REBUILDING TRUST IN HEALTHCARE

5 Recommendations for an Optimal PBM Deal

Judi Health™

Overview

Pharmacy benefit managers (PBMs) play an essential role in the middle of the pharmaceutical supply chain. They orchestrate hundreds of small tasks necessary to process prescription drug claims on behalf of plan sponsors, including employers of all sizes, and ensure that employees and their dependents have access to medication when needed.

However, PBMs have transitioned from purely administrative to a much more complex, opaque role over time, and value has been extruded from health plans. Layer on the Consolidated Appropriations Act (CAA) and new responsibilities for plan sponsors, who are now fiduciaries, and it is more important than ever to understand how PBMs operate and make money, and what an aligned PBM arrangement looks like.

To that end, we're highlighting five recommendations for an optimal PBM deal that will ensure you are positioned to offer cost-effective and transparent drug pricing to your members while ensuring compliance with new rules governing fiduciaries.

If you have any questions or need to follow up on anything herein, please CONTACT US to arrange a discussion.

We are here to help and always happy to answer your questions.

Kristin Begley, PharmD
Chief Commercial Officer

5 Recommendations for an Optimal PBM Deal

Fully-aligned PBM arrangements will drive better financial and health outcomes for plan sponsors.

It is possible to guarantee a total cost per member per month (PMPM).

1. Replace average wholesale price (AWP) and maximum allowable cost (MAC) with a more rational benchmark.
2. Identify PBM partners that do not own conflicted assets.
3. Identify PBM partners that can PROVE they do not retain revenue from pharmaceutical companies.
4. Negotiate CLAIM-LEVEL pricing commitments for ALL drugs.
5. Restructure pricing terms to minimize or eliminate PBM gameplay.

01 Replace AWP & MAC lists with a more rational price list.

DRUG PRICES EXIST THROUGHOUT THE SUPPLY CHAIN UNTIL PBMS GET INVOLVED.

Traditional drug pricing benchmarks like Average Wholesale Price (AWP) and Wholesale Acquisition Cost (WAC) are reported by drug manufacturers to third parties who publish these reference prices on a subscription basis.

WHAT YOU NEED TO KNOW ABOUT AWP & MAC LISTS.

AVERAGE WHOLESALE PRICE (AWP)

- **Reference price for most PBM deals**
- **Set arbitrarily by pharma**
- **Not correlated to actual drug price**
  - Actual prices can range from AWP-95% to AWP+25%
- **Almost always goes up**
  - Even as generic prices are deflating, AWP continues to inflate
- **Must be negotiated separately for brands and generics**
  - PBMs can then play games with brand/generic definitions

AWP CREATES **ARTIFICIAL PRICE INFLATION.**

MAXIMUM ALLOWABLE COST (MAC) LISTS

- **Used to set generic reimbursement rates between PBMs and retailers**
- **Can be manipulated at any time by the PBM**
- **Most PBMs manage multiple MAC lists for each pharmacy chain**
  - Clients are "juggled" between MACs to manipulate annual average performance
- **Considered "proprietary" by PBMs**
  - Plans can't validate generic prices at the claim-level

MAC CREATES **ARTIFICIAL PRICE VOLATILITY.**

WHAT DOES A REPLACEMENT FOR AWP & MAC LISTS LOOK LIKE?

Ask if you can use a price list that's based on acquisition costs. Most state Medicaid programs leverage NADAC.

	Average Wholesale Price (AWP/MAC)	Medicaid / Acquisition Cost (NADAC)
Correlates to the actual cost of drugs?	✗	✓
Behaves the same for brands and generics?	✗	✓
Cannot be manipulated by Pharma/PBM?	✗	✓
Free and easily accessible?	✗	✓
Managed by an objective government entity?	✗	✓

***NADAC** - National Average Drug Acquisition Cost eliminates the PBM's ability to manipulate pricing for retail claims, gets rid of the need for elusive brand/generic price buckets, and objectively tracks actual industry economics (i.e., the unit costs paid by pharmacies).*

INSIGHTS SPOTLIGHT:
For more on NADAC vs. AWP, check out Why Use NADAC-based Pricing Over AWP

02 Identify PBMs that don't use owned assets to make a spread.

PBMs that own mail order and specialty dispensing or retail pharmacies may steer utilization toward those assets. This presents an inherent potential conflict of interest that plan sponsors must be aware of and be able to evaluate from a plan and member cost perspective.

A PBM's profit should not be tied to dispensing volume or drug choice. Rather, we believe patients should be objectively steered according to the interests of the plan, balancing cost and clinical data/efficacy.

- Does the PBM subcontract for mail order and specialty dispensing?
- Are optimal medications for members/employees dispensed on a cost-plus basis?
- Is the PBM accredited?
- Can the PBM offer drug-level pricing?

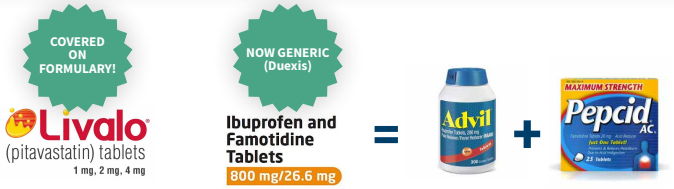
If you owned this mail order pharmacy, which medication would you prefer the patient fill?

