Controlling Rx costs: Top 5 reasons for a PBM RFP

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Prescription drug pricing is dynamic, rapidly evolving, and requires regular oversight. The competitiveness of your pharmacy benefit manager (PBM) contract may quickly deteriorate if left unattended. Issuing a PBM request for proposal (RFP) is an effective method to reduce the risk of significantly overpaying for prescription drugs.

This paper highlights five important reasons for health plans and plan sponsors to make a regular practice of PBM RFPs:

1. Ensuring market competitiveness
2. Industry standard frequency
3. Biggest savings opportunity
4. New drugs can impact current pricing
5. Reduce complacency of existing PBM

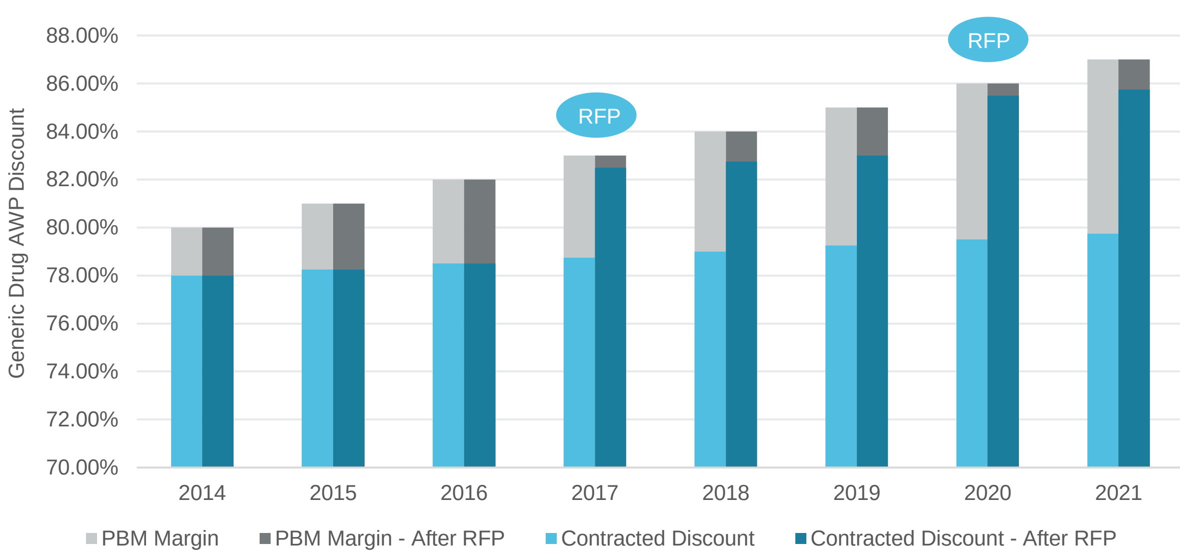
Reason #1: Ensuring market competitiveness

Prescription drug pricing is uniquely structured for plan sponsors and health plans. Pharmaceutical manufacturers set prescription drug prices, then PBMs guarantee discounts on the wholesale prices of these drugs as well as rebates to offset the costs of these drugs. The PBM guaranteed discounts and rebates can be quickly outpaced by market trends and competition. Prices and rebates can increase disproportionately relative to these guarantees, resulting in lost opportunities to better manage costs by plan sponsors.

The chart in Figure 1 summarizes an illustrative difference between a plan sponsor that never conducts RFPs compared to a plan that conducted an RFP every three years. The PBM can retain the discount differences as profit or use the profit to subsidize costs of other plans in the PBM's book of business.

In order to best control drug costs and prevent plan overpayments, the discounts and rebates in a PBM contract must remain competitive. The primary mechanism to keep PBM pricing competitive is through PBM RFPs.

