

► **Prescription Drugs**

# *Developing an Effective Generic Prescription Drug Program*

**by John D. Jones**

► **Pharmacy benefit managers (PBMs) use a variety of pricing strategies.** *When employers have a thorough knowledge of those strategies, they can use them to their advantage to help manage pharmacy benefits. This article discusses PBM strategies in terms of what employers need to know, the questions employers need to ask and goals employers must keep in mind in order to secure the affordable cost and quality prescription drug management programs that they and their employees need and deserve.* ◀

**P**rescription drug costs continue to rise at double-digit rates—up nearly 19% to \$132 billion last year, according to a recent *Los Angeles Times* article. As a result, employers and their pharmacy benefit management companies are desperately trying to squeeze savings out of each and every component of their pharmacy benefit program, while at the same time looking for ways to improve clinical outcomes.

The growing number of drugs that are losing patent coverage and are becoming generically available represents a unique opportunity for employers to accomplish their goal of managing costs while helping to improve patient outcomes. On average, generic drugs cost between 30% and 60% less than their branded counterparts, according to the Food and Drug Administration (FDA). A properly structured generic program can reduce pharmacy expenses by 20% or more and keep members happy by extending their pharmacy benefit dollars. However, pricing strategies will impact the success of these initiatives.

Pharmacy benefit managers (PBMs) use a variety of pricing strategies. When employers have a thorough understanding of the various strategies, they can use them to their advantage to help manage pharmacy benefit costs.

## **THE COST-SAVINGS POTENTIAL OF GENERICS**

The use of a comprehensive generics program can significantly lower prescription drug costs, control utilization and play a major role in helping to improve overall patient outcomes. An estimated \$35-\$40 billion worth of branded drugs will lose their patent protection within the next five years, allowing them to be processed and marketed in generic form. Prescription drugs losing their patents are represented in some of the highest cost, highest utilization therapeutic categories, including depression, hypertension, gastrointestinal, pain management and antihistamines.

The key to an effective generic drug program is the ability to include tools for educating physicians and plan members about the value of appropriate generic drug prescribing. It is estimated that more than 80% of the time, physicians will prescribe the medications that their

patients request. Many plan members request the drugs they see advertised on TV or in other media. The term generic drug is often misunderstood, and many physicians and patients don't fully appreciate the clinical equivalency of generics to their branded counterparts in their ability to impact a health condition. The first step of an effective generic drug program is the ability to help plan members recognize and understand that generic drugs are equally effective and, in many cases, more appropriate for treatment when compared to the heavily marketed branded drugs. As to equivalence, generic drugs given an AB rating from the FDA are designated as bio-equivalent to their brand-name counterparts.

But it's not just about educating plan members about the many benefits of generic drugs. To achieve maximum benefit, employers and plan sponsors must understand that it's not about simply implementing any generics program, but about implementing the right generics program—one that is designed to meet their specific goals. Understanding what makes a successful generics program means understanding the pricing games sometimes played by PBMs that influence the value of the generics program.

## **THE PRICING GAME**

Drug pricing by PBMs utilizes the following tools:

**Wholesale Acquisition Cost (WAC)**—The cost-basis PBMs utilize to establish the price of generic drugs. It is calculated by a national data company that averages purchase prices from a variety of wholesalers.

**Maximum Allowable Cost (MAC)**—The basis for generic drug pricing by the PBM or government entity. The MAC list is becoming increasingly more important as employees turn to generics as a tool to lower costs. Today, up to 50% of some employers' prescription volume consists of generic drugs. If the employer is not careful in analyzing a PBM's MAC offering, there may be hidden costs.

**Average Wholesale Price (AWP)**—The average of the prices charged by the national drug wholesalers for a given product. The AWP changes for drugs are published on a weekly or even daily basis.

**Administrative Fees**—The fees charged by the PBM to process the claim, provide basic reporting, conduct utilization reviews and perform overall account management. Administrative fees generally average \$0.20 to \$0.70 per claim. However, some PBMs will list administrative fees as \$0 in an effort to appear more competitive, while at the same time, pulling revenue from other sources, such as markup on the MAC.

**Dispensing Fees**—The fees that are paid to the pharmacy that fills the prescription and adjudicates the claim. Dispensing fees vary significantly depending on the PBM offering.

**Rebates**—Discounts received after the sale of the prescription products, usually determined by contract and vary according to drug market share, which is calculated from the drug use. PBMs regularly negotiate rebates with pharmaceutical manufacturers for branded drugs. Typically, pharmaceutical manufacturers will offer the highest rebates to those PBMs that can demonstrate their ability to move market share. Rebates for PBMs that demonstrate the ability to increase utilization of a specific branded medication tend to be substantially greater than those for PBMs simply processing prescription claims.

