MILLIMAN WHITE PAPER

PBM Best Practices Series: Carve-in vs carve-out programs

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Employers and other plan sponsors have the option of carving in or carving out their pharmacy benefit program from their medical benefits. There are a number of important factors that should be considered when making a decision whether or not to carve out pharmacy benefits. This paper will identify the advantages and disadvantages of both options and raise important questions to consider when contemplating a move to a carve-out.

Definitions

CARVE-IN

When the pharmacy carve-in approach is used, the employer contracts directly with the medical health plan vendor for medical and pharmacy benefits. The medical health plan vendor will either administer the program in-house or contract with a pharmacy benefits manager (PBM) vendor to process pharmacy claims and administer the pharmacy program. Because the employer contracts directly with the medical health plan vendor, there is no direct relationship with the PBM.

A pharmacy carve-in is typically used under the fully insured model. In 2015, the Pharmacy Benefit Management Institute (PBMI) reported 23% of smaller employers (less than 5,000 lives) and 7% of larger employers (greater than 5,000 lives) were fully insured.[1] Under the fully insured model, the employer pays a premium to the insurer and the insurer assumes the risk of the total claims amount rather than the employer.

CARVE-OUT

When the pharmacy carve-out approach is used, the employer contracts directly with a PBM vendor to administer its pharmacy benefits program.

A pharmacy carve-out is typically used under the self-insured model. In 2015, PBMI reported 77% of smaller employers and 93% of larger employers were self-insured.[2] Under the self-insured model, the employer assumes the risk and benefits from managing costs. Pharmacy stop-loss insurance may be purchased to mitigate the risk of total claims amounts going over a certain threshold. A pharmacy carve-out can also be used with the fully insured model; however, this is less common.

Carve-in

ADVANTAGES

- Contract for medical and pharmacy is with one vendor, which can simplify administration and management
- Potential for better coordination of care between medical and pharmacy benefits
- Easier coordination with stop-loss insurance

DISADVANTAGES

- Less flexibility with plan design
- Combined medical and pharmacy contract allows for limited transparency and audit rights
  - Limited access to claims data experience to see if you are "winning" or "losing" under the fully insured model
  - Limited audit rights, if any
  - The contract typically includes penalty fees if the employer wants to change to a carve-out in the future

[1] Prescription drug benefit cost and plan design report: Pharmacy Benefit Management Institute; 2015. Available from: http://reports.pbmi.com/report.php?id=13.

[2] Ibid.

Carve-out

ADVANTAGES

- Flexible plan design and clinical programs that can help reduce costs
- Standard language in the PBM contract allows for increased transparency
  - Access to pharmacy claims data
  - Audit rights include:
    - Claims audit
    - Operational assessment
    - Rebate audit
  - Annual market check provision to ensure that the rates stay competitive with the current market
  - Service performance guarantees
- Implementation credits to offset expenses of switching to a new vendor
- Annual administration allowance to offset expenses incurred through the administration of the pharmacy benefit program

DISADVANTAGES

- Contract for medical and pharmacy are with multiple vendors, which can increase the administrative burden
- If the medical and pharmacy accumulators are combined, they will need to be integrated

Important considerations

If an employer currently has a pharmacy carve-in and is interested in carving out its pharmacy benefits, the following are some important questions to consider:

- How much are your pharmacy benefits currently costing you?
- Is your medical health plan vendor currently passing through rebates?
- When does your current contract term end?
- Is the timing right to conduct a PBM request for proposal (RFP) and possibly a medical health plan RFP?
- Will your medical health plan vendor increase your fees if you carve out your pharmacy benefits?
- How is your staff currently overseeing the pharmacy benefits program?
- Do you need additional resources to help you make an informed decision?

Conclusion

When considering a move to a pharmacy benefits carve-out, employers should consider the advantages and disadvantages of both a carve-in and carve-out. Employers should also consider other important factors such as current cost, appropriate timing, and internal staff expertise in order to make an informed decision.

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