

Pharmacy benefit plan administration

Unbundling services for greater control at lower costs

James E. Baxter investigates unbundling services for greater control at lower costs

For more than 20 years, employers sponsoring pharmacy benefit programs have contracted with Pharmacy Benefit Managers (PBMs) to manage their plans. PBMs have served a valuable role in securing the “low hanging fruit” of cost savings by applying classical managed care principles to pharmacy benefit administration. By negotiating pricing arrangements, credentialing and auditing pharmacies and administering drug utilization management programs, PBMs have done much to help hold down plan costs.

The typical PBM service model includes pharmacy networks, rebate administration, claims adjudication, customer service, clinical support, disease management, communications, reporting, on-line tools and other services all as a standardized bundled offering. While standardization offers economies of scale and other efficiencies, in many cases it translates into a lack of flexibility that frustrates a plan sponsor’s ability to customize services around its unique needs. In some cases, this can adversely impact both costs and quality of care. For example, a PBM that develops its own formulary, therapeutic interchange programs, clinical and disease management programs and directly benefits from negotiated rebates may become influenced by incentives with drug manufacturers to develop programs that promote expensive brands over equally effective, less costly generics, needlessly raising plan and member costs, and simultaneously failing to incorporate the most effective patient care management components.

Equally problematic are current attempts by PBMs to utilize legacy systems which underpin their service bundle to support plan sponsor requirements under Medicare Part D.

PBMs do not possess historical Medicare experience and their systems were constructed long before Part D was

contemplated. Thus, they have been forced to modify their systems patchwork style to accommodate Medicare Part D needs, an approach that may well prove inadequate given the complexity of the emerging regulations.

For years, consulting organizations such as ours have worked with PBMs to eliminate misaligned incentives, improve transparency, correct administrative deficiencies and to place the interests of the plan sponsor at the top of the agenda. While we have enjoyed some success, there remain plenty of opportunities for improvement. One such opportunity is the unbundling of pharmacy benefit administration services into discrete components, then contracting for each needed component separately with a niche firm specializing in that service.

The unbundled service model allows for the customization of services around the needs of the plan sponsor and its members. Using this approach the plan sponsor can seamlessly integrate selected “best in class” providers with proven track records of success that are committed to providing full disclosure. With this approach, the classical PBM bundle becomes unbundled and demystified so the plan sponsor can readily see each specific service offering, its value and cost. Each discrete service component is delivered by a specialty firm with no other agenda than to deliver that component. As a result, information is fully disclosed to the plan sponsor and compensation consists solely of contracted service fees. In short, the incentives of the plan sponsor and those of the contracted providers are fully (and finally) aligned. Utilizing an unbundled approach results in a new opportunity that allows plan sponsors to model various service configurations, and decide which components to outsource, which to insource and which are potentially unnecessary.

For certain types of organizations such as health care plans and managed care organizations, the unbundled service model may hold exceptional opportunities. While the traditional PBM bundle may not be totally sensitive to the unique pharmacy needs of such organizations (many of which own and/or operate their own pharmacy) the unbundled model affords these organizations the opportunity to create their own unique administrative services support arm. In addition, where circumstances warrant, such organizations might choose to “private label” the customized service configuration they assemble, thus creating their own virtual PBM, branded to their organization.

We expect to see a growing number of plan sponsors, health care plans and managed care organizations explore the advantages of the unbundled pharmacy benefit administration service model. ■

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