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Pharmacy Benefit Consulting Company enabling Payors to better Understand the Prescription Drugs they are Buying and the Best Price Point

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Interview conducted by: Lynn Fosse, Senior Editor, CEOCFO Magazine

CEOCFO: ***Mr. Staab, what is the idea behind Innovative Rx Strategies?***
Mr. Staab: Innovative Rx Strategies is a pharmacy benefit consulting company that Greg Madsen and I started nine years ago. Both Greg and I are former senior executives at CVS Caremark. Greg was the Senior Vice President for Retail Services and ran the retail pharmacy network for CVS Caremark, Greg paid the retail pharmacies, managed the spread for Caremark, sat on the underwriting calls and determined the profitability for Caremark's clients in terms of what Caremark wanted to make off a particular client. Greg is a pricing guru who understands all aspects of PBM pricing. I was the Vice President of Legal Services and Managing Counsel and I managed the CVS Caremark legal department in Northbrook, Illinois including all the attorneys who did the client contracting in the Caremark offices located in Northbrook, Scottsdale, Arizona, and Irving, Texas. About nine year ago at a Chicago White Sox game, Greg and I had this idea of creating Innovative Rx Strategies by combining Greg's pharmacy and PBM operations background (Greg is also a retail pharmacist with an MBA), and knowledge about PBM pricing with my legal background to create Innovative Rx Strategies and help clients understand what they were buying from a pharmacy benefit and prescription drug standpoint and also what they were contracting for with their PBM. We felt that particularly being inside a PBM like CVS Caremark, we knew that most consulting firms and attorneys really had no idea what they were contracting for and how PBM is operated from a pricing standpoint. We decided to create Innovative Rx Strategies to come on this side of the table to really help clients negotiate the best possible pricing that we could on their pharmacy benefits and then put a contract in place that would hold the PBM accountable for the pricing they committed to the client because many times there are so many PBM

contracts that are so vague and broad that the PBMs can say whatever they want to from a pricing standpoint and clients are not necessarily getting the value of what they think they should be getting based upon the pricing they thought they agreed to with a PBM. So that is why we started Innovative Rx Strategies. We also provide a lot of ongoing pharmacy benefit consulting services to our clients. Greg works with clients in terms of their pharmacy plan design. He keeps up with what is going on the development of new drugs and what is in the pipeline, particularly for specialty drugs, and monitors what is going with generics, particularly authorized generics and single source generics.

CEOCFO: ***How has the idea played out so far? What is happening today?***
Mr. Staab: We have done really well. We have been in business for nine years and we have clients all across the country. We have had clients as big as 110,000 employees and some as small as 2000. On average, we have been able to save our clients probably about 15% on their annual prescription drug spend. We saved hundreds of millions of dollars for clients over the last several years. So, it has played out very well.

"We decided to create Innovative Rx Strategies to help clients negotiate the best possible pricing and then put a contract in place that would hold the PBM accountable for the pricing they committed to the client… On average, we have been able to save our clients probably about 15% on their annual prescription drug spend."- Michael J. Staab

CEOCFO: ***Are people actively looking for a better way?***
Mr. Staab: Yes. The thing is the pharmacy benefit touches everybody. Everybody uses a pharmacy benefit because they probably at least get one drug filled a year at their retail pharmacy. The one area that employers see their cost increase on prescription drug side is on specialty drugs. Some employers have seen a significant increase in their specialty drug costs which now account for almost 50% of their overall prescription drug spend which is quite a bit.
Mr. Madsen: When you think about the pharmacy benefit, the specialty drug spend has really caught their attention, particularly a few years ago when all the hepatitis C drugs came to the market and all of a sudden they saw this huge spike in their cost. Even now, by the end of this year, we are expecting most of our groups and clients to be running about 45% or 50% of their overall pharmacy costs being for specialty drugs even though that only accounts for about one or two percent of their total prescription drug claims. Fewer employees are going to absorbing 50% of their costs. It has really caught their attention and they are looking at ways to lower those costs and manage that special utilization and encourage the use of more generics. I think in general, by the end of this year, 90% of the claims will be for generic drugs. There will be a lot of generics coming through there, but it is still the specialty drugs that are costing them the most money. They are all looking for innovative plan designs and strategies to help manage their utilization for specialty drugs to help them control costs.
Mr. Staab: The other thing that has been in the forefront for example is the drug Epipen that doubled in cost seemingly overnight. Epipen is a widely used life saving drug used by many people who develop life threatening allergic reactions, especially with people who have children. This is the kind of example where employers wonder why the cost of Epipen went from $300 to $600 and employers want to know what their options are for controlling what they perceive as an out-of-control their drug spend. Employers have also experienced a huge increase in the cost of some generic drugs, so employers in particular are more mindful of their generic drug costs.

