

# MANAGED HEALTHCARE EXECUTIVE®

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## The New PBM Model

### PBMs step up as leaders call for true transparency

by Julie Miller

**S**OME SAY THE PBM industry is going through a dramatic evolution, and David Calabrese, RPh, MPH, vice president of clinical services for the non-profit pharmacy benefit management company MedMetrics Health Partners, is helping to keep the pace. Several strong influences are creating the evolution, and PBMs have responded with a new business model to meet the demands for greater transparency, shedding some light on the cost and value issues involved in pharmacy benefits.

Calabrese, a MANAGED HEALTHCARE EXECUTIVE Editorial Advisor, says there is an unacceptably high level of distrust and dissatisfaction among PBM customers. "Mounting lawsuits and fines waged against the for-profit PBM industry leaders, as well as a hostile regulatory environment, have exposed a number of previously unrecognized PBM business practices, which have fueled the fires of this distrust and created a strong call from managed care, employers and government leaders for a new and different PBM business model," he says.

Behind-the-scenes PBM revenue sources have in many ways created this current scenario, in which the mission and goals of the PBM are misaligned with that of its client, he says. The customers have been kept in the dark about what they're buying, how much they are paying for it, what's driving that cost, and what they can expect in terms of results of their purchases. Continuous growth in pharmacy expenditures, and unsatisfactory levels of customer service and support have also added to the current distrust.

**Q** What does the new, emerging PBM look like—how are the pricing structures different, the rebate process, the contracting, etc.?

**A** The newly emerging PBM is one designed to overcome most, if not all, of the shortcomings and criticisms of the current PBM business model. It is one that strives to create a higher level of trust by aligning the PBM's financial incentives with its clientele. While many of the larger PBMs have developed 'pledges' to operate under a more transparent and ethically sound business strategy, the new breed of PBM will go beyond such cursory pledges by establishing a more truly transparent, fully pass-through, and accountable business model. Contracts between the new PBM model and its clients will be based largely upon per-member-per-month (PMPM) administrative fees and mutually developed performance standards. The new PBM will de-emphasize the focus on pharmacy spread, manufacturer rebates and per-claim administrative fees, and shift that focus toward driving the most cost-effective, evidence-based care possible in partnership with its clients.



**David Calabrese,**  
vice president of clinical  
services MedMetrics  
Health Partners

**Q** How would you define 'transparency'?

**A** Transparency is a form of business practice involving full disclosure of costs and revenues, allowing the customer to make more well-informed decisions regarding purchases. In the PBM industry, transparency lays the groundwork for more simplified PBM-client business relations, more accurate financial modeling and performance metrics and a greater comfort level among PBM consumers. 'Transparency,' however, is a relative term used freely in the marketing efforts of many PBMs. The genuine commitment to transparency lies in the actual business practices

the PBM invokes to support this claim. 'True transparency' is a model in which all PBM revenue streams [drug-level rebates, funding of clinical programs, administrative fees, service fees, management fees, research/educational grants, etc.] are fully disclosed to the payer; the full value of retail and mail-

order pharmacy discounts is passed onto the client; data is shared with the client; and the client is given ultimate decision-making control over its drug benefit design and formulary management. It is this commitment to true transparency which has begun to differentiate newer PBMs.

**Q** How will PBM transparency guide us toward new trends, such as consumer-directed care and P4P?

**A** Transparency is an essential component of consumer choice. It allows for greater consumer awareness of the true comparative cost of drug products and drives more well-informed, well-rounded decision making for patients and providers in assessing available treatment alternatives.

When coupled with rigorous clinical education, transparency empowers the consumer to more adequately assess the relative value of medications for the treatment of a given condition not only in terms of cost, but based also upon the potential effectiveness, safety, tolerability and convenience one might expect to obtain from such therapy. Transparency also enhances the consumer's ability to better choose among brand and generic drug options, mail versus retail fulfillment and acceptable levels of cost-sharing.

**Q** As specialty pharmaceuticals grow marketshare, where will they fit into the bigger pharmaceutical strategy for plans?

**A** Given the impact specialty pharmaceuticals are already having on overall pharmacy budgets, and recognizing the vast pipeline of biotech drugs in late stages of clinical development, it is clear that specialty pharmacy management will remain among the highest of priorities for both managed care and government-re-

lated pharmacy administrators for years to come. Many of these organizations have already begun to employ programs which allow management of these agents using similar tools and strategies that have been in place for years in the non-specialty drug arena.

For PBMs, this market trend also dictates the need for development of comprehensive and academically reliable clinical programs which can assist their clients in managing this rapidly growing component of the healthcare dollar. Specifically, PBMs will need to develop comprehensive drug evaluation and clinical guideline support systems to ensure that their clients are equipped with the resources necessary to quickly and efficiently assess the value of these biotech medications via P&T [pharmaceutical and therapeutic committee] processes, and to employ appropriate controls to make certain that these agents are utilized in only the most appropriate patients and in the most optimal manner possible. PBMs will also need to develop more well-trained and professionally supported clinical call centers to assist their clients in managing requests for the use of these agents.

**Q** What are PBMs doing to differentiate or market themselves?

**A** In an attempt to regain the trust and loyalty of their present and potential future clients, many larger for-profit PBMs are expressing a greater willingness to operate in a more transparent manner. The jury is still out as to what that will translate to in terms of true changes in contracting structure and operational procedures. Most importantly, we are now witnessing the emergence of newer, smaller PBM firms who are distinguishing themselves by truly embracing the concepts of transparency, aligned incentives, innovative contracting and advanced academic rigor as a means to reshape the in-

#### AT A GLANCE



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dustry and bring about the successes the PBM clientele has long called for.

**Q** How are plans responding to the new breed of PBMs?

**A** Many see the new business model as one which creates a greater comfort and understanding of the financial incentives and integrity of its business partner, a more accurate sense of what their costs will be, and what services and performance they can expect in return for their dollar. Nonetheless, many remain cautious in their optimism. The burden will be upon the PBMs, both old and new, to prove themselves a trusted, valued partner in their business relationships with these clients by delivering upon such claims of transparency, alignment, greater commitment to clinical/academic excellence, customer service and bottom-line results. MHE