

White Paper



Pharmacy Benefit Management

Healthcare reform and emerging trends

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Pharmacy Business Management (PBM) plays a significant role in the Healthcare industry. PBM business is changing rapidly in HealthCare market place. These changes are driven by multiple aspects –regulatory guidelines, focus on reduction of drug cost, and provide advanced prescription products to better manage member's health conditions. Key regulatory requirements that are driving PBMs are Healthcare Reform, changes due to Medicare Part-D guidelines, NCPDP regulations. The demand for innovative programs like advanced drug utilization programs, Pharmacy-Medical integrated products and Disease management programs has been the driver for a number of emerging trends. Additionally, influence of social networking is increasing very rapidly in PBM arena as well. All PBMs are responding to these items in similar yet distinct approaches. Pharmacy products and services will enhance significantly by collaboration and combination of various product and services offering.

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Introduction

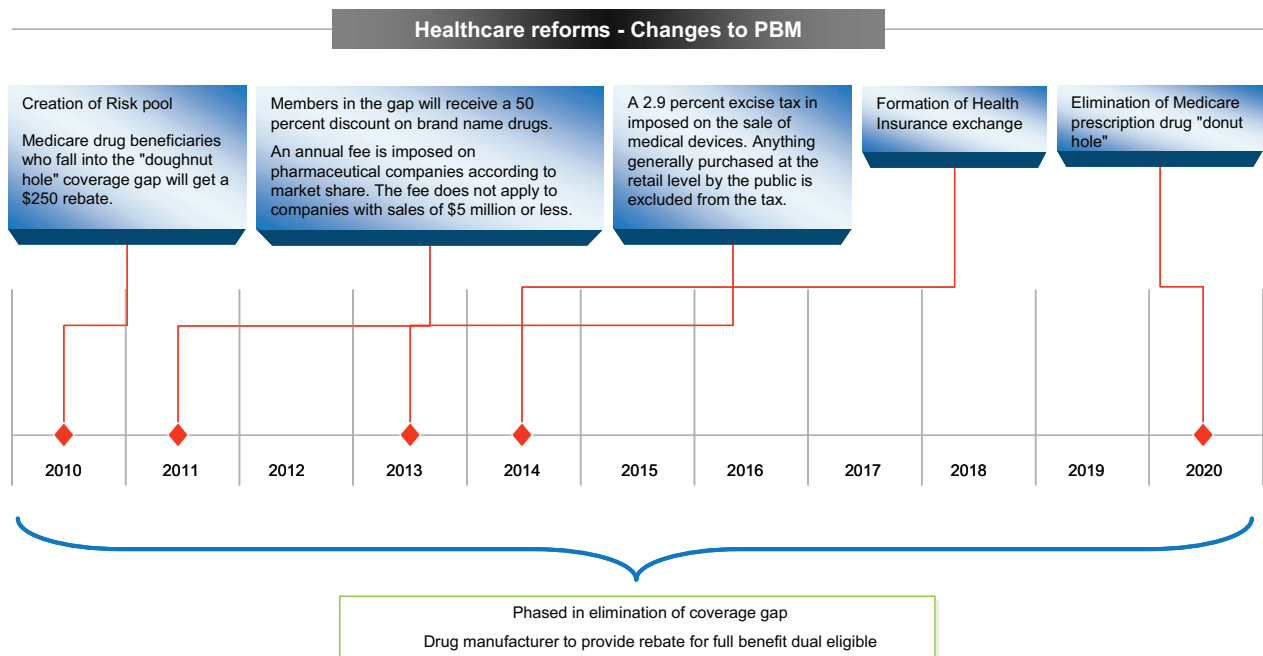
Pharmacy Business Management (PBM) plays a significant role in the Healthcare industry. It is unique in the manner in which it administers the pharmacy product and focuses on real time interaction between various entities. In recent years, PBMs are not only focusing on basic elements of PBM business but also on expanding the service offering to meet the needs of changing market dynamics. Some of the key trends are governed by laws and regulations, by increased awareness of consumer about the need of overall health management, and by abundant use of technology like social networking.

Regulatory Drivers

Healthcare Reform

Healthcare reform will have multifold impact on PBMs and other healthcare players. Healthcare reform will increase Medicare Part-D Plan benefit coverage for Medicare Part-D members and open up a large customer base of individual plans. There needs to be changes at PBM side as well as drug manufacturer side to support these and other new guidelines. PBM will need to support changes to benefit/member enrollment process and also support the need for drug manufacturer to provide discount to members and have rebate contracts with CMS (Center of Medicare and Medicaid services).

Healthcare reform will bring focus on individual plans and individual insurance market. The Census Bureau estimated that in 2008, there were about 47 million individuals^[1] who did not have any kind of healthcare. This large user base will provide significant growth opportunity for health insurance companies including PBMs. PBM will drive towards increasing customizable products to meet the needs of individual customers.



