

Pharmacy Benefit Managers (PBMs) and Pricing Benchmarks

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Outline

- Briefly review flow of funds and services between drug companies, wholesalers, pharmacies, pharmacy benefit managers (PBMs), and payers
- Explain various drug pricing benchmarks (AWP, WAC, AAC, AMP, etc.)
- Briefly explain the national drug code (NDC) numbering system
- Suggest areas for monitoring of PBMs

Drug Pricing Alphabet Soup

- AAC – Actual Acquisition Cost (or Average Actual Cost)
- AMP – Average Manufacturer Price
- AWP – Average Wholesale Price
- FUL – Federal Upper Limit
- MAC – Maximum Allowable Cost
- NADAC – National Average Drug Acquisition Cost
- PBM – Pharmacy Benefit Manager
- WAC – Wholesale Acquisition Cost

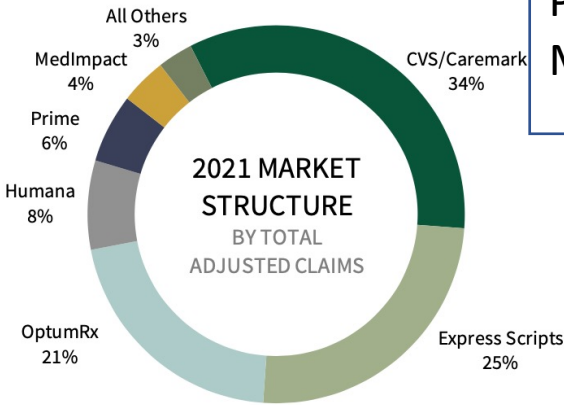
Health Plan

Drug Manufacturer
(Pharmaceutical Co's)

CVS/Caremark
Express Scripts
OptumRx
Humana
Prime
MedImpact

Pharmacy
Benefit
Manager
(PBM)

