

# **PBM Pricing Audits: Key Emerging Contract Practices and Protocols**

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# Learning Objectives

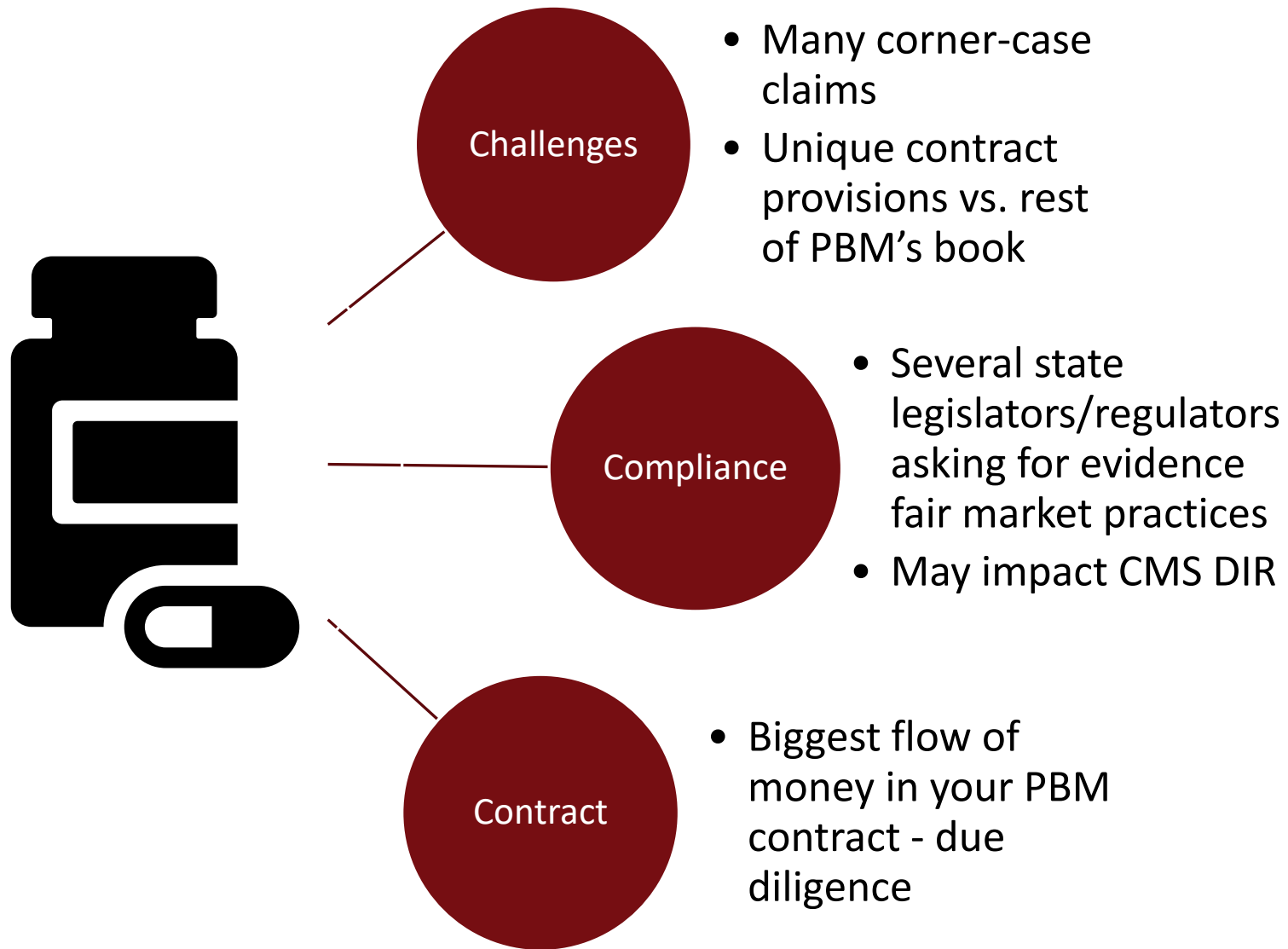
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- How is pricing typically structured (aka, what's in scope for a pricing audit)
- Claims pricing audit rights and practices
- What are the reasons I need to conduct a pricing audit?

