

# Alliance Alert

## Pharmacy Benefit Managers (PBM) agree to offer more Transparency

Transparency ideally involves full disclosure of all PBM revenue streams including rebates and utilization discounts offered by drug manufacturers.

Payers are estimating savings to be 3% to 6% on pharmacy costs under the transparency model, compared with traditional PBM contracting.

Pharmacy Benefit Managers sample format of transparency disclosures:

- Revenue from Administrative Fee
- Revenue from Dispensing Fee
- Revenue from AWP Pricing (retail, generic, brand, biotech)
- Improved discount from manufacturer due to volume packaging
- Revenue from mail service generic, brand and specialty
- Rebate revenue from manufacturer to Pharmacy Benefit Manager or Employer

Caremark is focused on providing PEBA members with programs and services, which manage healthcare costs. Caremark recognizes that there is a focus in the marketplace on the transparency costs and revenue sources. Caremark is responsive to this issue and does disclose the nature and existence of each category of its remuneration in client contracts.

Caremark derives revenue margin from prescriptions dispensed in the mail and retail environments and through their Clinical and Specialty programs. However, Caremark makes the majority of their remuneration on generics claims dispensed at mail service. The fact that Caremark clients also save the most money from generics and mail service allows for mutually aligned incentives. The aligned incentives encourage Caremark and its clients to promote generic utilization wherever possible, which results in lowering overall drug spending and minimizing the member's copay (where tiered copays have been implemented).

Pharmaceutical manufacturer contracts also generate some remuneration, which generally falls into three categories: rebates, administrative fees and service fees. Although the extent to which these types of compensation are shared with clients varies by category, none of these fees are hidden from Caremark's clients. The nature and existence of each category is disclosed in client contracts to PEBA members that have elected to utilize Caremark as their Pharmacy Benefit Manager.

PEBA requested Caremark to provide information regarding the revenue stream. Committed to the transparency model, Caremark disclosed the following information.

Caremark derives the largest percentage of profitability from:

- Generics dispensed at mail service.
- Generics dispensed at retail (but not as much as mail services)
- On the average, Caremark loses money on brand prescriptions at mail service and retail
- Caremark also receives some remuneration from pharmaceutical manufacturers and it falls into three general categories:
  - Rebates
  - Administrative Fees from manufacturers-admin fee is payment for Caremark's work in providing an aggregate rebate contracting vehicle for pharmaceutical manufacturers across its entire book of business. Administrative fees are generally measured as a percent of the aggregate AWP (not to exceed 3%) of the pharmaceutical products dispensed to participants across Caremark's book of business.
  - Service Fees for Caremark's work for physician or participant education programs, clinical consulting programs and communications to health care professionals, patients, or payers.

Caremark also makes some revenue aggregate blinded data available to a number of nationally recognized data integration firms in order to support appropriate administration of Caremark's drug management programs. This benchmarking data enables Caremark to compare against other drug spending population sets and gauge the effectiveness of Caremark's clinical programs on a national and regular basis.

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## **OPTIONS FOR CONTRACT-HOLDERS:**

### **The PEBA Alliance Agreement Pricing Options include:**

1. Rebate Sharing with 80% going to contract-holder
  - a. Two-tiered copay guarantee
  - b. Three-tiered copay guarantee
2. No Rebate sharing with an increase in AWP discounts and a decrease in administrative and dispensing fixed costs

### **The PEBA Alliance Agreement Network Options include:**

1. National Network (Includes over 61,000 Pharmacies)
2. CareChoice Network (National Network without CVS and a few local pharmacies.)

At your request, a network list for your area will be prepared to compare the two networks.

### **The PEBA Plan Design Parameters will include these options:**

1. Two-tiered, three-tiered and four-tiered Copay Options
2. Benefit Percentage Options
3. Over the Counter Prescription Options
4. Biotech Copay Options
5. Maintenance Dispensing Options
6. Health Savings Account Preventative Drug List Options
7. Front-end Deductible on any of the above.

Performance Guarantee Reporting form will be issued with the next Alliance Alert.

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