Bringing Rx Benefits In-House

Benefit or Not?

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Goals and Objectives

At the end of this article, the reader will be able to:

1. Understand the difference between outsourcing and in-sourcing pharmacy benefits
2. Identify the advantages and limitations of in-sourcing
3. Understand the services provided by pharmacy benefit administrators

Introduction

If you provide a pharmacy benefit, how do you manage it? How do you ensure a value proposition that matches your goals? Do you manage it internally, do you outsource it, or do you break up the management between multiple providers? The history of double-digit trend in the cost of the pharmacy benefit has lead employers, payers, and others who provide pharmacy benefits to their employees and members, to re-think standard approaches to pharmacy benefit management. A key question to ask regarding double-digit cost trend is, who is best suited to manage the benefit?

If an employer, union trust, or health plan wishes to provide a pharmacy benefit to their members, they must first define the benefit. They must determine how to provide the services included in the benefit definition and then determine how they will manage the benefit or provide oversight of contractors downstream. Companies may choose to:

- Outsource to a contractor e.g., pharmacy benefit manager (PBM), third party administrator (TPA), or health plan
- In-source all of the benefit in-house
- Provide a middle ground by outsourcing selected services to a pharmacy benefit administrator

This article will explore the options of managing part, or all, of the benefit internally.

The Big Picture

Beyond pharmacy benefits is the broader issue of the overall cost and value of healthcare benefits. Rising costs are the motivator, but the larger question is what is the real cost of a well-managed benefit? Although pharmacy is a critical component of health care, managing the benefit internally or externally by a PBM is only one part of the management challenge.

Some companies are addressing a broader issue beyond pharmacy benefit management—controlling the overall healthcare costs. Quad/Graphics, one of the largest printing companies in the nation, retains nearly its entire primary healthcare in-house. In 2004, Quad spent $5,500 per employee on healthcare, 30% less than the average company in its home state of Wisconsin.[1] Their 12,000 employees have fewer hospital admissions, shorter hospital stays, and are more compliant in taking their medications than the average Milwaukee employee. Quad employs its own primary care physicians and maintains its own pharmacy, laboratory, and rehabilitation center.

Quad's emphasis on preventative care has curbed hospitalization costs significantly. While Quad spends more on primary care than most employers—$715 per employee in 2003 compared with the local average of $375—they spent $1,540 per person on hospitalizations, compared with $2,250 for local employers. Physician bonuses are based upon patient evaluations and outcomes, rather than the number of patients seen. Employees pay $5 per half-hour visit, allowing extra time to discuss disease prevention.

Other companies with in-house clinics, including Perdue Farms, Sprint Corp., and Pitney Bowes Inc., have experienced similar results. Perdue employs its own specialists and maintains a pharmacy that dispenses primarily generic drugs. In 2004, Perdue's medical costs per employee rose only 1%. In keeping with the in-house model, other companies planning to start their clinics include Toyota Motor Corp's North American manufacturing division, Kohler Inc., and Miller Brewing Co.

Not all employers can follow the Quad and Perdue model. A company needs a large

number of employees concentrated in select geographic areas to benefit financially. In addition, a harmonious relationship must exist between the employees and management. Workers need to trust that the clinic will protect their privacy and prioritize medical needs as opposed to cost savings.

Some companies are opening in-house pharmacies, to address one of the most rapidly rising components of the healthcare cost equation—prescription drugs. Storagetek, a high-tech Colorado company, has saved $110,000 a year for its 2,000 employees since it opened an on-site pharmacy in 2002.[2] CHD Meridian Healthcare operates the pharmacy and employs the pharmacists. Storagetek pays the pharmacists' salaries and other overhead expenses, along with a maintenance fee to CHD. CHD, in turn, passes on 30% savings on bulk-purchased drugs. To further control costs, the on-site pharmacy encourages generic utilization and tablet splitting of approved higher-dose medications. Similarly, Mohegan Sun Casinos opened an in-house pharmacy managed by DrugMax, Inc. to address two issues; "Escalating healthcare costs and the long term overall health of employees," according to Ed Mercadante, Co-Chairman and Chief Executive Officer of DrugMax.[3] Decades ago employers implemented in-house clinics to address on-the-job injuries and ailments. Company-owned clinics now provide full primary care and preventative services. Employers save money not only by controlling direct healthcare expenses, but also by curbing absenteeism and increasing productivity.

Retail Medical/Pharmacy Clinics – An Alternative to Primary Care?

