Waste Free Formulary:

A KEY TO REDUCING PRESCRIPTION DRUG SPENDING

Written By Lauren Vela, Mariana Socal, MD, PhD and Anne Ladd

What could a local bank, a regional timber company, an international staffing firm and the State of Tennessee have in common? They all dug into the formulary offered by their PBM and they all found substantial savings by replacing low-value drugs with less-costly, equally effective drugs.

There is growing concern among employers – private and public, large and small - about the ever-increasing percentage of their total employee compensation going to health benefits. The fastest growing component of health benefits is drug spending.

While many drugs provide great benefit to patients, and it is important to cover these drugs, significant savings can be achieved by eliminating certain high-cost drugs that are placed on the formulary simply because pharmacy benefit managers (PBMs) earn greater profits from them, leading to higher spending by self-insured organizations and their employees. "Wasteful" drugs provide no additional clinical value, as compared to lower-cost equally or more-effective clinical options.

Here are success stories of those who have removed these wasteful drugs:


Kim Devore - Jonah Ban

THE BANK:

"When our independent data warehouse ran a report showing over 7% of our total drug spend was on a list of 29 wasteful drugs we got through our local business coalition on health, we rolled up our sleeves," said Kim DeVore, then Chief Financial Officer of Jonah Bank (www.jonah.bank) and now the bank's president. "First, we tried having a conversation with our existing PBM, but that went nowhere. So, we looked around and found a new PBM that is a much better fit for us."

The result: The cost of non-specialty claims dropped 66% in the plan year ended June 2020 compared to the plan year that ended in June 2019.

"Yes, that's a really big deal for us as a relatively small business," says DeVore with a wry smile that quickly turns into a hearty laugh filled with both astonishment and pride. She also noted that the company has had three good medical claims years, where the spend has been close to flat.

THE TIMBER COMPANY:

Neiman Enterprises (www.neimanenterprises.com) is a family owned business that runs five sawmills in Colorado, Oregon, South Dakota and Wyoming.

"We take pride in our ability to provide health benefits to our employees and their families," said Sheri Stinson, the company owner charged with managing benefits. "We've undertaken several initiatives to control the cost without sacrificing the richness of our benefits, and one of my easiest successes was removing wasteful drugs from our coverage policy."

Neiman Enterprises was already looking for a new PBM as their current vendor was being acquired. They evaluated several and settled on a PBM designed with a separation of powers to eliminate the misaligned incentives that result in chasing rebates and spread pricing.

The new PBM took over on August 1, 2019, one month after the new plan year began. In addition to taking wasteful drugs off the formulary, the Neiman family agreed to switch all appropriate prescriptions to lower cost therapeutic equivalents.

Since then, the cost of non-specialty pharmacy claims dropped 20% for the company. Because the plan allowed for a 3-month transition to the new, non-wasteful medications, their spend on wasteful drugs was down 75.8% one year after the switch.

INTERNATIONAL STAFFING FIRM:

For a large staffing company, getting their $1.86 Million took some insistence. After much wrangling, their consultant ran the data and reported only $780,000 had been spent on low-value drugs. That just didn't sit right with the benefit team. It just seemed too small.

The consultant remined them that they were paying for a service called "counter strategies" which filters out low value drugs, but that a few snuck by. However, the company's benefit managers asked the consultant to double check to make sure others had not also slipped through the automated system.

The benefit managers insistence on digging deeper led to the realization that the "counter strategies" service had never been turned on. The result was a refund of $1.8 Million to the plan net of rebates and fees to cover years of overpayment.

It is not always straightforward for plan sponsors to get access to their own data and obtain clear information. But, the rewards can be significant. All plan sponsors should make sure to periodically review their utilization and spending information, including double or triple checks if necessary.

