



The Rising Tide of Pharmacy Benefit Cost and Complexity:

A health plans roadmap to optimizing pharmacy services relationships

New pharmacy benefit challenges

After several years of manageable pharmacy cost increases, health plans face an uncertain future, evidenced by headlines about increasing utilization, costly specialty medications, and higher regulatory and consumer expectations.

Rising costs

The Centers for Medicare and Medicaid Services CMS has forecasted that pharmacy spend will accelerate from 0.4% growth in 2012 and 3.3% growth in 2013 to greater than 5.4% growth annually for the next decade. This continued growth will be driven by factors such as:

- Annual increases in utilization building on the 1.6% annual increase in overall prescription drug utilization in 2013.
- The Affordable Care Act's introduction of new and complex populations which have already shown a nearly 35% increase in exchange per-member pharmacy costs compared to a commercial population; and
- An estimated jump in specialty net drug spend from \$290 PMPY in 2012 to \$845 PMPY in 2018 across the pharmacy and medical benefit for commercial plan sponsors.

There will be some trends that counteract these cost drivers such as:

- The growth in the use of High Deductible Health Plans (HDHPs) and
- The growth in free prescriptions, which now make up 23% of all fills.

Without taking action, pharmacy benefits will squeeze health plan margins further. Future success demands a renewed focus on all elements of pharmacy cost and a strategy to embrace new challenges.

Increasing consumer and regulatory demands

Cost strategies must be balanced against impacts on new member acquisition, consumer satisfaction, and regulatory requirements such as quality and fraud, waste and abuse. For most consumers, their primary interface with the healthcare system is through the drug benefit. The pharmacy online and customer service experience can have significant influence on member satisfaction captured by the Consumer Assessment of Healthcare Providers and Systems (CAHPS) Health Plan Survey results and downstream Medicare and Medicaid quality measures. Now that individuals are increasingly choosing their health plans within public and private exchanges, pharmacy's role in the overall healthcare experience is even more critical to a health plan's ability to attract and retain members.

These rapidly evolving dynamics are causing health plans and other payers to rethink their pharmacy strategy. Industry leaders are moving toward a dynamic and collaborative relationship with their pharmacy benefits management (PBM) company or internal pharmacy services teams responsible for execution.

Instant Insights

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Our Take...Plans should start with a collaborative assessment

As health plans rethink their approach to pharmacy, they should think about three categories of focus:

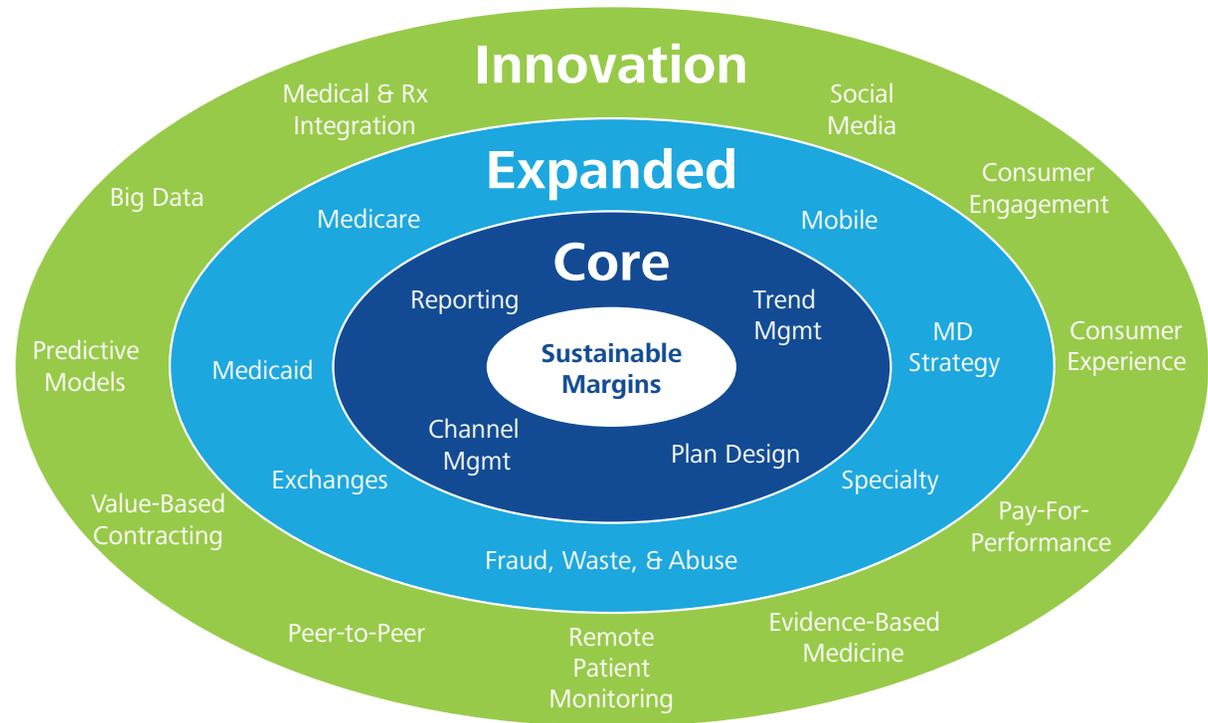
1. Core program components that are primarily cost-based, such as trend review and plan design;
2. Evolving program components that are rising in importance due to health reform and changing market dynamics; and
3. Innovative opportunities that envision a future of highly integrated and consumer-centric care.

