@mercer.com

⁵ Michels, Holly. "Montana Lawmakers Will Consider Bill to Lower Prescription Drug Costs" *Billings Gazette* 30 Dec 2018

⁶ Auditor General of the Commonwealth of Pennsylvania Report. "Bringing Transparency and Accountability to Drug Pricing." December 2018.

⁷ Bernstein, Sharon. "New California Governor Tackles Drug Prices in First Act." Reuters. January 7, 2019.