# What does PBM claims pricing mean?

Channel	Typical Pricing Arrangements		
	Traditional (aka "Spread")	Transparent (generally required for government regulated programs)	Acquisition Cost (rare)
<b>Retail Network Discounts and Dispensing Fees</b>	<ul style="list-style-type: none"> <li>Fixed guaranteed discounts and fees; possible "spread" retained by PBM</li> </ul>	<ul style="list-style-type: none"> <li>Full pass-through of network discounts and fees</li> </ul>	<ul style="list-style-type: none"> <li>Full pass-through of network discounts and fees</li> </ul>
<b>Mail Order and Specialty Pharmacy Discounts and Dispensing Fees</b>	<ul style="list-style-type: none"> <li>Fixed guaranteed discounts and fees; PBM retains difference between acquisition costs and contracted plan sponsor discount</li> </ul>	<ul style="list-style-type: none"> <li>Fixed guaranteed discounts and fees; PBM retains difference between acquisition costs and contracted plan sponsor discount</li> </ul>	<ul style="list-style-type: none"> <li>Full pass-through of mail order and specialty pharmacy discounts and fees; may contain minimum guarantees and second reconciliation to actual acquisition cost</li> <li>Very high dispensing fees representing pharmacy profit</li> </ul>
<b>Pharmaceutical Manufacturer Rebates and Fees</b>	<ul style="list-style-type: none"> <li>100% pass through of rebates and price protection dollars; PBM typically keeps rebate admin fee</li> </ul>	<ul style="list-style-type: none"> <li>100% pass through of rebates and price protection dollars; PBM typically keeps rebate admin fee</li> </ul>	<ul style="list-style-type: none"> <li>100% pass through of rebates, administrative fees and other monies received by pharma</li> </ul>
<b>Administrative Fees</b>	<ul style="list-style-type: none"> <li>Usually no fees for most plan sponsors</li> </ul>	<ul style="list-style-type: none"> <li>Fixed dollar amount per paid claim or PMPM</li> </ul>	<ul style="list-style-type: none"> <li>Fixed dollar amount per paid claim or PMPM; this represents the PBM profit</li> </ul>





# Top Reasons to Conduct a Pricing Audit



# Typical Pricing Structure Overview

Every contractual claims pricing component should be reviewed, and there are typically 4 major components in-scope for health plan contracts.

Generally, 100% of claims must be reviewed to validate pricing guarantees.

Ingredient Cost Discounts vs. a Pricing Benchmark	Dispensing Fee Guarantees	Specialty Network Pricing	Other (usually) aggregate guarantees
<ul style="list-style-type: none"><li>• 99%+ use Average Wholesale Price, published by Medi-Span</li><li>• Claims generally have aggregate guarantees, though sometimes have per-claim guarantees (“locked in”)</li><li>• Rare models:<ul style="list-style-type: none"><li>• Acquisition Cost</li></ul></li></ul>	<ul style="list-style-type: none"><li>• Usually guaranteed as an average</li><li>• Generally different by channel (retail, mail, specialty, long term care, etc.) and claim type (brand, generic)</li></ul>	<ul style="list-style-type: none"><li>• Typically drug-level pricing guarantees</li><li>• Typically also an overall, aggregate specialty guarantee</li><li>• Possibly:<ul style="list-style-type: none"><li>• New-to-market drug-level guarantees</li></ul></li></ul>	<ul style="list-style-type: none"><li>• Generic effectiveness rate</li><li>• Overall effective discounts</li><li>• Network-based guarantees</li><li>• Aggregate Inflation Protection</li></ul>
 <p>Medium chance of errors</p>	 <p>Lower chance of errors</p>	 <p>Higher chance of errors</p>	 <p>Higher chance of errors</p>

# Standard PBM Pricing Audit Rights

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- Include rights to audit 100% of claims (usually called a “claims audit”)
- Allow look-back period of 1-2 years from current plan year
- Allow for external vendors to conduct audits
- Initial delivery of information (30 days to deliver all audit data is standard)
- Response on up to 300 discrepancy samples (30 - 60 days to respond to all samples is standard)
- Formal report response (30 days to respond in writing is standard)

