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Why Your Pharmacy Benefit Isn't Saving Any Money

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Workers' Compensation payers have begun to adopt programs designed to control the cost of prescription drugs. And it's no wonder; prescription drug expenses for many payers are approaching 10 percent of medical expenses, and may well pass 10 percent if present trend rates continue. Unfortunately, many have found that their recently developed programs are running into significant problems. These problems all have a single source. The dirty secret behind many Workers' Compensation "Pharmacy Benefit Management" programs is they can't deliver meaningful discounts. There are several reasons for this problem, but it all comes down to the economics of the pharmacy.

Surprisingly, most pharmacies make little money from prescription drugs delivered thru large group-health focused Pharmacy Benefit Management companies (PBM)s. Instead they use the PBM relationship as a means to draw in customers who buy other products. However, they do make money from Workers' Compensation scripts, and are very reluctant to give up that margin. Pharmacy chains and independents are becoming much more aware of Workers' Compensation as a revenue source, and are scrutinizing PBM contracts and customers alike to ensure they are only providing discounts where they absolutely have to. When pharmacies find that scripts are being filled for Workers' Compensation and their contract with that PBM does not specifically include Workers' Compensation they frequently reject the card, requiring the patient to pay cash. This does not engender good feelings; frustrated claimants tend to become litigious claimants.

To determine if a PBM can deliver significant discounts below the fee schedule, and therefore significant hard dollar (i.e. real) savings, it helps to understand their business model and how they make their money. All PBMs provide comprehensive prescription drug management, including bill processing, networks of independent and chain pharmacies, which function much like a medical PPO, reporting, and Drug Utilization Review (DUR). DUR is a process designed to manage drug utilization by preventing overuse or inappropriate use of drugs, switching patients to generics and/or mail order, and similar techniques. With that as background, we can contrast the various types of PBM and point out the strengths, and weaknesses, of each.

Many 'Workers' Compensation' PBMs are actually large group-health oriented networks repackaged, or cross-marketed, for Workers' Compensation. In other cases, firms private label another company's pharmacy networks, and claim that it as their own. These repackaged group health PBMs look good on the surface; they include most pharmacies and deliver deep discounts. The reality is rather different.

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Typically their contracts with pharmacies do not address Workers' Compensation; they are either group health specific or “all payer all product.” This is critical. For reasons mentioned above, most pharmacies do NOT allow processing of Workers' Compensation scripts under either a group health or all payer all product contract. In fact, pharmacists will usually not process Workers' Compensation scripts through these arrangements. Beware the PBM without comp contracts, as claimants may well find their scripts rejected and be required to pay full price out of their own pockets.

Second is the Workers' Compensation-specific PBM. These firms often have no group health pharmacy business at all, concentrating their efforts on Workers' Compensation alone. While they may indeed have strong expertise in Workers' Compensation, and Workers' Compensation-specific drug management programs, this is all they have. The challenge faced by Workers' Compensation PBMs is one of market share. Unlike large group health-oriented PBMs, there is no group health buying power backing these specialist networks up.

According to the National Institute for Health Care Management's Prescription Drug Expenditures Report, total drug spending in the US is almost \$200 billion. Workers' Compensation prescription drug expenditures account for one percent of that total. Logic dictates that a pharmacy not likely to offer meaningful discounts, agree to special handling, or even recognize the name of a PBM that will deliver only one percent of its business. On the plus side, these specialist PBMs have Workers' Compensation-specific formularies (drug lists), understand the local regulatory environment, and know the business. Their sales approaches tend to tout savings from rejecting certain drugs, denying, or delaying refills, and other “utilization management” approaches. While there may indeed be savings flowing from these techniques, they are “avoided costs” and thus aren't the hard dollars you can put in the bank.

Finally, there is the “hybrid,” the least common PBM. This type of organization has a large network of pharmacies that is contracted for group health and Workers' Compensation and provides a Workers' Compensation-specific DUR program. The hybrid has the name recognition and negotiating power of the group health business, coupled with a Workers' Compensation-specific contract. The result is discounts that can exceed 20 percent below fee schedule/R&C coupled with highly effective, comp-specific formularies and DUR. Unfortunately, many of the largest PBMs such as Medco and AdvancePCS, do not offer Workers' Compensation programs; fortunately others do.

This is a rapidly maturing market with significant consolidation occurring among pharmacies and PBMs alike. The big will get bigger, and capture all the benefits associated with size, while the small will likely lose negotiating power, market share, and ultimately customers as they become less able to deliver

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discounts and name recognition. If you are looking for a long-term relationship, make sure you factor in the importance of staying power.

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