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BEYOND THE BIG THREE

Smaller and midsize pharmacy benefit managers are taking on **Optum Rx**, **CVS Caremark** and **Express Scripts**. They say they have better technology and are more transparent about their pricing.

By **DENISE MYSHKO AND PETER WEHRWEIN**



By almost any measure, the pharmacy benefit management (PBM) business is one dominated by the major players. In 2021, CVS Caremark led the industry, controlling 34% of total adjusted claims, followed by Express Scripts (25%) and Optum Rx (21%).

Together, these three PBMs control about 80% of the total PBM market, according to the Health Industries Research Center, which provides market research and analysis in the managed care and pharmaceutical industries. Rounding out the roster of the larger players are Humana's in-house PBM with 8% of market share, Prime Therapeutics LLC with 6% and MedImpact with 4%.

But beyond the big three PBMs is a swarm of some 60 smaller, up-and-coming PBMs. Even if they are operating in a small slice of the pie relative to the towering dominance of the big three, the PBM pie is growing rapidly. The global PBM market is projected to increase from \$495 billion in 2022 to \$740 billion by 2029 (a 50% jump), according to a Fortune Business Insights projection. The increasing numbers of expensive specialty drugs is fueling that growth; specialty medicines now account for 55% of the medication spend, which is up from 28% in 2011, according to IQVIA.

Scott Musial, M.S., chief pharmacy officer of Rightway Healthcare, one of the up-and-coming PBMs, says that some of smaller PBMs may not be as independent from the big three as they might appear. They buy claim adjudication services from them, for example, or tap into their group purchasing arrangements. "They have white labeled the big three," he says.

Some of the smaller PBMs are niche players, specializing in a particular area such as workers' compensation or hospice care. However, others say they are aiming to disrupt the PBM sector and challenge the big three with new ways of managing the use and cost of drugs. Their sales pitches make claims about better technology, improved customer experience, smarter utilization management and, again and again, transparency about pricing. *Managed Healthcare Executive* surveyed a handful of these smaller and midsize PBMs and related businesses (see table below).

"Rather than size, the business model a smaller PBM deploys is a factor of differentiation," says David Fields, president and CEO of Navitus Health Solutions, one of the more prominent smaller PBMs. Navitus is co-owned by Costco Wholesale Corp. and SSM Health, a Catholic healthcare system in the Midwest.

Price is one of those of differences. Fields

Some of the up-and-coming PBMs

Company	Founders	Date founded	CEO or president	No. of employees	Annual revenue	Financing	Formulary
Capital Rx	AJ Loiacono, Joe Alexander, Ryan Kelly	2017	AJ Loiacono, CEO	more than 50	more than \$50 million	Series C (latest round): \$106 million in June 2022	yes
Elixir Rx Solutions LLC	Elixir is a wholly owned subsidiary of Rite Aid	2001	Heyward Donigan, CEO	about 1,500	\$6 billion	NA	yes
Navitus Health Solutions	Robert Palmer	2003	David Fields, CEO	more than 50	more than \$50 million	Privately owned: SSM Health (majority), Costco (minority)	yes
PerformRx	Mesfin Tegenu, M.S., R.Ph.	1999	Jim Gartner, MBA, R.Ph., president	more than 50	more than \$50 million	NA	yes
Rightway	Jordan Feldman, CEO; Theodore Feldman, M.D., chief medical officer	2017	Jordan Feldman, CEO	more than 50	NA	Series C (latest round): \$100 million in March 2021	yes
RxBenefits	Bill Gunnells	1995	Wendy Barnes, CEO	about 800	NA	NA	no
Vivid Clear Rx Inc.	Hy-Vee Inc.	2020	Jessica Ringena, president	21 to 50	\$1 to \$10 million	Vivid Clear Rx is a wholly owned subsidiary of Hy-Vee, Inc.	yes
WithMe Health	Chris Price and Ash Damle	2018	Joe Murad, CEO	more than 50	NA	Series \$53 million	yes



