Using direct contracting to facilitate the sustainable delivery of prescriptions and clinical services to an employee group

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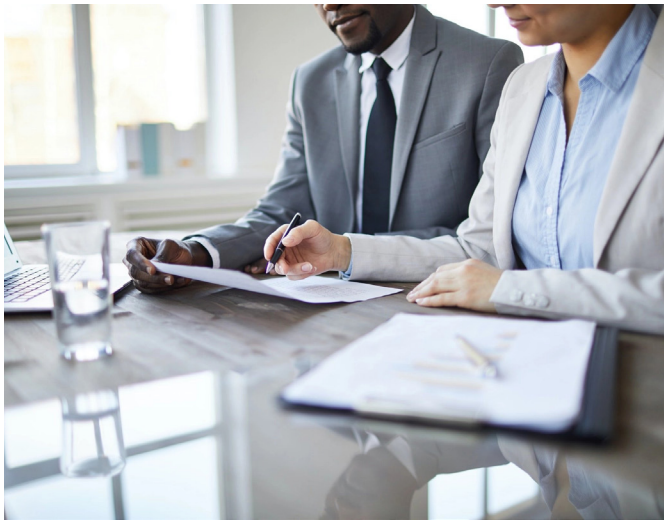
WHY DIRECT CONTRACTING?
Responding to a Challenging Payment Landscape for Community Pharmacies

Community pharmacies are a critical access point for health care in communities across the U.S. However, it is becoming increasingly challenging for community pharmacies to provide the highest-quality service to patients and be financially sustainable due to current reimbursement models imposed by pharmacy benefit managers. Many employers are also facing challenges as the costs of providing health coverage to employees continue to rise which contributes to businesses dropping health coverage for employees.[1]

A major threat to the financial sustainability of pharmacies is the increasingly **complex, opaque, and unpredictable system for how prescriptions are reimbursed when people use prescription coverage**.[2] When prescriptions are processed as claims through prescription plans managed by pharmacy benefit managers (PBMs), pharmacies often are reimbursed amounts that are not only low but not directly tied to the actual cost incurred by the pharmacy, which can result in losses.[3] Pharmacies also incur retrospective penalties known as direct and indirect renumeration (DIR fees, clawbacks, audits, and other practices common to most pharmacy benefit managers which often further reduce the pharmacy's reimbursement.[4]

Many pharmacies have closed over decades of decreasing reimbursements or have been acquired by larger companies.[5] Those pharmacies that persevere take whatever measures they can to shore up their prescription business and often pursue alternate sources of revenue such as disease state management, vaccinations, point-of-care testing, and other services that have clear value propositions to consumers and employers. A growing opportunity for pharmacies lies with consumers and employers who are willing to pay cash or engage in other arrangements to have access to pharmacists and their expertise in medication management.[6]



One of these opportunities is to provide high-quality care and cost savings for employees through the establishment of a direct contract between the employer and the pharmacy for prescription drugs and access to a menu of value-added services. This is an important shift because many, employers, consumers (and even many pharmacies) have limited understanding of the incredibly opaque and complex system of prescription financing in the U.S., the impact of PBMs, and how the status quo is associated with significantly higher costs for employers, consumers, and pharmacies.

This playbook describes the experience of Towncrest pharmacy and its arrangement with a local small business with about 50 employees. The goal is to provide evidence for the benefit of such arrangements from the pharmacy, employer, and patient perspectives and provide insight on what employers and pharmacies can consider if interested in talking with local employers about establishing similar arrangements.

