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Scaling the Limits of Scale: The PBM Path to Value-Based Healthcare

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By [Stephen E. Littlejohn](#) [1]

Scale has its limits, as the nation's two largest pharmacy benefit managers (PBM) are discovering. Express Scripts and CVS Caremark each process more than a billion prescriptions a year. That is not enough for big customers Anthem and Aetna. Both are likely to alter dramatically or not renew long-term contracts set to end in 2019 with the PBM behemoths.

PBM Optionality for Anthem, Aetna

[Anthem](#) [2] and [Aetna](#) [3] say they now have "optionality" because Cigna and Humana, which they are respectively acquiring, both have PBMs. That optionality goes well beyond the scale Aetna would enjoy as the fourth largest PBM. It can put the pharmacy benefit, integrated within each organization, on the path to value-based health care.

Both the Humana and Cigna PBMs align well with the quality and outcomes focus of value-based health care. [Humana's PBM](#) [4] primarily supports the company's Medicare Advantage (MA) and Part D programs, with MA accountable care arrangements [delivering better outcomes](#) [5] than traditional Medicare.

Meanwhile, [Cigna](#) [6] has pioneered outcomes-based reimbursement arrangements with pharmaceutical manufacturers. Previously overseeing Cigna's PBM was none other than [Aetna CEO Mark Bertolini](#) [7]; Cigna CEO David Cordani will serve as chief operating officer of the new Anthem.

In their sights is UnitedHealth Group (UHG), which [brought its PBM business inside](#) [8] from Medco at the start of 2013, triggering Express Scripts' anticipatory acquisition of Medco in [2012](#) [9].

UHG says its OptumRx PBM focuses "[on connecting total condition spend and pharmacy's impact across benefits](#) [10]," a process it calls "synchronization."

More explicitly than Anthem, [Aetna has said](#) [3] it will integrate Humana's PBM, along with its "[growing health care services business](#) [11]," even characterizing it as an "[Optum-like business](#) [12]."

Value beyond Scale

UHG's [Catamaran acquisition](#) [13] earlier this year, while adding scale, also significantly included Catamaran's RxClaim

processing platform. OptumRx plans to integrate the adjudication platform with its medical and pharmacy claims synchronization. UHG promises to create value “beyond the scale ... resulting from integration,” by linking “demographic, lab, pharmaceutical, behavioral and medical treatment data” to encourage healthy decisions and improve compliance with pharmaceutical use and care protocols.”

In fact, the very tools used to leverage scale to get lower prices, such as formulary exclusions, can potentially work against reducing total costs. In securing a substantial discount from AbbVie for Viekira Pak, [Express Scripts](#) ^[14] excluded Gilead’s Harvoni from its 2015 formulary. Viekira Pak is a four pill a day regimen to Harvoni’s adherence-friendly one pill for curing hepatitis C.

Not surprisingly, given their focus on overall costs, Aetna, Anthem, UHG and Cigna all included Harvoni on their formularies and do not publish [exclusion lists](#) ^[15] like Express Scripts and CVS Caremark. Instead, they typically establish clinically based [prior authorization](#) ^[15] criteria.

For the latest high-cost drugs to hit the market, Express Scripts is following the health plans on their value path. Instead of excluding one of two new anti-cholesterol drugs, known as PCSK9 inhibitors and list priced at \$14,000 per year, [it announced coverage for both this week](#) ^[16].

As the health plans did with Harvoni, Express Scripts will implement rigorous prior authorization procedures. The company says it negotiated good pricing with Amgen for Repatha and with Sanofi and Regeneron Pharmaceuticals for Praluent, enabling it to cover both drugs. Perhaps it also heard from customers unhappy with price-driven drug exclusions.

Wanting More, Customers Become Competitors

Clearly, some very big customers – Aetna, Anthem and UHG – want something more than scale from traditional PBMs like Express Scripts and CVS Caremark. Beyond scale, they want a pharmacy benefit that contributes to reducing total costs through better outcomes, consistent with achieving overall [value-based](#) ^[17] [payment goals](#) ^[18].

Building PBM paths to value-based health care for themselves, Anthem, Aetna and UHG will also sell against volume-based models like those of Express Scripts and CVS Caremark, and against health plans that fail to integrate pharmacy and medical claims for actionable intelligence.

Employers and the Limits of Scale

Their strategy blueprint could easily have come from the [Harvard Business Review](#) article “[The Limits of Scale.](#)” ^[19] Hanna Halaburda and Felix Oberholzer-Gee argue that, when rapidly scaling companies neglect to take into account differences

among their customers, performance declines. On that premise, they suggest how challengers and incumbents can take advantage of customer differences.

