Health Care Reform – The PBM and Provider Perspective

Date: September 27, 2010
How did we get in this mess?

“IT's very realistic...it comes equipped with plenty of red tape.”
Providers – Who are the Stakeholders

- **Retail Pharmacy**
  - Drug Chains
    - Traditional
    - Supermarket
    - Big Box
  - Community Pharmacy
  - Associations
- **Mail Order Providers**
- **Specialty Pharmacy**
- **Long Term Care**
- **Ancillary Providers**
PBMs – There are differences

- Fulfillment driven model
- Engine driven model
- Provider driven model
- Rebate driven model
- Net low cost driven model
What’s keeping providers up at night?

- Continued reimbursement pressures
- Potential changes in pricing benchmarks
- MAC pricing and the generic pipeline
- AMP and the effect on Medicaid reimbursement
- Restricted or highly directed network programs
<table>
<thead>
<tr>
<th>Year</th>
<th>Retail Brand</th>
<th>Retail Generic</th>
<th>Dispensing Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>10%</td>
<td>45%</td>
<td>$ 3.00</td>
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<tr>
<td>1995</td>
<td>12%</td>
<td>50%</td>
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<tr>
<td>2000</td>
<td>13%</td>
<td>55%</td>
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<tr>
<td>2005</td>
<td>15%</td>
<td>60%</td>
<td>$ 2.00</td>
</tr>
<tr>
<td>2010</td>
<td>17%</td>
<td>70%</td>
<td>$ 1.50</td>
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### How have rates changed?

<table>
<thead>
<tr>
<th>Year</th>
<th>Mail Brand</th>
<th>Mail Generic</th>
<th>Dispensing Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>15%</td>
<td>45%</td>
<td>$1.50</td>
</tr>
<tr>
<td>1995</td>
<td>18%</td>
<td>48%</td>
<td>$0.50</td>
</tr>
<tr>
<td>2000</td>
<td>20%</td>
<td>50%</td>
<td>$0.00</td>
</tr>
<tr>
<td>2005</td>
<td>22%</td>
<td>60%</td>
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<tr>
<td>2010</td>
<td>25%+</td>
<td>70%</td>
<td>$0.00</td>
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</table>
What are some potential alternative pricing models?

- AWP – Adapted
- WAC
- AMP
- ASP
- Cost Plus
- Alternative Baselines – i.e. 340B
- Consignment Inventory
Use AMPs to set Federal Upper Limits (FULs) on Medicaid reimbursement for generics:
- Set a FUL if 2 or more equivalent generics available
- FUL = 250% of lowest AMP

Post AMPs for brands and generics on public website

AMP Was Defined As:
Average price paid to manufacturers by wholesalers for drugs distributed to retail pharmacy class of trade
Pharmacy Concerns:

- **AMP Rule Includes Sales To:**
  - Physicians, physician clinics
  - Medical facilities: Surgical centers, dialysis centers, mental health facilities, ambulatory care facilities
  - Hospital pharmacies, hospital clinics
  - Home infusion, home health
  - PBMs, mail order pharmacies, specialty pharmacies

- **Result: Much Lower Reimbursement**
  - Reimbursement 36% below pharmacy costs (GAO)
  - $21+ billion cuts over 10 years (CMS)
What did Pharmacy do?

- **NACDS And NCPA Filed Lawsuit**
  - Argued AMP rule violates statute’s definition of AMP

- **Injunction Halts AMP Reimbursement Cuts**
  - Also halts AMP website
  - Almost 3 years and counting

- **Saves Pharmacies $5.5 Million Each Day**
  - More than $5.3 billion saved so far
What is proposed for Oct 1?

- **Improved Method Of Calculating FULs**
  - FUL = no less than 175% of weighted average AMP
  - Should be updated monthly
  - Smoothing process

- **Fewer Caps On Medicaid Reimbursement**
  - Set FUL only if 3 or more equivalent generics can be purchased by RCPs on a nationwide basis

- **Limited AMP Website**
  - Post weighted average AMPs for generics

- **New Definition Excludes Improper Sales**
  - AMPs Only Include Prices Mfrs Charge:
    - “Retail Community Pharmacies” (RCPs)
    - Licensed RCPs that sell to general public at retail prices
    - Wholesalers for drugs distributed to RCPs

- **Specifically Excludes From AMP:**
  - Customary prompt pay discounts
  - Bona fide service fees
  - Reimbursement for returns
  - Sales and rebates to PBMs, mail order pharmacies, plans, hospitals, clinics, LTC pharmacies,
What opportunities exist?

- Increase in the number of insured lives
- Aging population
- Closing of the doughnut hole
- Specialty growth
- Generic pipeline
- 340B partnerships
- MTM opportunities
- Adjunct/alternative sales
A different approach…

"We give 90 pills instead of 100."