FIGURE 1: HOW RFPS KEEP PBM MARGIN IN CHECK



Reason #2: Industry standard frequency

The industry standard timeline is typically once per contract period, or every three years. We also recommend performing at least one market check as well during that time period. Market checks assess the competitiveness of your pricing contract with respect to similar plan sponsors in the market. These assessments typically yield incremental pricing improvements in the later years of current PBM contracts. The first market check should be performed toward the end of the first contract year but no later than the end of the second contract year. The PBM RFP is typically performed in the third and final year of the contract. The timeline in Figure 2 outlines the ideal checkpoints of when to perform these tasks.

RFPs can be performed at any point during the contract period but the termination clause within a contract should be checked to ensure there are no penalties for terminating the agreement early.

Reason #3: Biggest savings opportunity

The primary mechanisms plan sponsors can deploy to improve and enforce their PBM pricing terms are:

- PBM RFPs
- Market checks
- Contract negotiations
- PBM claims audit

The chart in Figure 3 shows the average estimated savings in 2022 from each PBM pricing oversight mechanism based on the year the oversight mechanism was last used. For a contract that has not been renegotiated since 2014, we typically see savings up to 30% during a PBM RFP. We still see up to 4% to 5% savings on average when an RFP is done only one year after pricing has been updated.

FIGURE 2: PBM PRICING CONTRACT LIFE CYCLE

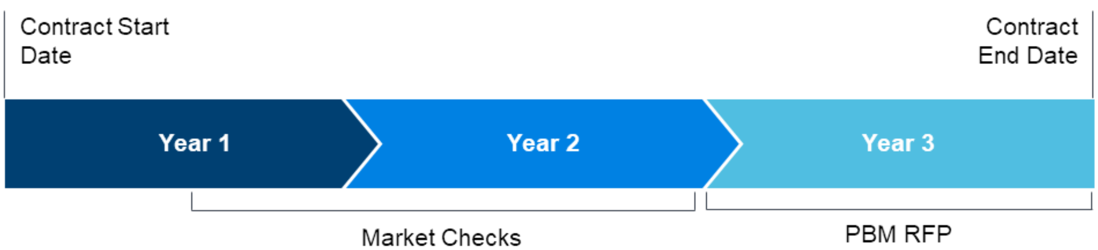
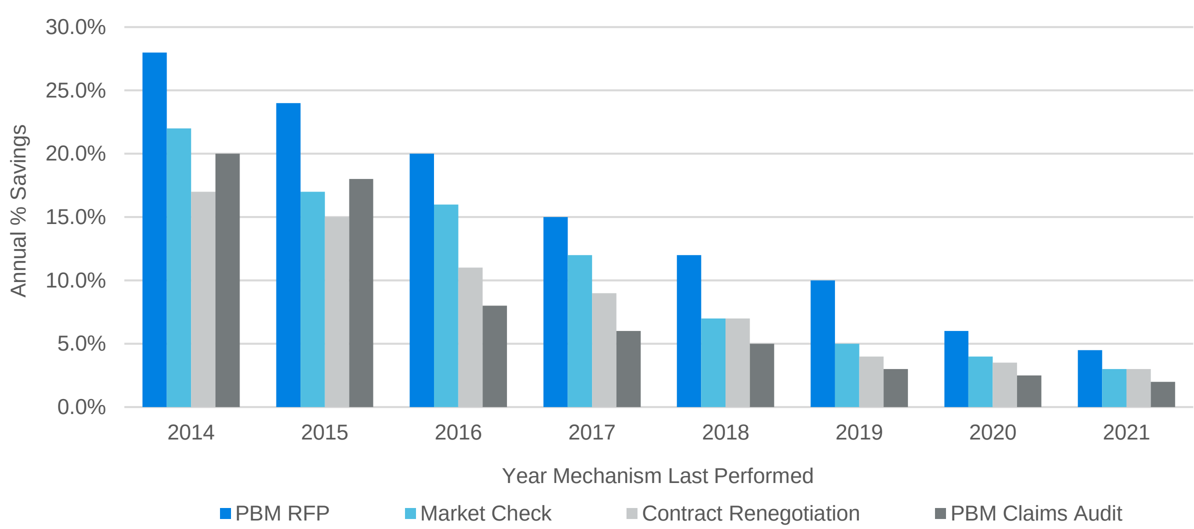


FIGURE 3: 2022 ESTIMATED SAVINGS POTENTIAL BY MECHANISM



Another way to think about this concept is that every year where a pricing update mechanism is not performed, there is increasing money left on the table by remaining with noncompetitive rates.

