

Pharmacy Pricing & PBM Overview

Senate Finance Committee

April 30, 2019

KEEP VERMONT

well



BlueCross BlueShield
of Vermont

An Independent Licensee of the Blue Cross and Blue Shield Association.

Agenda

- What are Pharmacy Benefit Managers (PBMs)?
- How are prescription drugs priced?
- Specialty Drug Increases
- Generic Drug Increases



What are Pharmacy Benefit Managers?

KEEP VERMONT

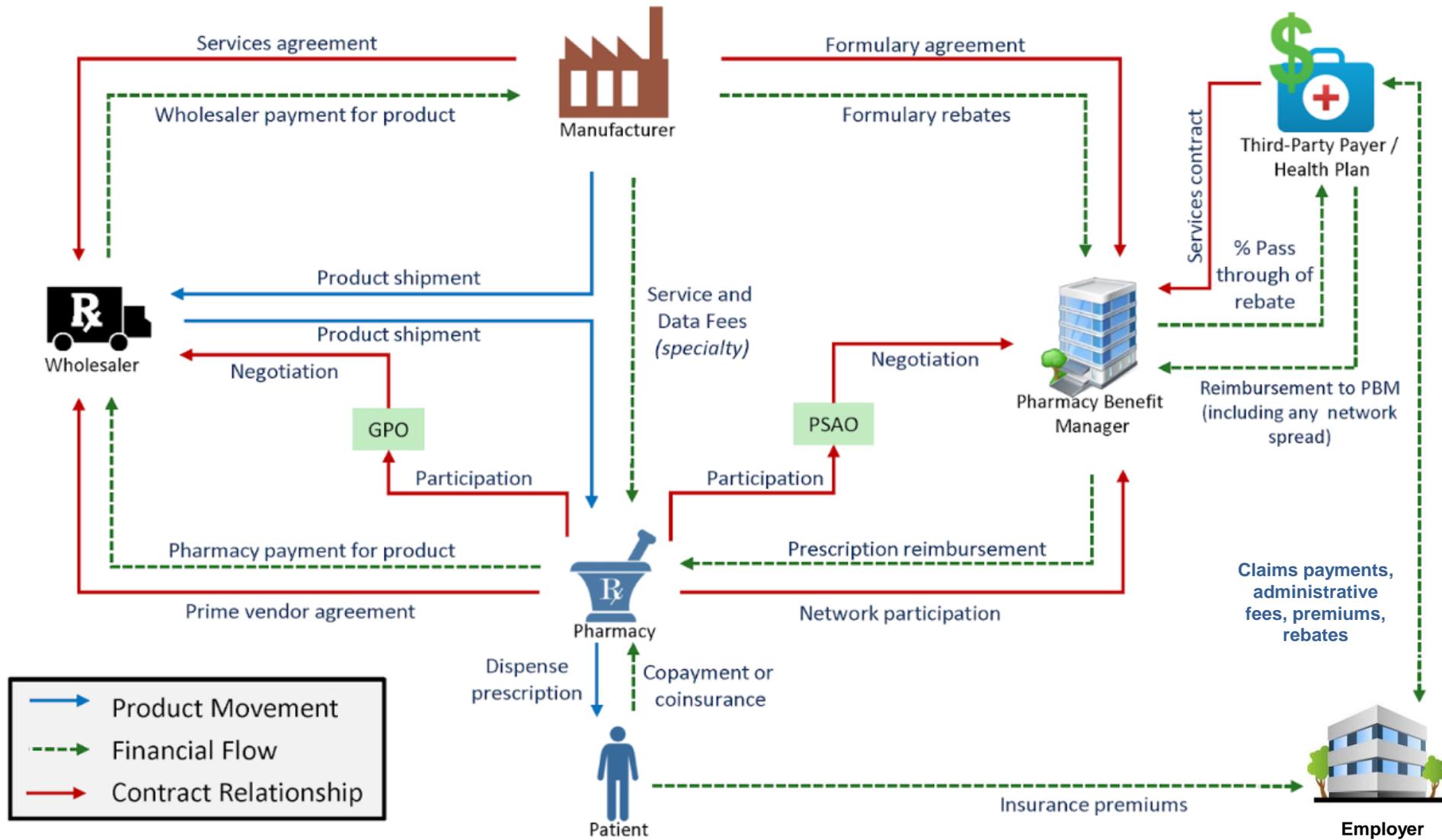
well



BlueCross BlueShield
of Vermont

An Independent Licensee of the Blue Cross and Blue Shield Association.

