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E-BOOK

Strategies to Contain the Rising Costs of Pharmacy

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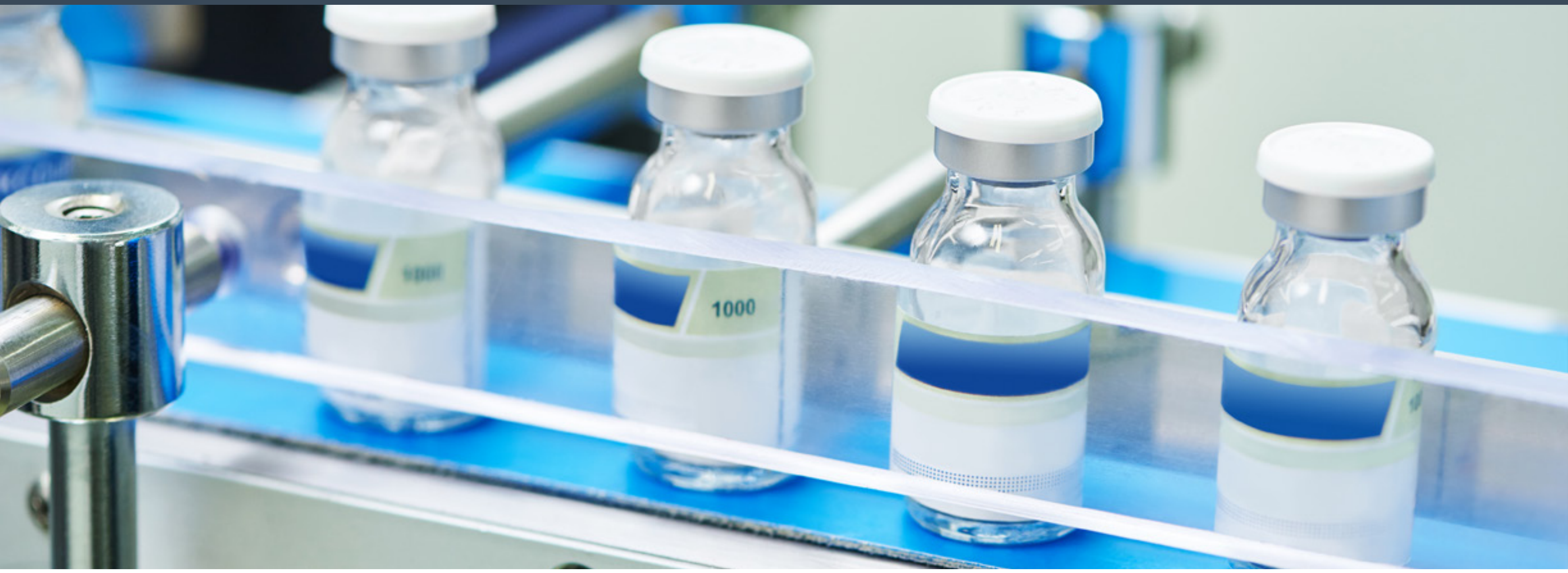
Introduction

As of 2019, the U.S. is spending just over $369 billion per year on prescription drugs. This is more than any other high-income country in the world. Because the cost of prescription drugs continues to rise, it is becoming increasingly difficult for small to midsize businesses to provide insurance that covers the cost of pharmaceuticals for their employees.

Although there is no one-size-fixes-all solution to the problem of rising pharmaceutical costs, there are strategies you can use to contain the cost. These strategies also provide your employees with insurance that covers the items relevant to their health needs.

By opting to use a self-funded insurance plan, utilizing the right pharmacy benefit manager (PBM) partner and implementing strategic cost-containment methods, you can offer affordable health insurance to your employees.



How the Pharmaceutical Supply Chain Works

When drug manufacturers create medications, they are distributed through a supply chain that eventually trickles down to patients. A drug is manufactured after going through a research and development process. The drug is then distributed at contract rates between the manufacturer and distributors in the healthcare ecosystem.