HOW WE GOT HERE

This isn't the first time pharmacy benefit managers (PBMs) have been ensnared in controversy. PBMs were first created in the 1960s to help insurance companies manage and administer claims for prescription drugs. Over time, they took on the roles of claims adjudication, rebate negotiation and benefit design. In the early 1990s, Merck became the first pharmaceutical company to acquire a PBM, Medco, which then was the largest PBM. This was quickly followed by SmithKline Beecham's acquisition of Diversified Pharmaceutical Services (DPS) and Eli Lilly and Company's acquisition of PCS Health Systems Inc. But these acquisitions faced significant scrutiny — and a Federal Trade Commission (FTC) investigation — about the conflicts of interest and the possibility of the pharmaceutical companies using the PBMs as distribution channels. As a result of the FTC investigation, Merck Medco was required to have an open formulary and an independent pharmacy and therapeutics committee. Merck spun out the PBM as a separate company and held on to Medco for another decade. Medco was eventually acquired by

Express Scripts in 2012. SmithKline Beecham and Eli Lilly gave up on the PBM business before 2000. Express Scripts acquired DPS, and Rite Aid Corp. acquired PCS.

The trend toward the current form of vertical integration and the dominance of the big three insurers began in late 2006 when CVS announced it was buying Caremark Rx. CVS kept on growing through acquisitions: Longs Drugs, MinuteClinic, the specialty infusion group Coram, and Omnicare, which provided pharmacy services to long-term care facilities. The spree culminated in 2018, with the acquisition of Aetna.

UnitedHealth created Optum in 2011 as a health and pharmacy services subsidiary out of existing business. Optum Rx, the PBM, has ballooned through acquisitions, including the 2015 purchase of Catamaran and 2019 purchase of Diplomat, a specialty pharmacy and infusion services business.

Cigna acquired Express Scripts in 2018, and Express Scripts and Prime Therapeutics entered a three-year collaboration in 2019. This year, Centene Corp. acquired Magellan Health Inc., which operates a PBM.

—Denise Myshko

says Navitus has sought opportunities to work with companies such as CivicaScript, the retail subsidiary of Civica Inc., a nonprofit supplier and manufacturer of generic drugs to hospitals. Navitus is one of the founding members of CivicaScript, along with EmsanaRx, another one of the upstart PBMs.

Navitus' specialty pharmacy, Lumicera Health Services, was one of the first pharmacies distributing CivicaScript's first product, abiraterone acetate, which was launched in August 2022. Abiraterone acetate is a hormone therapy that is used with prednisone to treat patients with metastatic prostate cancer. CivicaScript sells abiraterone acetate for \$160 per bottle of 120, 250-milligram tablets, which is typically a month's supply. CivicaScript recommends

pharmacies charge patients no more than \$171 per bottle. This is significantly less than prices offered at many pharmacies, which has an average retail of \$4,802.28, according to GoodRx.

"This is an organization committed to introducing low-cost generic medications to the marketplace and to providing price transparency to the end consumer," says Fields.



FIELDS

The smaller PBMs also tout newer, nimbler technology and better databases as one of the major advantages they have over the big three. "Fundamentally, part of what's broken is that they are working on a 30-year-old technology stack," says Greg Baker, CEO of EmsanaRx, which operates as public benefits corporation and was set up by the Purchaser Business Group on Health. "The old stalwarts are having to put millions and millions into these IT departments just to keep the beast running."

Matthew Gibbs, president of Capital Rx, says something similar: "Express Scripts sits on the old Medco claims platforms, which are hugely inefficient. Decades of coding and mistakes over the years means it takes an army of people to manage this technology," Gibbs says. Capital Rx and newer PBM entrants are using technology as a way of creating cost efficiencies. "We may not have the best rebates, but my cost to administer those is fractional compared with the big three."

Capital Rx, which launched in 2017 and is one of the largest of the new PBMs, rolled out JUDI last year. On its website, the company touts JUDI the "future of pharmacy benefits administration" that unifies claims adjudication, prior authorization, patient communications and other functions on one platform.

Another newer PBM is WithMe Health, which was founded in 2018. The company is employing technology that it claims will play an even greater role in how utilization management tools are designed and administered. WithMe Health says its technology brings together data — including pharmacy claims, medical claims, patient-reported outcomes, health lab data and social determinants of health — and analytics to identify targeted interventions and better tailor utilization management. The PBM employs "medication guides" (pharmacists and pharmacy technicians) to advise patients about their medication choices.

