



Pharmacy Costs - What a Bitter Pill!

Presented by:

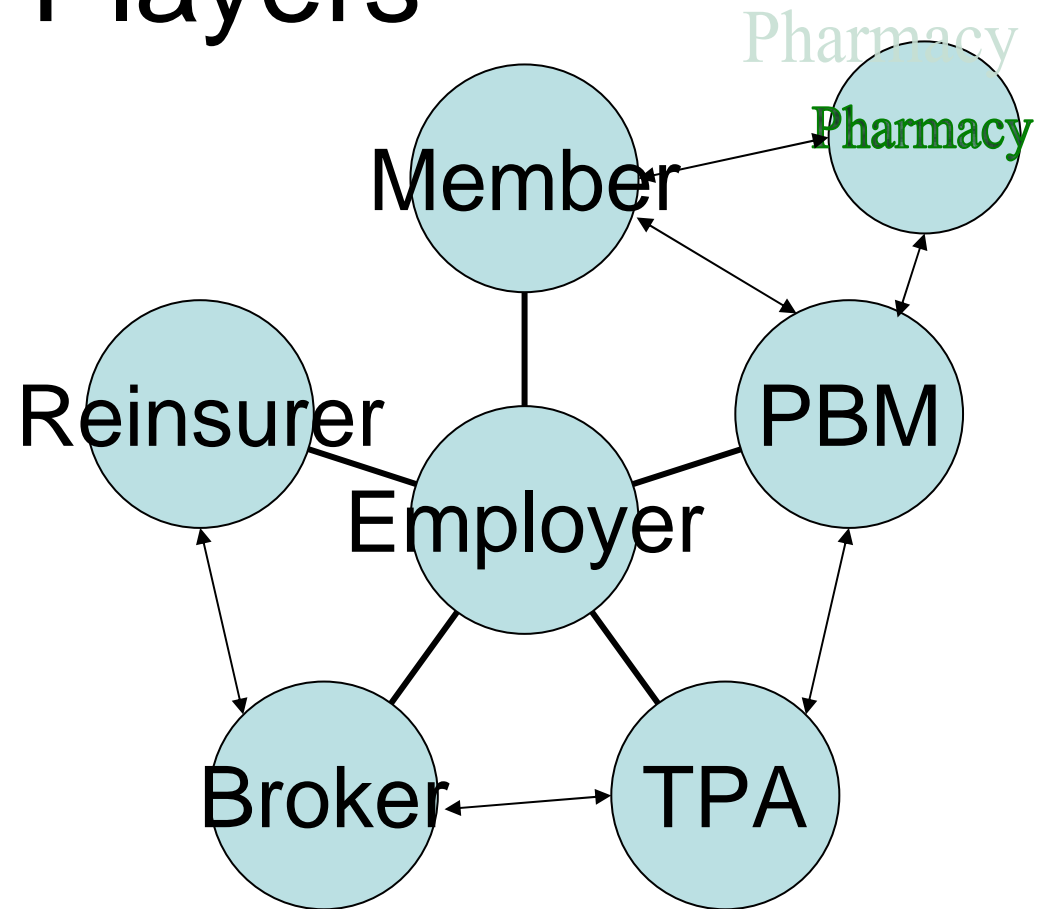
Esther Webb

Scott & White Prescription Services

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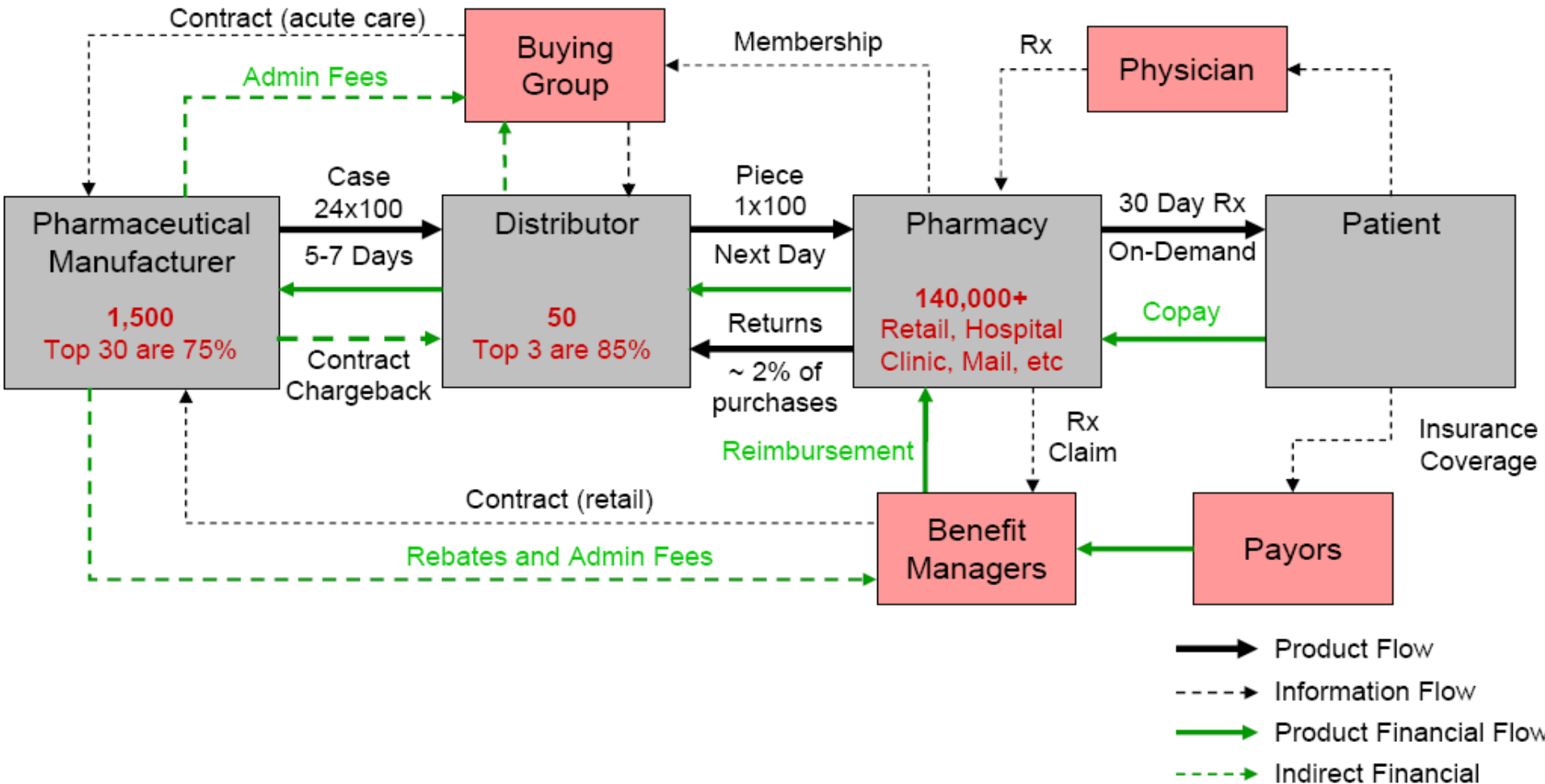
The Players

- Member
- Employer
- Pharmacy
- PBM
- TPA/UR/UM/DM
- Broker
- Reinsurer





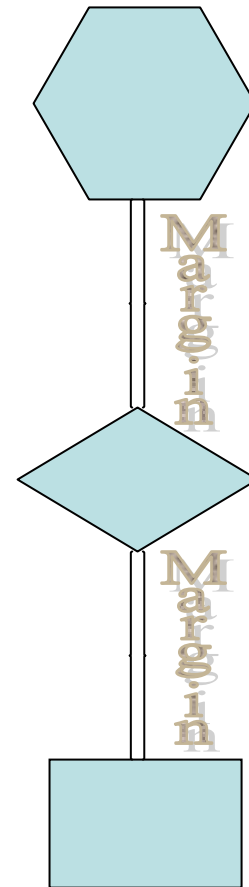
The Pharmaceutical Supply Chain





Pharmacy Costs

- Retail Price – price typically charged to those without insurance
- Contracted Rate – rate they are contractually obligated to charge – based on a discount from AWP
- Acquisition Cost – cost to actually acquire the medications