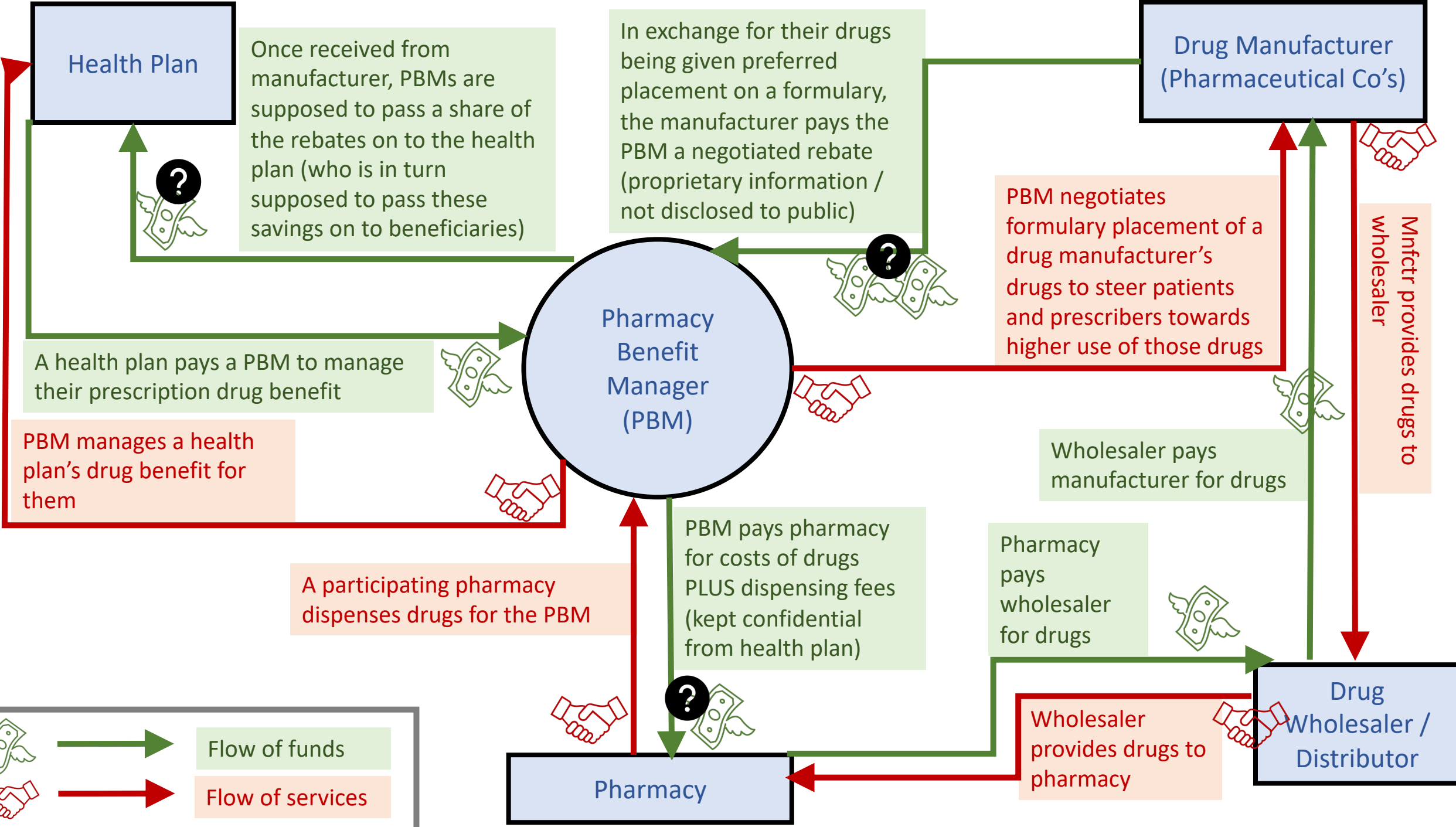
Novartis	GlaxoSmithKline
Pfizer	Sanofi
Johnson & Johnson	AstraZeneca
Roche	Takeda
Merck & Co.	Eli Lilly
Moderna	Bayer
BioNTech	Gilead
AbbVie	Amgen
Regeneron	Boehringer Ingelheim
Novo Nordisk	Teva
Bristol Myers Squibb	Biogen



Pharmacy

“The Big 3”:
McKesson
AmerisourceBergen
Cardinal Health

Drug
Wholesaler /
Distributor



Health Plan

Once received from manufacturer, PBMs are supposed to pass a share of the rebates on to the health plan (who is in turn supposed to pass these savings on to beneficiaries)

In exchange for their drugs being given preferred placement on a formulary, the manufacturer pays the PBM a negotiated rebate (proprietary information / not disclosed to public)

Drug Manufacturer (Pharmaceutical Co's)

PBM negotiates formulary placement of a drug manufacturer's drugs to steer patients and prescribers towards higher use of those drugs

Manufacturer provides drugs to wholesaler

Pharmacy Benefit Manager (PBM)

A health plan pays a PBM to manage their prescription drug benefit

PBM manages a health plan's drug benefit for them

Wholesaler pays manufacturer for drugs

A participating pharmacy dispenses drugs for the PBM

PBM pays pharmacy for costs of drugs PLUS dispensing fees (kept confidential from health plan)