These important rights are all *standard*, so if your contract is silent or ambiguous on these terms, we suggest revising in future negotiation



# “Nice to Have” PBM Pricing Audit Rights

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- Timelines for when a PBM will produce the prior plan year’s pricing reconciliation (sometimes called net effective discount (NED) reporting) – ideal is 45 days after Q4
- Rights to a claim-by-claim *inclusion/exclusion file*, so you know exactly how claim was categorized for pricing reconciliation
- Rights to validate 100% of reimbursements (not just a sample) from PBM to each pharmacy (if your pricing arrangement is a pass-through/transparent pricing structure)

# Pricing Audit Finding Examples

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Typical findings (generally each of these errors will mean >\$50,000 impact for a client with 100,000 lives)

- Failure to account for custom specialty lists, custom network pricing, or custom “anything”
- Failure to to remit payment for all or part of the final reconciliation
- Games PBMs continue to play in reconciliation
  - PBMs reclassifying SSGs as Brands
  - PBMs counting claims as “included” for reconciliation but not invoicing for rebates (340B games)
- These terms won’t mean the same thing to you and the PBM – be more specific than:
  - “within a reasonable timeframe,” “according to industry standards,” “rounded to standard accuracy,” (many more examples)

# Examples – Plan A

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## Pricing setup

- Retail Brand discount shortfall was calculated by auditors as \$148,500.30. PBM reported a shortfall of \$0.00 for this category. This variance is due to inclusion by PBM of multisource brand claims processed under MAC pricing logic.

## Identified findings

- In this case, the client's contract contained seemingly benign, but poor language re: MAC claims. Specifically, it stated Brand Drugs are defined as all claims that adjudicate at a Brand cost share logic. This permitted the PBM to apply MAC pricing to MSB claims, generally including the claims in the Retail Brand category (allowing the PBM to more easily achieve the RB guarantee).

## Resolution

- Client revisited contract language with the PBM in the next negotiation cycle.

# Examples – Plan B

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## Pricing setup

- Plan B had significantly customized Specialty drug lists, created in tandem between the health plan's pricing department and the PBM's pricing departments, along with custom input on drug rebate invoicing.

## Identified findings

- Ongoing changes to Specialty rates were not always programmed into the PBM systems timely, causing a delay (or errors) in implementing Specialty pricing.
- Certain claim types were included in pricing reconciliation but were not invoiced for rebates. Further investigation confirmed the products were considered 340B for rebate invoicing but not for pricing reconciliation. (Bigger industry issue: perhaps the PBM has negotiated 340B deals with pharmacies without the health plan's knowledge...)

## Resolution

- PBM pays out for each drug-level failure to implement custom Specialty pricing timely
- Health plan synchronizes language for including/excluding claims for pricing reconciliation and rebate invoicing

# Claims Pricing Administration - Best Practices

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Lessons learned from hundreds of pricing audits

- All master agreements (and amendments) must be retained
  - Keep those participating group (your downstream client) agreements too
  - Email can document intent – but don't lose the emails
- Develop automated (or semi-automated), at least quarterly monitoring of key contract terms
  - If you have custom programs or lists or networks of any kind, focus your monitoring efforts there first
  - Seemingly simple ideas can quickly become difficult to monitor if you have downstream groups (example – if each employer client has their own price points, now you have hundreds of price points to monitor)
  - Closely monitor specialty lists and ongoing changes – an addition or removal of a drug (or delay of adding a drug to the list) can very quickly add up to significant financial impact
- Remember that pricing reconciliation is different than day-to-day adjudication – so you should still do audits!

