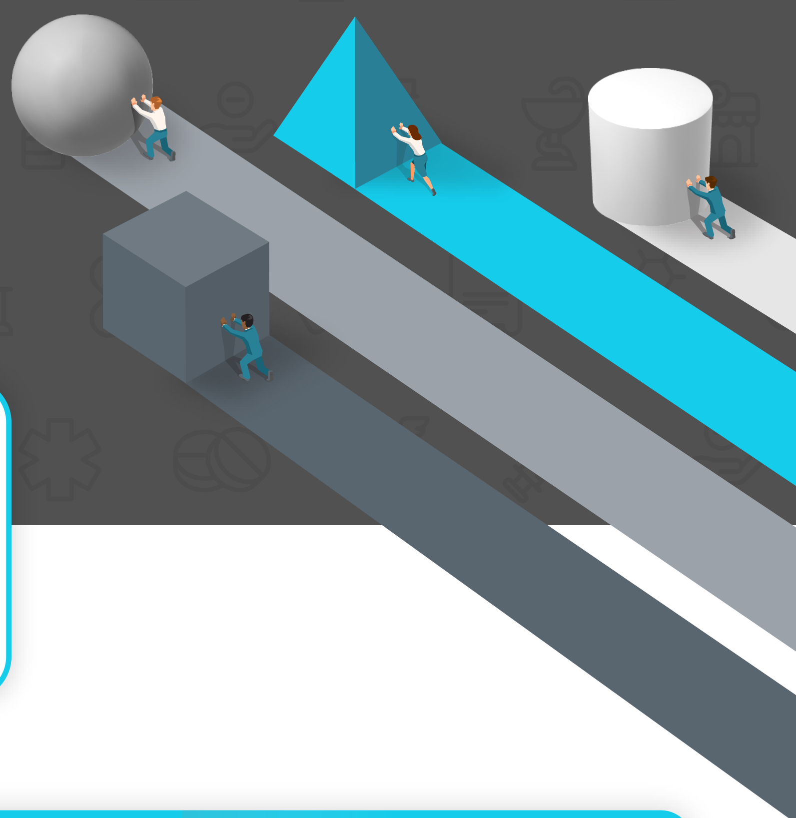
PHARM TO TABLE

Understanding Alternative Pharmacy Benefit Management Pricing Models

There's an array of pharmacy benefit management (PBM) pricing models, all with their own set of pros and cons. **It's not always easy to compare them and truly understand which one provides the best value.** It's important for you to have a clear understanding of your clients' contracting options, including whether or not the rates and rebates and ultimate plan performance is guaranteed.



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Transparency doesn't necessarily mean lowest net cost; it just means clients may have more visibility into the detailed components that lead to pricing the drugs.

Pricing Model	Pros	Cons
Traditional (Spread pricing)	• Typically offers better pricing, as PBM has less risk and more ways to earn revenue. • Usually leads to more aggressive performance guarantees, deeper discounts, and higher rebates.	• Drug costs and rebates are not transparent. • Not a one-size-fits-all and effectiveness is based on PBM transparency and accountability.
Pass-Through	• Actual drug costs and discounts passed onto employer, no mark-ups. • May be more flexible and transparent in customization of PBM plan design, programs and set-up.	• Higher administrative fees and less aggressive financial guarantees. • Generally more expensive as PBMs take on greater risk and have fewer opportunities to earn other revenue.

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Pricing Model	Pros	Cons
Reference-Based (e.g., National Drug Acquisition Costs (NADAC) and Acquisition Cost Plus)	- Offers strong, market-based pricing on select NDCs. - Employer sets maximum payment (reference point) it will make for a drug in each therapeutic class. - Can influence patients and physicians to switch to less costly options, reducing overall drug prices.	- Only covers a portion of NDCs and does not offer a comprehensive solution by itself. - Potentially more expensive than traditional and pass-through models. - NADAC doesn't reflect rebates and discounts, and excludes specialty drugs and mail order. - Acquisition Cost Plus administrative fees are higher, as employer pays actual drug cost.

Direct to Consumer	- Transparent pricing approach.
	- Consumers pay same price as acquisition cost, plus a fixed percentage markup and/or a standard dispensing fee.
	- Direct to consumer, low-cost drugs on specific medications.
		- Coverage for a limited number of medications only, mostly generics.
		- Limited pharmacy benefit solution; requires add-on for select prescription drug plans and integration with other vendors.
		- Lack of integration raises risk for:
		  • Medication errors without drug utilization review in place.
		  • Higher member costs if payments aren't accurately applied to deductible and/or out-of-pocket accumulators.

What does all this mean?

All pricing models have their pros and cons. Some models offer more aggressive pricing and rebate guarantees, some pass along retail discounts to employers in return for higher administrative fees, and some only provide coverage for a limited number of medications that may not include specialty drugs.

What really matters is whether or not the rates are backed with financial guarantees. In addition, it is important to note that the contract is only one element of a low-cost, high-quality pharmacy benefits offering. A low net cost pharmacy benefits program also must include appropriate and effective clinical management, based in evidence and best practice. Ultimately, your clients want and need to trust the organization they select to manage their pharmacy benefits.