Similar to minimum plan requirement in Medicare Part-D, Health Insurance Exchange will require PBMs to offer minimum benefit plan along with regulatory requirement such as :-

- Elimination of life time maximum
- Restriction on annual maximum limit
- Cost sharing obligation for preventive care benefits
- Prohibit exclusion due to pre-existing condition
- Dependent coverage up to age 26.

Additionally, there will be options to offer customizable plan benefits to meet the consumer needs. PBMs will not only need to reduce time to market but will also need to support variations of basic features to target a wide consumer base. Some of the key areas that need changes will be:-

- Development of new products and increase in customizability of plan benefits
- Underwriting process
- Member enrollment process
- Claim and payment processing
- Rebate processing

Apart from conventional processes, social commerce will be an important tool for PBM to refine existing market segments and also to identify new market segments. The PBMs will be able to reach current and potential members directly with targeted messages at reduced costs compared to that of big-budget advertisements.

Regulatory requirements for PBM Industry

Government policies, CMS and NCPDP have very high influence on healthcare industry.

CMS

As of March' 2010, 29 million members are eligible to be enrolled under Medicare Part-D Plans. CMS selects PBM to support MA-PD (Medicare Advantage Prescription drug) and PDP (Prescription Drug Plan) plans. The number of Medicare eligible members is expected to go to 77 million by 2030 ^[2]; PBM has significant opportunity to target this large customer base.

As per healthcare reform proposal, there will be significant change in the CMS plan structure for Medicare Part-D plans. This is an excellent opportunity for PBMs to re-enter and expand market sharing in Medicare Part-D market, by enabling themselves to align to new guidelines and also to offer comparable advance plans to meet the consumer needs.

NCPDP

NCPDP (National Council for Prescription Drug Programs) maintains telecommunication standard for transactions in healthcare industry. NCPDP telecommunication standard 5.1 was made effective from 2000 onwards. There were few intermediate changes that were made to support the need for additional transactions due to the changes like Medicare Part-D plans. A new version of NCPDP telecommunication standard D.0 will be effective from 1/1/2012. NCPDP D.0 has refined the structure and provided provision to share detail information across PBM, Pharmacy and Provider. Apart from the enhancement to the structure of the electronic transmission format, NCPDP D.0 specifically focuses on the following items:-

- Coordination of benefit
- Claims for compound drugs
- Sharing detail about member's utilization and cost sharing as part of real-time transactions.

An important component of such changes in NCPDP standard is to support both the old and new standards during the transition. Pharmacies should strategize solution effectively so that there is no significant redundancy during transition phase but at the same time it would be easy to retire old standard once the new standard reaches steady-state phase.

E-prescribing

Interaction among various stakeholders of the PBM business uses real-time transactions (claim, financial detail etc). However, sending a prescription to a pharmacy (Retail, Mail Order or specialty) still involves a lot of manual intervention. E-prescribing will have a significant role in implementing real-time interaction and will help to standardize quality and effectiveness of the scripts.

Additionally, CMS is also focusing on e-prescribing and is providing incentives to providers to use e-prescribing. It will be mandatory for all eligible providers to support e-prescribing by 2012.

Another significant benefit for e-prescribing is to have prescription information available electronically. This will enable the availability of important information real-time as well as in standard format. This opens up an opportunity for PBMs (and/or all healthcare entities) to perform better drug utilization program. It will also help in making EHR more transaction oriented and will help in increasing its adoption.

Industry Drivers

Differentiation based on Value added products and Controlling costs

In the current healthcare environment, PBMs play a much bigger role than providing coverage for member's prescription drug plan. PBMs are now focusing on enabling members to manage their health condition more effectively and efficiently. There are multiple programs available in the market place to achieve this objective. Key programs include case management, disease management and drug utilization review.

PBMs now support case management and disease management programs to help members manage their health conditions effectively. A major focus area is to offer an effective program/solution to address member's chronic condition(s) which in turn will improve overall health condition and control overall cost. Express-Script has a team of experienced pharmacy that enable them to high quality provide case management program to the members. Initiatives like GlowCap of Express-Script aim at providing effective utilization of medication with timely reminders about the medication schedule. Aetna is waiving co-pay for chronic drug prescription(s) in order to encourage the members to adhere to their medications

PBMs use various drug utilization review programs to manage member's overall health condition and to drive member to correct and safe utilization of medications. CVS/Caremark effectively utilizes its retail and PBM business operations to provide an easy access to the members. Its large retail presence not only provides an easy/convenient access to prescription drugs but also provides an excellent opportunity for members to get a quick consultation from the pharmacist or nurse.