SOURCE: GOODRX.COM AS OF AUGUST 2023

03 Identify PBMs that do NOT retain pharma revenue from pharmaceutical companies.

There are hundreds of examples of "**wasteful drugs**" that are prioritized on formularies in the market. Take Livalo (pitavastatin), a statin prescribed to help lower cholesterol, as an example of a brand drug with a 30-day gross ingredient cost of ~$310. Rosuvastatin is available for under $10, but Livalo has a healthy rebate that a traditional PBM may retain.

If there's a large rebate on the back end (or other revenue from pharma), PBMs have a financial incentive to steer members toward potentially wasteful or inefficient drugs. The cost to plans can be extremely high.



Gross Ingredient Cost	**$310**	**$400**	**vs. ~$15**	**~$9**
Estimated Rebate	**$240**	n/a	n/a	n/a

**Duexis now has generic alternatives; still, the price tag for one-pill convenience remains relatively high.*

Does your PBM manage a list of wasteful drugs? If so, how long is it? For reference, at Judi Rx, our clinical team has identified over 2,000 FDA-approved medications that may not be efficient for plan members – i.e., if these medications are filled, plan assets are wasted. And yes, even generics can be wasteful. Duexis, an 800 mg/26.6 mg combination of ibuprofen and famotidine commonly prescribed for rheumatoid arthritis famously cost >$2,000 and had a $1,200 estimated rebate. A generic version launched in 2021, and it's $400!

FOR MORE INFORMATION,
please read Eliminating "Wasteful" Drugs Can Reduce Healthcare Spending
by Sara Izadi, PharmD, SVP, Pharmacy

PHARMA REVENUE IS MORE THAN JUST REBATES…

DID YOU KNOW?

Rebates and other formulary administrative fees are not the only forms of pharma revenue received by PBMs.

ALSO ASK ABOUT/BE AWARE OF:

- Clinical programs funding (e.g., clinical management or adherence programs)
- Inflation protection penalties
- Copay card and assistance programs
- Data sales

ASK THE RIGHT QUESTIONS ABOUT REBATES!

1. **Does your definition of "Rebates" include ALL revenue from pharma?**
2. **Will you disclose rebates at the drug (NDC-11) level?**
3. **Will you show me the actual rebate checks that you received?**
4. **Will you limit my ability to audit your rebate deals?**

INSIGHTS SPOTLIGHT:
Insights Spotlights: For more detail on how the Judi Rx Single-Ledger Model™ differs from traditional PBMs, check out:
Our Single-Ledger Model™ - It's More Than a Retail Story
Our Single-Ledger Model™ - Pharma Revenue Explained

04 Negotiate CLAIM-LEVEL pricing commitments for ALL drugs.

Pricing terms in PBM deals are often based on annual "rolling average" results. This means that the PBM is not accountable for price on a claim-by-claim basis.

CLAIM-LEVEL guarantees provide plan sponsors with several advantages:

- The PBM is held accountable for every single claim that it processes.
- A PBM's ability to "game" the guarantees over the course of the year is eliminated.
- Audit and oversight are vastly simplified.
- Plan sponsors can easily validate pricing at any time – no need to wait until after year-end!

05 Restructure pricing terms to minimize or eliminate PBM gameplay.

Plan sponsors can improve the visibility lost or obscured by complex product features that don't produce value for the plan. "**PBM gameplay" includes things like asserting savings for mandatory mail order, international procurement, or copay assistance programs**, to name a few. Often, these programs don't deliver the value that's promised. In addition, they can confuse the spreadsheet analysis and mistakenly make one PBM look better than its competition.

Also, **pricing terms are often eroded by exclusions and other caveats**. If you use a benefits consultant, they will help you with this, as these possible exclusions are in most standard PBM contracts. **Eliminating them is a way to level the playing field and know that value is accruing to your members rather than PBM middlemen.**

	Per-Brand-Claim Guarantee (Gameplay)	vs.	Clear Per All Rx Guarantee
GUARANTEE TO PLAN SPONSOR	**$125 per brand claim**		**$14 Per Rx**
POSSIBLE EXCLUSIONS	OTC, LDD, DAW, 340B, Test Strips, PCSK9, HIV, Low Day Supply, etc.		None
ESTIMATED ANNUAL VALUE TO PLAN	**Variable & Unpredictable**		**Guaranteed & Predictable**

Consider including Judi Rx in the process for your next RFP.

Our clients have saved 10% - 30%* in the first year after switching.

INDEPENDENTLY VALIDATED PERFORMANCE
EXP APR 24
ValidationInstitute

Judi Rx Offers a Clear Total Cost PMPM Guarantee:

- Plan sponsors gain visibility and control over pharmacy program spend.
- Pharmacy program costs decline and stabilize, becoming more predictable.

FOR MORE INFORMATION ON PMPM, READ
PMPM - Is It the Best Way to Measure or Track Anything?

With an aligned model, Judi Rx can focus on servicing members, ensuring high satisfaction and positive outcomes.

- Judi Rx's client NPS is 86.
- Judi Rx's member NPS is 84.

FOR MORE INFORMATION ON NPS, READ
Judi Rx's Focus on Client & Member Service Shines for the Fourth Consecutive Year.

PHARMACIST-LEAD ACCOUNT TEAM FOR EXPERT GUIDANCE AND SUPPORT

DEDICATED TEAM PROVIDING A CONSULTATIVE APPROACH.

CHARACTERISTICS OF A GOOD PMPM OFFER:

- FIRM DOLLAR TARGET
- CONTRACTUALLY SIMPLE
- 100% OF PBM PROFIT AT RISK
- CREATES PREDICTABILITY FOR PAYERS

Average year-1 savings on a PMPM basis, net of rebates and administrative fees and where reliable prior plan data are available.

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