

Do Drug Benefit Managers Reduce Health Costs

While all the cutting goes on in health care, one of the biggest and least understood players is getting bigger and richer.

Pharmacy benefit managers, which include CVS Caremark and Express Scripts, are little known to consumers except as names on the drug cards in our wallets. The roles of PBMs have expanded from simply handling prescription billing about 15 years ago to deciding which drugs insurers cover, what they cost and how much pharmacies are reimbursed for them.

Now some lawmakers are trying to rein them in. Legislation is pending in 14 states that would require more pricing disclosure by these companies, which process the drug benefits for virtually every American with insurance. PBMs cut private deals with drugmakers and then set maximum amounts they'll reimburse drugstores for generic drugs and what they'll charge companies, insurers or other clients for the drugs. The difference between these two numbers is often called "spread pricing," and remains a murky but highly profitable area.

PBMs will save companies, Medicare and consumers nearly \$2 trillion on prescription drugs between 2012 and 2021, according to a 2011 report by health care consulting firm Visante, hired by the Pharmaceutical Care Management Association. The group says PBMs do this through their collective buying power, which helps plans and consumers get discounts from pharmacies and rebates from drugmakers, and by using mail-order pharmacies. PCMA says the companies also reduce inappropriate prescribing by physicians and medication errors and improve consumer compliance and health.

Although there is disagreement over whether many companies even know spread pricing is going on, Express Scripts spokesman Brian Henry says its clients can decide whether or not to have it in their contract. He says spread pricing earns money for the PBMs when its clients save money, particularly on generic drugs.

But consumer advocate Wendell Potter asks, "How much value are they really adding to the equation?"

PBMs "essentially are middlemen who also add costs to the system," says Potter, an author and former spokesman for Cigna insurance. "They may have had a result in bringing costs down, but they might have gone down independently with more of the brand-name drugs going generic."

As more people become insured under the Affordable Care Act, PBMs will become both more profitable and powerful, which could thwart efforts to keep drug costs down, some critics say. Express Scripts, for example, is ranked 24th on the *Fortune* 500, thanks in part to its \$29 billion deal to buy Medco last year. Last month, the company said it expects to have 10% to 20% growth in earnings per share for the next several years, thanks to "health care trends, industry positioning and the overall environment."

While the ACA requires that plans provide prescription drug coverage, an analysis of insurance exchange plans for 46 states by health plan comparison firm HealthPocket found co-payments and co-insurance fees for drugs increased an average of 34%.

PBMs "hide behind confidentiality all the time," says Potter, author of the new e-book, *Obamacare: What's in it for Me?* "Whether the clients are companies, insurers or individual consumers, customers have a right to know how much money they're making — and how they're making it."

Susan Hayes of consulting firm Pharmacy Outcomes Specialists, agrees: "PBMs are saving us money, but they are adding costs for employers and not being as cost-effective as could be."

In fact, the PBMs' cut of transactions can double drug costs for consumers or employers. A month's supply of a 20 milligram dose of Lipitor cost consumers or their employers \$21.60, according to an audit of a PBM contract done recently by Pharmacy Outcomes Specialists, which represents companies, managed care organizations, unions and government agencies. The drugstore was reimbursed \$10.83, so the PBM kept \$10.77. For a month's supply of a 10 mg dose of Ambien, the consumer/company cost was \$5.65, the pharmacy got \$1.88 and the PBM retained \$3.77.

The states' attempts to rein in pharmacy benefit managers follow a Department of Health and Human Services' rule that took effect last year, requiring PBMs to tell the government how many rebates and discounts they get from drugmakers when they are processing Medicare benefits. That information doesn't have to be shared with the public, however.

"The government sees that already and, like any client, they can contract for whatever they want when arranging the contract," says Mark Merritt, CEO of the Pharmaceutical Care Management Association. PBMs will "show clients whatever they want. It's a very, very competitive marketplace."

Backers of pending state bills hope health care cost containment, a principal theme of the ACA, will boost the bills' chances.

Though little known, PBMs are often bigger than many of the companies they negotiate drug deals for.

"The more obscure a line of business, the easier it is to exploit consumers," says attorney David Balto, a former Federal Trade Commission policy official, who now represents independent pharmacies and consumer groups fighting PBMs.

Now that consumers are paying a bigger chunk of their health care dollars, including for prescription drugs that often have their own deductibles, PBM critics hope employers and consumers will pay closer attention to why their out-of-pocket drug costs are so high.

"Employers don't look at the micro level or intensely supervise PBMs," says Balto, whose says his consumer advocacy is pro bono.

It is drugstores, not consumers or PBM clients, who raise issues about transparency, says Express Scripts' Henry. "But the fact is that we are completely transparent with our clients who hire us."

But Hayes says some consumers would be better off circumventing PBMs: "To be a better consumer maybe the best thing is to not go through the prescription drug plan."

The website ConsumerAffairs.com has nearly 700 consumer comments about Express Scripts, and 90% gave the company just one star out of five. Concerns range from mail-order drugs that weren't delivered to high prices.

Kenneth Warren, a retiree in Petaluma, Calif., who posted a complaint, said in an interview that he originally tried to get his prescriptions through an Express Scripts plan under Medicare Part D. The plan would have charged him \$62 a month to be a member plus the cost of his meds.



Some of Kenneth Warren's prescriptions. (Photo: Jessica Brandi Lifland, for USA TODAY)

Warren researched his options and found that if he ordered the drugs through Costco, it would cost about \$115 for a three-month supply. So he now just fills his prescriptions at Costco.

"Obviously they were really charging me a huge amount of money for very little value," says Warren. "It's a question of buyer beware."

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