U.S. Distribution and Reimbursement System: Patient-Administered, Outpatient Drugs



Why Do We Contract with PBMs?

- **BCBSVT's Volume** (158,000 members)
 - 1.3 Million Rx claims
 - \$168 Million in drug spend
 - 8,592 pharmacies used
 - 14,141 unique drugs processed
- **Express Scripts' Volume** (105,000,000 members)
 - 1.4 Billion Rx claims
 - \$100 Billion in drug spend
 - 67,000 pharmacies used
 - 140,000 unique drugs processed
- **CVS/Caremark's Volume** (94,000,000 members)
 - 1.9 Billion Rx claims
 - \$134 Billion in drug spend
 - 67,000 pharmacies used
 - 140,000 unique drugs processed
- **Optum Rx's Volume** (80,000,000 members)
 - 1.3 Billion Rx claims
 - \$911 Million in drug spend
 - 67,000 pharmacies used
 - 140,000 unique drugs processed

What Services Do PBMs Provide?

- Claims Processing
- Patient Safety Edits
- Formulary Management
- Nationwide Pharmacy Network Contracting
- Manufacturer Rebate Contracting
- ePrescribing Hub
- Mail Order Pharmacy
- Specialty Drug Pharmacy
- Customer Service
- Prior Approval Processing
- Academic Detailing
- Data Integration
- Account Management
- Market Development
- Fraud, Waste & Abuse Review
- Trend Analysis

How Do Pharmacy Benefit Managers Make Money?

- **Discount Spread**

- Example: PBM negotiates a 16.6% discount with the pharmacies and then negotiates a 16.5% discount with the plan sponsor.

- **Pass-through + Fee**

- Example: PBM negotiates a 16.5% discount with the pharmacies and then passes the full discount onto the plan sponsor. PBM charges the plan sponsor a fee on each claim.

- **Rebates**

- Example: PBM keeps a portion of the rebates it collects from manufacturers.

- **Float**

- Example: PBM collects from the plan sponsor on the 1st and reimburses the pharmacies on the 3rd of the month.

Pharmacy Industry Margins

- Pharmacy Benefit Managers have the smallest margins in the pharmacy delivery pipeline.

(as a % of revenue)	Express Scripts	Walgreens	Amgen
Gross Margin %	8.5%	23.4%	63.9%
Net Income %	3.3%	3.8%	30.7%

Note: Data from 2018 SEC filings.

- As a not-for-profit company, BCBSVT contributes about 0.5% to our reserves each year.



How are Prescription Drugs Priced?

Drug Definitions

■ Brand Drugs

- Drugs with patent protection and there is one manufacturer
- About 12% of all prescriptions but about 30% of the cost

■ Generic Drugs

- Drugs without patent protection and there are multiple manufacturers
- About 86% of all prescriptions but only about 20% of the cost

■ Specialty Drugs

- Type of brand drugs that are high cost and require special handling and care to treat rare conditions.
- About 2% of all prescriptions but about 50% of the cost

Pharmacy Pricing 101

- “List Price”
- Called “AWP”
- Set by manufacturer
- High rate of inflation

- Negotiated with PBM
- Largely remains the same for life of the three year contracts

Average Wholesale Price	\$100
<u>- Discount</u>	<u>-16%</u>
Ingredient Cost	\$84
<u>+ Dispensing Fee</u>	<u>+\$1</u>
Gross Cost	\$85
<u>- Member Copay/Deductible</u>	<u>-\$25</u>
Plan Cost	\$60
<u>- Rebate</u>	<u>-\$6</u>
Net Cost	\$54