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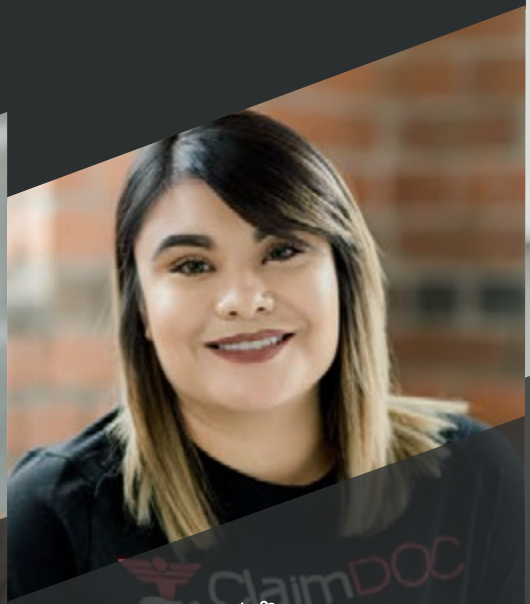

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This whole exercise made the staffing firm realize that there is more opportunity with the PBM and the need to better understand their contracted engagement, including transparency regarding all fees. It has triggered a larger discovery project.

THE STATE OF TENNESSEE:

The State of Tennessee has about 286,000 covered lives on their plan. Like many employers, the rapid increases in drug costs caused them to take a close look at their pharmacy plan, including looking at the list of drugs on the waste-free formulary.

Past concerns over employee experience had prevented the State from implementing a restrictive formulary. They were using the least restrictive formulary option offered by their PBM with all drugs covered unless specifically excluded by the plan.

One important step was to opt into their PBM's more restrictive formulary with a list of non-covered drugs and other products that require a medical exception process for approval, which is common in many plans. A predictive analysis of that move shows the state saving $42.3 million in one year.

The state also implemented the PBM's hyperinflation management program which placed additional utilization management controls on drugs with other alternatives. This resulted in an estimated annual savings of $9.5M.

On top of these savings, the State asked their PBM to implement strong utilization controls on the drugs identified in the waste-free-formulary as low value, which resulted in an additional $8.8 million in savings.

Kendra Gipson, Director of Vendor Services and Contracts states, "The waste-free formulary list demonstrated to us that, even with the steps we had taken to manage cost and utilization in our pharmacy program, there were still opportunities, with minimal member impact, to achieve additional savings."

Kendra Gipson

WHAT IS A "WASTEFUL" DRUG?

One example of a "wasteful" drug is a more expensive branded drug when a less expensive generic drug is available. Both provide the same clinical benefit, but one is much more expensive.

Other examples are fixed-dose combination drugs ("combo drugs"), which are drugs with two or more active ingredients in one pill that can be 100 times more expensive than the individual ingredients purchased in separate pills; and "me too" drugs, when tweaking of a particular ingredient – for example, a slightly different concentration - results in a "new," more expensive drug that adds no clinical value as compared to the less expensive, original version.

The reason PBMs place the more expensive drug on the formulary is drug manufacturers are willing to pay the PBMs for favorable formulary placement. Sure, some of that money gets returned to the plan as rebates, but usually not all. Bigger fees paid to the PBM mean bigger profits for the PBM, but more expense for the plan.

Worse, patient cost share is often based on the price without rebate – inflating the members' out of pocket cost. The portion of the rebate returned to the plan benefits all employees, but the sicker employees, those buying more drugs, have pre-paid for a portion of that rebate – and it is rare for a plan sponsor to return those funds to the patient.

PROS AND CONS OF IMPLEMENTING A WASTE-FREE-FORMULARY

The Pacific Business Group on Health and Integrity Pharmaceutical Advisors analyzed six months of drug utilization by 15 large, self-insured plan sponsors. PBGH and IPA examined more than 2.5 million scripts and found that 6% of all drug claims were for "wasteful" drugs.

Wasteful drug claims represented 3% to 24% of companies' total spend on drug benefits, depending on which drugs were included in the formulary and how often they were utilized.

There is always a concern that changing health benefits will cause employee dissatisfaction and this concern causes benefit managers to hesitate to change drug coverage. We have worked with many companies who have adopted "waste free formularies."

When employees understand the cost to them of these "wasteful drugs", they appreciate their employers being more responsible purchasers. Indeed, complaints about a "waste free" formulary occur infrequently and can be addressed by providing the clinical and financial rationale for excluding wasteful drugs.