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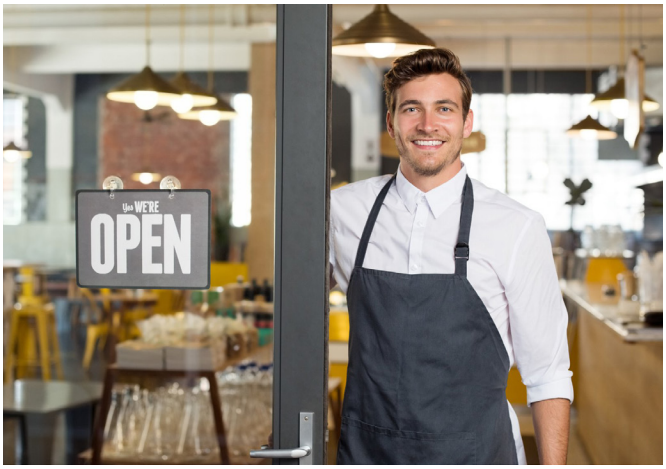
[1] Claxton G . Health benefits in 2019: premiums inch higher, employers respond to federal policy. Health Affairs. 2019;38(10):1752-61.
[2] https://www.commonwealthfund.org/publications/issue-briefs/2019/mar/pharmacy-benefit-managers-practices-controversies-what-lies-ahead
[3] Murry L. Third-party reimbursement for generic prescription drugs: The prevalence of below-cost reimbursement. JAPhA. 2018;58(4):421-5.
[4] Mann HJ, Current issues and recommendations to manage prescription drug benefits for public health programs. RSAP 2022.
[5] Salako A. Update: Independently Owned Pharmacy Closures in Rural America, 2003-2018. Rural Policy Brief. 2018 Jul 1;2018(2):1-6.
[6] https://www2.deloitte.com/us/en/insights/industry/health-care/future-of-pharmacists.html

Local Employer Story

Tom, the owner of a local retail business with about 50 employees had prior experience as an insurance agent, so he was familiar with the health insurance market before taking ownership. As a small business owner, Tom had observed years of increasing costs associated with health coverage for his employees was interested in finding ways to manage costs while still maintaining coverage for employees.

Tom found Howard, an insurance agent works with health networks and smaller prescription benefit managers that allow for greater transparency and customization in the pursuit of cost savings.



For Howard's approach, the first step for redesigning a health benefit was to unbundle the health and medical coverage from the prescription coverage. By separating medical and prescription coverage, they could find lower-cost options that still meet the needs of the employer. Bundled plans typically are less transparent and are associated with higher costs in exchange for the convenience of selecting a single, all-in-one option.

The local employer is essentially self-insured and uses a third-party administered network of area providers to provide medical services in the region. They do carry a stop loss policy for unexpected high-cost medical and prescription expenses which facilitates with budgeting.

For the employee prescription coverage, the employer went with a smaller, relatively transparent pharmacy benefit manager at a lower cost compared to plans that have health and prescription coverage bundled. This went fine for several years. One day at the pharmacy, Tom the owner, and Randy and Mike from Towncrest began discussing how a direct contract could save the company more money on prescriptions by bypassing the PBM and working directly with the pharmacy with a cost-plus payment design. In addition to transparent pricing and lower total costs for prescriptions, Towncrest is able to embed several services for employees that used Towncrest for their prescriptions. They worked out a plan to offer this direct contracting option to all employees.

> "We started talking with Mike and Randy about, is there a way to go direct? So we can eliminate the PBM and just talk directly to them, and have a more direct relationship. And thankfully, it's something that they had talked about in the past, and we were able to make it work. It all starts with separating out the health and the pharmacy piece in your insurance program."
>
> **— Tom, Owner**

The direct contract arrangement has been financially beneficial for the employer and to the employees who have transferred their prescriptions to Towncrest. By switching to unbundled plans, the employer has been able to keep the overall annual budget for health and prescription expenses more comparable year over year, compared to if they stayed with a bundled plan. In most years the business has been able to bank the unspent healthcare dollars in anticipation of future years when costs may be higher due to unexpected expenses. The employer continues to encourage the remainder of employees to switch to Towncrest to maximize cost savings on prescriptions and improve the quality of employee medication use.

First Iteration of the Direct Contract

For the first iteration of the direct contract, the employer and Towncrest discussed specific components of the direct contract including the 1) cost-plus design, 2) bundled services, and 3) copay amounts.