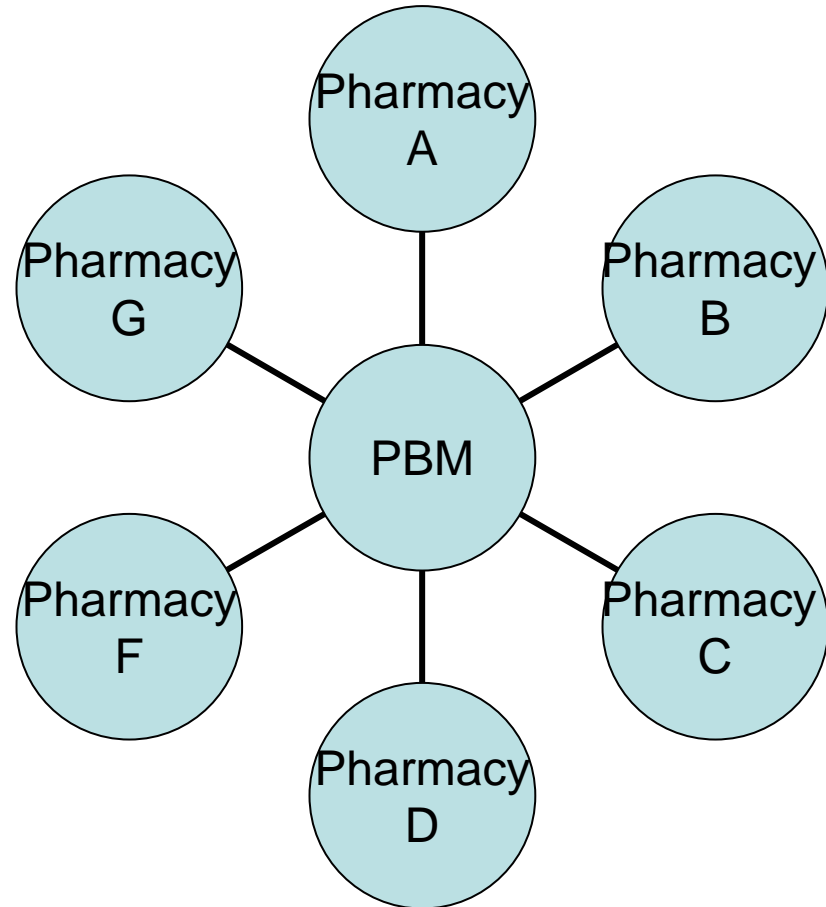
Retail Price

Contracted
(Discounted)
Rate

Acquisition Cost

PBM

- PBMs contract with a large number of pharmacies at a variety of rates
- Discounts vary by pharmacy
- Based on a discount from AWP



Cost Drivers for Rx Spending

- Utilization
 - New Indications
 - Clinical Practice Changes
 - Improved Diagnostics
- Price due to inflation
- Expense of Developing New Medicines
 - Newer High-priced Brand Name Drugs
- Direct to Consumer Advertising
 - 2001 \$2.7 Billion - 2004 \$3.5 Billion
- Aging Population

