A Better Way to Navigate the Complex World of Pharmacy Benefits

Pharmacy Purchasing Coalition

- Shared BOCES service designed to help self-insured school districts and municipalities manage prescription costs through:
  - Volume-buying
  - Leveraging industry specific experts to re-route around the “middlemen” who drive up your pharmacy costs
  - Creating a truly transparent model
  - Best in class pricing for everyone, regardless of district size
A Little Background - Grant Study

- BOCES received NYS Department of State efficiency grant funding to study potential cost savings for school districts and municipalities participating in shared model
  - Chose prescription benefits to study due to unprecedented cost increases
  - Grant required collection of actual data on pharmacy costs from school districts to show potential savings
  - Grant study found districts could **save 10% to 20% on prescription costs** by participating in BOCES’ shared model

Next Up - Implementation Grant

- 2012: NYS Department of State awards implementation grant to BOCES to develop a shared service
  - Created a BOCES CoSer for service coordination and program development
  - Partners with Keenan & Associates to leverage their pharmacy expertise
    - Keenan was running the same exact program in California for schools and municipalities
    - Operating with a transparent model, using “BY US FOR US” philosophy, encompassing over 500,000 lives
    - More than 44 years’ experience in benefits management for schools
    - Led by team of experts whose focus is SOLEY pharmacy.
    - Extensive PBM contract, pharmacy audit and clinical experience
Why Focus on Pharmacy?

• It’s simple... It’s complex
• Some want to keep it that way
• Sitting on the sidelines is not an option
• Let’s take a look behind the curtain

Drug Trend Forecast 2016-2018

• 2016 +6.8%
• 2017 +7.3%
• 2018 +8.4%
• Total of 22.5% over 3 years

• Current prescription programs average 17% of total healthcare costs (Center for Medicaid and Medicare Services)
• For a district with $10 million in health care expenses, costs could increase from $1.7 million to $2 million by 2018
Prescription Drug Inflation

- Drug manufacturer consolidation, price hikes ahead of impending patent expirations and hyperinflation on older medications
- The Prescription Price Index shows rapid inflation in the price of medications, with the average price of brand name drugs increasing 16.2% in 2015 and 98.2% since 2011
- One-third of branded products experienced 2015 price increases greater than 20%. This trend continues today
- Inflation levels on generic products are exceeding those of their brand counterparts for the first time.

Understanding the Rules of the Game

The prescription drug industry has been dominated and controlled by a very complex and unregulated business structure, which has allowed pharmaceutical manufactures and Pharmacy Benefit Managers (PBM) to reap incredible profits at the expense of public schools.
Complexity Creates Confusion

Health Benefit Brokers

- Important to the overall management of benefit programs for districts
- **Problem?** They are most often “General Practitioners”, not experts in pharmacy benefit management
- **Question:** Would it be good practice for a school to negotiate a teacher contract without using a professional labor negotiator?

**NO!** Just like labor contracts are embedded with hidden costs, so too are PBM contracts
The PBM Contract

- While they provide valuable services to their clients, the PBM contracting process is **extremely complex** and is only understood in great detail by few nationwide
  - Designed to maximize profits for the PBM by taking advantage of the collective lack of understanding about the prescription drug industry
  - Like any high volume, low margin business, the “fine print” is where the money is made
  - Exceptionally complex bidding process
  - PBM’s capitalize on constant movement within the industry and use “optics” to improve margins

What are Optics?

Optics are areas within a PBM contract that allow them to make (or protect) margin by using a play on words. Many of the optics used by the PBM industry will go un-noticed by the untrained eye. Without careful negotiations, optics can (and will) appear anywhere within the PBM contract.

**FACT:** There are typically between 8 – 15 optics embedded within most contracts
Example #1 - Zero Balance Due Claims (aka ZBC or ZBL)

It comes down to simple math....or so you would think.

$20.00 - Drug cost for any customer (cash price)
$10.00 - Drug cost after employee presents benefit card (discounted price)
$10.00 - Employee Co-payment

The plan pays $0 - because the copay was equal to the discounted drug cost, hence the “zero balance”

By all standard calculations, the discount for this drug was 50% ($10/$20 = 50%)

Example #1 - Zero Balance Due Claims (cont’d)

However, not so fast........

Unless recognized and negotiated properly, the PBM will count this as a 100% discount because the plan didn’t pay anything. They are taking credit for the copay, which should not be a factor in the discounting calculation.

Impact – Artificially inflates the generic discount anywhere from 3% to 5%, and even greater for groups with higher copays

For a typical group with 1,400 members this averages between $21,000-$35,000 per year
Example #2 - Terms & Definitions

As Defined by the FDA

• A **generic drug** has the same make-up as a brand drug in terms of ingredients, dosage, safety, strength and quality, performance and how it is taken

• A **brand name drug** is a drug marketed under a proprietary, trademark protected name and is priced substantially higher than a generic

As Defined by the PBM

• Any **generic drug** that has more than 2 manufacturers (meaning 3 or more)

• By PBM contract definition a **brand name drug** is any drug that is not generic, meaning brand name drugs are generics w/ 2 or less manufacturers and all other brand drugs

Example #2 - Terms/Definitions (cont’d)

The Result....

• PBM’s have multiple definitions for brand and generics drugs, which can exaggerate the actual value to the employer. Generics could be counted as brands and vice-versa

The Impact....

• Artificially inflates the generic discount rate by 5%-7% and brand discount by 1%-2%

• For a typical district with 1,400 members this equates to between $92,000 - $133,000 per year
Top 5 Things to Remember

- Every pharmacy transaction is designed to generate profit for the PBM, drug companies and brokers.
- Alliances between companies limit your employees’ drug options while generating profits for the pharmaceutical industry and increasing employer costs.
- Health insurance brokers are “general practitioners” in the health care management industry — not experts in pharmacy benefits.
- PBM contract terms should be structured to benefit the school district not the PBM or the broker.
- Be involved in the RFP process.

Changing the Rules of the Game

Ask the right questions during the RFP process with your current advisor to negotiate better deals.

- What fees/commissions are you receiving because we do business with you?
- Are you obligated to do business solely with the pharmacy benefits management company you’re presenting as the best option?
- Are we getting 100% of the rebates given out?
- What is your method for comparing PBM pricing?
- What is your process and methodology to review and compare PBM contracts to minimize “optics”? How do you counteract FDA “loopholes”?
**Savings Results – Capital Region BOCES**

![Graph showing savings results for Capital Region BOCES from 2012-2013 to 2015-2016.]

**Savings Results - Across New York**

Districts have saved over $20 million under the BOCES Pharmacy Purchasing Coalition.

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How can this knowledge help you?

Use the information to negotiate better deals through your current broker

Questions?

Let us help you plan...now or later

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