From there, PBMs or wholesalers work to distribute the medication to hospitals, physicians, pharmacies, and other sites. These entities set their prices for the medications, increasing the patient cost to make a profit. Finally, after moving through each layer in the distribution chain, the medication finds its way into the hands of patients.

Many manufacturers set their prices at high rates to recoup the initial expenses of researching and developing the drug. This also ensures the company makes a profit before the patent expires and other companies create competing products.

The price of prescription drugs ultimately gets passed down to the patients because every entity in the supply chain raises the price to make a profit. The final patient cost is exponential due to all of the “hands” the drugs pass through to get down the pipeline. This is also why it’s difficult to determine the exact price of prescription medications.

How Pharmaceutical Prices are Determined

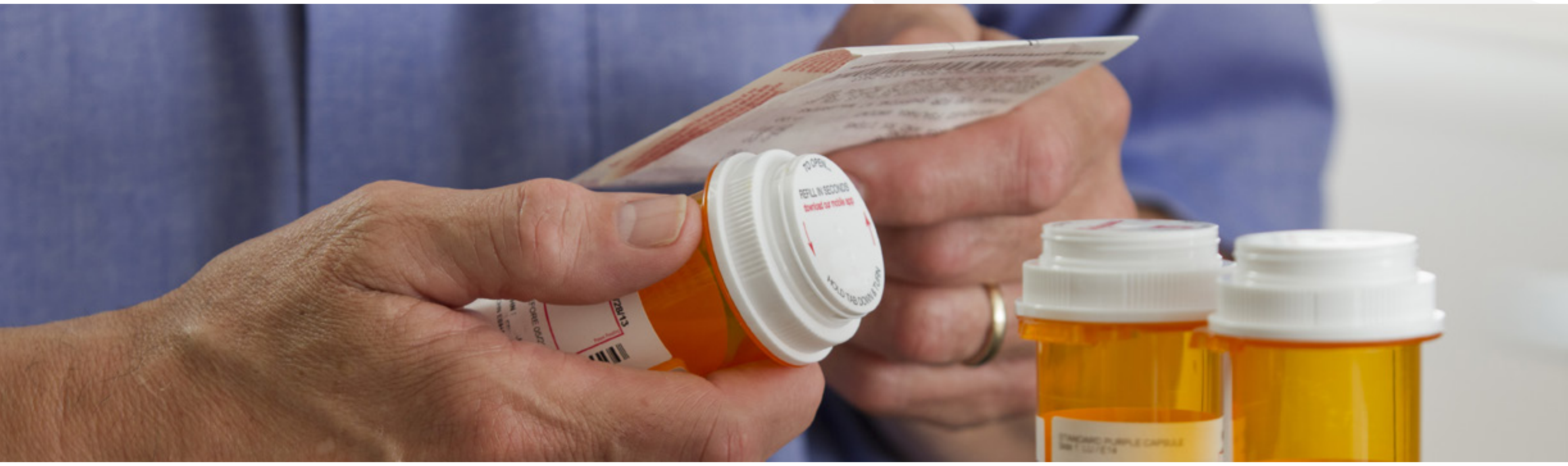
When determining the price of a medication, drug companies factor in the cost of research and development and potential profit.

On average, it takes about 10 years and $2.6 billion for one drug to go through the entire R and D process.

Many new drugs on the market are created for rare diseases and specific symptoms associated with conditions such as migraines or cervical cancer. These are priced high to cover the massive cost to produce the drug, obtain a patent, and put the drug through several levels of clinical trials.

While it makes sense that new prescription drugs would carry high pharmacy costs, the cost of some long-standing maintenance drugs, such as insulin, also continues to rise. First invented in the 1920s, this 100-year-old drug was originally made using insulin from cattle pancreases. In the 1970s, scientists discovered how to make insulin using human genomes, and manufacturers began marketing the new version to doctors.

