

# **Pharmacy Benefit Managers**

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**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**

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# Purpose of the Study

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- 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
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# 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?

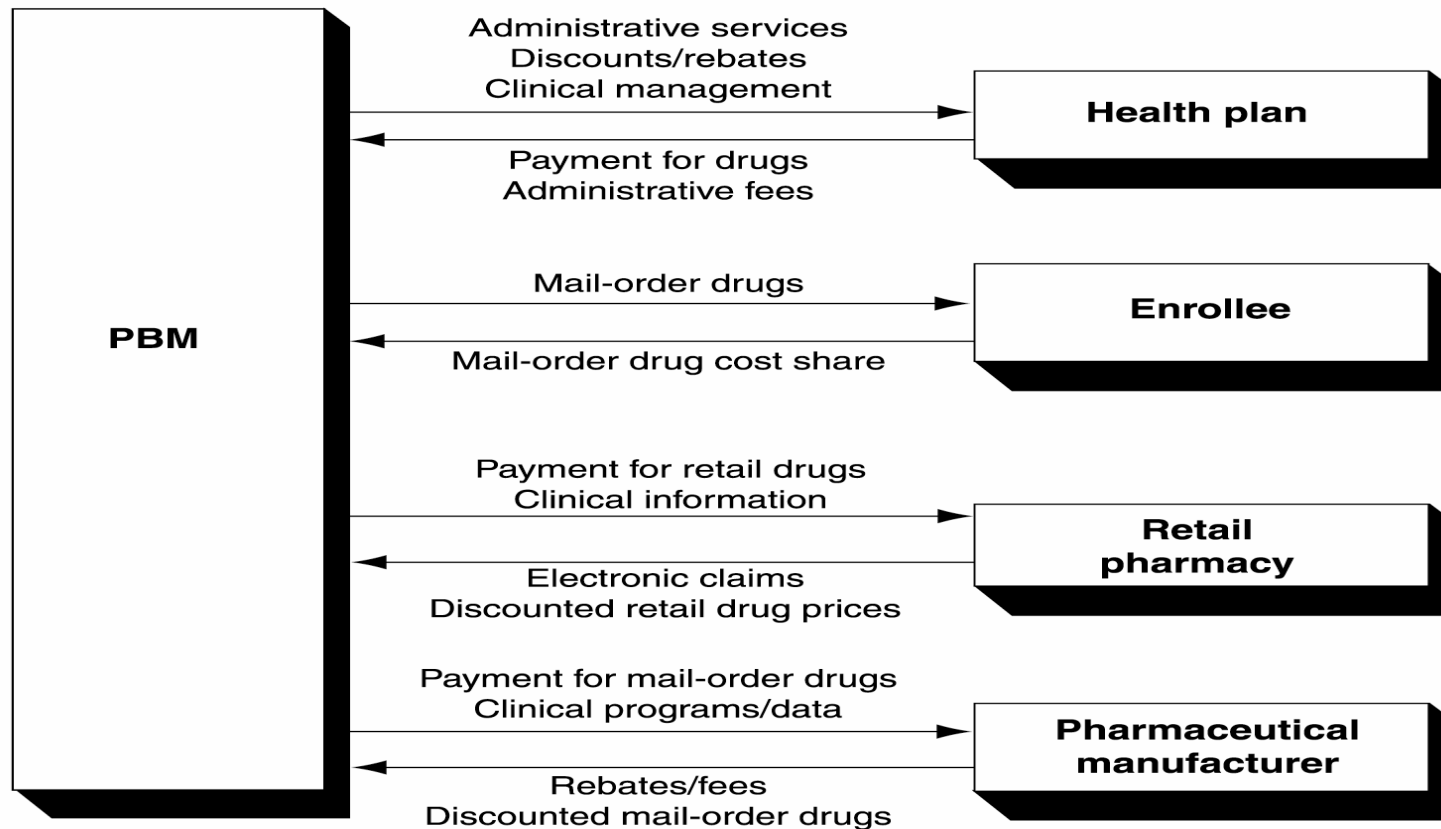
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# PBM Services

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- 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



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# Scope of GAO Study

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- **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
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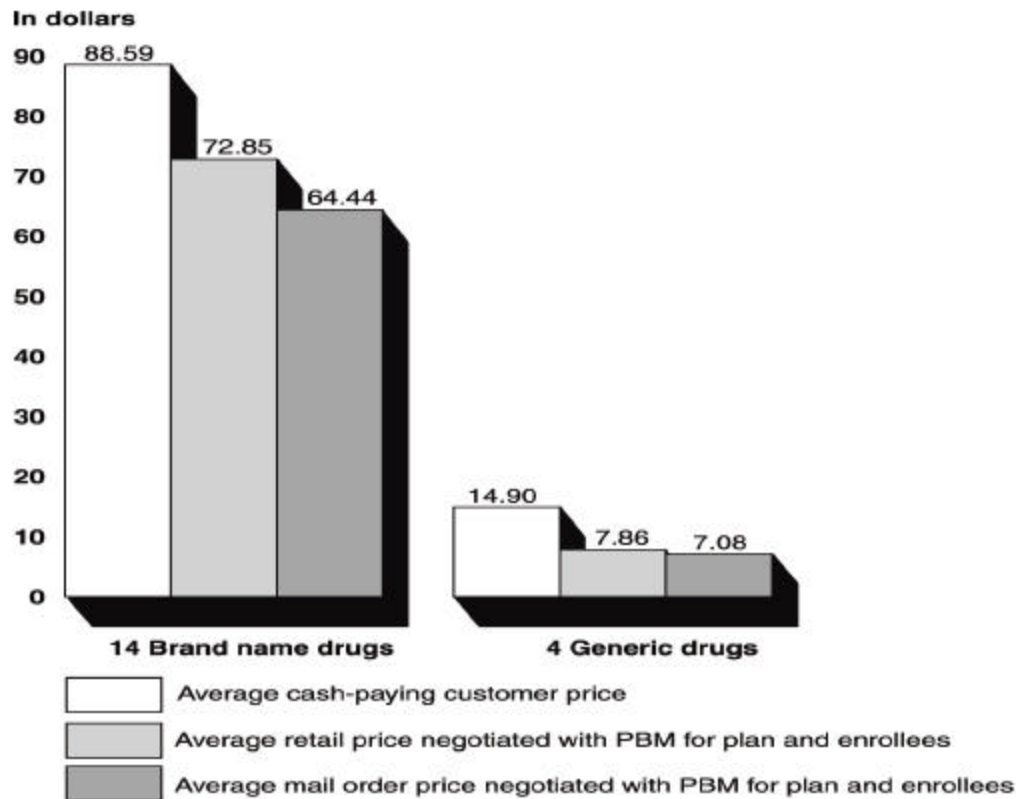
# Scope of GAO Study