Figure 1. National health expenditures from 1999 to 2009

Source: Centers for Medicare and Medicaid Services¹

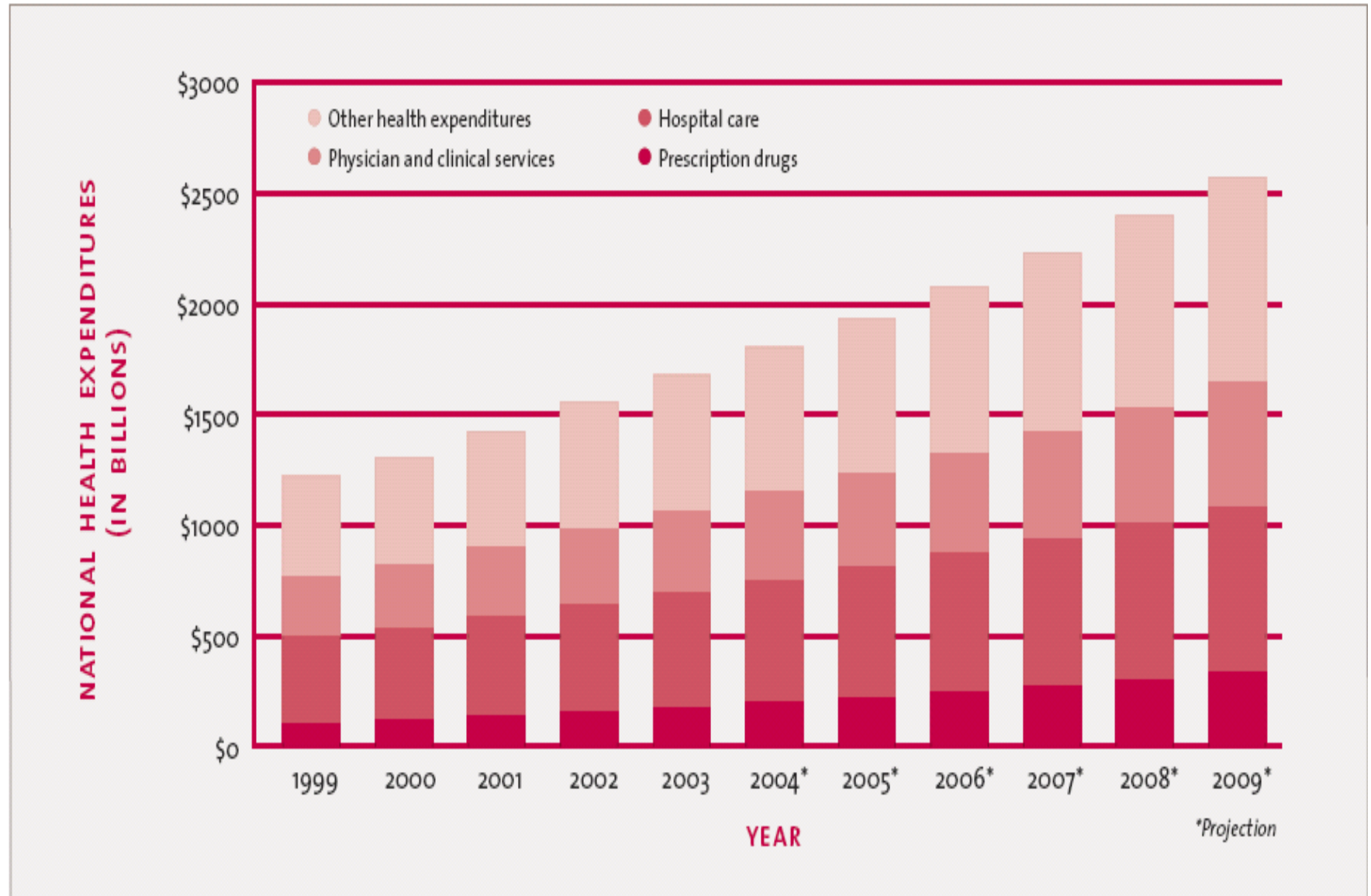
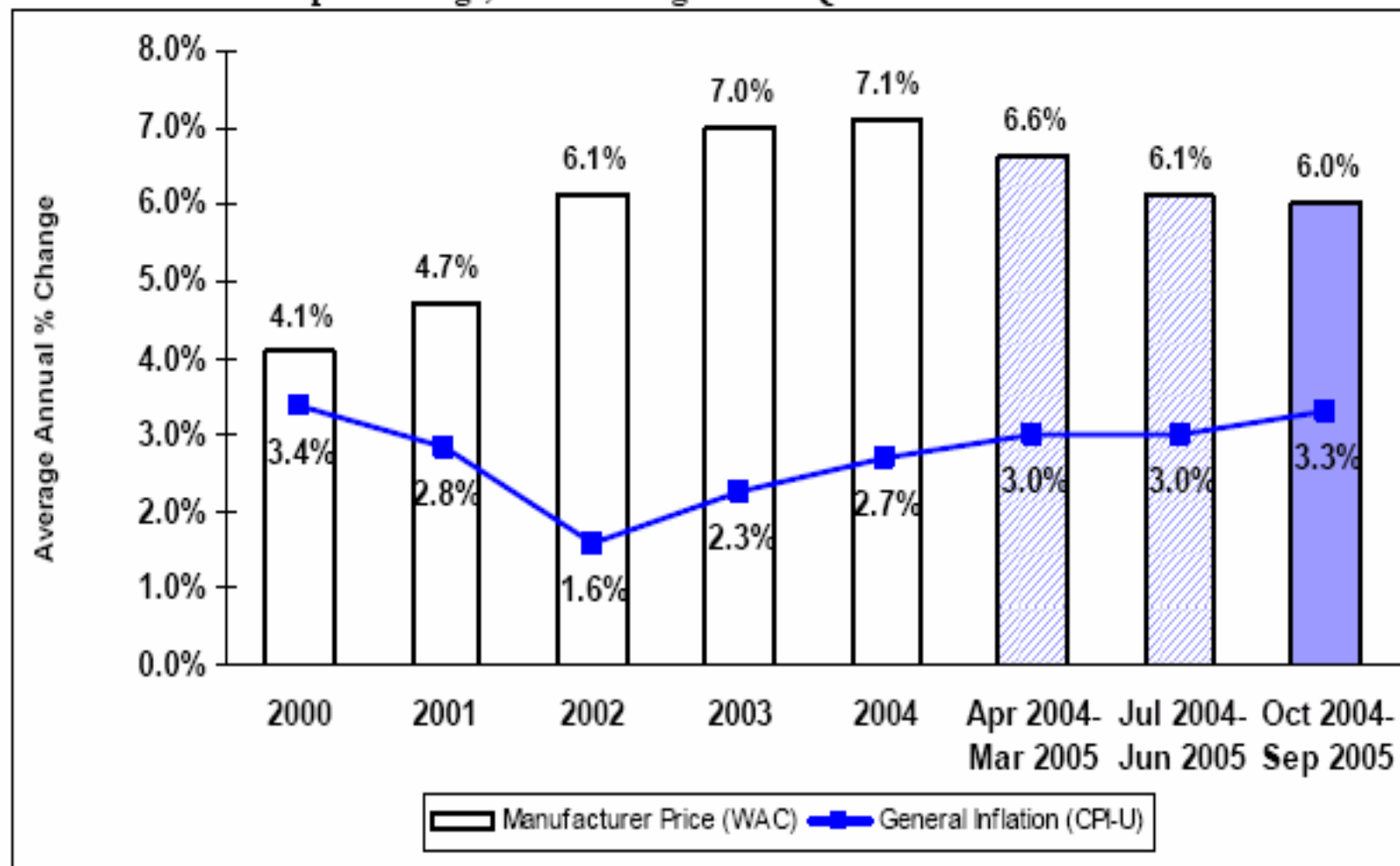