Pharmacy Pricing 101 – Pass-Through Pricing

- “List Price”
- Called “AWP”
- Set by manufacturer
- High rate of inflation

- Negotiated with PBM
- Largely remains the same for life of the three year contracts

Average Wholesale Price	\$100
<u>- Discount</u>	<u>-16%</u>
Ingredient Cost	\$84
<u>+ Dispensing Fee</u>	<u>+\$1</u>
Gross Cost	\$85
<u>- Member Copay/Deductible</u>	<u>-\$25</u>
Plan Cost	\$60
<u>- Rebate</u>	<u>-\$6</u>
Net Cost	\$54
<u>+ Admin Fee</u>	<u>\$2</u>
Final Cost	\$56

Pharmacy Pricing 101 – Spread/Traditional Pricing

	<u>BCBSVT</u>		<u>Walgreens</u>
Average Wholesale Price	\$100		\$100
<u>- Discount</u>	<u>-16%</u>		<u>-17%</u>
Ingredient Cost	\$84		\$83
<u>+ Dispensing Fee</u>	<u>+\$1</u>		<u>+\$0.50</u>
Gross Cost	\$85		\$83.50
<u>- Member Copay/Deductible</u>	<u>-\$25</u>		<u>-\$25</u>
Plan Cost	\$60	← \$1.50 →	\$58.50
<u>- Rebate</u>	<u>-\$6</u>		
Net Cost	\$54		

PBM Spread Margin

MAC Pricing

- MAC = Maximum Allowable Cost
- Used for generic drugs where there are multiple manufacturers making the same FDA-approved drug but charging different prices for the same drug
- Meant to hold down prices and inflation by reimbursing pharmacies based upon the lowest cost version of the generic drug

MAC Pricing Example

NDC CODE	NDC DESCRIPTION	STRENGTH		ROUTE OF ADMIN	DOSAGE FORM DESCRIPTION	MANUFACTURERS NAME	ALLOWED UNIT PRICE
		STRENGTH	UNIT OF MEASURE				
68084072801	Fluconazole	100	MG	Oral	Tablet	AMERICAN HEALTH PACKAGING	24.000
60505012001	Fluconazole	100	MG	Oral	Tablet	APOTEX	8.793
54569649800	Fluconazole	100	MG	Oral	Tablet	A-S MEDICATION SOLUTIONS	8.770
65862005930	Fluconazole	100	MG	Oral	Tablet	AUROBINDO PHARMA	8.754
50268033711	Fluconazole	100	MG	Oral	Tablet	AVPAK	9.531
68001025204	Fluconazole	100	MG	Oral	Tablet	BLUE POINT LABORATORIES	8.803
58118501600	Fluconazole	100	MG	Oral	Tablet	CLINICAL SOLUTIONS WHOLESALE	36.520
61919041910	Fluconazole	100	MG	Oral	Tablet	DIRECT RX	26.225
66336057011	Fluconazole	100	MG	Oral	Tablet	DISPENSING SOLUTIONS INC.	14.168
55111014430	Fluconazole	100	MG	Oral	Tablet	DR.REDDY'S LABORATORIES, INC.	8.754
55045323808	Fluconazole	100	MG	Oral	Tablet	DRX	8.750
68462010230	Fluconazole	100	MG	Oral	Tablet	GLENMARK PHARMACEUTICALS	8.803
59762501601	Fluconazole	100	MG	Oral	Tablet	GREENSTONE	8.754
67405060203	Fluconazole	100	MG	Oral	Tablet	HARRIS PHARMACEUTICAL	8.754
00904650061	Fluconazole	100	MG	Oral	Tablet	MAJOR PHARMACEUTICALS	9.709
51138012704	Fluconazole	100	MG	Oral	Tablet	MED-HEALTH PHARMA	8.800
00378251693	Fluconazole	100	MG	Oral	Tablet	MYLAN	8.793
16714069101	Fluconazole	100	MG	Oral	Tablet	NORTHSTAR RX	8.770
16571021130	Fluconazole	100	MG	Oral	Tablet	PACK PHARMACEUTICALS, LLC	8.754
21695013110	Fluconazole	100	MG	Oral	Tablet	PHYSICIAN PARTNER	17.606
55700049008	Fluconazole	100	MG	Oral	Tablet	QUALITY CARE PRODUCTS	12.505
57237000430	Fluconazole	100	MG	Oral	Tablet	RISING PHARMACEUTICALS	8.754
51672406506	Fluconazole	100	MG	Oral	Tablet	TARO	8.754
00172541146	Fluconazole	100	MG	Oral	Tablet	TEVA PHARMACEUTICALS USA	8.754