1

The employer and Towncrest agreed on a cost-plus fee of cost plus a $12 dispensing fee. Other options would be to have separate fees for generic and brand name medications. This dispensing fee helps support the bundled services and the pharmacy's model of continuous medication monitoring to identify and address potential and emerging medication-related problems.[7]

2

Towncrest bundled a menu of value-added services for the direct contract. These included: delivery to the patient's home or to the workplace, annual medication reviews, adherence packaging, access to clinical medication synchronization, continuous medication monitoring, and a discount on OTCs.

3

The pharmacy and employer decided on a copay structure of $4 and $10 for 30 and 90-day supplies of generics and $25 and $50 for 90-day supplies of brand-name medications.

Note: Employees can still use their prior prescription benefit at other pharmacies and pay a higher copay of $8 for generic and $35 for brand-name prescriptions of using the relatively transparent PBM, including when traveling or when Towncrest is not open.

Pharmacy Responsibilities

- When an employee comes to Towncrest, employment is verified by calling the employer, and the employee's prescriptions are filled using the direct contract arrangement. This was programmed into the pharmacy's computer system for these employees.
- The pharmacy maintains the eligibility file of employees under the direct contract. The pharmacy is assuming some risk should a former employee hypothetically fill a prescription following their leaving the company. The employer is responsible for notifying the pharmacy of any changes to eligibility (E.g new hires, terminated employees, changes to dependents).
- Towncrest also is responsible for performing a drug utilization review (DUR) for new brand or specialty medications by evaluating the prescription for appropriateness including prior step therapy. The pharmacy notifies the employer of new high-cost brand and specialty medications.
- Towncrest also compiles monthly reports to bill the employer for employee prescriptions.

These responsibilities of calculating prescription costs, collecting copays, maintaining the eligibility file, engaging in DUR and prior authorization management, running reports, and billing the employer were done by Towncrest whereas they are typical responsibilities of the PBM. The pharmacy taking responsibility for these activities provides greater clinical value at a significantly lower cost than a large PBM bundled with health coverage.

Note on Specialty medications. The employer does not currently have anyone on specialty medications. Discussed more later if warranted, Towncrest may advise the employer to use their other contract, investigate patient assistance programs, exercise the stop-loss policy, or decide not to cover the medication.

[7] Goedken AM. Continuous Medication Monitoring (CoMM): A foundational model to support the clinical work of community pharmacists. RSAP 2018;14(1):106-11.

Second Iteration of the Direct Contract

For the second year of the direct contract, the main change was Towncrest identified and negotiated with a second transparent PBM to facilitate prescription processing and reporting for employees covered by the direct contract. The rationale for this change was to relieve administrative burden of time and effort related to processing the prescriptions and generating reports. This PBM agreed to process the prescriptions, apply the copay, and report the charges to the employer for a fee of <2.00 per prescription paid by the pharmacy. This allowed the pharmacy to enter a corresponding BIN for the direct contract employees and streamline the extra effort of sending reports to the employer for payment. This PBM arrangement is for the convenience of the pharmacy and only works at Towncrest. The employees who have not transferred their prescriptions to Towncrest can still use the PBM from the initial unbundling of medical and prescription coverage at other pharmacies, although the employer continues to encourage employees to switch to Towncrest.

As with the first iteration of the direct contract, the employer benefits from the transparent cost-plus benefit design and the close monitoring of employee medications by Towncrest pharmacists. Patients are still incentivized to use Towncrest because of lower copays for prescriptions and benefit from continuous medication monitoring, easy access to clinical pharmacists, and access to value-added services. The benefits to the pharmacy include consistent payment of a reasonable and sustainable professional fee and being a preferred pharmacy.

From the employer's perspective, a direct contract with a local pharmacy makes sense if significant savings are achieved through unbundling health coverage from prescription payments since most people primarily use generic medications to manage chronic illnesses. Further, Towncrest's provision of continuous medication monitoring has demonstrated decreases in the total cost of care[8], which also should be attractive for employers.

"We're big enough, and we're small enough in our company, where we, as in the family, have direct control over the company. But we're big enough that we need this savings. So we've made the commitment to go down this route."

— Tom, Owner

Employees who transferred to Towncrest have been satisfied with the quality of service as detailed by the satisfaction survey (see supplement). While most were aware of the bundled services, few had used them, which suggests opportunity for greater employee engagement.

