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Contracting with Third Party Payers: What You Never Knew You Didn't Know

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Disclosures

Patrick Berryman and Ronna Hauser declare no conflicts of interest or financial interest in any product or service mentioned in this program, including grants, employment, gifts, stock holdings, or honoraria.

Melanie Maxwell declares she is an employee of Pharmacy Providers of Oklahoma. The conflict of interest was resolved by peer review of the content.

Chris Smith declares that he is an employee of Inmar. The conflict of interest was resolved by peer review of the content.

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Learning Objectives

1. Describe common contracting terms like GER, BER, and DFER.
2. Review strategies for managing key terms in third party contracts.
3. Analyze the impact of GER and other terms on financial opportunities and operations.

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How will we meet our objectives?

- Industry Overview
- Background information on Generic Effective Rates (GER)
- Expert panel discussion on GER and other impactful contract terms and conditions
- Q & A

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The Marketplace: Vertical and Horizontal Integration Continues

- Pharmacies
 - Independent \approx 22,000 (33%)
 - Chains \approx 40,000+ (66%)
 - Mail order / Specialty
- PSAOs (Pharmacy Services Administrative Organizations)
 - 4 largest PSAOs \approx 75%
 - 6 largest PSAOs \approx 85%
- PBMs (Pharmacy Benefit Managers)
 - 3 largest PBMs \approx 80%
 - Almost all own or have a contractual relationship with a mail order pharmacy

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Impact on Pharmacy Contract Terms & Conditions

- Increasingly contentious negotiations between retailers and large PBMs
- Rapid changes in all business segments
 - Commercial, Medicaid Managed Care (MMC), Part D and other government programs
- Evolution of new and obscure terms and conditions
 - Impacting operations, financials and business relationships
 - PSAOs, buying groups, wholesalers, technology vendors and NCPA

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Terms & Conditions: Generic Effective Rate (GER)

- Recently become one of the single most important contract terms
- It's not new!
- Now impacting nearly all business of big 3 PBMs
 - Commercial, MMC, and some Part D

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What is GER?

- Weighted average reimbursement discount % off of Average Wholesale Price (AWP) for all generics dispensed under a contract
- Another way --- Compares the adjudicated INGREDIENT COST PAID reimbursement (usually MAC) to the AWP of the specific NDC dispensed. Then GER is stated as a % off of the AWP. For example:
 - Drug #1: AWP = \$100, MAC = \$20
 - Drug #2: AWP = \$ 80, MAC = \$ 8
 $\$180$ $\$28$

GER = 85% (\$28 Ingredient Cost Paid is 85% off the \$180 AWP)

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So What Makes GER Tick?

- Levers that impact the GER
 - AWP of the specific drugs dispensed
 - Adjudicated Ingredient Cost Paid (usually MAC) of the specific drugs dispensed
 - Number of prescriptions for the specific drugs dispensed
- Pharmacy controlled levers that impact profitability under GER contracts
 - Acquisition cost of the specific drugs – has no impact on GER
 - Spread between the acquisition cost and the AWP of the drugs
- For the visual learners...

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Generic Effective Rate (GER) Comparison - NO WEIGHTED AVERAGE							
EXAMPLE A - MAC based generic pricing: GER = 80%							
Drug*	# Rxs	AWP** per Rx	AWP minus % of MAC	Pharmacy reimbursement from PBM per Rx	Pharmacy product cost per Rx	Pharmacy gross profit based on product cost only	
#1	1	\$ 100.00	87%	\$ 13.00	\$ 5.00	\$ 6.00	
#2	1	\$ 80.00	82%	\$ 14.40	\$ 7.00	\$ 7.40	
#3	1	\$ 60.00	77%	\$ 13.80	\$ 9.00	\$ 4.80	
#4	1	\$ 40.00	72%	\$ 11.20	\$ 11.00	\$ 0.20	
#5	1	\$ 20.00	62%	\$ 7.60	\$ 13.00	\$ (5.40)	
5	5	\$ 300.00	80%	\$ 60.00	TOTAL	\$ 15.00	

EXAMPLE B - MAC based generic pricing: GER = 80%							
Drug*	# Rxs	AWP** per Rx	AWP minus % of MAC	Pharmacy reimbursement from PBM per Rx	Pharmacy product cost per Rx	Pharmacy gross profit based on product cost only	
#1	1	\$ 100.00	82%	\$ 18.00	\$ 5.00	\$ 13.00	
#2	1	\$ 80.00	79%	\$ 16.80	\$ 7.00	\$ 9.80	
#3	1	\$ 60.00	65%	\$ 21.00	\$ 9.00	\$ 12.00	
#4	1	\$ 40.00	91%	\$ 3.60	\$ 11.00	\$ (7.40)	
#5	1	\$ 20.00	97%	\$ 0.60	\$ 13.00	\$ (12.40)	
5	5	\$ 300.00	80%	\$ 60.00	TOTAL	\$ 15.00	

EXAMPLE C - MAC based on straight AWP - 80%: GER = 80%							
Drug*	# Rxs	AWP** per Rx	AWP minus % of MAC	Pharmacy reimbursement from PBM per Rx	Pharmacy product cost per Rx	Pharmacy gross profit based on product cost only	
#1	1	\$ 100.00	80%	\$ 20.00	\$ 5.00	\$ 15.00	
#2	1	\$ 80.00	80%	\$ 16.00	\$ 7.00	\$ 9.00	
#3	1	\$ 60.00	80%	\$ 12.00	\$ 9.00	\$ 3.00	
#4	1	\$ 40.00	80%	\$ 8.00	\$ 11.00	\$ (3.00)	
#5	1	\$ 20.00	80%	\$ 4.00	\$ 13.00	\$ (9.00)	
5	5	\$ 300.00	80%	\$ 60.00	TOTAL	\$ 15.00	

*Numbered drugs in all examples are the same. **AWPs are NDC# specific.