Figure 2. National healthcare cost trends from 1999 to 2009

Source: Centers for Medicare and Medicaid Services¹

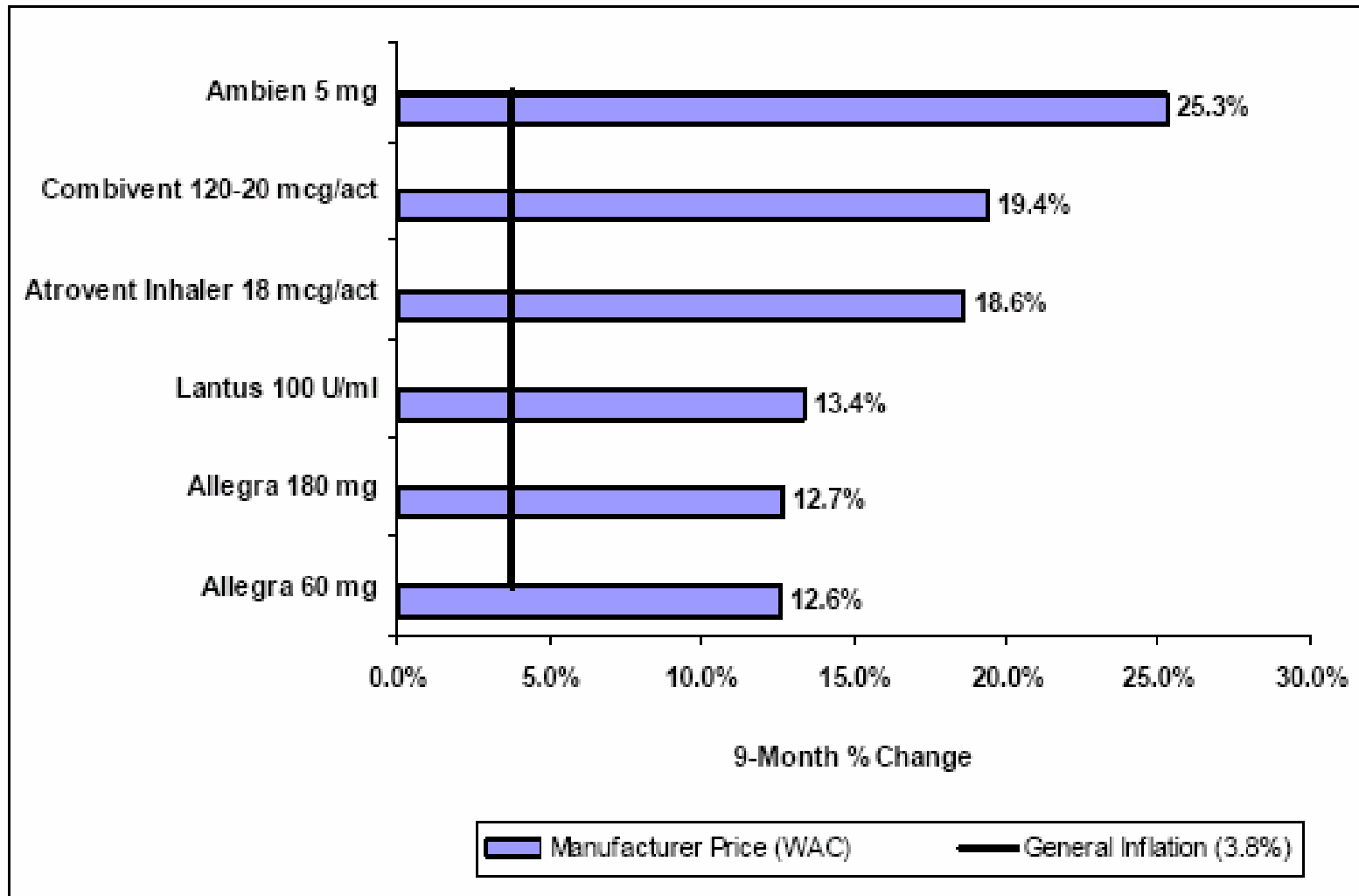


Figure 1: Average Annual Percentage Change in Manufacturer Prices for Most Widely Used Brand Name Prescription Drugs, 2000 Through Third Quarter 2005



Average increases for 2004 and time periods in 2005 exclude Vioxx 12.5 mg and 25 mg tablets, which were withdrawn from the market in September 2004. The average increases for time periods that include the second and third quarters of 2005 also exclude Bextra 10 mg and 20 mg tablets, which were withdrawn from the market in April 2005. Prepared by the AARP Public Policy Institute and the PRIME Institute, University of Minnesota, based on data found in Medi-Span Price-Chek PC (Indianapolis, IN: Wolters Kluwer Health Inc., November 2005).

Figure 6: Brand Name Prescription Drug Products with Highest Year-to-Date Percentage Change in Manufacturer Price, First Nine Months 2005



General inflation is based on CPI-U.