[8] Doucette WR. Pharmacy performance while providing continuous medication monitoring. JAPhA 2017;57(6):692-7.

Reaching out to Employers

To get started with direct contracting, pharmacies need to identify potential employers to work with. As a local business, pharmacies may know employers from chamber of commerce or other groups, or in the case of this direct contract, their patient. While this arrangement started with the direct contract, an alternative approach would be to start with offering clinical services as a gateway to proposing the direct contract and the potential benefits of unbundling health and prescription coverage for employees. Perhaps they want to have a pharmacist give workshops on special areas of health or perform health screening events.

Ideas for identifying and recruiting potential employers to discuss direct contracting

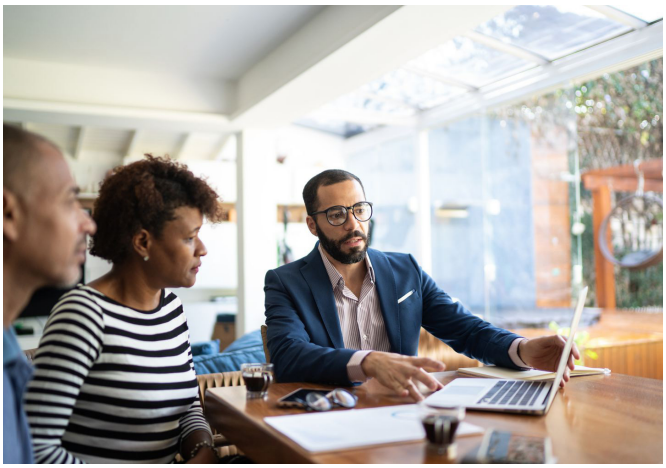
It may be beneficial to craft a pitch and promotional materials to help the employer understand the process and have something to take to discuss with human resources and others at the company. This could include an example of a cost plus versus PBM prescription charge and a description of value-added clinical services. You also can find out the unique needs of the employer. Maybe there is a new service your pharmacy is developing that you would want to offer at a discount under the direct contract.

Which services would you bundle?

> *"If you really want to put your money where your mouth is, you're going to guarantee that it pays for itself in the drug spend alone."*
>
> **— National Community Pharmacy y Expert**

This may be a hard sell, however, and preparation is key.

> *"These folks [with the job of selecting insurance plans] are not necessarily interested in being heroes, they want to keep their job..., maybe we're not paying the best, but we're working with this and it works."*
>
> **— Pharmacy and Insurance expert**



What do you call the direct contract arrangement?

When we began evaluating the direct contract agreement, our primary focus was on the prescriptions and the specifics of the direct contract. The more we talked to stakeholders and experts, the more we realized the direct contract is just the vehicle that gives pharmacies the opportunity to provide clinically oriented care to patients in a sustainable way. Alternative terms that may resonate with employers may be "service-based direct patient engagement", "Direct care agreement", or others that focus more on the clinical orientation rather than the contract.

Potential Opportunities

A successful direct contract arrangement may lead to employers sharing their experience with other employers as **word-of-mouth advertising**.

As the employer and employees grow accustomed to the level of service provided by the pharmacy, there may be opportunities to offer **additional clinical services** for an additional fee like disease state management.

There is the potential for **widespread adoption** of employers working directly with pharmacies to provide clinical services and prescriptions directly to people, which could meaningfully impact how people value pharmacists and the value they can provide the health care system.

> "If every one of these independent pharmacies just took one employer in their community away from the PBM and worked directly with them, you've taken 22,000 employers out of the hands of the insurance system, into the hands of the private sector, into the hands of the individual pharmacy. Just one per pharmacy."
> **— Howard, Insurance Agent**

Employers likely are concerned about prescription costs, but they also see the importance of improving the health of employees and are looking for ways to decrease their medical spending. Employers may not be aware of how pharmacists can help.