Because doctors prescribed the more expensive insulin product to patients, the less costly insulin fell off the market. Continued incremental improvements and lack of alternatives are what have driven up the cost of this drug for those with diabetes today.



Why Do Pharmacy Costs Continue to Rise?

One factor impacting the cost of pharmaceutical drugs is specialty drugs. These drugs are prescribed to treat chronic or rare medical conditions, require specialized handling such as refrigeration, and often involve additional support.

Specialty pharmaceuticals are known for their high cost, and CVS Caremark reports that specialty drugs accounted for 52% of all Rx spend in 2020.

Specialty drugs can be as costly as $50,000 per year or more.

In addition, brand-name drugs are more expensive than generic drugs. About 80% of all pharmacy spending is on brand-name drugs, which naturally influences the rising costs of prescription medication. When there is little to no competition, pharmaceutical companies can set arbitrary pricing with little natural market recourse to bring costs back down.

Additional reasons that prescription drug costs continue to increase include:

- Cost of research, development, and marketing
- High launch expenses (including advertising) with the continued increase in cost
- Improper market price manipulation or misaligned incentives like rebates
- Lack of transparency in cost drivers, such as spread pricing applied by distributors
- High patient cost-sharing (premiums, deductibles, and copays)
- Failure of public programs to lower medication costs for patients
- Lack of consumer education on medication options

Role of the Pharmacy Benefit Manager

The pharmacy benefit manager is a key player in reducing the cost to consumers for pharmaceutical drugs. PBMs are the go-between for employers and prescription drug companies, distributors, pharmacies, and drug manufacturers. They negotiate prices on various medications to help employers get the best outcome on prescription drug access and costs.

PBMs affect the price of prescription drugs in several ways:

- They create lists of medications, known as formularies, that influence which prescriptions are covered and at what cost.
- They can negotiate contract pricing on medications from drug manufacturers.
- They work directly with individual pharmacies to gain reimbursement for drugs that are given to beneficiaries.
- They provide access to special programs, quantity limits, and prior authorizations.

Over the last three years, the Centers for Medicare and Medicaid (CMS) determined that PBM negotiations had an impact on lowering medication prices, showing that using the right PBM for your self-funded small business insurance plan can save you and your employees money on pharmacy costs.