“A good portion of the savings that we deliver to employer groups is because we’re looking at utilization through a lens that enables us to see if patients are on the right medications,” says Joe Murad, president and CEO of WithMe Health. “We’re trying to be very clear around using cloud-based, modern architecture in



MURAD

front of those members and enable a level of engagement that legacy healthcare organizations don’t have.”

New-and-improved utilization review is also Rightway’s calling card. In Musial’s view, the PBM industry lost its way when it drifted from managing benefits toward “how do we extract value out of the prescription.” But utilization review has become more important with the growing number of expensive specialty medication and a more permissive FDA when it comes to approvals, he says. Musial says Rightway “challenges everything the FDA says” and takes into account approvals and coverage elsewhere. “We’re very comfortable going outside the U.S. and looking at what’s happening in Germany, in Japan, in England and how they are managing some of the newer drugs and bringing that kind of evidence into our decision-making process,” he says.

SHARP CRITICISM

The newcomers are entering a business that has an increasingly vocal chorus of critics, ranging from consumer groups to independent pharmacies to pharmaceutical companies. The Pharmaceutical Care Management Association, the lobbying group for PBMs, maintains that PBMs are a counterweight to the pricing power of the pharmaceutical companies, using their buying power to lower drug costs for payers and patients, and that for every dollar spent on PBM services, payers save \$10. However, the bigger PBMs have come under a barrage of criticism from both outside and inside the industry, from the up-and-comers. Much of it revolves around pricing tactics such as spread pricing, whereby the PBM collects the difference between what it charges a payer for a prescription — including state Medicaid programs — and what it pays out to the pharmacy. The sheer size of the big three is an issue, as is vertical integration. For example, CVS Health operates an insurer (Aetna) and its well-known retail pharmacy chain, as well as CVS

Caremark, the PBM subsidiary. Cigna Corp. owns Express Scripts, and UnitedHealth Group, the parent company of UnitedHealthcare, owns Optum Rx.

There’s evidence of some discontent brewing among the PBMs’ payer customers. A survey this year of 236 benefit leaders at employers, health plans and other payers by Pharmaceutical Strategies Group, a drug management and analytics company, showed dips in satisfaction with PBMs and net promoter scores this year compared with the last year. More than half of the respondents were either very (23%) or somewhat (36%) satisfied with PBM transparency, but a sizable minority were somewhat (8%) or very (16%) dissatisfied. The survey showed that payers are looking for more openness about the financial inner workings of PBMs, including the size of rebates they receive from the pharmaceutical manufacturers and sources of profit for the PBMs.

Gibbs and Murad contend that the profit incentives of the large PBMs are no longer aligned with the interests of their payer clients and patients because of the vertical integration of PBMs with health insurers, pharmacies and specialty pharmacies. “If you own retail pharmacies, if you own a health insurance carrier, if you own a disease management firm, if you own a medical pharmacy — all that has changed the rules of how we compete,” says Gibbs.

The intertwining of PBMs and health plans has changed how PBMs think about managing pharmacy benefits, says Susan Lang, M.A., MBA, CEO and founder of XIL Health, which bills itself as a PBM and pharma advisory firm. “As PBMs matured, they were no longer focused on growth but on earnings. And over time, they have been able to aggregate and consolidate even more market power through vertical integration,” comments Lang, who worked for Express Scripts in the 2000s. “There have been a lot of accusations that, because the market power is so great, it allows PBMs to skew the prices of drugs and, at the same time, have plans with high deductibles and high copays.”

UNDER SCRUTINY

Over time, acquisitions have led to large, vertically integrated healthcare companies that provide insurance, control access through formularies and manage distribution through their own pharmacies. The top three PBMs are all part of companies that own healthcare insurance

companies, pharmacies and specialty pharmacies. And until fairly recently, no one has really looked at the leverage these large companies have. Many healthcare executives were unfamiliar with PBMs, and most of the general public didn't know about PBMs or what they did.