Pharmacy pays wholesaler for drugs

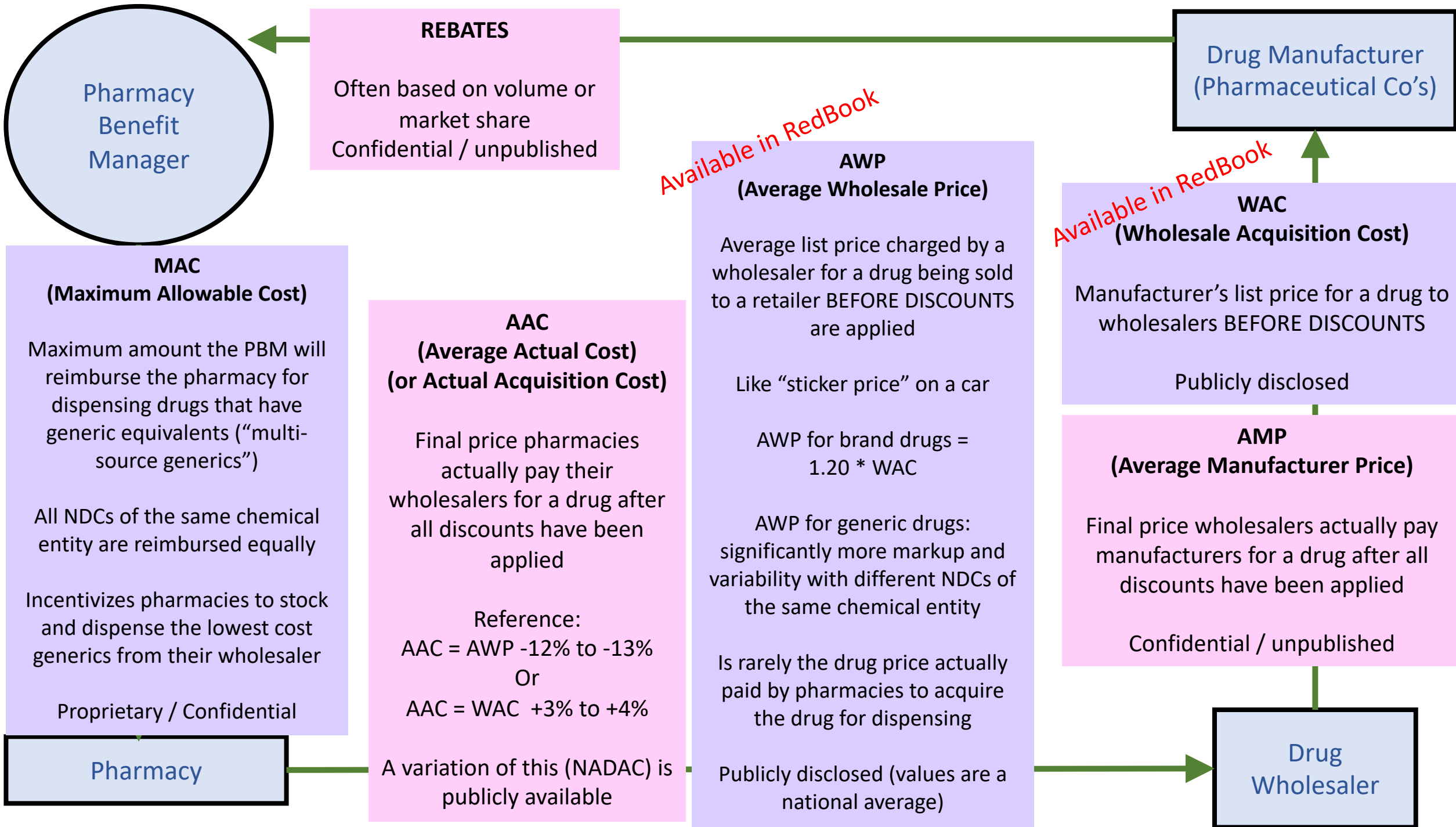
Drug Wholesaler / Distributor

Wholesaler provides drugs to pharmacy

Pharmacy

Flow of funds

Flow of services



National Average Drug Acquisition Cost (NADAC)

- Centers for Medicare and Medicaid Services (CMS) created the NADAC in August 2011 to be more representative of the true acquisition cost to pharmacies
- How it works:
 - A private accounting firm surveys independent and chain pharmacies, asking them to report on their invoice prices paid to wholesalers
- CMS now uses AAC and NADAC to calculate reimbursements after concerns that AWP's were artificially inflated, resulting in Medicaid overpaying for drugs
- List is maintained, updated, and published on a weekly basis by CMS

National Average Drug Acquisition Cost (NADAC)