PBMs use a variety of tactics to develop the price they charge employers for prescription drugs. For example, generic pricing is based on a MAC list created by the PBM. MAC lists are common—in fact, the federal government uses a MAC list for determining payment to its pharmacy providers. Different pricing tactics can influence the MAC price so that the rate ultimately paid by plan sponsors can vary greatly. Plan sponsors also should check to ensure that the MAC price is tailored to as broad a range of

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generics as is desirable to suit the payers’ goals and provide the maximum value—the fairest price for the maximum number of generics.

The overall goal of the PBM should be to create a favorable situation for all involved, one that provides affordable cost for the employer and plan sponsor, while giving the PBM, retail pharmacy and drug manufacturer appropriate profit as an incentive to participate in the plan provider network and promote generic drugs.

#### **THE “GAMES” CAN BE TRICKY**

Overall, employers and plan sponsors must pay close attention to the strategies used for developing the formula that determines drug prices. For example, are prices based on the AWP, MAC or WAC, or a combination? Be aware of offers to forgo administration and dispensing fees. While they may appear to be highly competitive or generous gestures, these sleight-of-hand maneuvers frequently mask an attempt to charge clients more than they actually reimburse retail pharmacies for brand and generic drugs. These “deals” often cost the plan sponsor more than the savings they receive from the reduced administrative and dispensing fees.

Another important consideration is the depth of the PBM’s MAC list. To secure true value, employers and plan sponsors should look for a PBM that offers the lowest acceptable MAC for the generic drugs that are most widely used by their covered members, and should pass those savings on to the client. For example, if the PBM’s MAC list is 400 drugs, and there are 700 or 800 generic drugs that are highly utilized by

the employer’s membership, the employer can end up paying as high as retail for those drugs that are not on the MAC list. It is also important that the MAC be aggressively low, yet acceptably profitable to contracting pharmacies in order to maintain stable provider network agreements. Having a MAC list that is overly broad is also ill-advised. It will make little difference financially from a MAC focused on highly utilized products, since the generics with low utilization will return only minor savings and may prove a disincentive to pharmacies to carry and dispense the generic product.

Rebates are another important strategy that, when properly designed, can help employers offset costs. However, when evaluating rebates, employers and plan sponsors also should be cautious about generous rebates on “blockbuster” drugs. Often, smaller rebates or upfront savings on already proved, generic drugs will provide greater overall value.

When employers and plan sponsors educate themselves about how generic and brand pricing and discounting work, there is a greater likelihood of successfully securing maximum value from the pharmacy benefit. When evaluating a generic drug program, employers should ask the following important questions:

- Are the key components of the pharmacy benefit plan being developed by pharmacists and physicians focused on providing quality outcomes, or by administrators focused mainly on costs?
- Are we getting a true deal, or is the PBM subsidizing one component of the program by charging more for another?
- Is the PBM providing the education necessary to ensure that physicians and plan members understand the value and advantages of generic drugs?
- Is the PBM promoting higher cost blockbuster drugs that are heavily promoted by manufacturers to earn added incentives and profit to their bottom line?
- Are we promoting the prescription drugs that provide the best therapeutic outcomes at the best price, or the ones that provide the best rebates?

When employers understand the game, they can become educated “players” and obtain the maximum value from a generic drug program.

## **BEYOND GENERICS: OTHER PHARMACY BENEFIT STRATEGIES**

In addition to a comprehensive generic drug program, there are several tactics employers and plan sponsors can use to help manage rising health care costs while improving patient quality of care. In addition to implementing a comprehensive generic drug program, employers and plan sponsors should consider the following programs:

### ***Utilization Management***

It is estimated that the average beneficiary fills eight prescriptions per year. Reducing the unnecessary or inappropriate prescription filled per employee could save the average large employer hundreds of thousands of dollars annually. Specifically, an employer with 5,000 employees, paying the national average of \$35 for each of the eight prescriptions filled, will save \$175,000 per year simply by eliminating inappropriate use of medications by an average of one prescription per employee.

However, utilization management is not about restricting access or making copays on necessary drugs so high that they won't be purchased. This approach can easily lead to higher medical costs. The best utilization management strategies not only help employers save money, they also expand access to quality prescription medications by taking a 5-R approach to ensuring better patient outcomes—the right diagnosis at the right time, and the right medication, in the right dosage over a period of time that's right for the individual patient.

