Pharmacy Benefit Managers

The Role of PBMs in the Federal Employees’ Health Benefits Program

Federal Trade Commission/Department of Justice Hearings on Health Care and Competition Law and Policy

June 26, 2003
Purpose of the Study

• Request from Senator Dorgan to update 1997 GAO report

• PBMs play a large role in managing prescription drug benefits for most employer-sponsored health plans

• PBMs could play a role in administering any proposed Medicare drug benefit

• Link to FEHBP provided GAO with unique ability to access proprietary information
Objectives

• Examine the role of PBMs within the Federal Employees Health Benefits Program (FEHBP)

• Do PBMs achieve savings, and, if so, how?

• How do FEHBP plans’ use of PBMs affect enrollees?

• How do FEHBP plans’ use of PBMs affect retail pharmacies?

• How are PBMs compensated for services provided to FEHBP plans?
PBM Services

- Process claims
- Negotiate price discounts with pharmacies
- Negotiate discounts and rebates with manufacturers
- Operate mail-order pharmacies
- Conduct clinical intervention programs
  - Drug utilization review
  - Prior authorization
  - Therapeutic interchange
  - Generic substitution
PBM Relationships with Market Participants

- Administrative services
  - Discounts/rebates
  - Clinical management

- Payment for drugs
  - Administrative fees

- Mail-order drugs

- Mail-order drug cost share

- Payment for retail drugs
  - Clinical information

- Electronic claims
  - Discounted retail drug prices

- Payment for mail-order drugs
  - Clinical programs/data

- Rebates/fees
  - Discounted mail-order drugs

Health plan

Enrollee

Retail pharmacy

Pharmaceutical manufacturer
Scope of GAO Study

- Blue Cross and Blue Shield (BCBS)
  - AdvancePCS for retail services
  - Medco Health Solutions for mail-order services

- Government Employees Hospital Association (GEHA)
  - Medco Health Solutions for retail and mail-order services

- PacifiCare of California
  - Prescription Solutions, another subsidiary of PacifiCare Health Systems, for retail and mail order services
Scope of GAO Study

BCBS, GEHA, and PacifiCare of California:

- Covered over 55 percent of the 8.3 million FEHBP lives in 2001
- Paid $3.3 billion to PBMs in 2001
- Dispensed 65 million prescriptions to enrollees in these 3 FEHBP plans in 2001
PBMs Negotiate Prices Below Those Paid by Cash-Paying Customers

Source: GAO analysis of plan prices from three FEHBP plans and cash-paying customer prices at 36 pharmacies in California, North Dakota, and the Washington, D.C., area.
PBMs Reduce Plans’ Drug Spending by Passing Through a Portion of Rebates

• Manufacturers provide PBMs rebates to include drugs on formularies and to increase market share

• From 1998 to 2001, rebates PBMs paid to the 3 FEHBP plans effectively reduced plans’ annual spending on prescription drugs by 3 to 9 percent
Intervention Techniques Contributed to Plans’ Savings, But Difficult to Quantify

• Measuring cost savings is difficult:
  • Savings methodologies do not reflect the effect of interventions over time
  • Plans and PBMs do not consistently measure the number of costs of drugs not dispensed as a result of PBM interventions
  • Plans do not measure savings when primary goal is patient safety and compliance with clinical guidelines
• One PBM reported cumulative savings from intervention programs of about 14 percent of total drug spending in 2001
PBMs Report Intervention Program Savings

- Drug utilization review: 6 to 9 percent (2 plans)
- Prior authorization: 1 to 6 percent (2 plans)
- Therapeutic interchange: 1 to 4.5 percent (2 plans)
- Generic substitution: less than 1 percent (1 plan)
- Generic use:
  - Higher by retail than mail-order pharmacies (45 percent compared to 34 percent)
  - Similar for retail and mail-order pharmacies where generic versions were available (89 percent compared to 87 percent)
PBMs Provided Enrollees Access to Broad Retail Pharmacy Networks

• Nearly all enrollees had a retail pharmacy participating in their plan within a few miles of their residence (typically 5 miles)

• More than 90 percent to nearly 100 percent of licensed pharmacies participated in PBM networks
PBMs Provided Enrollees Access to Nonrestrictive Drug Formularies

- FEHBP plans’ formularies included over 90 percent of drugs listed on the VA National Formulary or a therapeutic equivalent.