MAC Pricing Example

NDC CODE	NDC DESCRIPTION	STRENGTH		ROUTE OF ADMIN	DOSAGE FORM DESCRIPTION	MANUFACTURERS NAME	ALLOWED UNIT PRICE
		STRENGTH	UNIT OF MEASURE				
55045323808	Fluconazole	100	MG	Oral	Tablet	DRX	8.750
65862005930	Fluconazole	100	MG	Oral	Tablet	AUROBINDO PHARMA	8.754
55111014430	Fluconazole	100	MG	Oral	Tablet	DR.REDDY'S LABORATORIES, INC.	8.754
59762501601	Fluconazole	100	MG	Oral	Tablet	GREENSTONE	8.754
67405060203	Fluconazole	100	MG	Oral	Tablet	HARRIS PHARMACEUTICAL	8.754
16571021130	Fluconazole	100	MG	Oral	Tablet	PACK PHARMACEUTICALS, LLC	8.754
57237000430	Fluconazole	100	MG	Oral	Tablet	RISING PHARMACEUTICALS	8.754
51672406506	Fluconazole	100	MG	Oral	Tablet	TARO	8.754
00172541146	Fluconazole	100	MG	Oral	Tablet	TEVA PHARMACEUTICALS USA	8.754
54569649800	Fluconazole	100	MG	Oral	Tablet	A-S MEDICATION SOLUTIONS	8.770
16714069101	Fluconazole	100	MG	Oral	Tablet	NORTHSTAR RX	8.770
60505012001	Fluconazole	100	MG	Oral	Tablet	APOTEX	8.793
00378251693	Fluconazole	100	MG	Oral	Tablet	MYLAN	8.793
51138012704	Fluconazole	100	MG	Oral	Tablet	MED-HEALTH PHARMA	8.800
68001025204	Fluconazole	100	MG	Oral	Tablet	BLUE POINT LABORATORIES	8.803
68462010230	Fluconazole	100	MG	Oral	Tablet	GLENMARK PHARMACEUTICALS	8.803
50268033711	Fluconazole	100	MG	Oral	Tablet	AVPAK	9.531
00904650061	Fluconazole	100	MG	Oral	Tablet	MAJOR PHARMACEUTICALS	9.709
55700049008	Fluconazole	100	MG	Oral	Tablet	QUALITY CARE PRODUCTS	12.505
66336057011	Fluconazole	100	MG	Oral	Tablet	DISPENSING SOLUTIONS INC.	14.168
21695013110	Fluconazole	100	MG	Oral	Tablet	PHYSICIAN PARTNER	17.606
68084072801	Fluconazole	100	MG	Oral	Tablet	AMERICAN HEALTH PACKAGING	24.000
61919041910	Fluconazole	100	MG	Oral	Tablet	DIRECT RX	26.225
58118501600	Fluconazole	100	MG	Oral	Tablet	CLINICAL SOLUTIONS WHOLESALE	36.520



Questions?

KEEP VERMONT

well



BlueCross BlueShield
of Vermont

An Independent Licensee of the Blue Cross and Blue Shield Association.