> "When you think about moving the needle for employers, the discussion on traditional meds is not really about the cost of the drugs. They're definitely getting hit with spread pricing, but it's not hurting them financially from what I see with my client's budgets. What they're hurting from, it's the disease states that these drugs are treating. Your involvement with them should be a promotion of reducing medical costs." **— Pharmacy and Insurance Expert**

Models similar to this example of direct contracting also may serve people covered under high deductible health plans or without prescription coverage.

> "52% of all employees now are on a high deductible plan where their first dollar of drug coverage is 6,000, 7,000 bucks. 49.3% of employers don't offer insurance. There's a market for this stuff out there.."
> **— National Pharmacy Stakeholder**

The direct contract is not a panacea to all the financial challenges faced by community pharmacies. Rather, it is one option to open opportunities for pharmacies to receive sustainable payment for prescriptions allowing for the pharmacy to bundle clinical services.

Potential Challenges Q & A

Q: **How are these arrangements formalized?**

A: For Towncrest and the small business, this was a handshake agreement. As mentioned before, if an employee quits and the pharmacy is not notified, or if Towncrest forgot to update the eligibility with their processor. Towncrest could be responsible for the employer's share of the prescription. Establish consistent processes for updating and maintaining records and verifying changes in employment. Pursuing a written contract also may be worth considering.

Q: **Are there any insurance types where this may be more challenging to carry out?**

A: While unlikely if an employer has unbundled their medical and prescription coverages, some employers may be using a qualified high-deductible health plan. These plans have rules related to maintaining up-to-date prescription and health expenditures. It is possible that a direct contract bypassing the PBM would cause issues with the aggregation of expenditures. Other options may need to be pursued to follow regulations.

Q: **What if the business wants to keep its insurance like it is?**

A: It is possible that a business would have a contract with a PBM for their employees and in that contract, there may be an exclusivity clause that may stipulate that the employer cannot contract with a second PBM or have employees pay cash or otherwise not use the PBM when filling prescriptions. Employers would want to examine any clauses in their policies that may prevent employees from alternate arrangements for obtaining prescriptions, like through a direct contract.

Q: **What about specialty drugs?**

A: Should the employer need to pay for high-cost specialty medications, going through a PBM may be a necessary option given the arrangements PBMs have made with manufacturers for rebates on these high-cost medications. There may, however, be other mechanisms to help lower the cost, including helping patients identify assistance programs. The pharmacist also may be familiar with possible non-specialty options. Every situation will be different as the role of rebates and the extent they get passed back to employers also can vary.

Q: **Won't the employer be losing rebates?**

A: Depending on the size of the employer and their contract, they may not be receiving rebates anyways. If they are receiving rebates, the employer will need to weigh the loss of rebates against the benefits of a direct contract and the benefits of more transparent pricing.

Q: **Isn't this asking employers to self-fund their insurance? That sounds risky for a small business.**

A: All employers that offer insurance are ultimately self-funded because their expenditures are always reflected in current and future premiums. Stop-loss insurance can mitigate this risk and should be considered.

Q: **Don't PBMs and insurance help keep costs down?**

A: The main ways PBMs can lower drug costs to employers is by reducing pharmacy reimbursements and negotiating rebates, which may or may not be passed along to employers. Also, PBM's may have incentives to direct patients to medications that are more lucrative to the PBM which may raise costs to employers. Thus a direct contract may be a better option for the employer and the pharmacy. Because PBMs are focused on product, there is little attention to medication optimization strategies through the delivery of clinical services. Community pharmacies reimbursed at sustainable levels in a direct contract can embed clinical services including CoMM to ensure that patients are achieving therapeutic outcomes with safe and effective medications which can also lead to lower overall health care costs.

Potential Challenges Q & A

Q: **What about employees with chronic illnesses? Isn't insurance needed for them?**

A: Employees with chronic illness have a known risk of high costs and therefore are most in need of additional pharmacy services. There is a significant opportunity for pharmacists to help reduce overall medical costs by doing a better job managing their medications.

Q: **Why aren't more businesses already doing this?**

A: Decision-makers likely have a fear of the unknown. These arguments may be new and many insurance agents are also unfamiliar with alternatives to bundled insurance plans. The process becomes easier with experience. We hope this playbook makes it easier for employers and pharmacies to consider direct contracting.