Large players are not new to PBM, Gibbs notes. "The nuance now is that they are a little more formidable because of the vertical integration," he



GIBBS

says. And PBM influence is likely to continue beyond rebates, with the creation of group purchasing organizations that allow the PBM to shift discounts into more

complex and obscure fee structures, according to IQVIA.

Vertical integration has led to a lack of competition in some commercial markets, which has had a negative impact on patients, according to an analysis by José R. Guardado, Ph.D., an economist for the American Medical Association, that was published earlier this year. At both the state and metropolitan levels, Guardado's analysis of commercial insurance showed a high degree of market concentration for each of the three PBM services: rebate negotiation, retail network management and claims adjudication. Most (78%) of the states had highly concentrated PBM markets, and an even greater proportion (85%) of metropolitan areas were in that category, according to Guardado's calculations.

The vertical integration and market consolidation led the Federal Trade Commission (FTC) to launch an investigation of PBM business practices in June 2022. The five members of the commission voted unanimously to authorize the inquiry, which is likely to take years to complete, but interim reports may be issued. The inquiry is being done under the commission's authority to conduct studies of industries without

having to prove that laws have been broken. The FTC inquiry is focusing on six PBMs: the big three plus Humana, Prime Therapeutics and MedImpact. The FTC has the power to ask the companies for a wide range of information, and the companies can file petitions to limit those requests or quash them altogether.

At the same time, the FTC has put PBMs on notice about a rebate practice it considers to be a bribe. Rebates and fees that exclude competitors offering lower-cost drug alternatives can violate competition and consumer protection laws.

Congress also has the PBM industry in its sights. In May 2022, Sens. Chuck Grassley, R-Iowa, and Maria Cantwell, D-Wash., introduced the Pharmacy Benefit Manager Transparency Act of 2022, which would make it illegal for PBMs to engage in spread pricing. It would also ban deceptive unfair pricing schemes and prohibit arbitrary clawbacks of payments made to pharmacies.

TRANSPARENCY

Many of the newer PBMs say they are going to bring more transparency to the business of managing prescription drug spending. Some are using different models that they say allow for pass-through pricing of drugs and rebates to payers and charging administration fees instead of depending on the spread pricing.

For example, Capital Rx uses the National Average Drug Acquisition Cost (NADAC) price, which is based on a CMS survey of 450 to 600 retail pharmacies and the prices they paid. The NADAC pricing benchmark was developed by CMS after an Office of the Inspector General report in 2012 found that the average wholesale price (AWP) benchmark was flawed. "AWP is in no way related to how drugs are actually purchased," says Gibbs. "The industry doesn't want to change because all the consultant models are built on AWP."

The NADAC model allows for a

more accurate and transparent drug pricing, according to Gibbs. Capital Rx uses NADAC prices to determine how much to charge its customers. Any rebates it receives are passed on to customers, he says, and the company charges an administration fee of \$6 a claim. He estimated the larger companies assess administration fees of between \$10 and \$14 because of their inefficient processes.

WithMe Health also provides pass-through pricing for drugs and for rebates, and Murad says employers can audit contracts. "There is a concerted effort for transparency, and it starts with some of the larger employers that advocate and demand it," he says. "But it's really hard to move away from those prior models because of the rebate structure."

However, Lang says true transparency is not possible in much of the PBM business. Even the smaller companies that have models that allow for pass-through pricing may not offer true transparency, she says, if they are contracting with any of the larger PBMs for services. "They don't have line of sight on those contracts."

What's more, the contracts are now so vague that nobody actually knows what the contract says anymore, Lang says. "The contracts don't even define what a brand or generic drug is. You can't negotiate a contract when none of the terms are defined. That is where the smaller pharmacies and PBMs are horribly disadvantaged."

But Lang says asking how to ensure transparency may not be the right question. "I think the question is: How do we make sure employers know what they are buying? The definitions of the products they are buying are changing constantly." ■

Denise Myshko is senior editor of *Formulary Watch*®, a news website affiliated with Managed Healthcare Executive®. **Peter Wehrwein** is managing editor of *Managed Healthcare Executive*®.