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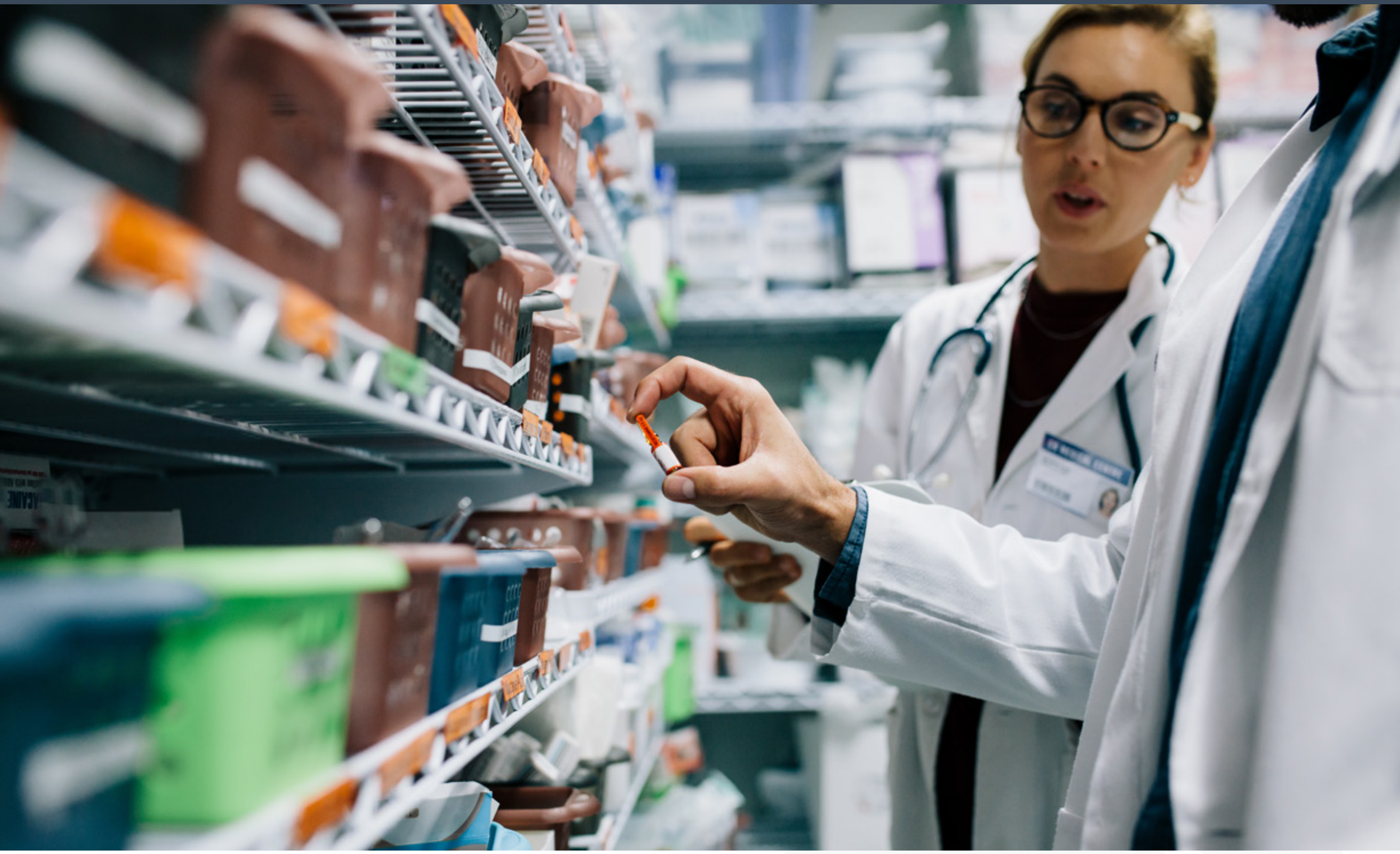


Types of Pharmacy Benefit Managers

To ensure you partner with a PBM who will work in your best interests, it is helpful to understand the different types of PBMs and how they operate.

Traditional PBMs

Traditional PBMs generally work for — and mimic the practices of — fully insured insurance companies. These PBMs have a reputation for negotiating rebates and clawbacks from pharmaceutical distributors and manufacturers that go directly to the insurance carriers or the PBM itself, not the policyholders.

Traditional PBMs generate revenue through administrative fees, service fees, government contracts, manufacturer rebates, spread pricing, pharmacy remuneration fees, owning specialty pharmacies, and vertical integration within the pharmacy market.

Transparent PBMs

Transparent PBMs are a preferred choice for self-insured insurance programs like Roundstone's group captive plan. Transparent PBMs provide an open fee structure that allows you to see what their terms are and where their revenue comes from.

Pass-through PBMs

Pass-through PBMs are also preferred to traditional PBMs because they pass the savings from coupons and rebates to you and your employees. They charge an administration fee, but this is upfront and easy to calculate.

Benefits of Using a Pharmacy Benefit Manager

The main benefit of using a pass-through or transparent PBM is more efficient access to prescription drugs and monetary savings.

A PBM can help your company by:

- Reducing prescription spending
- Providing access to clinical programs
- Offering advice or recommendations about medication options
- Providing oversight of claims management
- Facilitating more straightforward access to medications
- Providing expert knowledge of what is covered in your plan
- Facilitating annual savings on pharmacy spending
- Improving flexibility on medications and costs

What Else Can You Do to Lower Pharmacy Costs?

Lowering the cost of pharmaceuticals for your insurance plan requires you to implement innovative strategies that take advantage of data analysis and partnership with PBMs.