Significant savings can still be achieved with a market check or contract renegotiation, but the pressure of a PBM RFP typically yields the strongest and most market-competitive rates.

Reason #4: New drugs can impact current pricing

The prescription drug pipeline frequently has market-changing events that can alter the financial aspect of the prescription drug landscape. Two major events are brand products losing patent and the approval of new products by the U.S. Food and Drug Administration (FDA). These events have effects on drug competition, which have a direct impact on rebates and drug costs. Performing RFPs regularly will help to keep rebate guarantees up to date by forcing PBMs to be the most aggressive with respect to these changes.

When brand products go off-patent, the FDA allows for the production of generic alternatives. Typically, generic alternatives are lower in costs, heavily discounted, and do not have manufacturer rebates. If the new generic product is replacing a heavily rebated brand product, plan sponsors might expect a decrease in rebate volume in this space. Plan sponsors must evaluate whether the loss in rebate revenue exceeds the cost savings of the generic alternatives. PBM RFPs can reset the brand drug rebate levels and generic drug discounts to account for these new-to-market generic alternatives.

The FDA is constantly evaluating and approving new products. Manufacturers will provide rebates to increase patient access. If the new products are within a competitive therapeutic class, manufacturers will incentivize their use with rebates to give their drug preference on a plan's formulary. Plan sponsors should be aware that formulary changes can be driven by increased rebate revenue. Even without having utilization of the new brand product, a plan sponsor's rebates can be impacted in these competitive therapeutic classes.

The marketplace for prescription drugs is constantly changing and rebates have historically increased over the years. However, rebate increases could be at the expense of favoring a highly rebated drug over a lower-cost alternative. Plan sponsors must be aware of key marketplace changes that can be affecting rebates and drug costs when evaluating PBM contracts. Performing frequent PBM RFPs will help keep rebates and discounts current by forcing bidding and incumbent PBMs to provide aggressive pricing based on the latest market events.

Reason #5: Reduce complacency of existing PBM

While PBM RFPs by definition are requesting bids from several PBMs, there is no obligation to the plan sponsor to change from its current PBM during the RFP process.

As shown in reason #3 above, market checks and contract renegotiations can still yield savings to plan sponsors. However, the pressure of a PBM RFP encourages the incumbent PBM to offer its most aggressive pricing in order to retain the business.

The recent increasing competition among new PBMs and the vertical integration of medical, pharmacy, and PBM stakeholders have provided a stronger emphasis on performing RFPs. Plan sponsors and stakeholders can get to know new PBMs, new clinical program offerings, and other new pricing techniques. This due diligence helps stakeholders fully understand their pharmacy programs and ensures best-in-class benefits and pricing for their members.

When performing PBM RFPs, we recommend structuring them to retain the current status quo. The bidding PBMs can offer the closest match to the current benefit design for formulary and network, while offering the strongest market-relevant pricing. So while there is no need for the plan sponsor to make a switch by performing a PBM RFP, if a switch is made, then the disruption can be mitigated by how the RFP is administered.

Conclusion

PBMs are working tirelessly to keep up with the competition and combat the rising cost of prescription drugs. Plan sponsors must also be vigilant in order to maintain strong, market-competitive pricing for their prescription drug programs. Plan sponsors must be proactive in managing their benefits through contract renegotiations, market checks, and most importantly PBM RFPs.

Performing a PBM RFP can yield the strongest pricing improvements for a pharmacy benefit program while giving the plan sponsor the peace of mind that the partnership with its PBM is best in class.

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