Among PBM customers with differences are employers, which provide health coverage for [147 million Americans](#) [20].

The [National Business Coalition on Health](#) [21] is uneasy with the growing use of exclusionary formularies. It advises members to “base selection criteria for formularies on clinical outcomes to ensure that pharmaceutical costs do not decrease at the expense of rising medical costs.”

Employers are becoming [more actively engaged](#) [22] in managing the pharmacy benefit, even developing their own formularies and negotiating directly with pharmacy retailers. [Caterpillar’s Daren Hinderman](#) [23] told an NBCH panel last year, “I don’t want to have a conversation [with PBMs] on rebates; I want to have a conversation on how I can keep my employees more compliant with medications they need to stay healthy. We decide what’s best for our employees. It’s a transparent process.”

NBCH also urges members to “verify that pharmacy and medical benefits are aligned, and link data between the two in order to evaluate cost and outcomes across both types of benefits and the entire health-care spectrum, not just through the lens of pharmacy.” As Dr. Mark Fendrick of the [University of Michigan Center for Value-Based Insurance Design](#) [24] told the [NBCH panel](#) [23], “I’d prefer to spend more on statins than on stents.”

Obstacles on PBM Value Path

Mapping the PBM path to value-based health care is one thing, building it is another. Aetna and Anthem still must face a gauntlet of government and legal reviews before they can complete their acquisitions and commence integrating the Humana and Cigna PBMs.

OptumRx must complete its integration of Catamaran, which in turn is [still integrating the data platforms of its acquisitions](#) [25]. Furthermore, OptumRx and Catamaran both [use different versions](#) [26] of the RxClaim platform and, for Catamaran, medical claims synchronization remains down the road (or path).

Meanwhile, the Catamaran acquisition has roiled a PBM industry where many participants use Catamaran’s RxClaim platform – [including Cigna](#) [27]! They were content to compete with Catamaran, despite using its technology. However, will they be similarly comfortable with OptumRx and UHG in the technology driver’s seat?

Much like UHG’s acquisition of Catamaran and its technology, Rite-Aid did the same when it [acquired EnvisionRx](#) [28]. The PBM had previously [acquired Laker Software](#) [29], also a claims platform supplier for many PBMs. Again, the comfort question arises, in this case over Envision and Rite Aid as the drug retailer pursues its path to value-based health care via innovative alliances with health care providers.

Making the Laker and RxClaim platforms particularly valuable has been the PBM industry's reliance on a hodge podge of decades-old, antiquated platform technologies. With each acquisition, scaling PBMs have patched together instead of invested in their platforms to maximize short-term synergies, at the cost of limited flexibility and lower efficiency.

PBMs Miss Technology Revolutions

Meanwhile, [multiple revolutions](#) ^[30] have coursed through the systems development world since the PBM industry acquired its mainframes and data centers in the late 1980' – early 1990's.

When relational databases followed soon thereafter, PBMs adopted them for after-the-fact data analysis, but not broadly for real time use with claims processing platforms, which now are antiquated and fragmented.

More recently, graphical user interfaces have greatly streamlined the programming of business intelligence applications. It is now easier for more people, more efficiently to translate their expertise into innovative systems. No longer must visionaries exclusively funnel their solutions through highly specialized programmers and coders. Now, the visionaries' can become coders, their hands on the programming controls, unleashing new applications across the entire economy, including the PBM industry.

PBM Platform for Value-Based Health Care

One such visionary has developed a PBM solution for value-based health care. His name is Ravi Ika. "The solution is holistic, unlike that of any other existing PBM. It reduces overall pharmacy cost, converts specialty from 'buy & bill' to 'authorize and manage,' and lowers avoidable drug-impacted medical costs," explains Ika.

Before turning his attention to the PBM industry, he created a comprehensive, integrated payer platform now provided by [ikaSystems](#) ^[31], which he founded to transform the payer operating model. Spanning all payer departments and business lines, it decreased administrative costs for health insurers by as much as 50% and reduced avoidable medical costs.

In 2013, Ika launched [RxAdvance](#) ^[32], a full service PBM, which similarly operates on an integrated, end-to-end platform – one designed specifically for value-based health care. Combining pharmacy, medical, and lab data, the platform – called PBM Collaborative Cloud– enables real-time engagement. This engagement occurs with physicians at the point of care, pharmacists at the point of sale, and patients via mobile cloud. It also engages payers clinical and pharmacy staff through their workflows.

