The ABCs of winning pharmacy benefit strategies

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Prescription drug costs are the fastest growing component of the healthcare dollar.[1] Plan sponsors must carefully review pharmacy benefit manager performance to offer competitive and cost-effective pharmacy benefit programs in a rapidly evolving landscape.

According to the 2016 Milliman Medical Index, prescription drug costs currently represent 17% of total healthcare spending.[2] As prescription drug costs continue to rise, there is increased pressure on plan sponsors to deliver a financially sound pharmacy benefit. Delivering competitive pharmacy benefits on a cost-effective basis is possible with the ABCs of pharmacy benefit manager (PBM) contract assessment: A for auditing, B for benchmarking, and C for competitive bidding. They are the key tactics to a winning pharmacy benefits strategy.

FIGURE 1: THE ABCS OF WINNING PHARMACY BENEFIT STRATEGIES

ASSESSMENT FUNCTION	FREQUENCY	DESCRIPTION OF ASSESSMENT
Auditing	Monthly	Monitor claims experience for emerging trends. Compare PBM contract terms with plan sponsor's actual results.
Benchmarking	Annually	Compare PBM's contract terms with competing PBMs.
Competitive bidding	Triennially	Solicit bids from competing PBMs. Ensure appropriate comparisons during PBM selection.

Auditing

Auditing is a monitoring function intended to ensure that plan sponsors realize the contracted PBM terms. Through a PBM audit, plan sponsors can compare actual discounts, rebates, and other important financial terms with contractual guarantees. Without an auditing process, plan sponsors unknowingly face the risk of poor PBM financial performances.

Monitoring pharmacy claims experience also provides plan sponsors with an early indication of developing trends. This allows plan sponsors to proactively manage the pharmacy benefit, which often results in better financial outcomes than a reactive pharmacy benefit management approach.

We recommend that plan sponsors consider auditing as a continuous process with monthly discussions of ongoing observations. We also recommend that plan sponsors review the results of a formal claims audit at least annually. Productive audit discussions should include comparing key metrics with the PBM contract, identifying unfavorable trends, and developing strategies to mitigate emerging risks.

Benchmarking

Competitive benchmarking compares a plan sponsor's key PBM contract terms with the terms currently offered by competing PBMs. Benchmarking requires less effort than a formal competitive bidding process and allows plan sponsors to understand alternative market options throughout the PBM contract period. Annual benchmarking provides plan sponsors with a current pulse of the evolving PBM market.

Plan sponsors should receive a comparison of their existing terms with the terms available to similarly sized groups from their benefits consultants to assess whether a better deal may be available. This type of benchmarking strengthens plan sponsors' negotiating strengths as well as informing them when it may be time to consider leaving a PBM.

1 Girod, C.S., Weltz, S.A., & Hart, S.K. (May 24, 2016). 2016 Milliman Medical Index. Retrieved September 27, 2016, from http://us.milliman.com/mmi/.

2 The 2016 Milliman Medical Index measures healthcare costs for a typical American family with an employer-sponsored preferred provider organization (PPO) plan.

In addition, we recommend that plan sponsors perform a formal market check annually throughout the PBM contract period, which typically spans multiple years. It is not uncommon for a plan sponsor to renegotiate specific contract terms with the existing PBM as a result of a market check. PBM contracts often establish market check parameters that limit the ability of plan sponsors to perform this important benchmarking. During the negotiation of the contract, it is essential to stress flexibility in market checks in order to preserve this tool for the plan sponsor.

Competitive bidding

A competitive bid process using a request for proposal (RFP) typically requires the most effort and is performed near the end of a PBM contract period. During the RFP process, multiple PBMs compete to earn a plan sponsor's business. When PBMs compete, plan sponsors win.

PBM contracts are complex and require a nuanced review by seasoned experts who understand the evolving pharmacy benefit landscape. A proposal with improved discounts from the incumbent PBM may offer a more restrictive formulary or limited pharmacy network. A detailed review of proposed PBM contracts is needed to compare proposals on a similar basis. Plan sponsors could select the wrong PBM if the decision is based on a simple comparison of key contract terms without considering the details.

We recommend that plan sponsors consider a competitive bid process near the end of each PBM contract period, which is typically every three years. In some instances, a market check may be used in place of a formal RFP if the PBM contract is competitive and allows for contract extensions.

Conclusion

As pharmacy costs continue to rise, plan sponsors will realize increasing value by assessing PBM contract performances. The ABCs of PBM contract assessment—auditing, benchmarking, and competitive bidding—are key to delivering competitive pharmacy benefits on a cost-effective basis.

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