As health plans evaluate and strategize with the PBM, both organizations must agree to a clear roadmap that addresses each category. This approach can allow plans to sustain margins and move toward market differentiation.

The basics: Solidifying core pharmacy program components

- Transparent and integrated reporting, including:
 - Deep assessments of performance by segment (e.g., Medicare, Medicaid, National Employer, Small Group, and Exchange); and
 - A scorecard of Key Performance Indicators (KPIs) around clinical, financial, operational, and member engagement metrics.
- Timely and integrated assessments and updates to plan design, formulary, and clinical programs including coordination of medical and pharmacy plan design to ensure aligned results.
- Effective trend management through:
 - The use of solutions around generics, utilization management, and 90-day prescriptions and
 - Applying current tactics like limited or preferred retail networks.

This active management of the pharmacy benefit will allow for changes to be made during the plan year, as legally allowed, to capture and protect margin.



“Collaboration with your pharmacy team or PBM is essential in heightening the value of your pharmacy spend. This allows you flexibility as the market evolves and gives you the confidence to fully leverage the client and member experience as you onboard and transition groups.”

Reacting quickly: Addressing evolving pharmacy program components

This foundation is only the beginning. Pharmacy teams now have to think about rapidly changing issues like drug abuse, drug diversion, and the intricacies of compounding rules while they are juggling the implementation of exchanges, new government programs such as the Medicaid demonstrations, and managing the ever-increasing requirements of Medicare programs. The need to stay compliant and embrace solutions such as Medication Therapy Management (MTM) are important and require dedicated focus. At the same time, the rapid growth of new channels such as mobile and the dynamic growth of the specialty pipeline can create complexities in delivery and strategy that require short-term actions to protect margin and continue to deliver a competitive solution to the marketplace.

These rapidly changing areas — technology, regulatory, and specialty — require a “partner” (not vendor) relationship with the PBM to rapidly assess issues, develop a game plan, and localize the implementation of a solution.

Becoming proactive: Differentiating through collaborative innovation

As health plans strengthen their programs, they can take advantage of opportunities for collaboration and innovation across the care continuum. These opportunities will need to be customized based on understanding their member populations and local healthcare utilization patterns which can vary significantly. For example, several PBMs have created state maps to show the differences in generic fill rates, medication possession ratio (MPR), and other metrics. This understanding of local market dynamics and local competition is important as health plans evaluate different innovation levers such as advanced analytics, consumer experience, and digital technology to determine how to drive value and how to use their resources effectively.

The pharmacy benefit is no longer limited to simply getting a prescription adjudicated correctly and at the lowest cost. The member’s experience with the drug benefit and adherence is critical to retention and to quality metrics such as the Medicare Star Ratings and several PBM and care management accreditations. Additionally, with value-based plan design and shifting payment models, payers need to clearly understand the correlation between pharmacy and clinical outcomes and leverage evidence-based care approaches in areas like oncology to partner with providers.

The evaluation of these different categories and transparent discussion of opportunities will be transformative in changing the health plan relationship with their PBM. Ultimately, to heighten value, this relationship has to grow from a vendor relationship to a trusted advisor relationship where there’s a win-win to optimize both clinical and financial outcomes.



The path forward

The path forward is an ongoing cycle which methodically and creatively addresses each of the categories of opportunity within the pharmacy benefit. It requires a close partnership with the PBM or pharmacy team to analyze data, identify opportunities, and execute on a prioritized portfolio of initiatives.

To help accomplish this, it's important to continue thinking about the three areas of focus described here:

1. Solidifying core pharmacy program components;
2. Addressing evolving pharmacy program components; and
3. Differentiating through collaborative innovation.

This dynamic approach is important because over time the evolving programs will become core and new innovation opportunities will arise. Additionally, what might begin as a small issue within a finite population could expand as a drug gains market share or gets new indications approved moving from orphan conditions to more common conditions.

As plans move through the process, they should address key questions in each focus area.