The introduction of ambulatory clinics associated with pharmacies offers an alternative to access to physician services and reduced cost for minor medical service delivery. The Los Angeles Times reported in 2006 that there are 150 of these clinics nationally with thousands more planned over the next few years. The Convenient Care Association lists 950 clinics in the US in 2008 with 500 more expected to be opened by the end of the year. The clinics appear in pharmacies, airports, shopping and strip malls, and are looked upon as a convenience offering in other high access areas. They are staffed by nurse practitioners (NPs) who treat common and relatively minor conditions using protocols and software for diagnosis. They have lists of primary care physicians (PCPs) and specialists for referrals and can send medical records to the patient's PCP. Physician supervision is regulated by state laws. Twenty-two states do not require physician oversight of NPs. California allows one physician to supervise four NPs and two physician assistants over the telephone. Texas requires a physician to be present onsite 20% of the time.

These clinics are built on a fee-for-service model so there is currently a lack of integration into the overall healthcare benefit system. Clinics are dependent on patients to provide medical and medication histories as no medical records are available. Pharmacy chains have embraced the concept as a win-win; the clinics draw patients into the pharmacies, and potentially lead to captive prescription volume. A review of some of the players in this market space indicates a growing interest in this consumer driven model.

- MinuteClinic, based in Minneapolis, was founded in May of 2000 as an independent company. The primary emphasis was on the East and Midwest coast markets. In July 2006, they were acquired by CVS. In 2006, there were 83 clinics in 10 states, 66 of which were in CVS/Pharmacy locations. The number of clinics rose to 533, which serve 24 states as of the first half of 2008. In addition other locations were associated with Bartell Drug, Cub Foods, and QFC.
- TakeCare is located in OR, KS, MO and PA. In 2006, they expanded into Chicago with 20 clinics. Walgreens opened 10 clinics within their Kansas City stores in 2006. As of 2008, clinics have also opened in GA, KY, OH, CO, TX, NV, FL, WI, TN, and AZ.
- RediClinic is located in AR, OK, NY and TX. Clinics are inside of pharmacies associated with Wal-Mart, HEB and Duane Reed stores. There are also clinics associated with Walgreens pharmacies in Atlanta, Chicago and Las Vegas. Healthy Access has clinics in Wal-Mart stores in AK and OK with planned expansion of 100 clinics by 2008.

There is growing interest in including these clinics as participating providers. In September of 2006 Aetna accepted reimbursement for services from RediClinics. Health Partners, a Minnesota-based health maintenance organization, and reviewed the value of introducing MinuteClinics into their provider networks. They analyzed two years of MinuteClinic experience and found a 25% decrease in overall medical expenses as compared to patients who visit physicians or urgent care clinics. Pharmacy costs at the MinuteClinics were $3 more per patient, but only 40% of patients received a prescription.

The clinic concept is controversial among physicians. They have raised concerns about quality of care delivered by nurse practitioners in the clinics, and conflicts of interest with the pharmacies leading to unnecessary prescribing. The American Medical Association released a report in 2006 citing consumer worries about quality. These concerns were mirrored by the American Osteopathic Association and the American Academy of Family Physicians. Yet, as of 2008 there have been no malpractice claims.

The applicability of this model would seem to have value in the consumer-directed benefit designs. It remains to be seen if this mode of delivery and treatment will grow and maintain its interest over the long term.

Pharmacy Benefits in Particular – Outsource or In-source?

For those companies that must provide benefits requiring broad access in multiple geographic areas, administration of the pharmacy benefit requires a broad network of pharmacies that manage large volumes of prescriptions. Claims must be adjudicated in compliance with benefits and contracts, and reviewed for clinical problems requiring interventions. As the cost of drugs rises, the purchasing decisions require review of all market basket options and cost offsets. Market basket options include outsourcing the purchasing decision to PBM contracts with retail pharmacies, mail service discounts compared to retail discounts, and rebate offsets to cost. Another option is to in-source these functions. If one chooses to in-source, what functions do you in-source?

Why Outsource?

Companies who are not in the health care business, and many health plans that are in the business, tend to outsource management functions to other companies with expertise in design and management of pharmacy benefits, e.g., PBMs, third party administrators (TPAs) or health plans. This serves as a benefit, in that the company only has to work with one contractor and disburse one check. The contractor manages the pharmacy network, provides the necessary technology, collects and pays the claims, and provides the necessary clinical oversight. The competitive bidding process allows for marking costs to the marketplace. On the other hand, the "drug value proposition" must be separated from cost and rebate issues, through impartial review of medications in Pharmacy & Therapeutics Committees (P&T), and with benefit oversight by clinical pharmacists. This is often a concern for health plans, which decide to manage the value proposition internally.

