

The 60 Second HR Pharmacy Benefit Brief

Are You Making These Five Mistakes With Your Pharmacy Benefit?

You Could Be Costing Your Company Millions.

Sponsored by: The Burchfield Group

These are tough times for Human Resource and Benefit Specialists. Whether it's impending layoffs or tightened budgets, you are being asked to do more with less and do it faster. Health care costs are still rising and pharmacy benefits make up 10% to 20% of these costs. Maintaining the quality of your pharmacy benefit is important for your employees as well as for you and your own family. How can these costs be controlled without sacrificing the quality of the benefit?

Your company's pharmacy benefit can be complicated, so you may be tempted to rely on outside resources such as your PBM, broker or HR generalist consultant. Yet without the help of a true pharmacy benefit specialist, here are five mistakes your PBM hopes your organization makes that can cost your company millions.



1. **Accepting an early renewal offer from your Pharmacy Benefit Manager (PBM)**

Ninety percent of companies wind up renewing with their current PBM. It is a hassle for you and your members to switch, you are familiar with the current services, and you often get perceived savings for renewing early. Your PBM understands this too, and they also understand your reluctance to switch, as well as their own costs and risks at having to re-bid for your business. So the dirty industry secret is that they can save money by getting you to renew early through a small saving incentive. They can't offer too much or they would have to rationalize why they were charging you so much for your current program. But consider this... the stock value of the top PBMs has risen over 400% over the last four years while the Standard and Poors for the average company has risen 30%. Accepting early renewal is often a bad strategy and leaves money on the table.

2. **Relying on your broker or general benefits consultant to conduct your RFP.**

The logical alternative to accepting early renewal is to conduct an RFP process. It is often tempting to use your "regular" broker or consultant for this project. Unfortunately, it is getting tougher to tell the difference between your consultant and the PBM due to the proliferation of consultant-led purchasing coalitions. In most RFP processes conducted by brokers or HR generalist consultants, they simply send out the request, get the top three bids and ask you to select the vendor with the lowest price points.



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The real questions are; how do you know what the true costs will be and is this really the best deal? Perhaps you have experienced this yourself, the consultant seeks bids from vendors other than the one promoted in their coalition, however, they only receive a “management fee” if you select their program. How rigorously do you think they negotiated with other PBMs? Many plan sponsors would be surprised to learn how low “scale” is achieved in PBM pricing. Plus, sometimes price points represent superficial savings. Ultimately, you want the plan that will produce the lowest cost, not the highest rebates. If a consultant offers you an unusually low fee or no fee to conduct your procurement, ask yourself whose interests they truly represent. We suggest you use an independent firm focused on getting the “right” arrangement for you from whichever PBM is the best fit.

3. Not monitoring plan performance and not modeling RFP responses against your real data

It is surprising that many companies do not know how their current PBM is performing compared to the contractual terms. Their primary source of information is what their PBM tells them. You are never in a better place to leverage your current PBM than when asking them to submit a new proposal. But the prudent thing to do is to understand exactly how they are performing against your contract before conducting your RFP. This will allow you to answer questions such as: Are there pricing errors? How are they performing against rebates and other performance factors? It is also extremely important to trend the financial components of the PBMs’ proposals through the time period of the future agreement using your actual data so each proposal can be compared apples to apples.

4. Allowing PBM price creep or claw back between RFP acceptance and contract

An RFP bid is not a contract. It is a proposal. It is surprising how much changes between the proposal and the contract. This is known as claw back. The PBMs realize that plan sponsors may use a consultant for the RFP, but may use their own legal counsel to work through the contract. Certain interests are well represented, but pricing terms are tricky. You think you are getting one thing, but since the devil is in the details, you wind up with something else. The easiest way to overcome this

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disadvantage is to use a pharmacy benefit specialist who can assure that the terms of the RFP response are still in the contract and that the PBM is legally obligated to meet them through letters of verification.

5. Failure to monitor your PBM implementation

Assuming you've concluded a successful RFP process, evaluated responses apples to apples, and negotiated a tight contract, you can still leave money on the table if you do not monitor the implementation. This happens when benefits are set up incorrectly, pricing is incorrectly established and rebates are not verified. If results are not being verified independently, you cannot rely solely on the reports that the PBM sends you.

If your organization has made any of these mistakes, it may be worthwhile to get another assessment. At The Burchfield Group, this is what we do. We save our clients millions of dollars while preserving the quality of the benefit for the employee. Often, a 20 minute conversation with us can reveal areas of concern and refine a focus for savings. Pharmacy benefit savings guaranteed.

The Burchfield Group 1-800-778-1359

The Burchfield Group is a pharmacy benefit management consulting and auditing firm. Burchfield brings innovative perspectives to managing pharmacy benefits, helping plan sponsors evaluate and select PBM vendors, designing pharmacy benefit plans, monitoring plan and PBM performance, and auditing results. Our staff of experts has a vast knowledge of the PBM industry. Current clients include many Fortune 500 companies, large and small corporations, Taft Hartley trust funds, managed care organizations and Blue Cross and Blue Shield plans.