BEHIND THE SCENES: WHAT HAPPENS WITH PHARMACY CONTRACTING

THE BRUTAL REALITIES OF CONTRACTING WITH PBMS

ROB MCMAHAN, PHARMD
CEO ARETE PHARMACY NETWORK
LEARNING OBJECTIVES

1. Explain the history and purpose of pharmacy services administrative organizations (PSAO).

2. Describe common contracting terms such as MAC, DIR, GER and BER.

3. Describe the difference between direct and group/PSAO contracts with payers.

4. Explain contract aspects that need to be negotiated in any situation.
“Flustercluck

The Punisher

Season 2 Episode 9
THE PSAO: A HISTORICAL ACCOUNT

- United Drugs
- Family Care/QS1
- RxPr1de
- Wholesalers and Buying Groups
2016: CONSOLIDATION BEGINS

Arete Pharmacy Network (2016)
United Drugs, Third Party Network, and RxPr1de

UnifyRx (2017)
Pharmacy Providers of Oklahoma (PPOk) and Tri Net

Access Health and American Pharmacy Network Solutions (APNS)
THE REMAINING PSAOS

Arete Pharmacy Network
**PPOK**
EPIC Pharmacy Network
Pharmacy First
Elevate Pharmacy Network
Health Mart Atlas
LeaderNet
CONSOLIDATION WAS/IS NECESSARY

CVS Caremark and Aetna
UnitedHealth Group and OptumRx.
Cigna and Express Scripts.

Enhance profitability, streamline operations, and improve the quality of patient care.
ENHANCE PROFITABILITY, STREAMLINE OPERATIONS, AND IMPROVE THE QUALITY OF PATIENT CARE
Over 400
**CONTRACTING: GLOSSARY OF TERMS**

**MAC:** *Maximum Allowable Cost* is a pricing model for multi-source generics that specifies an upper limit on the amount that will be paid per unit of medication.

**DIR:** *Direct and Indirect Remuneration* is a fee that is paid from a pharmacy to a payer and can be flat dollar or percentage based.

**GER:** *Generic Effective Rate* is an average discount off of Average Wholesale Price (AWP) applied across all generic medications.

**BER:** *Brand Effective Rate* is an average discount off of AWP applied across all branded medications.
GOVERNING DOCUMENTS

- Provider Manual
- Contract
- Annual Amendments
ALWAYS RED-LINE


Quality Terms. Delinquent Payments.

Eligibility. Termination Clauses. Assignment.
<table>
<thead>
<tr>
<th>PSAO Contract</th>
<th>Direct Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better rates (most often)</td>
<td>Vs.</td>
</tr>
<tr>
<td>Access to closed and</td>
<td>No effective rate contracts</td>
</tr>
<tr>
<td>preferred networks</td>
<td>(until 2020)</td>
</tr>
<tr>
<td>Better protections</td>
<td></td>
</tr>
<tr>
<td>What Works</td>
<td>What Doesn’t</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>-------------------------------------</td>
</tr>
<tr>
<td>Better access</td>
<td>Quality scores may be diluted by others</td>
</tr>
<tr>
<td>*Arete, Epic, HMA and LeaderNet</td>
<td>Uneven experience on reimbursement</td>
</tr>
<tr>
<td>Better protections on audits</td>
<td>May have access you do not want</td>
</tr>
<tr>
<td>Lower DIR-like fees potentially</td>
<td>MAC laws</td>
</tr>
<tr>
<td>Attestations can be aggregated</td>
<td>Piggy bank</td>
</tr>
</tbody>
</table>
### MAC Contracts
- No floor on how low MAC rates can go
- Allows for spread pricing
- Largely disconnected from market pricing
- Uneven pharmacy experience
- Can change often during contract period

### Effective Rate Contracts
- Some PSAOs do true-ups
- True-ups may be done by the PBMs
- Network is paid in a range
- PBMs are still learning
- Uneven experience as there is too much store to store variation
QUESTIONS

“Why does a PSAO sign a bad contract?”

“Why have PSAOs signed effective rate contracts?”

ENHANCE PROFITABILITY, STREAMLINE OPERATIONS, AND IMPROVE THE QUALITY OF PATIENT CARE
## WHY SIGN EFFECTIVE RATE CONTRACTS?

<table>
<thead>
<tr>
<th>Geographic Region</th>
<th>Clint's Pharmacy</th>
<th>Jon's Pharmacy</th>
<th>Rob's Pharmacy</th>
</tr>
</thead>
<tbody>
<tr>
<td>East</td>
<td>5% below cost</td>
<td>10% above costs</td>
<td>3% below costs</td>
</tr>
<tr>
<td>Generic Rates (Qtr. 4)</td>
<td>4% above costs</td>
<td>4% above costs</td>
<td>4% above costs</td>
</tr>
<tr>
<td>GER Contract Offering</td>
<td>1% above costs</td>
<td>6% above costs</td>
<td>4% below costs</td>
</tr>
</tbody>
</table>

Enhance profitability, streamline operations, and improve the quality of patient care.
WHY SIGN A BAD CONTRACT?

MAC-based contracts can be changed at any time.

Most contracts are for multiple rate/network options.
Emily’s Pharmacy

SITUATION
20 patients enrolled with a given PBM preferred network.

DESIRED OUTCOME
Obtain a PBM preferred contract so patients are not referred to a chain pharmacy.

REACTION TO PSAO OBTAINING CONTRACT
Positive; Retains patients and profitability is largely unchanged.

Stella’s Pharmacy

SITUATION
20% of business is with a certain PBM Preferred network.

DESIRED OUTCOME
Wants exclusion from preferred contract; would rather lose patients and avoid the profitability hit.

REACTION TO PSAO OBTAINING CONTRACT
Negative; Loss of profitability has a large impact on pharmacy.