

Reducing Healthcare Costs *for Employers*

Employers May Be Able to Save Thousands By Evaluating Drug-management Charges

If you haven't looked at your health plan's pharmacy benefit manager (PBM) charges lately, you're probably paying too much. As medical costs rise, pharmacy expenditures could be low-hanging fruit for cost cutting.

For example, the 5,000-employee Manatee School District in Bradenton, Fla., saved \$470,000 in drug expenses after a thorough review of its PBM spending. It did that after hiring a pharmacy benefit attorney and renegotiating its contract with a large PBM, says Forrest Branscomb, Manatee's director of risk management.

The first step to achieving this kind of cost savings is to use data mining software to capture pharmacy expenses.

"Data mining software shows you on a daily basis exactly what you're spending and for what," he says. "You can get that information from your PBM, but it'll be in the format that they want to show you, and it might not be timely."

The quickest way to save money is to identify high mark-ups on generic drugs. Branscomb hired a consultant who analyzed the district's drug spending and showed him how the PBM was charging the district far more for some generic drugs than what an employee would pay out of pocket at a discount retailer like Wal-Mart, Costco's, Kmart, Target, or even some grocery store chains.

See *PBM Vigilance*, p. 7

For example, the PBM charges included a \$180 charge for 90 days of a generic statin drug. The employee paid a \$20 copay for the drug when it was filled, says Dan Ross, president of Med-Vision LLC of Tampa. Ross worked with Branscomb on identifying some of the easier ways to save health care costs.

“That same drug costs \$10 at Wal-Mart for a 90-day supply,” Ross says. “It’s incredible!”

In such cases, employers should attempt to renegotiate with the PBM. To do so, Manatee hired an attorney who understood the complex language and terms of PBM contracts, Branscomb says.

“You have to rely on experts because there are a lot of dollars out there that you can save,” he adds.

Although PBMs are resistant to renegotiating, the district was able to convince its PBM to adjust the percentages and redefine definitions for the remaining time on the contract, Branscomb notes.

The discrepancy between actual drug costs and what the typical PBM charges is a common problem for employers. And it’s the reason why increasing numbers of employers and others are asking for transparency in their interactions with PBMs.

Manatee likely will save even more in drug costs when the district’s current PBM contract comes up for renewal. The plan’s going to demand transparency on a variety of levels.

“We want to know where all the money is going, and you have to craft your contract to be very specific about that,” Branscomb says.

An expert attorney will assist the employer with writing a proposed contract for potential PBMs. The proposed contract will ask for transparency in fees and expenses, and the district would select the PBM that satisfies their contractual requirements, he adds.

Cutting the mark-up on generic drugs is one strategy, but employers can use others.

Employer Starts Own PBM

For instance, another common issue is that PBMs often have contracts with drug companies where they receive rebates for including particular brand-name drugs

on their formulary, explains Robert Carta, assistant vice president of the division of pharmacy services at Carolinas HealthCare System in Charlotte, N.C.

As a large health care system with in-house pharmacy expertise, Carolinas HealthCare was able to take the unusual move of starting its own PBM for the system’s 30,000 health plan members. By taking over the drug costs, the health system was able to save \$2.4 million within three years, Carta says.

Not only did the health system’s PBM eliminate the hidden cost of rebates and the huge mark-ups on generic drugs, but it was able to steer plan members toward cheaper generic drugs by making these available with no copay.

“If I put Lipitor on the formulary, it might cost us \$3 a tablet when another statin is 2 cents a tablet,” Carta says. “Other PBMs might put Lipitor on the formulary because they get a \$2 rebate, but to us that’s still being charged 98 cents more per tablet.”

Ross recommends that smaller, fully insured employers use a similar strategy to reduce their drug costs: “We’d tell employees to go to Wal-Mart and buy the generic drugs, and then we’d pay them cash for the costs,” Ross says. “Even if you’re fully insured, this is hugely worth it.”

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Rebate Transparency

For instance, First Service Administrators, Inc. (FSAI) of Lakeland, Fla., requires PBM contracts to be transparent with 100 percent of drug rebates going back to clients, says Kathleen Sullivan, RD, executive vice president of business solutions. FSAI is a health care benefits administrator for employers.

“There’s incredible abuse in mail-order programs, and that’s where they’re getting 50 percent of their profits,” Sullivan says. “Employers don’t see how these gross profits are driving a majority of their costs.” The first thing FSAI looks at when trying to cut an employer client’s costs is drug costs, she adds. “It’s the biggest opportunity for saving money right away,” Sullivan says.

Employers regardless of size can cut their drug costs if they take time to learn more about how the PBM system works, Ross notes. “There are some really progressive employers who are using data to make sure they’re getting exactly what they need and that they have no over-charges in pharmacy contracts,” he adds. 🏠