Another aspect of these programs is to provide a summarized view of their effectiveness to various stakeholders like plan sponsors, government and internal management of PBMs.

Individual PBMs are supporting various programs and some of the programs are also optional for members. PBM has the potential to combine the best practices available in the market place and also to utilize new sources of member healthcare information for an effective product/solution.

Personal Health Record (PHR) Adoption

The Adoption of Electronic health record in the US has increased from about 28 percent in 2006 to about 46 percent in 2009^[3]. Yet, the usage is low compared to other countries with a developed healthcare industry. All healthcare entities including PBMs are adopting PHR at a very fast pace. The US Government is playing an important role in this effort by introducing state HIT programs.

The Role of PBMs in this area will be very crucial. Each PBM hosts a large amount of member related information like member's allergies, medication and its usage and drug interactions, etc. With the increased use of e-prescribing, this information will be even more standardized and it will help build a comprehensive PHR. PBMs will also be able to utilize PHR to develop effective and efficient drug utilization and case management programs. Additionally, it will also increase the efficiency of drug fulfillment by easy, automated refills of prescriptions.

Prospective rebates

Pharmacy industry has a structured rebate determination process between PBM and drug manufacturers and a process to share part of rebate with the plan sponsors. However market place is driving towards extending the benefit of rebate to members as well. This can be achieved by multiple means like incorporating this as part of premium or reducing member co-pay Reduction of member's co-pay is advantageous as it provides an immediate benefit to member and member can easily quantify the benefit.

However, developing an effective prospective rebate program is a challenge in itself. Most of rebate contracts between the PBM and drug manufacturers are retrospective. It uses complex factors like structure of formulary and its customization, market share and volume of drug filled during a given period. The PBM needs to have structured data and data analysis mechanism to be able to predict short term changes with a high confidence level. PBM should also have a provision with plan sponsors to consolidate past rebate details and make necessary adjustments.

Additionally, there is a proposal as per health care reform to reduce the cost of drug using manufacturer discount. This proposal can also drive towards sharing drug manufacture discounts with members on a real-time basis.

Social commerce

The social web is growing at a rapid pace. Following are some interesting facts:-

- Time spent on social networking sites increased by 82% in 2009 ^[4].
- There are 400 million active users on Facebook ^[5].
- There are over 200,000,000 Blogs ^[6].
- Twitter has 75 million monthly visits ^[7].
- 70% of consumers trust peer recommendations ^[8].

PBMs can use this social web to reach out to the 47 million new members added to the market, significantly cost effective than earlier means of marketing and PR. The existing channels of reaching out to the members like internet, contact center (BPOs), mail and emails can be integrated with social media. PBM can engage current and potential members by creating online forums. These forums will be used by users to share their feedback about plans and connect to other members to seek their opinion. This feedback can be used in the design and improvement of products. Widgets can be placed on social networking sites like Facebook & MySpace to attract potential members to the forums. Videos and podcasts can be uploaded to provide value to the current and potential members to attract and build customer loyalty. Context based specific recommendations can be provided. The segmentation of target market can be increased significantly, given the low cost of social media, to offer focused plans for the specific needs of the various segments.

The benefit of using social commerce is huge. Early adopters of social commerce can get a competitive advantage and capture a large share of the newly available customer base.

Competing with Health Care companies offering Pharmacy plans

Healthcare industry is now more focused towards providing solutions to the member to manage their overall health condition. In this regard, there is a significant drive towards supporting end to end healthcare product by combining Medical and Pharmacy products. Combining these offerings not only increases the benefits for members but also enables insurer to have extensive information regarding member's health conditions which will enable the insurer to support effective and efficient case management and disease management programs. The health plans of Aetna and Cigna are combining their Medical and Pharmacy product offerings to provide an end to end solution to members. This is a business risk that PBMs will have to be prepared for. One of the ways to address could be the passing the benefits of scale to their consumers.

PBM industry is changing rapidly to meet government regulations as well as to support need for dynamic healthcare market. It is beneficial to leverage synergy across multiple drivers to provide better solutions. Utilizing best practices in the industry, all PBMs can enrich their product and service offerings to provide better value to members.

About Infosys

The healthcare practice of Infosys services the specific needs of Health plans, PBMs and Providers. In PBM space, Infosys has partnership with leading PBMs for more than 10 years. Some of the key programs are

- Implementation of HIPPA regulatory requirement (2000)
- NCPDP 3.2 to NCPDP 5.1 conversion (2000)
- Development rebate processing application (2001-2002)
- Implementation Medicare Part-D regulation (2006)
- Support new Medicare Part-D related changes in NCPDP (2008)
- Implement PCI compliance requirement (2009)
- NCPDP 5.1 to NCPDP D.0 conversion (2009-2010)

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