For example, plans such as Blue Shield of California choose to maintain all clinical functions in-house, but outsource claims processing only to save on the administrative costs associated with technology and staffing.[4] The cost to administer claims processing is between $0.15 to $0.25 per member per month.[5]

Rebate contracting may be outsourced for various reasons. Smaller plans with a lower volume of claims may contract with PBMs to negotiate higher discount rates from manufacturers.[6] Some larger organizations, such as Excellus, outsource their rebate contracting to maintain an indirect relationship with manufacturers, ensuring that their formulary decisions are based largely on clinical guidelines rather than rebate contracting terms.

Why In-source?

Many companies are concerned about the perceived absence of management when pharmacy benefit cost trend continues in double digits, and in excess of overall healthcare cost trend. Media attention to the PBM industry over lack of transparency in pricing and rebate collections, and the concern that PBM decisions are not favorable to the client have lead many companies to reconsider the PBM outsourcing option. Of particular concern are pharmacy spreads kept by the PBM as revenue, re-packaged mail service prescriptions re-priced at higher prices than paid at retail, and maximum allowable cost (MAC) price lists for generics that are designed to provide additional revenues for PBMs and higher prices for their clients.

Companies that consider in-sourcing usually in-source claims administration or rebate collections. Some health plans choose to in-source part of their pharmacy benefit for greater flexibility and control, while they may also outsource selected services to avoid excessive administrative costs and to reap the benefits of a larger claims volume.

Table 1: Companies that In-Source All of their Pharmacy Benefit

Company	Lives Covered
Aetna	8 million
Independence Health Association (Buffalo, N.Y.)[9]	360,000

Table 2: Companies that Outsource Part of their Pharmacy Benefit

Company	Lives Covered	Selected Services Outsourced
Blue Shield California	2.2 million	Claims processing (Argus)
Excellus Health Plans, Inc.	1.4 million	-Rebate contracting (Express Scripts) -Mail order
Keystone Mercy Health Plan	248,000	Claims processing
Physicians Plus Insurance Company	100,000	Claims processing (Argus)

Important Considerations Before Deciding to In-source

A plan must consider a number of factors, before deciding whether to in-source their pharmacy benefit for claims administration or rebate collections:

1. Plan Size

For in-sourcing claims administration or other pharmacy benefit services in general, the typical cutoff is 500,000 lives covered, according to Greg Buscetto, Vice President of Business Development at ProCare Rx.

According to Bob Rase, Vice President of InPharmative, Inc., a company that provides rebate administration services, most plans need to cover at least 250,000 lives, in order to benefit from contracting directly with manufacturers. There are some exceptions, such as Physicians Plus, which has only 100,000 lives covered. In general, however, a plan needs a significant volume of claims in order to contract favorably with manufacturers.

2. Administrative Costs

From information technology (IT) to staffing, the overhead expenses associated with in-sourcing the pharmacy benefit can be significant. A plan needs to weigh the costs against the benefits of bringing each service in-house.

For most plans, it is less costly to outsource the claims processing component than to in-source it. Third-party administrators (TPAs) and other pharmacy benefit administrators can provide the IT and the staff for claims processing.

3. Business Intelligence

In order to ensure that their decision to in-source will be profitable, a plan needs to be armed with enough knowledge. Consultants are available to help them get started.

4. Corporate Support

Upper management needs to decide whether in-sourcing the pharmacy benefit will align with the company's overall healthcare objectives.

Advantages of In-sourcing

A health plan may choose to in-source all or part of their pharmacy benefit for

a number of reasons, including flexibility of plan design, greater control over costs, transparency of rebate administration, and greater overall control.

Aetna, with 8 million covered lives, retains all of its pharmacy benefit in-house. According to Fred Laberge of corporate public relations, in-sourcing the pharmacy benefit "better aligns us with our customers' objectives, eliminates sales conflicts and marketplace confusion, and reduces member disruption. It also should enable us to capitalize on future shifts in the PBM marketplace."[7]

For over ten years, Blue Shield of California, with 2.2 million covered lives, has retained most of its pharmacy benefit in-house except for claims processing. Communications with Blue Shield have revealed a number of advantages to in-sourcing, which include greater control and management of programs provided to members, complete pricing transparency, and a customized formulary reflecting the clinical decisions of the plan's own P&T Committee. As a result of the flexible formulary design, Blue Shield is able to negotiate deeper discounts with manufacturers by shifting the market share toward selected medications. In addition, because the plan is at risk for pharmacy costs, it can contract aggressively with the pharmacy network to manage generic pricing. In-sourcing therefore, allows greater control over both clinical and financial decisions.