### ***Targeted Disease Intervention***

A significant portion of health care dollars are spent on several chronic and/or potentially life-threatening diseases such as asthma, cardiovascular disease, diabetes, depression and migraine headaches. Over the past decade, a growing number of health plans and large employers have turned to programs to identify these and other high-cost, high-impact diseases and to help develop a proactive approach. The programs try to ensure that patients receive the appropriate medications, medical services and education needed to help manage the medical condition.

A targeted disease intervention can be highly

effective in utilizing the appropriate medications to improve the patient's overall health status, avoid unnecessary health care expenses and improve the quality of life. These programs will be developed by review of extensive medical and pharmacy claims data to pinpoint the plan sponsor's specific high-cost, high-impact medical conditions that might benefit from a targeted disease intervention program. For example, the analysis may show that an employee population has a high incidence of asthma, heart disease or high cholesterol. Based on this data, the PBM can then recommend programs that target these specific disease states. This type of approach ensures that plan sponsors select programs that specifically address the highest impact (either in terms of number of employees, quality of life or other criteria identified by the employer), highest cost conditions in their employee population, thus managing costs where needed the most.

The claims and prescription data is then utilized to identify patients who should be receiving medications for their conditions but are not getting these prescription drugs. A written communication to their physician informs the doctor of this fact and includes educational information on the medical basis for using a particular drug to treat a specific condition. Educational information is also sent to the patient. This intervention results in more patients receiving the medications they need and also helps educate physicians to improve their prescribing behavior to promote better health outcomes.

### ***Generic Sampling Program***

An effective generic sampling program encourages use of first-line agents by increasing provider awareness of current treatment guidelines related to first-line drug therapy and by supplying samples of selected first-line agents to primary care prescribing providers. The ease of use and the availability of the generic samples or coupons for sample prescriptions in pharmacies provide the opportunity for providers to choose the first-line generic instead of the brand name when they reach into the sample cabinet. A generic sampling program should not only aim to decrease pharmacy costs and utilization, but should also focus on quality of care as a primary principle. As such, the program should en-

sure that the most appropriate medication, not necessarily the least expensive medication, is used. One six-month pilot program generated savings of up to \$0.20 per member, per month and successfully increased the number of new-start patients utilizing first-line agents.

### **Managed Formulary**

A managed formulary approach must include a system to quickly and accurately identify exceptions to the formulary because of medical necessity. Automated edits also can help to identify inappropriate dosages or medications for specific individuals that might be harmful or, at the very least, wasteful. These edits can even identify contraindicated drugs and potential medication errors while the patient is in the pharmacy, before they leave for home with the incorrect prescription.

Regardless of the type of program being implemented—comprehensive generic drug program, targeted disease intervention, utilization management or more—employers and plan sponsors should be sure to work with a PBM that offers savvy, practical and effective programs designed to help employers balance the need to manage costs with providing quality health care to plan members. How can you tell if your PBM is providing true value? Consider the following questions:

- Does the PBM understand the contribution of prescription drugs to creating positive medical outcomes?
- Can the PBM predict pharmacy and medical cost trends in health care? Can this information be adapted to relate specifically to your membership?
- Does the PBM provide responsive strategies and customized programs for clients?
- How does the PBM evaluate the hundreds of new drugs that are introduced each year? These decisions need to be made by

physicians and pharmacists who take the time to evaluate new and current research and to select the drugs that offer the best value and highest contribution to improving overall health care.

- Does the PBM develop programs to encourage the use of the most appropriate therapeutic agents?
- Can the PBM measure the outcomes of its pharmacy services and programs?
- Is the PBM committed to long-term results? Many disease intervention programs produce results over time. A PBM that expects high “churn” in its membership base will be reluctant to make the kind of investment that will pay off in the long term for the plan sponsor and the employees.
- Can the PBM demonstrate a commitment to quality?
- What are the technological capabilities of the PBM? An effective program will include automation in mail service that prevents errors and improves efficiency, automated edits and predictive modeling to identify individuals and groups that are at risk for potential health conditions.

### **ABOVE ALL, ALWAYS REMEMBER WHY YOU'RE PLAYING THE GAME**

The primary goal of any pharmacy benefit plan—including the generic drug program—should not be simply to lower the cost of prescription drugs. Placing too much emphasis on controlling costs alone will likely lead to higher medical costs, poor patient outcomes and a pharmacy benefit that provides little true value. Only by focusing on the complete array of components that comprise an effective generic drug program can employers and plan sponsors ensure that they secure both the affordable cost and quality programs that both they and their employees need and deserve. ◀