Generic Effective Rate (GER) Comparison - WEIGHTED AVERAGE								Reconciliation to Guaranteed GER = 80%			
EXAMPLE A - WEIGHTED AVERAGE BASED ON QUANTITY DISPENSED: GER = 82.36%								EXAMPLE A - PBM OWES PHARMACY \$26			
Drug*	# Rxs	AWP** per Rx	Extended AWP per Rx	AWP minus % of MAC	Extended pharmacy reimbursement from PBM	Pharmacy product cost per Rx	Extended pharmacy product cost	Pharmacy gross profit based on product cost only	Actual pharmacy reimbursement	GER = 80% reimbursement	Amount owed to pharmacy
#1	5	\$ 100.00	\$ 500.00	87%	\$ 65.00	\$ 5.00	\$ 25.00	\$ 40.00	\$ 194.00	\$ 220.00	\$ 26.00
#2	4	\$ 80.00	\$ 320.00	82%	\$ 57.60	\$ 7.00	\$ 28.00	\$ 29.60			
#3	3	\$ 60.00	\$ 180.00	77%	\$ 41.40	\$ 9.00	\$ 27.00	\$ 14.40			
#4	2	\$ 40.00	\$ 80.00	72%	\$ 22.40	\$ 11.00	\$ 22.00	\$ 0.40			
#5	1	\$ 20.00	\$ 20.00	62%	\$ 7.60	\$ 13.00	\$ 13.00	\$ (5.40)			
15	15	\$ 1,100.00	\$ 1,100.00	82.36%	\$ 194.00	\$ 79.00	TOTAL	\$ 79.00			

EXAMPLE B - WEIGHTED AVERAGE BASED ON QUANTITY DISPENSED: GER = 79.27%								EXAMPLE B - PHARMACY OWES PBM \$8			
Drug*	# Rxs	AWP** per Rx	Extended AWP per Rx	AWP minus % of MAC	Extended pharmacy reimbursement from PBM	Pharmacy product cost per Rx	Extended pharmacy product cost	Pharmacy gross profit based on product cost only	Actual pharmacy reimbursement	GER = 80% reimbursement	Amount owed to PBM
#1	5	\$ 100.00	\$ 500.00	82%	\$ 90.00	\$ 5.00	\$ 25.00	\$ 65.00	\$ 228.00	\$ 220.00	\$ (8.00)
#2	4	\$ 80.00	\$ 320.00	79%	\$ 67.20	\$ 7.00	\$ 28.00	\$ 39.20			
#3	3	\$ 60.00	\$ 180.00	65%	\$ 63.00	\$ 9.00	\$ 27.00	\$ 36.00			
#4	2	\$ 40.00	\$ 80.00	91%	\$ 7.20	\$ 11.00	\$ 22.00	\$ (14.80)			
#5	1	\$ 20.00	\$ 20.00	97%	\$ 0.60	\$ 13.00	\$ 13.00	\$ (12.40)			
15	15	\$ 1,100.00	\$ 1,100.00	79.27%	\$ 228.00	\$ 113.00	TOTAL	\$ 113.00			

EXAMPLE C - MAC based on straight AWP - 80%: GER = 80%								EXAMPLE C - NO RECONCILIATION REQUIRED			
Drug*	# Rxs	AWP** per Rx	Extended AWP per Rx	AWP minus % of MAC	Extended pharmacy reimbursement from PBM	Pharmacy product cost per Rx	Extended pharmacy product cost	Pharmacy gross profit based on product cost only	Actual pharmacy reimbursement	GER = 80% reimbursement	Amount owed to PBM
#1	5	\$ 100.00	\$ 500.00	80%	\$ 100.00	\$ 5.00	\$ 25.00	\$ 75.00			
#2	4	\$ 80.00	\$ 320.00	80%	\$ 64.00	\$ 7.00	\$ 28.00	\$ 36.00			
#3	3	\$ 60.00	\$ 180.00	80%	\$ 36.00	\$ 9.00	\$ 27.00	\$ 9.00			
#4	2	\$ 40.00	\$ 80.00	80%	\$ 16.00	\$ 11.00	\$ 22.00	\$ (6.00)			
#5	1	\$ 20.00	\$ 20.00	80%	\$ 4.00	\$ 13.00	\$ 13.00	\$ (9.00)			
15	15	\$ 1,100.00	\$ 1,100.00	80%	\$ 220.00	\$ 105.00	TOTAL	\$ 105.00			

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Questions?

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