- FEHBP plans’ formularies include at least one drug in 93 to 98 percent of therapeutic classes covered by the VA National Formulary.

- Each FEHBP plan provided enrollees access to nonformulary drugs, although sometimes with higher cost-sharing or prior approval.
PBM Savings Helped Reduce Enrollees’ Out-of-Pocket Costs

- PBM mail-order pharmacy programs often provided lower cost sharing than if filled at a retail pharmacy

- Plan benefit design affects whether enrollees share directly in PBMs’ negotiated price discounts

- PBM savings translate to lower premium increases
  - We estimate that rebates for 2 plans translate to a 1 percent decrease from what the plans’ future premium would have been
Enrollees Benefit from PBM Utilization Review and Customer Service

- PBMs maintained centralized data on each enrollee’s drug history which is shared with pharmacies at the point of sale

- Data provided by PBMs indicated they generally met or exceeded contractual performance standards set with plans
  - call answer time
  - mail-order prescription turn-around time and accuracy rates
  - customer satisfaction surveys
PBM-negotiated prices paid to pharmacies provided an estimated average margin of 8 percent above retail pharmacy acquisition costs for 10 brand drugs.

- Because no data source exists to identify pharmacy acquisition costs for drugs, we used a 3-percent mark up above the wholesale acquisition cost as a proxy.
- Margins do not include rebates, discounts from suppliers, or overhead costs.
PBM Transactions Require Additional Tasks and Incur Higher Costs for Retail Pharmacies

• A survey of 201 retail pharmacies found that 20 percent of staff time is spent on third-party payment activities

• Independent pharmacies may find tasks more costly because fewer nonpharmacist staff are available
  • One study found independent pharmacies’ average labor cost to process third-party transactions were 44 percent higher than chain pharmacies
PBM May Steer Retail Pharmacy Customers to Mail-Order Programs

• Some PBMs target enrollees using retail pharmacies with letters informing them that their costs would be lower under mail order.

• In 2001, the three FEHBP plans dispensed 21 percent of all prescriptions through mail order, higher than the industry average of 5 percent of prescriptions.
Most Pharmacies Participate in PBM Retail Networks

- Despite discounted payments and additional tasks, most licensed pharmacies participated in PBM retail networks because PBMs represent a substantial market share
  - nearly 200 million Americans in 2001

- Access to these enrollees increases prescription and nonprescription sales
PBMs’ Compensation Sources
PBM Compensation Sources

- **Administrative fees**: On average, 1.5 percent of total plan drug spending

- **Payments for retail and mail-order drugs**: Little to no compensation from retail business, but compensation obtained through mail-order business

- **FEHBP plan rebates that PBMs retained**: On average, less than 0.5 percent of total plan drug spending

- **Other rebates and manufacturer payments for increasing overall market share and various services**: PBM officials and SEC reports suggest manufacturer payments are a large portion of PBM earnings
Conclusions

• Attempts to achieve additional cost savings involve trade-offs for plan enrollees
  • Use more restrictive formularies, but enrollees would likely have unrestricted access to fewer drugs
  • Retail pharmacies may be willing to provide steeper discounts as part of smaller, more selective networks, but enrollees would have access to fewer pharmacies

• The Office of Personnel Management, plans, and PBMs must balance trade-offs in designing affordable and accessible drug benefits for federal employees
Reactions to Release of Report

• PBMs have touted the report as demonstrating significant savings from PBM activities

• Pharmacy associations raised strong concerns that the report did not fully address relations between PBMs and drug manufacturers and incentives for PBMs to promote higher cost drugs

• OPM announced increased focus on PBMs in FEHBP’s 2004 contracts to achieve “maximum savings,” require annual plan audits, and enhance OPM’s Office of Inspector General’s oversight
GAO Report and Contact Information

• To obtain a free copy of GAO’s Report, Federal Employees Health Benefits: Effects of Using Pharmacy Benefit Managers on Health Plans, Enrollees, and Pharmacies (January 2003)
  • Visit www.gao.gov
  • Go to “GAO Reports”
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