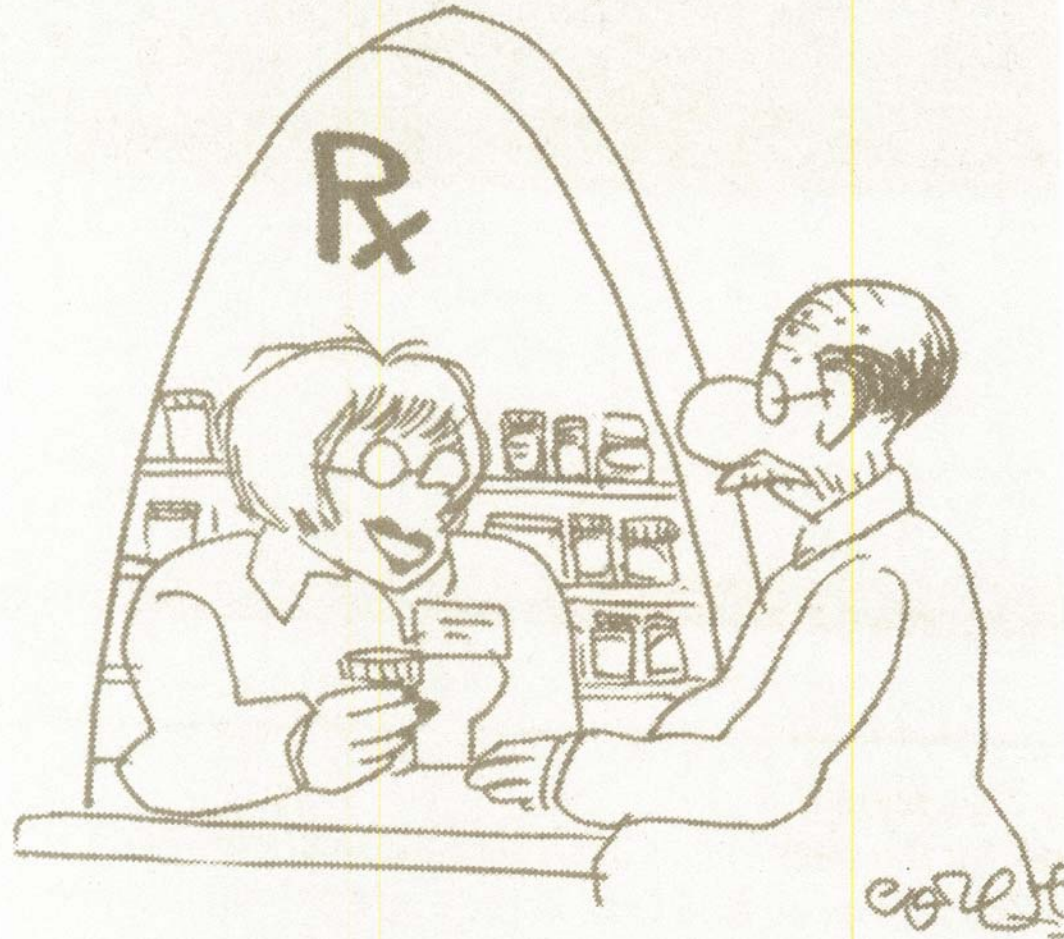
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Pepper . . . and Salt

THE WALL STREET JOURNAL



“The side effect is,
you don’t care what it costs.”



Pharmacy Terminology

- AWP – Average Wholesale Price
 - “Ain’t What’s Paid”
 - Artificial benchmark
 - Current industry standard
 - 2 major sources – MediSpan and FirstData Bank
- MAC – Maximum Allowable Cost
 - Only used for generics
 - Every vendor has their own list
- WAC – Wholesale Acquisition Cost
 - Actual cost to acquire the drugs
 - Difficult to get this information
- ASP – Average Sales Price
 - Medicare-initiated pricing
 - New benchmark; becoming more common
 - Closer to WAC than to AWP

Pricing

- Ingredient cost –
 - Discount from AWP for brands
 - MAC for generics and/or AWP discount
- Dispensing fee
- Administrative fee
- Rebate



Types of “Cost”

- Copay
- Discounts (AWP, MAC etc.)
- Total Paid

Discounted price
- Copay

= Total Paid by Plan



Pricing

- Hidden fees!
 - Ingredient fee spread
 - “Date spread”
 - Contract language
 - Extra charges
 - Mail order
 - Generics



Ingredient Fee Spread

Plan pays PBM

PBM pays Pharmacy A

PBM pays Pharmacy B

PBM pays Pharmacy C

PBM pays Pharmacy D

PBM pays Pharmacy E

PBM pays Pharmacy F

PBM pays Pharmacy G

AWP- 13% + \$2.50

AWP- 15% + \$2.00

AWP- 15% + \$2.20

AWP- 15% + \$2.50

AWP- 14% + \$1.85

AWP- 14% + \$2.15

AWP- 14% + \$2.40

AWP- 13% + \$2.50

PBM keeps the difference!

Date Spread

- AWP = \$50 in June 2005
- AWP = \$54 in Dec 2005 (8% increase)
- Pay Pharmacy based on June NDC file
- Collect from customer based on Dec NDC file

PBM keeps the difference (8%)!