CEOCFO: ***What is a typical engagement - how you figure out what is best for a client and how you ease the transition?***
Mr. Staab: A typical engagement for a new client usually means taking the client through a RFP process. We have a very client specific RFP because of our years of PBM experience. We have a really good idea about what questions to ask a PBM. Our RFPs are very focused on what we want the PBM to answer based upon what the particular client's needs are. We usually include five PBMs in the RFP process and then the client will invite three of the five PBM's responding to the RFP to make a finalist presentation. After the finalist meetings, we usually narrow it down to one of two PBMs and negotiate the most aggressive pricing that we can on behalf of the client. After the client has selected a PBM vendor, then we start negotiating a new or renewal PBM contract to memorialize what the PBM has agreed to in the RFP and at the finalist meeting. Greg works with the clients, particularly if they are changing PBMs, to transition to a new vendor. It is just not difficult to move clients from one PBM to another because the PBM's claims adjudication systems have all been automated and eligibility and plan designs are fairly easy to put into place. There is a lot of member communication that has to be done before a client goes live on January 1st. You usually spend about 60-90 days working with a PBM to implement a client that is moving from one PBM to another PBM. We do not see that many issues when you move from one PBM to another.

Mr. Madsen: The first thing we do when we first meet a client is sign a confidentiality agreement to make sure that the information that they share with us or what we share with them is kept confidential. Then we do a pricing analysis. We look at what their current utilization and claims are and give them an assessment of how their PBM is actually performing right now relative to the pricing that is in their PBM contract. We will get a copy of their PBM contract, we will review it, and we will look at their actual utilization from a claims perspective to see how the client is doing. If the client is doing really well and the PBM is meeting the pricing terms in the client's PBM contract, we will let them know that everything is working out well. We have not really found that very often but we do that up front at no cost to the client, to do the pricing analysis and say here is how your PBM is currently performing from a pricing perspective and here is what we think your PBM should be performing based upon the pricing in the client's PBM contract and pricing terms we have seen in the market. There is a real value of doing this up-front front for a client even before the client formally engages us to take them out to bid.

Mr. Staab: The reason we do the upfront pricing analysis and PBM contract review is that in most circumstances we are paid a percentage of savings of what we are able to save a client on their annual drug spend by negotiating better pricing than the client currently has with their PBM. If we cannot save the client money, we will tell them. There are a lot pharmacy benefit consulting services we provide a client if we take them out to bid, draft a client specific RFP for that client, conduct two-three days of finalist meetings, and negotiate a new or renewal PBM contract on behalf of the client. We try to be very certain that we can help save the client money. As Greg said, rarely has there been a time where we have not been able to lower a client's prescription drug spend. Greg will do a pricing analysis and we will review the client's PBM contract to see what it says particularly around the pricing guarantees, which is usually the important thing we are looking for, and also the definitions. For example, how does the PBM contract define what is a brand drug, what is a generic drug, is, what is a specialty drug, what is included or excluded in the generic bucket, and what is the definition of a rebate. We do a thorough analysis of the client's PBM contract and their drug spend with their current PBM to determine what the potential savings is for that client. We want to make sure our interests are always aligned with the client's interests.