The following are ways to contain the cost of prescription drugs for your employees under a self-funded insurance plan.

Analyze Your Claims Data

One of the best actions you can take to minimize pharmacy costs is implementing claims data analysis procedures. This allows you and your broker to understand and observe the cost of prescription drugs under your plan and how they are utilized.

This understanding helps you identify any changes to the use of prescription drugs overall and if your employees are using high-cost specialty drugs. Having access to hard data also gives you the ability to analyze which pharmacy benefit tier is being used most often so you can steer employees to the most cost-effective option that meets their needs.

When analyzing claims data, you must focus on transparency throughout the process.

To get a clear picture of what you are spending on medication for each claim, you need accurate, detailed data to examine.

You want to know exactly what the pharmacy is paid and what your employee paid to avoid misalignment that leads to overpayment.

Work With the Right PBM Partner

PBMs are a great resource when it comes to lowering pharmaceutical costs. Work with your insurance underwriter to gain the perks of partnering with a transparent or pass-through PBM. Those perks can include special programs, discounts, coupons, and flexibility with medication options.

Educate Your Employees

An often-overlooked avenue to containing prescription drug costs is education. If you spend time and effort upfront to educate your employees on how the use of brand-name drugs impacts their premiums, they may be more likely to opt for less costly generic medications when possible.

Some people believe that brand-name drugs are more reliable or perform better than generic drugs, but the FDA states that generic drugs perform as well as expensive brand-name options.

Therefore, part of your cost-containment strategy should include education for all employees on staff.

Generic drugs versus brand-name medication is an excellent starting point for that education.

Make Sure Your Stop-Loss Plan Covers Prescription Drugs

To get maximum value from the stop-loss insurance component of your group captive plan, one of the ways to contain prescription drug costs is to ensure your stop-loss insurance covers pharmaceuticals.

Stop-loss insurance is designed to prevent you from taking on all the risk in the event of either one large claim or several combined claims that would result in a catastrophic loss. It's an important risk management tool for group captive insurance plans, but you need to look into which prescription drugs your stop-loss plan covers.

You can avoid employees' paying out of pocket and create a coverage plan that pays for the medication your employees need.

Have a Good Clinical Management Plan

Clinical management services are a critical healthcare cost-containment tool. The right clinical initiatives allow you to influence the cost of healthcare in all aspects of its delivery, including technical and economic factors and the level of patient satisfaction.

Clinical management programs apply incentives and systems to improve medical and pharmaceutical practices, making the experience better for patients and providers.