- Advantages
 - Can be used to prevent price games that are sometimes played with artificially inflated AWP and WAC
 - Updated weekly by CMS
- Disadvantages
 - Not all medications are on the NADAC list
 - The sample size of the survey is small relative to the total number of pharmacies in the U.S (critics argue that only a small sample of pharmacies respond to the survey)
 - It is an average value, so higher volume pharmacies influence the value more

Federal Upper Limit (FUL)

- Whereas MAC is to PBMs, FUL is to CMS
- Like MAC, FUL determines the upper limit for reimbursement for multi-sourced generic drugs
 - Chemical entity has at least 3 A-rated therapeutically equivalent products (FDA's Orange Book)
 - And have at least 3 different suppliers
- List is created and maintained by federal government for use in State Medicaid programs
- 175% of weighted average (based on utilization) of the AMP

National Drug Code (NDC)

- Unique number assigned to each drug product
- Contains a series of numbers that are divided up into 3 segments
- Technically, 10-digits (4-4-2, 5-3-2, or 5-4-1)
 - However, billing utilizes the 11-digit format (5-4-2)
 - To convert from 10-digit to 11-digit, simply add a zero (0) at the beginning of the necessary segment to match the 5-4-2 pattern

10-digit NDC	10-digit pattern	11-digit pattern	11-digit NDC
0002-7597-01	<u>4</u> -4-2	<u>5</u> -4-2	<u>0</u> 0002-7597-01
50242-040-62	5- <u>3</u> -2	5- <u>4</u> -2	50242- <u>0</u> 040-62
60575-4112-1	5-4- <u>1</u>	5-4- <u>2</u>	60575-4112- <u>0</u> 1

The same drug molecule or active ingredient can be associated with many different NDC numbers

National Drug Code (NDC)

Assigned by the FDA

Assigned by the manufacturer or distributor

1 2 3 4 5

1 2 3 4

1 2

Labeler
Code

Product
Code

Packaging
Code

Manufacturer's Code
Identifies who manufactures, repacks, re-labels, or distributes the drug product

Identifies the drug, strength, dosage form, and formulation (specific to the firm that manufactures the drug product)

Identifies the number of product units in the drug product (package size)
Also may indicate the type of packaging used

Things to Monitor

- Costs
 - WAC vs allowable amounts available in administrative claims databases
 - Would also need to factor in dispensing fees
- Polypharmacy
 - Any patient on ≥ 5 medications at the same time
 - Increases risk of drug-drug interactions
 - Increases risk of falls among elderly patients

Things to Monitor

- Use of Generics
 - DAW = Dispense As Written (prescriber states on the script)
 - 0 = no (automatic generic substitution permitted by the pharmacy)
 - 1 = yes (brand medically necessary; brand must be dispensed exactly as written on the script)
 - PBM's are volume purchasers so they can negotiate larger rebates from manufacturers
 - This was originally designed to help lower drug prices and slow the growth of drug spending
 - However, PBMs may have an incentive to favor placement of higher-priced drugs on formularies
 - PBMs often receive rebates that are calculated as a percentage of the manufacturer's list price; thus, they receive a larger rebate for higher cost drugs
 - Drugs that provide better value at lower cost may not be the drugs that end up on formularies

Things to Monitor

- Alignment with Evidenced-Based Clinical Practice Guidelines
 - Drugs that are / are not recommended for treatment of specific disease states
 - Clinical Practice Guidelines are published by professional societies who aggregate evidence from clinical trials to make recommendations
 - Recommendations are rated on an A, B, C, etc. scale
 - Grade A recommendation is the highest endorsement; it has the highest level of evidence

Things to Monitor?

- Disease Management Programs (DMPs)
 - Critics of DMPs contend that they are veiled efforts to increase use of a certain manufacturer's products
 - Ultimately, pharmaceutical manufacturers should not be involved in DMPs for this reason
 - DMP have also been criticized for focusing on only 1 disease state at at time, instead of using a more holistic approach that considers comorbidities and multiple conditions in a patient's treatment plan

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