

PHARMACY BENEFIT MANAGERS AND THE NEED FOR FAIR AND REASONABLE STANDARDS OVER THE PRACTICE OF AUDITING PHARMACIES



WHAT'S A PBM?

PBMs are designed

- to reduce administrative costs for insurers,
- validate patient eligibility,
- administer plan benefits and
- negotiate costs between pharmacies and health plans.

What Exactly Do PBMs Do?

Employers/insurers sign contracts with PBMs to manage the pharmacy benefit provided to employees.

PBMs then

- “contract” with pharmacies,
- set pharmacy reimbursements rates,
- create a formulary – a list of approved drugs,
- process pharmacy claims,
- reimburse pharmacies for dispensed drugs.

How It Works

Step 1

Insurer hires PBM to manage drug costs- PBM acts as go-between for both insurers/manufacturers and insurers/pharmacies

Step 2

PBM negotiates prices with manufacturers
Manufacturers agree to prices and pay rebates to PBM for preferred placement on insurer's formulary
PBM splits rebate between self and insurer

Step 3

Pharmacy negotiates costs with manufacturers/wholesalers (how much pharmacies will have to pay to get the drugs)

Step 4

PBM negotiates insurer reimbursement for drugs and dispensing fees with pharmacies (how much pharmacies will earn for dispensing the drugs)

ALASKA PHARMACY INFRASTRUCTURE

TOTAL PHARMACIES

94

INDEPENDENT PHARMACIES 40

CHAIN PHARMACIES 59

TOTAL COMMUNITY PHARMACISTS

273

INDEPENDENT PHARMACISTS 56

CHAIN PHARMACISTS 217

TOTAL EMPLOYMENT

11,469

INDEPENDENT EMPLOYMENT 373

CHAIN EMPLOYMENT 11,096

WHAT ALASKAN PHARMACISTS ARE UP AGAINST

- Today 95% of consumers with pharmaceutical drug benefits receive these benefits through a PBM.
- Before the merger of two of the largest PBMs in 2012 (express scripts and medco) the vast majority of benefits were managed by the “big three” “big three” = Express Scripts, CVS/Caremark, Medco Health Solutions
- In 2011 Morgan Stanley reported that 9/10 of top employer health plans were managed by one of the “big three” PBMs.

2012 Revenue of the merged PBMs and CVS/ Caremark:

- Express Scripts/Medco Health Solutions: **\$116+ Billion**
- CVS/Caremark: **\$107+ Billion**

Source: Fortune 500



Unfortunately, not all PBMs Operate Fairly

EXAMPLES OF PBM TACTICS INCLUDE:

Non-transparent, “take it or leave it” contracting

Self owned, beneficiary mandated mail-order operations

Restricting beneficiary access to certain pharmacies

Predatory, unregulated auditing of pharmacies

SB 8 Focuses on Pharmacy Audits

It is appropriate to audit pharmacies; however, PBMs that compete in the *same market* for the *same consumers* cannot ethically audit their competitors.

Auditors are required to be objective. Judgment should not be based on the interest of the auditor or the interests of others.

PBMs by nature of their business, cannot maintain objectivity when they are auditing their competition.

SB 8 Focuses on Pharmacy Audits

Audits can be important mechanisms for monitoring pharmacies and ensuring safe practice.

AUDITS SHOULD

- detect fraud, unlawful billing practices and abuse
- be standardized and conducted in a way that does not interfere with the health care services being provided by pharmacists
- be adequately noticed (minimum of 2 weeks)
- use the same standards to audit similarly situated pharmacies
- be conducted by or in consultation with a licensed pharmacist when decisions may involve clinical or professional judgment
- limit examination of claims to those within 2 years of submission
- base findings of over/under payment on the actual amount

SB 8 FOCUSES ON PHARMACY AUDITS

AUDITS SHOULD NOT

- be held during the first 5 days of any month
- be conducted within 90 days of a prior audit that found no fault
- penalize a pharmacy because a prescription is mailed or delivered at the request of a patient
- target simple administrative errors where no harm occurred and there was no financial loss or ill intent intended
- extrapolate costs, i.e., use a probability equation to approximate how often an error *might* have occurred.

ALASKANS SHOULD HAVE CONFIDENCE IN HOW PHARMACIES ARE
MONITORED—THEY SHOULD BE MONITORED TO ENSURE PATIENT SAFETY
AND UNCOVER ABUSE OR FRAUD.

A MONITORING GOAL SHOULD NOT BE TO INCREASE THE BOTTOM LINE OF
PBMS.

FOLLOWING IS AN EXAMPLE OF WHAT SB 8
IS ATTEMPTING TO PREVENT

Alaskan Example

In August 2011, two auditors arrived at our store. I spent the entire day answering their questions, pulling files, and finding documentation. They were not very knowledgeable in pharmacy practices, so it took quite a long time.

I was very pleased when I read the first few pages of the final report. Out of over \$103,000 in claims reviewed, we had only \$89 in errors. However, when I got to the last page – using the "one-sided confidence extrapolation method" (their name for this) - they said I owed over \$7,300! I called the auditors to no avail.

Being told to repay over \$7000 is just not right!

*-Tom Hodel
owner, Soldotna Professional Pharmacy*