Self-insured employers hire pharmacy benefit managers (PBMs) to identify which drugs will be included on a drug formulary. PBMs negotiate discounts and rebates with drug manufacturers and distributors in return for the PBM giving the drug favorable formulary placement. In most contracts, PBMs keep a portion of the rebate and/or other fees paid by the manufacturer, creating an incentive for PBMs to prefer more expensive, highly-rebated drugs, even if there are less expensive drugs available.

Additionally, PBMs may pocket the difference between the list price and the price that they actually pay for the drug ("spread"), which also creates an incentive for higher-priced drugs. High list prices are a direct result of rebates and spread revenues that bring profits to PBMs charged with managing formularies for employers.

WHAT CAN SELF-INSURED EMPLOYERS DO?

The first step is to analyze your data. It's helpful if you have an independent, third-party do the analysis to ensure the results don't reflect any conflicts of interest. A starter spreadsheet of 49 of the most egregious "wasteful" drugs, with their NDC codes is available for free here. The same link has a free guidebook to help you understand this issue in more depth.

Once you've run the NDC codes on this list against your pharmacy claims, you should know what percent of your claims are spent on these wasteful drugs. Depending upon your results, there are a variety of options open to you:

- Engage in a conversation with your existing PBM and or consultant. Ask them some hard questions:
    - Why are these drugs on the formulary?
    - Is the PBM willing to remove them? If not, why not?
    - If so, how will they help you transition existing patients to their new medication(s)?
    - How much revenue has the PBM received in rebates or other fees paid by the manufacturer and/or distributor that they have not returned to your plan account?
    - Can you audit the PBM's accounting of their rebates/other fees paid to them by the manufacturer and/or distributor? Can you choose the auditor, or must you use one the PBM/consultant has "approved?"

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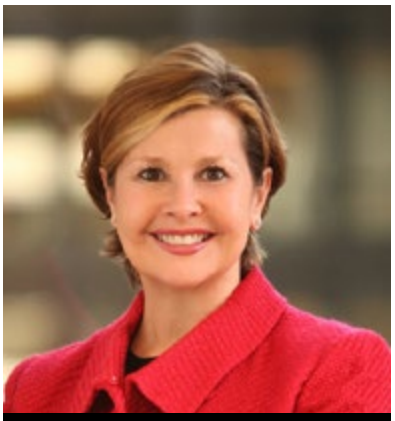
• If your existing PBM is unwilling to constructively engage in this conversation, you should probably consider looking for a new PBM. This means selecting a PBM that:

- Removes the full list of wasteful drugs from your formulary.
- Allows you to modify the formulary as you deem appropriate.
- Administers coverage for over-the-counter (OTC) drugs when the OTC drug is a lower cost alternative to a more expensive prescription drug. (This aligns the financial incentives between you and your covered lives.)
- Passes all rebates and fees paid by the manufacturer and/or distributor back to your plan. Payments can include monies classified as rebates but also all other monies paid by the manufacturer or distributor to the PBM including marketing fees, distribution fees, handling fees, promotional fees and all other terms.
- Allows you to audit the contracts between the PBM and the drug manufacturers and/or distributors as well as the PBM and the retail outlets without restricting your choice of auditors.
- Bills your plan the same amount the PBM paid for the drug. Payment for other services should be explicit, not hidden in "spread" pricing arrangements.
- Offers a pricing model based on lowest net cost drugs and not rebate maximization. Do not be fooled by low Administrative Services Only (ASO) fees, high rebate guarantees and discounts. Compare overall net per member per month (PMPM) costs.