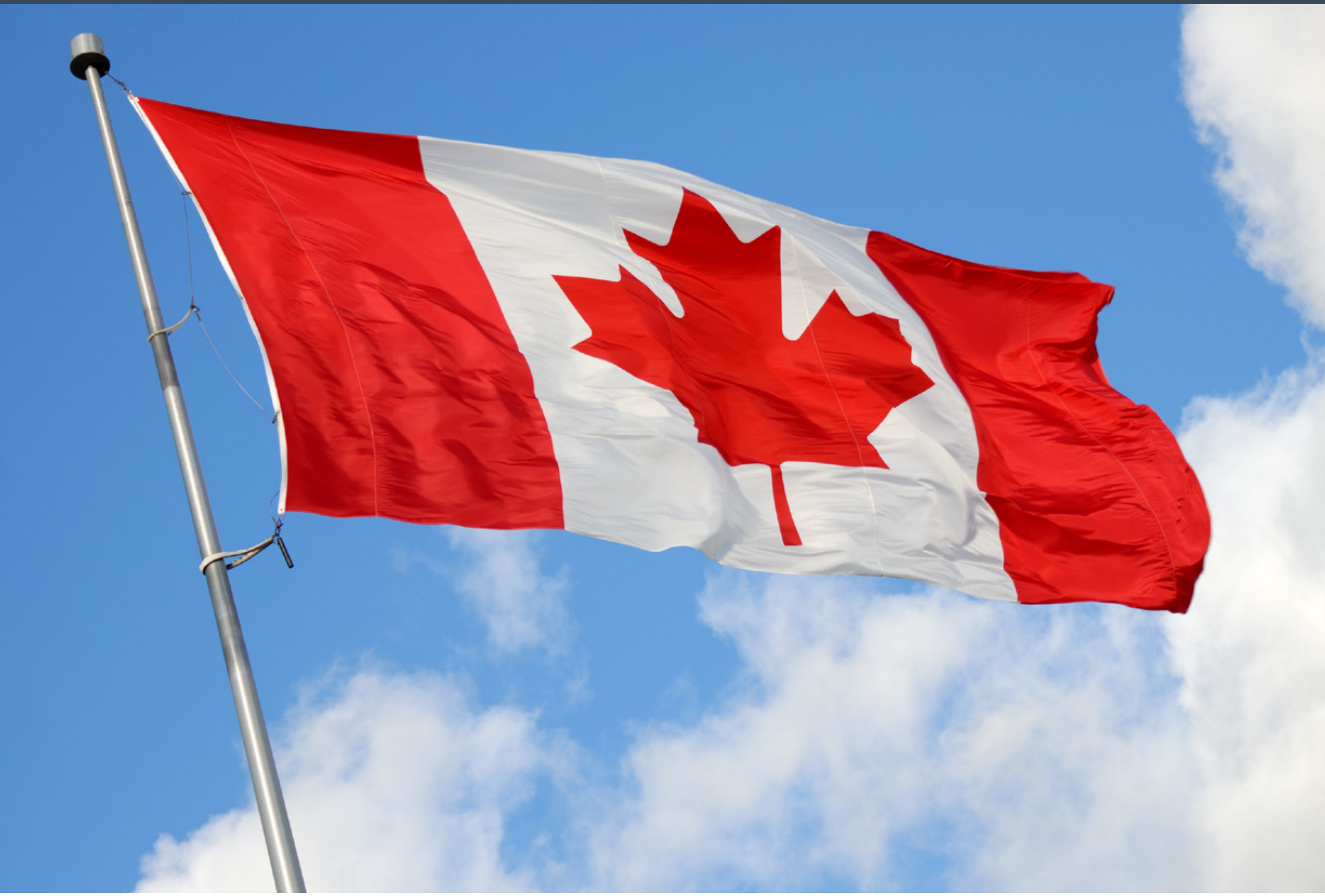
With a good clinical management program in place, employees under an insurance plan can comprehensively understand their medical condition and treatment plan while learning about symptoms, side effects, and how to manage them.

As a result, employees have improved knowledge of how to care for themselves, reducing the number of unnecessary hospital and emergency department visits they make and the need for additional pharmaceuticals in the future.

Clinical management services include:

- Medication management
- Patient education programs
- Incentives for preventative care
- Population management
- Care planning
- Risk stratification

An example of clinical management services is providing your employees with diabetes with education on their condition. Education can help them understand their condition and why getting regular, preventative care and making lifestyle changes to maintain their blood sugar levels are beneficial to their health. This gives them better overall care and reduces your healthcare costs because they experience fewer serious symptoms that require medication.



Use an International Mail Program

The prices of prescription drugs in the United States are 2.56 times higher than those in 32 other countries. - **Rand Corporation**

Using an international mail program can be a viable way to keep drug costs down.

However, not all drugs are legal to import into the United States. Additionally, there are ongoing changes related to the international importation of prescription drugs, specifically from Canada, so it is important to stay up to date on the latest FDA regulations.

Use an Overlay Vendor

Overlay vendors are services your organization can use for cost containment to deliver a better customer experience. Overlay vendors provide alternative sourcing for medications. They can be domestic or international or come in the form of advocacy organizations. Overlay vendors can assist you with obtaining brand-name drugs, generic alternatives, and specialty prescription medications as well as orphan drugs that traditional vendors may overlook.