Keystone Mercy Health Plan, with 248,000 covered lives, in-sources nearly all of its pharmacy benefit except for claims processing. As a result, they have saved over $22 million over a period of two years. Mesfin Tegenu, Vice President of Pharmacy Services, identifies a number

Table 3: Companies that Provide Pharmacy Benefit Management Services*

	Argus	HealthTrans	inPharmative, Inc.	ProCare Rx	SXC	WebMD
Rebate contracting, administrative support	x	x	x	x	x	x
Reporting (data utilization, trend analysis)	x	x		x	x	x
Claims adjudication	x	x			x	x
Pharmacy network contracting, management	x	x			x	x
Formulary management		x		x	x	
Call center (help desk)		x			x	x
Disease state management		x				
Patient/physician education		x				
Patient/provider profiling		x				
P & T Committee		x			x	
Web-based provider portal		x			x	
Net drug cost modeling software			x		x	
Clinical initiatives					x	
Consumer web services					x	
Medicare Part D services					x	

**Sources of information in this table include websites of vendors and direct communication with HealthTrans, inPharmative, Inc., ProCare Rx, and SXC.*

of advantages of in-sourcing, including a more customized formulary, direct communication with the pharmacy network, direct contracting with manufacturers to secure higher rebates ($2.60/claim vs. $0.80/claim), the ability to merge medical and pharmacy data, timely data to identify trends and cost drivers, and identifying specific disease management needs for members.[8]

Physicians Plus Insurance Company, with 100,000 covered lives, also in-sources all of its pharmacy benefit except for claims processing. Communications with Physicians Plus have identified additional advantages to in-sourcing, including the development of disease management programs integrating the pharmacy component, creative benefit design, and development of the plan's own pharmacy network.

Each plan must consider its own infrastructure and interests, when deciding on which services to bring in-house. With 1.4 million covered lives, Excellus Health Plans, Inc. in-sources all of its pharmacy benefit except for rebate contracting and mail order. Unlike many other health plans that outsource the claims processing component, Excellus has kept claims processing in-house. Because medical claims processing was already in-house, Excellus decided to integrate the pharmacy claims into the existing infrastructure. Communications with Excellus have highlighted three major advantages of in-sourcing: cost, control, and peace of mind. In-sourcing reduces 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. Finally, in the wake of recent mergers between PBMs, Excellus has chosen to avoid the possible disruption that may result from such acquisitions.

Limitations of In-sourcing

One major limitation of in-sourcing 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 workload. Staff would include administrative assistants, clinicians, attorneys, and contracting experts. In addition, the technology required to deliver claim adjudication services amounts to significant overhead costs.

Another drawback, specifically for smaller plans, is that their size prevents them from negotiating large manufacturer discounts or establishing favorable contracts with pharmacies.[10] As a result, it remains a challenge for some plans to maintain their foothold in the market.

Services Provided by Pharmacy Benefit Administrators

For those plans that choose to outsource at least part of their pharmacy benefit, administrative assistance is available from pharmacy benefit administrators(PBAs) such as Argus, HealthTrans, inPharmative Inc., ProCare Rx, SUNRx, SXC, and WebMD.

Some companies offer a wide range of services, while others specialize in a few selected services. Some examples of common pharmacy benefit management services offered by PBAs are outlined in **Table 3**.

Benefit or Not?

Bringing the prescription benefit in-house places the clinical and financial decision-making in the hands of the health plan. The plan has greater control over its programs, flexibility over formulary design and pharmacy network contracting, greater bargaining power with manufacturers, timely data to identify trends, and transparency with regard to pricing. At the same time, the overhead costs of in-sourcing certain services, such as claims processing, may outweigh the benefits. It is up to the individual plan to decide which programs would be the most cost-effective to bring in-house.

Some companies are managing their healthcare costs by bringing their entire healthcare benefit in-house. On-site clinics, which focus on primary care, have saved substantial amounts by preventing hospitalizations and increasing productivity.

Companies share a common goal of the need to control the rapid rise in healthcare expenses, whether they in-source the entire healthcare benefit or only the pharmacy component. These are tough times, requiring that tough decisions be made to provide management and oversight of escalating costs, while prioritizing member needs. Having greater control over the pharmacy benefit can add substantial savings for both the company and its beneficiaries. This is applicable, not only in terms of dollars saved, but also in terms of the quality of healthcare provided.

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