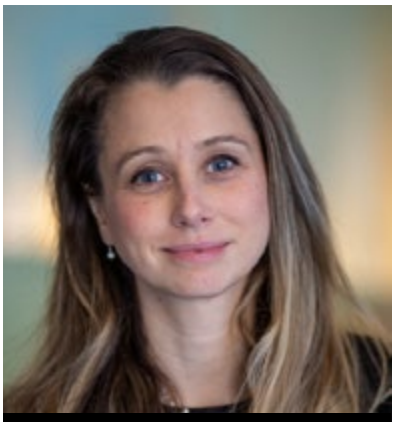
CONCLUSION

Transparency, formulary flexibility, and a fee-based contract model are the cornerstones of responsible contracting and management of PBMs. Jonah Bank, Neiman Enterprises, the staffing firm and the State of Tennessee are proof that good formulary management and smart PBM contracting can be done by any organization – large or small, public or private. Organizational leaders must support and expect more accountability in pharmacy benefit management, which is a bellwether for additional opportunities to reduce waste in healthcare spending. ■

Anne Ladd



Lauren Vela



Mariana Soca

Anne Ladd

Anne Ladd is the Associate Director of Purchaser Innovation for the Pacific Business Group on Health where she has responsibility for identifying, organizing and implementing positive disruptions to the health care delivery system resulting in greater value for employers/ purchasers.

Before joining PBGH, Anne spent 12 years as the CEO of the Wyoming Business Coalition on Health. She also has experience in public policy and as a product manager on several healthcare related information technology projects. She started her career in healthcare with Kaiser Permanente in Sonoma County, California, but has also worked for Kaiser in Colorado and served as the Director of Strategic Planning for Blue Cross Blue Shield of Colorado/Nevada.

Before entering the health care arena Ms. Ladd spent six years as a reporter and writer for both broadcast and print media on both the East and West coasts covering politics, natural resources and business issues.

Born and raised in Wyoming, Ms. Ladd has an undergraduate degree in economics from Williams College in Williamstown, Mass., a Master's degree in Journalism from the Medill School of Journalism at Northwestern University in Evanston, Ill., and a Master's in Healthcare Administration from St. Mary's College in Moraga, California.

As a Peace Corp Volunteer in the early 1980's Ms. Ladd taught vegetable gardening and small animal husbandry in a remote region of Guatemala. She has traveled throughout Central and South America. Also, a bit of an adventurer, Ms. Ladd helped organize and execute an expedition to Mt. Everest through China and Tibet in 1988.

Lauren Vela

As Senior Director of Member Value, Lauren works directly with the large purchaser members of PBGH to facilitate collaboration and to support their purchaser-driven initiatives impacting healthcare delivery in the US. To that end, Lauren manages the processes of translating PBGH's ground-breaking work in transparency and accountability into workable solutions for PBGH member organizations.

Prior to this role, Lauren was the Executive Director of the Silicon Valley Employers Forum (SVEF), a coalition of high-tech employers that benchmark benefit designs and collaborate for improvement. During her SVEF tenure, Lauren systematized the group's benchmarking practices and served as a facilitator and strategist for their joint projects with regard to both US-based and international employee benefit programs.

To this day, SVEF and PBGH maintain a strategic alliance and Ms. Vela works closely with purchaser members of both groups. Prior to the SVEF role, Lauren enjoyed a twelve-year tenure with PBGH serving in three distinct areas; multi-stakeholder health information exchange, provider group organization improvement, and employer value-based purchasing.

Prior to her work with SVEF and PBGH, Lauren was employed by organizations in the workers comp, TPA, and mental health fields where she held positions in product development, operations, marketing, and provider relations.

Lauren earned an MBA from the University of Houston and has completed all necessary coursework for her Dr.PH. with a focus on managed health care and health economics.

Mariana Socal

Mariana Socal, MD, PhD is faculty at Johns Hopkins Bloomberg School of Public Health, Department of Health Policy and Management. Dr. Socal's research focuses on improving pharmaceutical coverage, affordability and access for older Americans and on removing wasteful spending from prescription drug benefits nationwide.

Dr. Socal has presented before several U.S. Congressional committees and has testified before the U.S. Congress on issues related to drug pricing and employment-based health insurance. Dr. Socal has also testified at the Food and Drug Administration on issues related to biopharmaceutical regulation, including insulins.

At Johns Hopkins Dr. Socal teaches courses on Comparative Health Insurance and on U.S. Pharmaceutical Policy. Dr. Socal is a physician trained in adult Neurology. She holds a Master's in Public Policy from Princeton University and a PhD in Public Health/Health Systems from Johns Hopkins University.