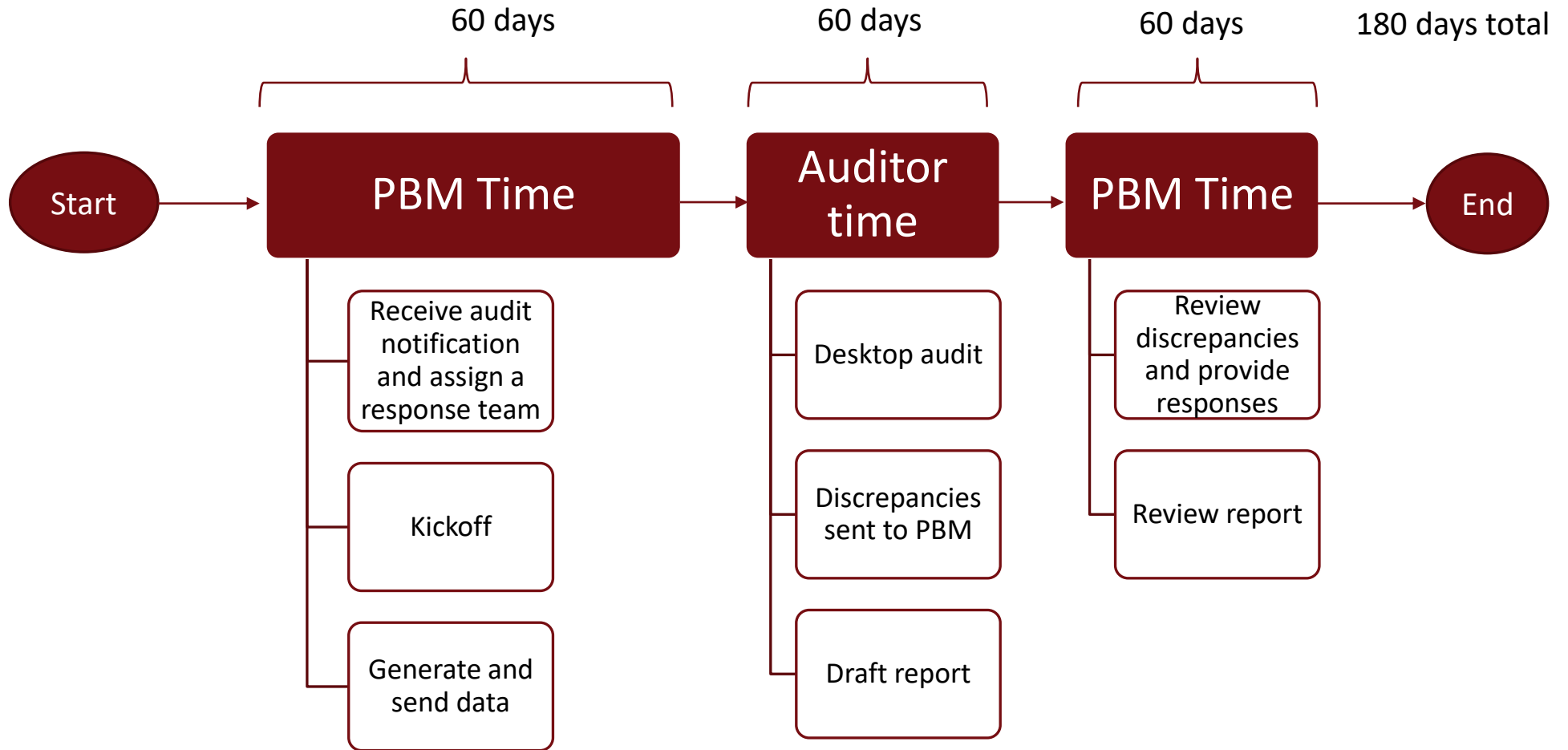
# Unexpected Events - Best Practices

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How does your contract protect against unexpected events (like the current pandemic), and how do you monitor contract compliance during these events?

- Review your force majeure clauses, >10% change in channel or utilization mix, drug shortage exclusions
- Think about the impact to mix (shortages may cause MAC to lift), whether UM restrictions are relaxed, etc.
- Utilization changes - make sure no games being played in COVID medications
- Shift to mail and R90
- Shortages manifesting as compounds

# Pricing Audit Process – Typical Timeline



# Open Questions & Our Contacts

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Please fill out the survey to tell us what else you want to know about!

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