

# How to Be Sure You're Not Being **OVERCHARGED** for Your Prescription Drugs

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The method used to price prescription drugs is undergoing a major transformation that is being driven by a recent legal settlement that changes how organizations negotiate with their pharmacy benefit managers (PBMs). As of Sept. 26, 2009, the average wholesale price (AWP) of approximately 1,400 national drug codes (NDCs) was reduced by approximately 4 percent (see How the Average Wholesale Price Works on page 48). PBMs have been

## **QUICK LOOK**

- ⇒ As of Sept. 26, 2009, the average wholesale price of approximately 1,400 national drug codes was reduced by approximately 4 percent.
- ⇒ The largest pharmacy benefit managers have developed three methodologies to ensure that plan sponsors' drug prices remain cost neutral.
- ⇒ The "book of business method" ignores plan-sponsor-specific drug utilization patterns regarding distribution channels.



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planning for this change for more than two years by including language in their client contracts that enables calculations that are designed to maintain “cost neutrality” after the reduction in AWP costs. Simply put, plan sponsors' drug costs should remain stable after the changes in AWP costs.

The largest PBMs have developed three methodologies to ensure that plan sponsors' drug prices remain cost neutral, which complicates the transition. As a result, plan sponsors need to take steps to be certain they are being charged appropriately in the

months ahead. Validating, monitoring and auditing the price they pay for prescription drugs is the best way to ensure plan sponsors are receiving the discount for which they have contracted.

### Maintaining Cost Neutrality

The transition would have been greatly simplified had the PBMs used the same pricing methodologies. Following are the three methods used to maintain cost neutrality:

- **Method No. 1:** The PBM simply reinflates the new, lower AWP for each affected drug to its prerollback level.

The existing contractual discount is then applied to the inflated AWP. This method is being used by CVS/Caremark, Catalyst Rx, InformedRx, Prescription Solutions, United Drugs and WellDyneRx.

- **Method No. 2:** The PBM uses its entire “book of business” to develop a single composite factor that is designed to maintain cost neutrality for all affected drugs. This factor is applied no matter how the drugs are distributed (via retail, mail order and specialty drug channels). Because the distribution channel affects a drug's price, and plan sponsors' individual utilization patterns are ignored, some will benefit from reduced costs while others will experience somewhat higher costs. This method is being used by Medco.

- **Method No. 3:** The PBM quantifies the impact of the lower AWP for retail, mail order and specialty drug channels, based on sponsor-specific utilization patterns. Individual factors are then developed to adjust the discount guarantees for each drug channel. This method is being used by Express Scripts.

Method No. 3 may be the most effective and equitable solution because adjusting each individual sponsor's discounts by both drug type and drug

## How the Average Wholesale Price Works

The average wholesale price (AWP) refers to the average price at which wholesalers sell drugs to physicians, pharmacies, pharmacy benefit managers (PBM) and other customers. It can be equated with the sticker price on a car — while no one actually pays the AWP, it is still an important benchmark because customers usually pay the AWP minus some negotiated percentage.

A 2005 class action suit against First Databank, which publishes the AWP, alleged that it had not actually based its prices on a survey of wholesalers, as stated, since 2002. Instead, it had arbitrarily raised the “markup” on certain drugs from 20 percent to 25 percent. As part of the settlement, First Databank agreed to change its calculation methodology and reduce AWP by 4 percent on approximately 1,400 national drug codes (primarily brand-name medications).

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channel generates the most accurate results. Method No. 1 is, in effect, recreating an AWP determination logic that has been legislated out of existence. Although discount levels will be adjusted when the plan sponsor's contract is renewed, in some cases there is no indication of how long this method will be used. Method No. 2 is overly general, applying the same adjustment to all drugs and all plan sponsors, without considering individual utilization patterns.

## What to Do

Given the complications of the transition, employers need to validate the methodology used by their PBM. Ideally, the logical first step is to review the PBM's proposed methodology by comparing it with actual data. The proposed methodology can then be accepted, rejected or challenged. This is not effectively possible in many instances due to timing of the release of the various PBM cost-equalization strategies.

The most critical step is to conduct a thorough electronic data review, validation and monitoring. This should be done during first-quarter 2010, after the new methodology has been used for two or more months.

By comparing pre- and post-rollback results on a drug- and distribution-channel-specific basis, employers will be able to accurately determine if cost neutrality has been achieved.

For instance, many plan sponsors may have drug utilization factors that differ from those being used by PBMs under Method No. 2, the "book of business method." In these instances, the aggregate PBM factor applied may be inappropriate. This could mean lost benefits dollars in the form of higher drug payments after the rollback. The "book of business method" also ignores plan-sponsor-specific drug utilization patterns regarding distribution channels. Plan sponsors with levels of retail, mail order or specialty drug utilization that differ from those in the PBM's aggregate claim experience should be especially interested in independently evaluating the impact of the aggregate PBM factor on their future benefits costs. In the event plan sponsors' costs have increased based on the methodology used by their PBM, adjustments, including financial remuneration, may be applicable. 

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