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.



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# PBMs Reduce Plans' Drug Spending by Passing Through a Portion of Rebates

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- 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

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- 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)
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# **PBMs Provided Enrollees Access to Broad Retail Pharmacy Networks**

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- 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

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# Enrollees Benefit from PBM Utilization Review and Customer Service

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- 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

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# PBMs Paid Retail Pharmacies Less than Cash-Paying Customers but Above Costs

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- 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



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# PBM Transactions Require Additional Tasks and Incur Higher Costs for Retail Pharmacies

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- 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

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# PBMs May Steer Retail Pharmacy Customers to Mail-Order Programs

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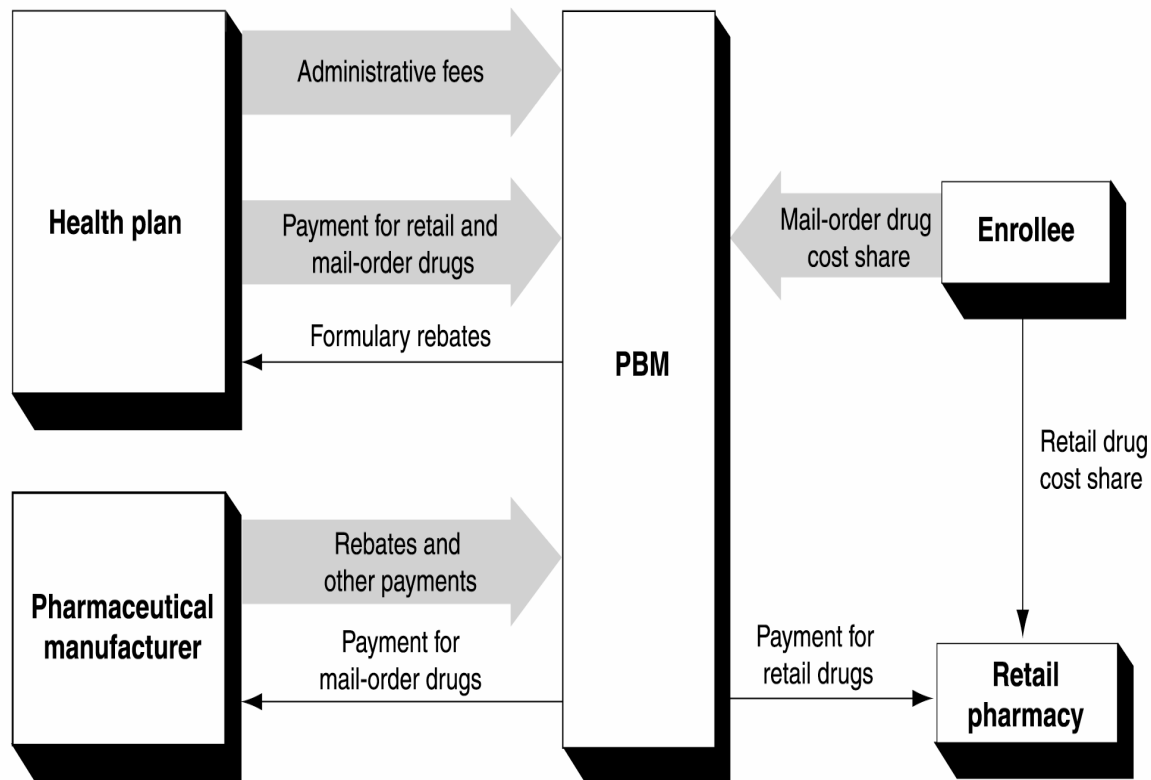
- Some PBMs target enrollees using retail pharmacies with letters informing them that their costs would be lower under mail order
- In 2001, the three FEHBP plans dispensed 21 percent of all prescriptions through mail order, higher than the industry average of 5 percent of prescriptions

# Most Pharmacies Participate in PBM Retail Networks

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- 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

# PBM's Compensation Sources



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# PBM Compensation Sources

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- **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
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# Conclusions

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- 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
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# Reactions to Release of Report

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- 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
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# GAO Report and Contact Information

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- 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](http://www.gao.gov)
    - Go to "GAO Reports"
    - Go to "Find GAO Reports"
    - Enter in report number "GAO-03-196"
  - Comments or Questions
    - John Dicken, Assistant Director, at [dickenj@gao.gov](mailto:dickenj@gao.gov)
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