"We really understand what goes on behind the scenes within the PBM from how the systems work, how the contract works, what you do have, what you do not have."- Gregory Madsen

CEOCFO: ***The tagline on your pages is 'expertise, insight, ingenuity.' What is an example of the ingenuity part?***

Mr. Staab: For example, one of the things we include in our client's PBM contract is the right to conduct an annual pricing audit. Most clients that come to us do not have a pricing audit provision in their PBM contract although they are permitted to conduct a claims audit or maybe even a rebate audit. Based upon Greg's expertise because he has worked in the PBM industry since the 1990's, Greg understands from a pricing standpoint what we need from the PBM to validate that the pricing the PBM has agreed and the pricing guarantees that we have negotiated, are being met. That is a big distinguishing factor between us and other consultants and what we are able to do to validate the client side pricing. At the end of the day, when you are doing a claims audit, if a client's eligibility is entered correctly and their plan design is entered correctly, and the eligibility pays against the plan design, then a client is not going to really recover much of anything by doing a claims audit. We know that every PBM will invariably underperform from a pricing standpoint, particularly when it comes to generics. It is virtually impossible for a PBM to hit a particular pricing guarantee spot on.

Mr. Madsen: Another innovative idea we introduced about four years ago was the concept of a split fill program for oral oncology drugs that are being dispensed through a PBM's specialty pharmacy. We really started pushing PBMs and their specialty pharmacies to look at doing a split fill program as a way of controlling the utilization and management of certain specialty drugs. Now most of the PBMs have adopted the concept of a split fill program. The concept of the split fill program is when a new patient is diagnosed with cancer and gets prescribed oral oncology drugs. We ask the PBMs to only dispense fifteen days worth of the oncology drugs for that first fill and not a thirty days supply because within that first fifteen days many patients fall off of therapy because these drugs have really bad side effects. Oncology drugs cause a lot of nausea and other issues and we want to make sure that the people can tolerate a particular oncology drug, so we want the patient to get a split fill of fifteen days versus thirty days on the initial fill. Then what we ask the PBM to do is continue only filling a fifteen days supply for a total of six fills. So for ninety days the PBM specialty pharmacy will fill fifteen day supplies for a period of 90 days. We also find that in the middle of a second month around day 45-50, sometimes the physicians switch the patient to a different oncology drug because it is not working as well as they had hoped. We want to make sure the PBM is managing that utilization correctly and our clients are not paying for medication that never gets used. The split fill program is something that has saved our clients a tremendous amount of money and was a very innovative thing. Most PBMs now have adopted that philosophy and are starting to promote it. The split fill program is something we introduced about four years ago that has been pretty successful.

CEOCFO: ***Are clients turning to you because they understand the depth of what you offer or are they sometimes surprised at what you can do for them?***
Mr. Staab: They come to us because they are intrigued by the value we bring. It is rare for a pharmacy benefit consulting firm to have the PBM operations, pricing, pharmacy, and legal background that Innovative Rx Strategies can offer which really brings value to our clients. They understand it and that is why our clients stay with us. We continue to negotiate better pricing year over year for clients to keep up with the changing market conditions. Prospective and existing clients call or use Innovative Rx Strategies because they are intrigued by the expertise and value that we bring. Then when we meet with clients, they see how knowledgeable we are and the expertise we can bring to help lower their prescription drug spend..
Mr. Madsen: I do think some of them are in some respect surprised at the depth of knowledge that we have. We really understand what goes on behind the scenes within the PBM from how the systems work, how the contract works, what you do have, what you do not have. I think they are intrigued about bringing us in and talking to us and once they actually sit down and start asking us questions about their plan design and issues and they listen to the answers that we can help them with, in generally they are pretty satisfied and kind of surprised of how much we actually know.
Mr. Staab: The PBM industry is so complicated and we use the Wizard of Oz analogy many times to explain what goes on in the PBM world. We were the Wizard behind the curtain and our goal is to try and make the PBM business a lot less complicate for clients so they have a better understanding of what is going on.

CEOCFO: ***What is ahead for Innovative Rx Strategies?***
Mr. Staab: We continue to grow our business and focus on the self-insured employer market. We have also done more work with TPAs because we understand that TPAs for a long time have been “cash cows” for PBMs. We also do some work on the health plan side as well. We will continue to grow our business and add people, particularly on the account management and client services side to make sure we are delivering the value our clients are looking for from Innovative Rx Strategies. At the end of the day, it is really Greg and me they are hiring for the expertise we can provide to obtain the best possible pricing and negotiate the best possible PBM contract for a client.