Manage the core program

- ✓ Key discussion topics with your pharmacy team:
 - What insights can we take away from our trend data and how does that compare with benchmark data?
 - How are new drugs in the pipeline going to affect our trend? Is there anything unique about our plan design, population, or geography that will impact that?
 - What changes should I be making to my plan design and what's the impact of those programs — financially and operationally?
- ✓ Monitor the marketplace:
 - How well are we enabling our sales channels to support the optimal plan design (i.e., do they understand the value of a mandatory generics program)?
 - How will any changes to the formulary and our plan design affect our quality metrics?
 - What data are we seeing on the medical side that could affect our decisions in pharmacy (e.g., shift in oncology spend from buy-and-bill to hospital setting)?

Expand the PBM relationship

- ✓ Key discussion topics with your pharmacy team:
 - How are different private exchanges treating the pharmacy benefit and how does that change our approach?
 - What changes are happening in specialty pharmacy (e.g., site-of-care, oral oncologics) and when do we need to take action?
 - Is there a different way to engage physicians that are part of an ACO, PCMH, or have some type of pay-for-performance program in place?
- ✓ Monitor the marketplace:
 - How are we engaging with our providers to align them with our pharmacy strategy and collect their feedback?
 - How does our adherence compare with other market service areas (MSAs)? Do we see significant variation by provider, consumer segment, plan type, or condition?
 - Can we leverage our pharmacy interactions and interventions to support our broader population health management strategy?

Address innovation

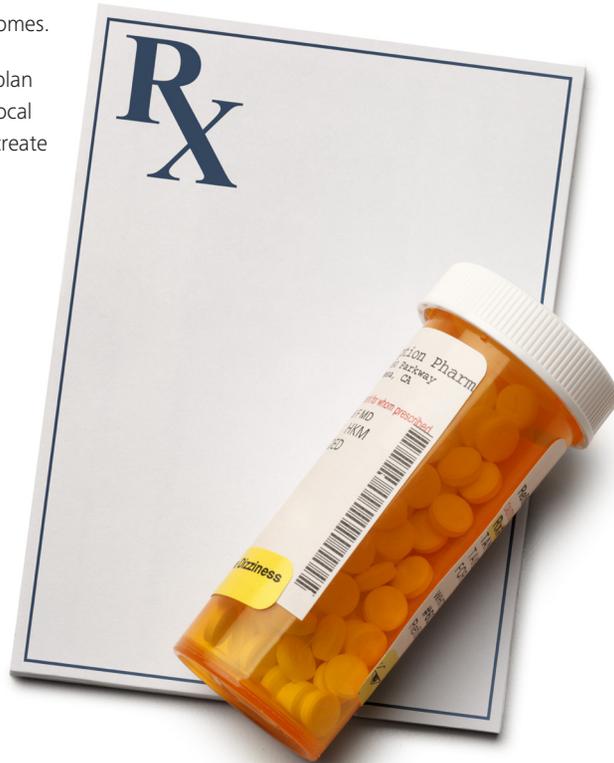
- ✓ Key discussion topics with your pharmacy team:
 - What new data sources should we be integrating and how can they help improve our outcomes?
 - How can our members use social media and new technologies (e.g., video, chat) to interact with your call center?
 - Is there a way for us to improve the consumer experience by integrating our case management approach with your pharmacy care team?
- ✓ Monitor the marketplace:
 - What pharmacy data do our physicians want and how will they use that to improve outcomes?
 - Have we incorporated our specialty strategy into any clinical pathways or evidence-based tools that our specialists are using?
 - As new data sources are being created from mobile health tools, how will we integrate that with our pharmacy data and what decisions will it influence?

The bottom line

The pharmacy landscape is rapidly changing. The only certainties are increasing cost, complexity, and market demands. To embrace this, health plans need to redefine their PBM relationship. Those that succeed can create a collaborative partnership moving beyond core administration and addressing multiple opportunities. Together, plans and PBMs can create differentiation across the marketplace. Some areas of greatest potential include:

1. Collaborating with providers to address payment reform;
2. Focusing on the retailization of healthcare and the consumer experience; and/or
3. Leveraging data in new ways to improve outcomes.

While these are certainly large focus areas, each plan needs to understand their business model, their local markets, and their mission to determine how to create sustainable value and grow their business.



Contacts

To discuss your pharmacy strategy and opportunities for differentiation, contact:

Bill Preston

Principal
Deloitte Consulting LLP
+1.404.631.3723
bipreston@deloitte.com

Bryan Clayton

Senior Manager
Deloitte Consulting LLP
+1.312.486.1527
brclayton@deloitte.com

George Van Antwerp

Senior Manager
Deloitte Consulting LLP
+1 314 342 4976
gvanantwerp@deloitte.com

Carmen Alexander

Manager
Deloitte Consulting LLP
+ 1 480 267 3193
caalexander@deloitte.com

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