

# What Plan Sponsors Need to Know about Pass-through PBM Contracting



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## Agenda

- What is the Proposed CMS Pass-through (Transparent) Pricing Ruling?
- What is Pass-through/Transparent Pricing?
- What does this Mean to My Plan?
- What do Plan Sponsors Need to do?
- Questions & Answers

# What is the Proposed CMS Pass-through Pricing Ruling?



## CMS Proposed Pass-through Price Ruling

- Would treat any “network pharmacy spread” as administrative fee on which member cost sharing could not be based
- All plans need to comply no later than 1/1/2010
- CMS will continue to allow lock-in and pass-through pricing models
- It is unclear how mail service pricing will be treated under this ruling
- The ruling is applicable to traditional Medicare Part D as well as RDS sponsors



# What is Pass-through/ Transparent Pricing?

## Lock-in Pricing - Definition

- Also known as “spread” pricing
- Flat guaranteed discount on brand pricing
- Plan pays PBM a different amount than is paid to pharmacy (spread)
- Flat guaranteed rebates with PBM retaining any excess
- Low administrative fee charged by PBM (often \$0.00)

## Transparency - Definition

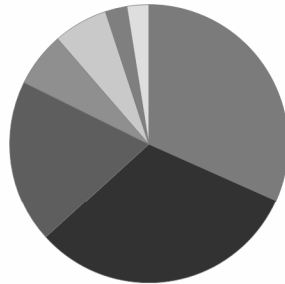
- Definition varies greatly in the marketplace
  - Full disclosure?
  - Retail pass-through?
  - Specialty pass-through?
  - Mail order acquisition cost pass-through?
  - Full rebate pass-through?
  - Other pharmaceutical revenue pass-through?
- In the proposed ruling, CMS definition is full pass-through of network pharmacy rates and pharmaceutical revenue. If any of these monies are not passed through to the Plan Sponsor, they must be reported separately as administrative costs.

## Lock-in vs. Pass-through Pricing

	Lock-in	Pass-through
Plan Contract	\$60	\$50
Pharmacy Contract	\$50	\$50
Member Copayment (20%)	\$12	\$10
Plan Cost	\$48	\$40
PBM Admin. Fee	\$0	\$10
PBM Spread	\$10	\$0

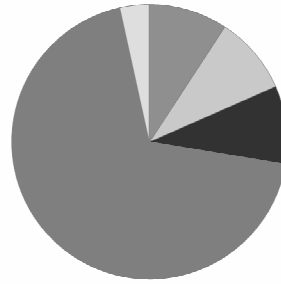
## PBM Revenue by Pricing Structure

Lock-in



- Retail Spread
- Rebates
- Specialty
- Other Fees

Pass-through



- Mail Order Spread
- Other Pharma Revenue
- Admin Fees



# What does this Mean to My Plan?



## May Increase Plan Costs...

	<b>Lock-in Pricing</b>	<b>Pass-through Pricing</b>
Discounted Drug Cost	\$50.00	\$45.00
Member Copayment (25%)	\$12.50	\$11.25
Plan Drug Cost	\$37.50	\$33.75
Admin Fee	\$0.00	\$6.00
Rebate	(\$2.50)	(\$3.50)
<b>Total Plan Cost</b>	<b>\$35.00</b>	<b>\$36.25</b>



## ...More Plan Costs in the Donut Hole

	<b>Lock-in Pricing</b>	<b>Pass-through Pricing</b>
Discounted Drug Cost	\$50.00	\$45.00
Member Copayment (100%)	\$50.00	\$45.00
Plan Drug Cost	\$0.00	\$0.00
Admin Fee	\$0.00	\$6.00
Rebate	(\$2.50)	(\$3.50)
<b>Total Plan Cost</b>	<b>-\$2.50</b>	<b>\$2.50</b>



## Higher Possible Plan Upside

- Upward trend in pharmacy contracted rates
- Lock-in rates stay steady
- Pass-through rates have opportunity to be more aggressive over time
- Contract terms are important!!

## Ensure Pass-through of Network Rates

- PBM A: "PBM will pass through 100% of achieved discounts paid to Participating Pharmacy."
- PBM B: "Sponsor shall reimburse PBM according to the reimbursement terms so established between PBM and Member Pharmacies."

## Other Business Implications

- Increased administration fees/lower gross costs
- Cash flow implications
- Not all pass-through pricing is created equal
- Lack of PBM upside may mean less aggressive pricing
- All PBM transparent rates are not equal

## What do Plan Sponsors Need to do?

## Plan Sponsor Next Steps

1. Review PBM contract
- 2a. Negotiate pass-through pricing with existing PBM
- or-**
- 2b. Issue Request For Proposal (RFP)
3. Negotiate new PBM contract

## Questions & Answers

**The Burchfield Group, Inc.**

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