However, they define the terms of the service they provide, such as crowd-funding therapeutic drugs so you don't need to add them to your plan, or sourcing alternative medication providers.

Overlay providers benefit from keeping pharmaceutical costs low.

These providers may feature services that gather data on multiple drug brands and their pricing, for example. Those consumers have easy access to information regarding what is affordable under their policies.

Your business can either develop its own overlay service or find an existing one to integrate into your operations.

Your business can also choose to carve out pharmacy benefits for greater visibility. Carve-out plans allow you to separate pharmacy benefits from the rest of your health plan. These plans are great for containing specialty drug costs because those are generally taken by a smaller number of people under your plan. Your pharmacy benefit manager can help you select the best carve-out option for your needs.

Take Advantage of 340B Programs

The 340B Drug Pricing Program has been in use for over 25 years. The program requires pharmaceutical manufacturers that participate in Medicaid to sell medications at a discounted rate to certain hospitals to help low-income or uninsured patients.

To take advantage of the savings offered by the 340B program, it's possible to point employees toward community health centers and children's hospitals for some types of treatment.

Roundstone Provides Powerful Cost-Containment Tools

Roundstone offers small to midsize businesses affordable self-funded group captive health coverage options.

Here's what our commitment to high-quality, affordable healthcare for all means for your business:

Coverage That Allows You to Pay for Only What You Need

Roundstone's customized plans are tailored to your business.

Our underwriters gain a clear picture of the benefits your company needs and work to create a plan just for you. No more paying for services and benefits your workers don't use; with Roundstone, you only pay for the benefits you and your employees need.

Expert Advisors

Pharmacy is one of the most volatile aspects of healthcare. With Roundstone's cost savings investigators (CSIs) and the CSI Dashboard, you will have full access to your claims data so you can ensure your plan is fully optimized. Our CSI experts analyze your company's spending patterns and recommend lowering your costs and optimizing your savings.

We've also assembled a customer-centric support team, so you'll never be more than a phone call or email away from answers. Our team includes clinicians as well as experts in risk management, regulations, claims management, reinsurance, and so much more.

(To learn more about how our self-funded group captive support team can help, read Self-Funded Doesn't Mean You're On Your Own.)

Access to PBMs Through Our Underwriters

Our underwriters work closely with transparent and pass-through PBMs to ensure you get the most cost-effective access to pharmaceuticals possible when developing your plan. We consistently check in with trustworthy contacts to provide up-to-date discounts and information on available medications.

A Customized Plan with Built-In Flexibility and Control

Roundstone offers customized plans that put you in control. We can help you design a plan that covers your employees for the medical care and prescription drugs they use without paying for coverage they don't need.

You will also have the flexibility to make adjustments or institute cost-containment strategies, such as employee well-being programs, to reduce medical and prescription claims.

Transparency and Savings

With Roundstone's group captive coverage options, we believe in full disclosure. You will have access to all the data and information you need to make the best decisions for your company. You'll know exactly how much you're spending and where every dollar goes so you can make cost-containment changes that work for your business.

What's more, you keep any unspent money in your claims account at the end of each year. You will also receive a pro-rata share of unspent funds in the captive pool portion of your plan in an annual distribution check.

All our captive members save money, and most save enough in their first four years to cover all claims incurred in year five.

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For More Information

To learn more about our commitment to affordability, transparency, and control of your employee health benefits, as well as a better understanding of how group captives work, read Why Choose Roundstone for Group Captive Insurance?

Request a Proposal from Roundstone

To find out more about how a group captive health insurance option can help you contain the cost of prescription medication, request a proposal and benchmark review today.

See the difference the affordability, transparency, and control of a group captive plan with Roundstone can make to your business.

Request a Proposal

If you'd like to learn more about providing your company with the benefits of group captive health insurance with Roundstone, request a proposal and benchmark review today. We're ready to work with you to create a group captive insurance plan that's a perfect fit for the needs of your company.

Request a proposal