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PBM Best Practices Series: RFP process

Alex Johnson
Brian N. Anderson, MBA

Plan sponsors' prescription drug costs can be reduced if they actively monitor their utilization and contracts. This paper will walk a plan sponsor through a process that will result in reduced costs and increased transparency.

Is your pharmacy benefits manager contract competitive in the current marketplace?

With both pharmacy benefit costs and administrative complexities on the rise, plan sponsors should periodically review their current pharmacy benefits manager (PBM) arrangements to ensure they are receiving optimal contracting terms. This can occur through regular PBM requests for proposals (RFPs) or market checks. Regardless of whether a plan sponsor decides to renegotiate with its current PBM or contract with a new PBM, it will save the plan sponsor money if it commits time and resources to reviewing opportunities to improve its PBM contracts. This issue has been brought to the forefront as large companies and employers have been very public about their PBM contracting approaches and as large coalitions are forming to better manage healthcare costs. Their first big area of emphasis is getting a better PBM contract deal by potentially disaggregating the PBM functions across several vendors to get the best deals separately on claims processing, contracting, rebates, formulary, and specialty pharmacies. These influences are leading other employers and funds to question their PBM deals, ask for more transparency, and scrutinize the contracts more.

In this article, we discuss the finer points of the PBM vendor selection process and provide an overview of PBM contract negotiations and market checks.

Selecting a PBM vendor

When selecting a PBM, a plan sponsor should follow a well-structured RFP process. It is imperative that the process involves individuals with extensive experience and knowledge in reviewing, implementing, managing, and auditing PBM arrangements. Their experience will play an important role in achieving the best available PBM arrangement for the plan sponsor, including optimal financial terms and concise contractual language.

Most plan sponsors partner with a pharmacy benefits consultant to guide them through the process and help them achieve the best results. It is vital to develop a proven, objective, and tailored grading process to evaluate the PBM vendor responses and make valid financial and administrative comparisons across vendors. An experienced consultant or advisor can help in this regard.

The steps required in the PBM vendor selection process include:

- Preparing the RFP
- Distributing the RFP to prospective PBMs
- Conducting a bidders' conference call
- Analyzing financial bids and grading responses
- Summarizing analysis and choosing finalists
- Finalizing PBM selection
- Drafting the contract

PREPARING THE RFP

The RFP document should be customized to meet the objectives of the plan sponsor. It should clearly deliver messages from the plan sponsor about its cost savings goals and administrative requirements, such that the PBM responses address the needs of the plan sponsor effectively.

The RFP document to the PBM vendors should request a substantial amount of information, including:

- Pricing terms (generic/brand/specialty, retail/mail order, rebates, and administrative fees)
- Pricing basis, such as average wholesale price
- Formulary design and estimated savings/disruption relative to the current formulary
- Pharmacy network size and access, including preferred network savings/disruption (if desired)
- Pharmacy network management
- Mail order facilities
- Specialty pharmacy management
- Benefit design options
- Performance standards and guarantees

- References
- Experience working with other plan sponsors and in government programs (if applicable)
- PBM services and cost containment programs, e.g., utilization management programs, fraud, waste, and abuse (FWA) services, reporting capabilities, population health programs, quality initiatives

The RFP's structure should require vendors to respond in a uniform format, which will allow for a consistent comparison of the PBM vendor proposals. We recommend asking PBMs to quote their best and final offers from the onset based on the plan sponsor's current formulary, utilization, and similar pharmacy networks.

In addition to developing the RFP document, plan sponsors should gather the information vendors would need to respond to the RFP. This information would include a description of the current pharmacy benefit plan designs, claims experience, and membership demographics.

Distributing the RFP to prospective PBMs

It is helpful to obtain proposals from three to six PBM vendors. Reviewing proposals from multiple parties allows a plan sponsor to compare costs, services, and contractual terms to assess which PBM best suits its needs for all or a portion of the desired services. Depending on the plan sponsor's needs, a consultant can make recommendations on which PBMs to solicit responses from to ensure a competitive bid process.

Conducting a bidders' conference call

The bidders' conference call should be scheduled approximately two to three weeks after the release of the RFP to allow time for the vendors to review it and develop questions. The purpose of the bidders' conference is to ensure that PBM vendors understand the objectives and requirements of the RFP as well as to address any questions they may have.

Analyzing financial bids and grading responses

A thorough claims evaluation of each proposal should be conducted, including a projection of plan costs for the life of the contract. There can be similarities with respect to PBM proposals, but a proven and objective grading process can effectively evaluate the differences. Proposals typically include guaranteed discounts from average wholesale price (AWP) on traditional brands, price lists for specialty drugs, and effective discounts from AWP on generics, along with the dispensing fees for each. These specifications may vary for 30-day retail, 90-day retail, mail order, and specialty distribution channels.

Most PBMs employ a traditional pricing approach known as spread pricing, meaning the PBM negotiates aggressive contracted rates with its network pharmacies and invoices its clients (plan sponsors) at higher contracted rates, profiting from the spread between the two sets of rates. This spread margin generally replaces any per claim administrative fee. Others, however, use pass-through pricing, which means they charge clients a flat fee per claim or per member and pass the exact purchase price through to the client. Under either method, the PBM proposal should clearly define the agreed-upon charge basis for medications dispensed at mail order, retail, and specialty pharmacies.

Sometimes a combination of the pricing methodologies can be used. For example, a PBM may employ traditional spread pricing, but with a limited pass-through true up yearly or quarterly, allowing clients to see what they are paying for, verify the contract terms, and ensure all discounts are passed through to the client.

