The Impact of Medicare Part D on Pharmacy Benefit Managers

Actuaries’ Club of the Southwest and Southeastern Actuaries Conference Joint Annual Meeting

November 17, 2006
Agenda

- Introduction to PBMs
- PBMs under Part D
  - Roles
  - Benefits
  - Challenges
  - How can actuaries help?
PBM goals and objectives

- Manage drug spend appropriately
- Improve health outcomes
- Facilitate efficient administration of pharmacy benefits
- Growth and profitability
PBMs – The Basics (continued)

How do PBMs achieve these objectives?

- Volume discounts – bring size to the table
- Plan design / formulary management
  - Align incentives to manage costs
  - Monitor drugs in the pipeline
- Alternative revenue sources
  - Mail order pharmacies
  - Sales of data
PBMs – The Basics (continued)

- How do PBMs achieve these objectives? (continued)
  - Drug management programs
    - Influence physician prescribing and pharmacist dispensing behaviors
    - Identify potentially adverse drug interactions
    - Balance drug efficacy and cost
    - Identify low cost substitution opportunities
The Impact of Medicare Part D

- Medicare Modernization Act of 2003 (MMA) introduced prescription drugs as a new benefit under Medicare
- Offerings provided entirely by the private sector – no traditional FFS as with medical
- Unique benefit, large variety of offerings, and high government subsidies have led to major media and political scrutiny of Part D
The Impact of Medicare Part D
(continued)

- **Winners**
  - Medicare eligible beneficiaries
  - Health plans
  - Pharmaceutical companies
  - Pharmacies
  - Employers
  - PBMs

- **Losers**
  - Taxpayers
  - Budget hawks
  - Opponents of private market reforms
PBM Roles Under Part D

- Become a PDP
  - Three largest PBMs have all gone this route (Medco, Express Scripts, Caremark)
  - Accepting risk - new concept for some, nightmare from years past for others
  - Competing with existing health plan clients

- Assist employer clients
  - Employers have options under Part D
    - Retiree Drug Subsidy (Continue primary coverage)
    - Secondary Wrap Plan
    - Employer Group Waiver Plan
    - Drop Coverage
PBM Roles Under Part D (continued)

- Continue intermediary role
  - Larger increase in the insured population
  - More dollars at stake
    - Average 2006 <65 Drug Spend = about $700 - $800
    - Average 2006 >65 Drug Spend = about $2,400 - $2,700
  - Leverage current relationships on commercial side
  - More volume = better discounts / rebates / dispensing fees
PBM Benefits Under Part D

- Expanded Medicare population to serve
  - 2005: 24.3 million with comprehensive coverage (59%)
  - 2006: 38.2 million (90%+)
  - Previously unmanaged population = Big Opportunity

- Business diversification opportunity

- Ability to demonstrate expertise and willingness to help in confusing program

- Enhanced bargaining power
PBM Challenges Under Part D

- Increased scrutiny
  - Contract transparency emphasized – buyers becoming more savvy
  - Newly introduced accreditation programs
  - CMS oversight

- Enhanced competition
  - Smaller PBMs
  - Health plan owned PBMs
  - Enhanced competition
PBM Challenges Under Part D (continued)

- Difficult population to manage
- Managing specialty drugs
- Additional legal risk
- Increased administrative requirements (CMS reporting)
- Competing with existing customers
- CMS timetables same for all clients
How Can Actuaries Help?

- Health plans / employers
  - Independence
    - PBMs not required to act as fiduciary to clients
  - Dispel PBM myths
    - Generic or mail use always good
    - Can evaluate PBMs by looking solely at discounts, rebates and administration
    - Transparent contracts are always best
How Can Actuaries Help? (continued)

- Health plans / employers (continued)
  - Tasks
    - Plan design / formulary analysis
    - Benchmarking
    - PBM contract assessment / selection
    - Review of drug management programs
How Can Actuaries Help? (continued)

- **PBM**s
  - Understand insurance risk under Part D
    - Lack underwriting expertise
    - Build / support insurance operation infrastructure
  - Quantification tools
    - Great data going to waste
    - Current tools lack quantitative rigor
  - Understand insurer / employer viewpoint
    - We know their clients well!
    - What are they seeking / demanding
How Can Actuaries Help? (continued)

- **PBM**s *(continued)*
  - **Tasks**
    - Medicare Part D option comparison for employer clients
    - Pricing and managing insurance blocks
    - Other Part D assistance
      - Illustrate new ways to provide value
      - Assist with regulatory issues requiring an actuary
Summary

- PBMs fill a unique intermediary role in providing prescription drugs to beneficiaries that can help all parties involved.
- PBMs gain significantly from Medicare Part D, but also face challenges that are heightened under the new program.
- We can help on both sides of the table!
- Questions???
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