Contract Language

- AWP based on smallest package size
- “Recoveries”
- Payments to vendors or other companies
- Selling data
- Minimum coverage of drugs – 50%
- Rebate retention

Extra Charges

- Prior Authorizations
- Hidden fees to TPAs, brokers or consultants

Mail Order

- Routinely charge by smallest package size
- Price based off AWP discount, not “lesser of” logic



MAC Examples

MEDICATION	THERAPEUTIC CATEGORY	QTY	AWP	AWP-50%	AWP-53%	AWP-55%	SWPS MAC
fluoxetine 20mg	Antidepressant	30	\$79.92	\$39.96	\$37.56	\$35.96	\$5.99
lisinopril 20mg	Blood pressure	30	\$32.25	\$16.13	\$15.16	\$14.51	\$7.40
amoxicillin 500mg	Antibiotic	30	\$10.50	\$5.25	\$4.94	\$4.73	\$2.97
metformin 500mg	Diabetes	30	\$21.13	\$10.57	\$9.93	\$9.51	\$5.67
ibuprofen 800mg	Pain	30	\$8.70	\$4.35	\$4.09	\$3.92	\$1.50
simvastatin 10mg	Cholesterol	30	\$79.34	\$39.67	\$37.29	\$35.70	\$14.11
	TOTAL		\$231.84	\$115.92	\$108.96	\$104.33	\$37.64



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There is hope!

Psa.wm





Cost Management Strategies



Key Data Parameters

- Important to
 - know,
 - track and
 - trendthe following parameters
- How do you rate among your peer group?



- Total Cost
- PMPM (per member per month)
- Claim Count PMPM
- % Generic Utilization
- % Formulary Utilization
- % Member Cost Share
- Average Cost per Prescription
- Average Cost per Generics
- Average Cost per Brands



Clinical

- Formulary: huge cost containment tool
 - Open
 - Closed
 - Tiered
 - Value based
- PA criteria
- Rebate???



Utilization is Key

- Who controls the formulary?
- Is the formulary designed to maximize rebates or lowest net cost? Nexium®, Lexapro®
- Why focus on generics?
 - FDA-mandated therapeutic equivalence to branded
 - Average \$100 difference in cost for the same therapy

Rebate & Utilization Examples

Drug Name	Price	Rebate	Net Cost
Nexium	109.88	18.98	90.90
Protonix	83.47	25.35	58.12
Omeprazole	23.95	0.00	23.95
OTC Prilosec 28	19.31	0.00	0.00

Rebate & Utilization Examples

Drug Name	Price	Rebate	Net Cost
Diovan	27.57	6.31	21.26
Altace	20.74	4.99	15.75
Lisinopril	2.70	0.00	2.70



Rebate & Utilization Examples

Drug Name	Price	Rebate	Net Cost
Zoloft	53.03	14.48	38.55
Lexapro	50.79	10.54	40.25
Fluoxetine	2.99	0.00	2.99
Citalopram	4.73	0.00	4.73



Plan Design Options

- Flat dollar copays
- Percentage copays – coinsurance
- “Blended” copays – “greater of”, “lesser of”
- Deductibles
- Maximum Annual Benefit
- Maximum Out of Pocket
- Carve-outs – specialty pharmacy
- “Wide” copay structure



Member Education

- Essential to ongoing health of the plan
- Accountability – members must understand they play a role in cost containment
- Empowerment
- “Cost Share”
- Education is a process



Plan Document

- How dusty is yours? Review annually?
- Revise as needed?
- Definitions current? Accurate?



- Employer/HR/RM staff must be willing to dig into the details of the plan and utilization
- Staffing issues?
- Vendor flexibility?



What's Next?

- Pharma
 - More drug approvals
 - More costly medications
 - More indications for specialty drugs - 10/20/06 approval for Gleevec on 5 new conditions
- “Cost plus” pricing models
 - Specifically for specialty pharmacy
 - Will see higher admin fees
 - More difficult than ever to compare
 - More cost effective for the client?
- More full disclosure models



- PEPM admin fees
- More complex plan designs
 - Deductibles
 - Multiple RX plan options – gold, silver, bronze
 - More copay tiers
 - Back to coinsurance? Primarily used for:
 - specialty or high cost drugs
 - “lifestyle” drugs
 - Value-based formularies





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Questions?