Better decisions by these stakeholders – driven by platform-generated, actionable intelligence – can reduce avoidable drug-

impacted medical costs, optimize utilization, facilitate better specialty drug management, and decrease overall pharmacy costs.

PBM Processes Reimagined

“We started with a clean slate,” observes Ika, who says he and his team reimagined PBM processes to streamline workflow before building the platform. Redefining the human role, they automated as much as possible while, on the other hand, increasing opportunities for engagement, what-if modeling, and informed decision-making. The platform also enables market and regulatory changes configurable by the business user, as well as system-driven compliance management.

Ika built the platform from the ground up using a [unified data model](#) [33]. In information technology parlance, that means the platform’s standards are universal enough to encompass a large scope of data and types of data with high scalability.

In PBM language, the platform includes everything from pharmacy claim adjudication, formulary management, benefit design, enterprise reporting and analytics, to pharmacy network and rebate contracting, medication adherence and therapy management, specialty management, transparency, compliance, and adverse drug event management.

From Existing to Ideal Formularies

For example, the platform includes algorithm-driven artificial intelligence to manipulate, with plan sponsor engagement, the complex and interdependent variables associated with formulary management. Incorporating habitual member and prescriber utilization patterns, in addition to other data, it derives an ideal formulary with optimal financial and clinical outcomes. The system then maps a transition plan from an existing formulary. The platform also accommodates an unlimited number of formularies and supports real time dynamic modeling and changes coupled with full transparency.

Better Medication Therapy, Adherence Outcomes

For medication therapy management (MTM), the platform taps patient medical claims and disease conditions, against which the system overlays a prescription listing for easy use by prescribers. In addition, each new prescription triggers a dynamic analysis to determine patient eligibility for a comprehensive medication review (CMR), which the system prepopulates for efficient prescriber use.

After the CMR, RxAdvance advisors rely on system alerts to intervene with patients to ensure medication adherence. For high-risk patients, RxAdvance will install an electronic, patent-pending [pill station](#) [34] at their residences and resupply it with disposable pre-filled pill trays.

Integrated with and wirelessly connected to the company’s

platform, the device assists with monitoring adherence and vital signs. The company says the device has improved adherence to more than 93%, including patients with multiple chronic conditions who are taking an average of 15 medications a day.

The Centers for Medicaid and Medicare Services (CMS) [recently underscored](#) ^[35] the PBM need for physician-led, point-of-care MTM capability when it announced a new Medicare Part D MTM model. Currently, highly fragmented PBM MTM relies on pharmacists “chasing” patients without closing the loop with prescribers, thus failing to secure meaningful health outcomes, according to Ika.

Ika points to the RxAdvance specialty management program as another example of his platform’s capabilities. As it does for MTM, the platform integrates prescriptions, medical claims and disease conditions to create an action plan for all stakeholders. Case managers use a dashboard to prioritize their outreach to patients, prescribers and pharmacists. Because the platform integrates medical, pharmacy and lab information, it helps facilitate appropriate utilization.

Risk Sharing

One of the hallmarks of an organization configured for [value-based health care is its ability to share risk](#) ^[36]. The RxAdvance unified data model platform enables it to share risk for both pharmacy and avoidable drug-impacted medical costs. For pharmacy, it is prepared to assume both up and down side risk based on its cost management performance against a risk cap set below a national benchmark projected increase.

The company can also compute a baseline trend for avoidable drug-impacted medical costs using prior years’ medical claims data. RxAdvance and its client then set a target and, if the PBM lowers actual avoidable drug-impacted medical costs, it will share in the savings. According to Ika, this sort of risk sharing is unique in the PBM market.

Ika reports that RxAdvance is currently implementing full PBM services for three clients, replacing national PBMs. “The Collaborative PBM Cloud platform is making for a very smooth launch,” he notes.

RxAdvance has gotten a head start along the PBM path to value-based health care, scaling the limits of scale.

Stephen Littlejohn is President of Climb the Curve Communications. He can be reached at selj@climbthecurve.com ^[37] and on Twitter [@ClimbtheCurve](https://twitter.com/ClimbtheCurve) ^[38].

This article was originally posted on his [website](#) ^[39].

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[3] <http://services.corporate-ir.net/SEC.Enhanced/SecCapsule.aspx?c=110617&fid=10297410>

[4] <http://marketrealist.com/2015/02/humana-rumored-making-move-pharmacy-business/>

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