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## **Insource Pharmacy Benefit Management While Outsourcing Transparent Claim Administration**

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The pharmacy benefit has delivered a double digit trend since the late 1990s. Media attention to the PBM industry over lack of transparency in pricing and rebate collections has fueled payor apprehension. Further, acknowledgement of pharmacy spreads kept by PBMs as revenue; re-packaged mail service prescriptions priced higher than at retail; and generic pricing based on maximum allowable cost (MAC) that provides additional revenues for PBMs has added uncertainty into whether payors are getting the best deal.

As a result, employers and payors are re-thinking the best approach to pharmacy benefit management. They may:

- Outsource to a pharmacy benefit manager (PBM), third party administrator (TPA), or health plan
- In-source all of the benefit in-house
- Outsource claim administration while insourcing benefit management

Insourcing usually means to in-source benefit management while outsourcing claims administration and/or rebate collections. The goal is to save money, while attaining greater flexibility and control, and avoiding excessive administrative costs.

### **Where do you start the process of in-sourcing?**

First, consider a number of factors before deciding whether to in-source management of the pharmacy benefit and to include claims administration or rebate collections. The primary factors are:

- **Plan Size:** In-sourcing claims administration usually requires 500,000 covered lives. To insource rebate administration, a plan needs to cover at least 250,000 lives, although there are some exceptions.
- **Administrative Costs:** For most plans it is less costly to outsource the claims processing component than to in-source it.
- **Business Intelligence:** To ensure the decision to in-source will be profitable, knowledge is imperative. This requires industry benchmarks.
- **Corporate Support:** Upper management needs to decide whether in-sourcing the pharmacy benefit will align with the company's overall healthcare objectives.

### **Who do you call?**

There are several vendors that provide claim administration, off-the-shelf pharmacy networks, rebate collections, and reports. These so-called pharmacy benefit administrators (or "PBAs") include companies such as Argus, Emdeon (formerly WebMD), HealthTrans, ProCare Rx, and SXC. Another company, inPharmative Inc, deals with rebate collections only.

### **What are the goals?**

Each payor must decide which elements of pharmacy benefit management require intensive scrutiny. If the decision is to manage internally, but adjudicate claims externally, then a coalition of large employers has provided one framework. The HR Policy Association, which represents 250 of the largest corporations in the United States, has addressed the question of cost trends and inefficiencies in quality. Their Transparency in Pharmaceutical Purchasing Solutions (TIPPS) provides a definition of rules for contracting:

1. **Complete disclosure to employers and employees** of the actual costs of drugs without the price being inflated by back-end pharmaceutical revenue, such as manufacturer-to-PBM rebates.
2. **Competition among PBMs based on administrative services and clinical management** that meet the services needed by employers, not competition based on securing revenue from manufacturers.
3. **Incentives for employers to maximize use of cost-effective therapies** that would ensure that drugs would be purchased on the basis of what is clinically appropriate and the best value.

### **Advantages and Disadvantages**

A health plan may choose to in-source all or part of their pharmacy benefit to achieve flexibility of plan design, greater control over costs, transparency of rebate administration, and greater overall control. The payor may also outsource claim and/or rebate administration through a PBA to reduce costs through direct rebate negotiation and elimination of administrative fees. The plan also has more control over the pharmacy network, manufacturer contracts, claims processing, and customer service.

One major limitation of in-sourcing claim administration is the large investment in information technology and staffing. Functions such as claims adjudication, clinical services, call center administration, pharmacy network contracting, and manufacturer contracting incur significant expenses and staffing. Another drawback, specifically for smaller plans, is that their size prevents them from negotiating large manufacturer discounts or establishing favorable contracts with pharmacies.

### **Benefit or Not?**

Bringing the prescription benefit in-house places the clinical and financial decision-making in the hands of the payor or health plan. Contracting claim and rebate administration through a transparent PBA offers similar benefits. The benefits are greater control, flexibility over formulary design and pharmacy network contracting, greater bargaining power with manufacturers, timely data to identify trends, and transparency with regard to pricing. The limitation is that the overhead costs of in-sourcing certain services, such as claims processing, may outweigh the benefits. Some may choose to contract with PBAs to mitigate overhead costs. It is up to the

individual plan to decide which programs would be the most cost effective to bring in-house.

Having greater control over the pharmacy benefit can add substantial savings for some employers, payors, or plans and their beneficiaries. This is applicable, not only in terms of dollars saved, but also in terms of the quality of healthcare provided over the long term.

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