**STRATEGY SNAPSHOT PREVIEW**

for entire health care ecosystems

# 5 PBM Strategies to Watch

## Understand pharmacy benefit managers' priorities and initiatives

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Pharmacy benefit managers (PBMs) play a key role in the U.S. health benefits landscape by facilitating pharmacy transactions and implementing strategies to lower pharmacy costs for insured individuals and their plan sponsors. PBMs must balance this objective with the drive to grow revenue and increase shareholder value. We expect PBMs to focus on five strategies in pursuit of these goals.

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# The strategies

| | STRATEGY | PURPOSE | |
|---|---|---|---|
| 01 | Evolving PBM-owned specialty pharmacy | | AVAILABLE WITH MEMBERSHIP |
| 02 | **Expanding group purchasing organizations (GPOs)** | PBMs are expected to expand their recently launched group purchasing organizations (GPOs) to increase negotiating power with pharmaceutical manufacturers, thus driving steeper discounts and higher fees. | AVAILABLE IN PREVIEW |
| 03 | Increasing use of formulary exclusions | | |
| 04 | **Optimizing copay maximizers** | PBMs are innovating on strategies to capture the dollars from manufacturer patient assistance programs, such as by evolving the design of copay accumulators and maximizers. | |
| 05 | Expanding into direct-to-consumer (DTC) offerings | | |

# 02 Expanding GPOs

## How does it work?

The three largest PBMs[1,2] have launched GPOs to facilitate drug price negotiations between GPO members and pharmaceutical manufactures.

| GPO name | Owned by | Launch year | Location | Participating PBMs (#) |
|---|---|---|---|---|
| Ascent Health Solutions | Cigna, Prime, Kroger | 2019 | Switzerland | 4 |
| Zinc Health Services | CVS Health, Anthem | 2020 | United States | 2 |
| Emisar Pharma Services | Optum, UnitedHealth Group | 2021 | Ireland | 1 |

## Why is this a priority for PBMs?

By establishing GPOs, PBMs are positioned to lower negotiated drug prices by aggregating scale with smaller PBMs. They can also generate additional fees from manufacturers for data access. PBMs with GPOs based outside of the United States may use them as a buffer from potential U.S. government regulation and tax burdens.

## What are the potential impacts on other stakeholders?

- **Pharmaceutical manufacturers** may feel pressure to secure contracts with the growing GPOs, which may lower manufacturer revenues both through higher fees and lower drug prices.
- **Plan sponsors** may see additional savings from GPO discounts, though PBMs are unlikely to pass along all additional savings generated.

## What to watch for:

- GPO may grow with the addition of new PBM participants. Large employers may also join the GPO independently rather than through a PBM.
- GPO purchasing may expand to include medical benefit drugs.

1. CVS Caremark, Express Scripts, and OptumRx
2. Advisory Board is a subsidiary of UnitedHealth Group, the parent company of UnitedHealthcare and Optum. All Advisory Board research, expert perspectives, and recommendations remain independent.

Source: Fein, AJ, 2022 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers, March 2022.

# 04 Optimizing copay maximizers

## How does it work?

PBMs have created benefit design programs called copay accumulators and copay maximizers that harness manufacturer patient assistance funds, such as copay cards, to lower plan sponsors' pharmacy costs instead of offsetting a patient's annual insurance deductible.

**73%**

of commercially insured lives were covered by health plans with a maximizer program in 2020

## Why is this a priority for PBMs?

Because copay accumulator and maximizer programs do not allow manufacturer copay cards to count toward a patient's deductible, PBMs can capture manufacturer patient assistance dollars in addition to a patient's full deductible. PBMs also may charge plan sponsors a fee for managing copay adjustment programs.

## What are the potential impacts on other stakeholders?

- **Consumers** may discontinue treatment after the manufacturer copay card runs out of funds and they become responsible for the full copay cost. This has been a critique of copay accumulator programs. Because of this criticism, some PBMs developed copay maximizer programs, which spread copay card funds evenly across the year.
- **Pharmaceutical manufacturers** may feel frustrated that the dollars they have set aside to help patients pay for their medications have become incorporated into pharmacy benefit design and may not ultimately reduce costs for the patients directly.

## What to watch for:

- New state legislation could regulate copay adjustment programs to ensure that patient assistance dollars can be applied to a patient's deductible.
- Legal challenges from drug manufacturers have argued that copay adjustment programs are deceptive trade practices.

Source: Wang J, et al., "Contributor: Providers and Patients Push Back, Payers Push Forward—Copay mitigation programs," AJMC, February 2021.

# What is the future of the PBM landscape?

The largest PBMs have shifted from a growth strategy focused on scale and vertical integration, to one that seeks growth via optimizing benefit design, diversifying profit streams, and expanding services. These changes, along with other factors, will influence the future of PBMs, but we see two scenarios as most likely.

### Scenario 1: The largest PBMs will continue to dominate.

In this scenario, the largest PBMs will expand their offerings to address the full spectrum of plans' and consumers' pharmacy needs. This will allow the GPOs associated with these large PBMs to grow without formally acquiring smaller PBMs, and smaller PBMs may find it difficult to survive without participating in GPOs. Formularies will shrink, and rebates will rise.

*This scenario is possible if:*

- There is limited or no new government regulations of PBMs
- Health plans and employers continue to value discounts as their motivating factor for PBM contracting
- PBMs build trust with consumers and plan sponsors

### Scenario 2: New entrants reshape the market.

In this scenario, emerging PBMs court large employers by building trust and a differentiated value proposition. Emerging PBMs may focus on their ability to lower total costs of care through transparent pricing, better medication access, and disease management.

*This scenario is possible if:*

- State or federal regulations change the PBM landscape, such as by generating more transparency into drug costs
- Health plans and employers become more proficient at examining benefits data to identify improvement opportunities

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