Within a fully transparent contract, the plan sponsor may have additional requirements, such as verifying that the amount billed to the plan sponsor and paid to the pharmacy are equal. The plan sponsor will also specify the percentage of rebates to be passed through to the plan sponsor. An example for rebate information includes requesting the guaranteed rebate per brand for a national formulary client. In a pass-through arrangement, the plan sponsor may request a minimum rebate guarantee with the understanding that additional rebate revenue will be fully passed through.

PBMs also receive additional sources of revenue not passed on to the plan, including a float on the claims payments held by the PBM, price protection rebates when a medication cost increase exceeds a threshold, rebate administration fees, purchasing discounts, pharmacy transaction fees, and claims data sales.

Each PBM and benefit consultant uses its own financial models to compare cost savings of a PBM's pricing, dispensing fees, rebates, and administrative fees. A good financial model should enable the plan sponsor to see the potential cost saving opportunities over the contract period.

Figure 1 on page 3 shows an example of a PBM financial analysis model output produced by Milliman.

In addition to financial guarantees, the PBMs should be evaluated on other important metrics for the plan sponsor. They may include minimum response times related to services provided as performance guarantees, including member services and timeliness of financial reports.

Summarizing analysis and choosing finalists

The PBM responses should be compiled in a comprehensive report for due diligence documentation and an executive-level report for presentation to the plan sponsor's management. At this time, the consultant will likely recommend and the plan sponsor will choose two to three finalists. As part of the finalist evaluation, the consultant should begin discussions with the finalists to ensure the PBM selected is aware and can abide by all of the plan sponsor's contractual requirements.

Finalizing PBM selection

After finalist site visits and interviews, the consultant conducts pricing negotiations based on market-competitive pricing for plans comparable with those of the plan sponsor. At this point, the plan sponsor should have all the information necessary to make a decision regarding which PBM is the best fit. When a PBM has been selected, the plan sponsor notifies the winner.

Drafting the contract

Choosing a PBM is just the first step of the process. While the plan sponsor should ensure that all key contractual and financial terms are agreed to with the selected PBM in advance, the final contract language will often not be finalized until after the PBM selection.

An experienced consulting team can assist with writing, negotiating, and analyzing PBM contract language and proposals, working with the plan sponsor and the selected PBM to develop an effective and enforceable contract to keep up with the ever-changing market environment. The consultant can also help maximize transparency in the PBM relationship through various contract provisions. Finally, in the event the RFP process leads to a change in PBM, the consultant can support the plan sponsor in the installation of the new vendor.

FIGURE 1: TOTAL COST OVER CONTRACT PERIOD (IN THOUSANDS)

		CURRENT PRICING	PBMA – ORIGINAL OFFER	RECOMMENDED TARGET	PBMA – FINAL OFFER
RETAIL	BRAND	$9,536	$9,176	$9,176	$9,149
	GENERIC	$9,540	$8,109	$5,724	$7,030
MAIL (35-90 DAYS)	BRAND	$3,822	$3,586	$3,448	$3,482
	GENERIC	$2,506	$1,942	$1,504	$1,659
MAIL (1-34 DAYS)	BRAND	$37	$34	$34	$34
	GENERIC	$20	$16	$12	$13
SPECIALTY		$2,947	$2,836	$2,836	$2,836
RETAIL/MAIL/SPECIALTY COMBINED	TOTAL	**$28,407**	**$25,700**	**$22,735**	**$24,204**
REBATES	RETAIL	$1,324	$1,558	$1,656	$1,558
	MAIL	$632	$744	$760	$744
	SPECIALTY	$0	$0	$0	$0
	TOTAL	**$1,956**	**$2,302**	**$2,415**	**$2,302**
DISPENSING FEES		$808	$685	$685	$685
ADMIN FEES		$61	$0	$0	$0
TOTAL ESTIMATED COSTS (COSTS LESS REBATES)		**$27,319**	**$24,083**	**$21,005**	**$22,588**
% OF CURRENT CONTRACT		**0.00%**	**-11.85%**	**-23.11%**	**-17.32%**
TOTAL ESTIMATED SAVINGS		**$0**	**$3,236**	**$6,314**	**$4,731**

Ongoing evaluation: The PBM market check

Even with a PBM selected and a contract in place, a plan sponsor can seize yet another opportunity to identify potential cost savings by performing periodic PBM market checks. Over the course of the PBM contract term, we recommend at least one (at 18 months), but preferably two market checks (every 12 months). Market checks are a critical tool to ensure competitive PBM terms over the life of the contract.

The consultant's review of a PBM contract compares the financial contract terms with those recently seen or negotiated with other vendors. The process includes a comparison of the aggregate program pricing terms with the market across product types/distribution channels, administrative fees, allowances, other financial guarantees, and rebates to determine if the plan sponsor is receiving competitive market rates. The verification of competitive market rates may assist in renegotiating contractual rates with the existing PBM or may contribute to the decision to procure a new PBM service contract.

The final market check report measures, benchmarks, and recommends improvements to the contract terms. The project also includes follow-up conversations to discuss and advise the plan sponsor on how to move forward in renegotiations with the PBM.

Conclusion

Pharmacy benefits is one of the most rapidly changing and highly scrutinized segments within the healthcare industry, so it is increasingly critical for plan sponsors to understand and monitor PBM arrangements. A systematic approach to pharmacy benefits (from the initial RFP to a well-managed PBM selection and contracting process to regular market checks) can give plan sponsors much more control over their PBM arrangements, present the opportunity for considerable cost savings, and provide comfort that the best possible contract terms are being maintained. No matter what turns the market takes in the future, an experienced consultant can customize the process to meet the plan sponsor's needs and provide critical assistance every step of the way.

CONTACT

Alex Johnson
alex.johnson@milliman.com

Brian N. Anderson
brian.anderson@milliman.com

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