STAT

Transparent pharmacy benefits: a path to rational drug costs

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Now that states are moving to block pharmacy benefit managers from imposing "gag orders" on pharmacists, industry insiders and policymakers are sounding off louder than ever about the tendency for pharmacy benefit managers to extract value from the health system rather than add value to it.

A handful of these companies might be bucking that trend, and more could follow — with a push from business owners.

The increasing visibility given to pharmacy benefit managers (PBMs) hasn't made these middlemen look particularly heroic. From the administration's threat that "we're very much eliminating the middlemen" to the throng of startups looking to stick it to pharma's status quo, there's no question that the national spotlight has cast an increasingly unflattering glare on these health plan and pharmacy go-betweens.

Prescription drugs account for an increasingly large share of what employers spend on employee benefits. Pharmacy benefit managers effectively control consumers' access to these drugs. It's their job to negotiate drug costs on behalf of the insurers they represent.

But pharmacy benefit managers are becoming well-known for their hidden fees, trumped-up prices, and kickbacks they receive from manufacturers in exchange for promoting specific medications. One of the industry's biggest secrets is just how much of the savings they score for insurance companies ends up in their own pockets.

Which is why it was all the more surprising when a recent study by Ike Brannon at the Cato Institute and Anthony T. Lo Sasso at the University of Illinois at Chicago indicated that pharmacy benefit managers could advocate for patients, not carriers, at the prescription counter.

The workaround for the deliberate obscurity of these companies is deceptively simple: transparent pharmacy benefits. This model recasts the relationship between the employers at the helm of health care purchasing, the pharmacy benefit managers associated with that employer's policy, and benefits consultants acting as liaisons. The goal of transparent pharmacy benefits isn't to take pharmacy benefit managers out of the game, but to shift their positions so that they act as the pharmaceutical umpires for employers, rather than skewing the playing field for traditional insurers.

This may sound like a pipe dream. But a few pharmacy benefit managers are bringing this fantasy to fruition. And since employers are the de facto insurers for the vast majority of working-age Americans and their families, it’s employers who can make transparency pharmacy benefits the new norm in a dynamic and uncertain health care landscape.

BeneCard is a pharmacy benefit manager offering this level of transparency. It gives employers flat, per-person fees and will cover any pharmaceutical costs that exceed a predetermined rate. The company is also fighting against opioid overuseby limiting starter painkiller prescriptions to five-day fills.

Another company, Southern Scripts, saved employees of Louisiana’s Terrebonne Parish Council money on pharmacy costs by distributing the prescription savings it negotiated among the policyholders rather than back to insurers (or itself), as many pharmacy benefit managers do. In 2017, Southern Scripts revealed to the Terrebonne Parish Council how it had saved $1.2 million through drug rebates.

Although pharmacy benefit managers like these have the potential to catalyze their competitors to adopt more transparent negotiating tactics, the rate of change in this notoriously opaque sector has been sluggish.

That’s why I believe it’s now time for employers to step up and drive change in the health care industry by insisting on transparent pharmacy benefits. Such agreements make clear that each policyholder, as the true purchaser of the pharmacy benefit manager’s services, has full access to all the details of his or her claims. That includes the policyholder’s right to use that information to make informed decisions about his or her health plan.

To accomplish that end, employers require a trusted source to combine their claims data with other analytical resources to help them understand the true cost of their pharmacy benefits, and not depend solely on the information their pharmacy benefit manager provides. To negotiate better contracts with pharmacy benefit managers, employers should pair their own data with an unbiased consultant’s analytical know-how, pharmacy industry knowledge, and vendor insight.

Unbiased consultants are not aligned with any pharmacy benefit manager. Their total impartiality enables them to spot the obfuscation tactics common to pharmacy benefit managers. This includes the artificial “discounts” these companies create, generally by offering a rate below what they allege is the average wholesale price (the average price of a drug purchased at the wholesale level) to generate the illusion of cost savings.

The average wholesale price, with its associated “discount,” is the common method for evaluating pharmacy benefit managers’ financial performance. But because the average wholesale price is often confusing and misleading, it can reduce leverage in negotiations and produce cost variability, to the detriment of employers and employees.

While working as senior vice president of Wells Fargo Insurance Services, Scott Haas examined situations in which pharmacy benefit managers had invoked the “uniform average wholesale price” model to illustrate this point.

Even though the average wholesale prices Haas analyzed claimed to offer a uniform discount for retail generics, he noted that the price per unit rose substantially over time. While pharmacy benefit managers generally allege that these increases reflect an employer’s “cost trend,” what they more often indicate are the companies’ desires to arbitrarily increase their cost base line — and hence their revenue — over time. As a result, discounts and metrics based on the average wholesale price make it harder to see or manage actual spending.

Employers can catalyze further transparency from pharmacy benefit managers across the industry by making it clear that they will do business only with pharmacy benefit managers that provide a clear set of drug pricing rates and per-unit costs. An impartial benefits consultant can help employers locate and select current “good actors” like the two pharmacy benefit managers I described earlier, and employers can then use their more informed choices to force the hands of other PBMs through the power of competition.

If an employer already has a contract with a pharmacy benefit manager, enlisting a consultant to drive more transparent terms can help prod the current PBM to change its ways. This involves the consultant providing the pharmacy benefit manager a basic summary of an employer’s chosen insurance policy and elements of its company plan. They next negotiate a contract with the pharmacy benefit manager that includes explicit drug pricing rates and fixed per-unit costs.

As we rally for a shift in the status quo across all facets of health care, business leaders have the best chance of encouraging industry scapegoats like pharmacy benefit managers to adopt new roles. Working alongside employee benefit advisors, employers can select quality pharmacy benefit managers and, through competition, encourage more and more of them to provide transparent pharmacy benefits.

All that’s required is a set of stakeholders determined enough to give them a push.