



THE BURCHFIELD GROUP

Our Expertise. Your Benefit.SM

PBM Rebate Audits

Securing the Full Value of Manufacturer Discounts

About The Burchfield Group



THE BURCHFIELD GROUP

Our Expertise. Your Benefit.™

Discussion Leaders

Derek Frye

Practice Lead – Audit and Compliance

Craig Oberg, RPh

Managing Consultant – Key Markets



Learning Objectives

Recognize the Evolution of PBM Rebates and their Contribution to Plan Savings

Understand the Rebate Guarantees in Your PBM Contract

Differentiate Between a Rebate Validation and a Rebate Audit

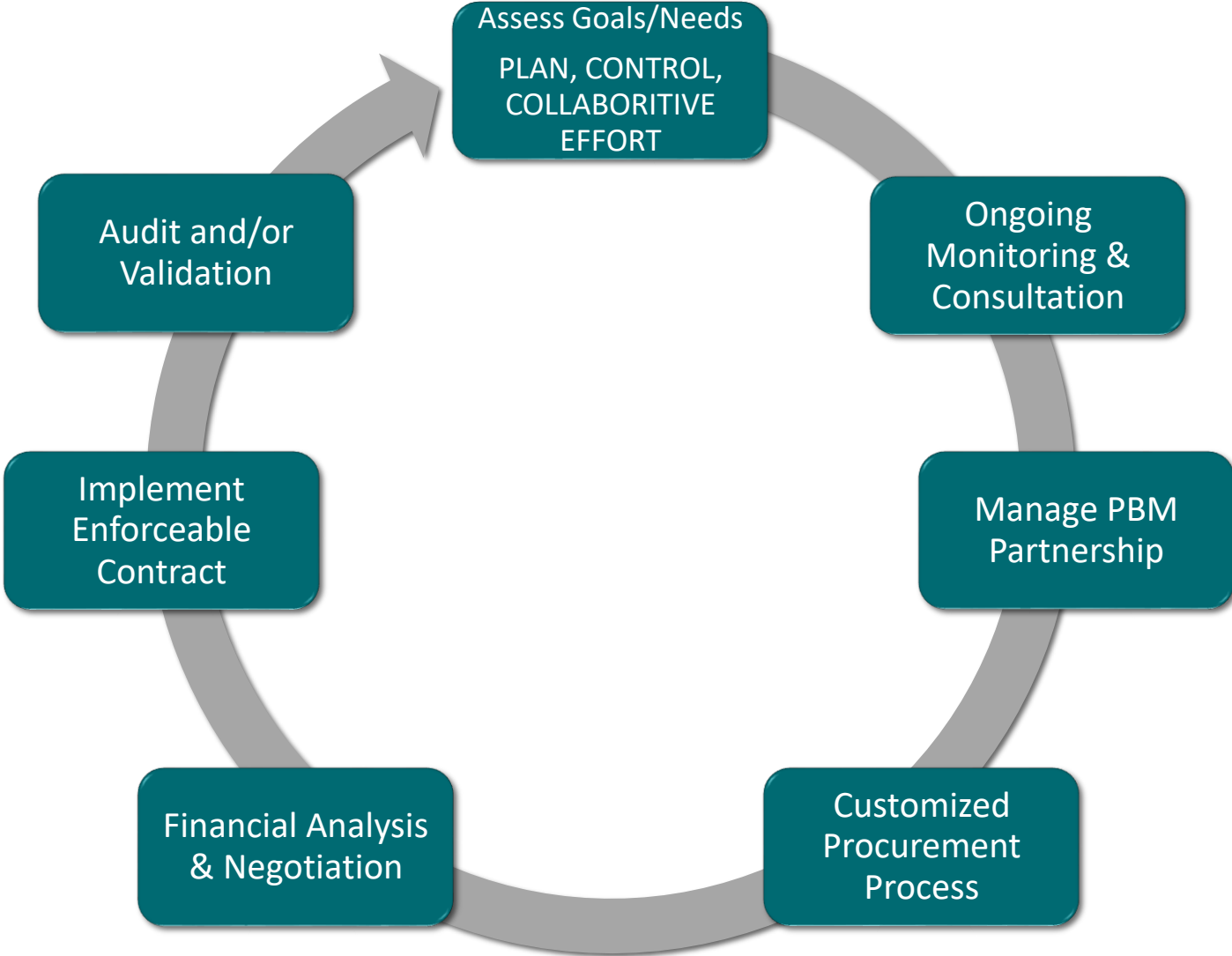
Describe the Components of a Successful PBM Rebate Audit

Anticipate Potential Findings of a Rebate Audit

Incorporate a Rebate Audit into Comprehensive Plan Management Strategy



PBM Vendor Lifecycle and Oversight



Evolution of PBM Rebates

- A Rebate is an *earned* discount
 - Paid by the pharmaceutical manufacturer and distributed by the PBM
- Manufacturers provide additional discounts only on brand and specialty medications
 - Rebate volume determined by a plan's product mix, compliance to PBM formulary, market share, etc.
- Total rebate dollars have grown significantly
 - January 1, 2012 CVS/caremark excluded large number of brand products from formulary
 - Strengthened PBM's negotiating position with savings passed back to clients
 - 'Price Protection' programs part of rebate savings
- Rebates are significant component of financial arrangement with PBM
 - Contributes \geq 20% of all savings
 - Rebates exceed member contribution as a tool for reducing plan costs



Rebate Guarantees

- It all begins with your contract!
- Contractual rebate guarantees reflect what was negotiated with PBM during your PBM procurement process
 - Multiple structures exist
 - Two-tier guarantee is common; percentage share *plus* minimum guarantee based on claims
- Comparing PBM rebate payments against minimum guarantees is a Rebate Validation
- The ONLY way to determine if PBM is meeting percentage guarantee is a Rebate Audit
- Strategies exist to apply rebates at point-of-sale (POS)
 - Plan design will determine who will benefit – member or plan
 - POS rebates must incorporate an ‘true up’ process – this can be audited
- Design these to protect against PBM using rebates to offset shortfalls in other guarantees



Rebate Validation & Rebate Audit Process

Rebate Validation

A comparison between rebate payments received from your PBM and minimums guaranteed.

Includes:

1. Your Rx claims data, PBM contract, and rebate payment reports.
2. A desktop review to determine, based on your Rx claims data and the guaranteed minimums in your PBM contract, how much rebate collections you should have received.
3. A comparison from step 2 against what you did receive.

Rebate Audit

A three-part comparison: what rebate amounts the PBM invoiced the manufacturer(s), the amounts they *should have* invoiced, and the actual amounts collected and disbursed to you from your PBM.

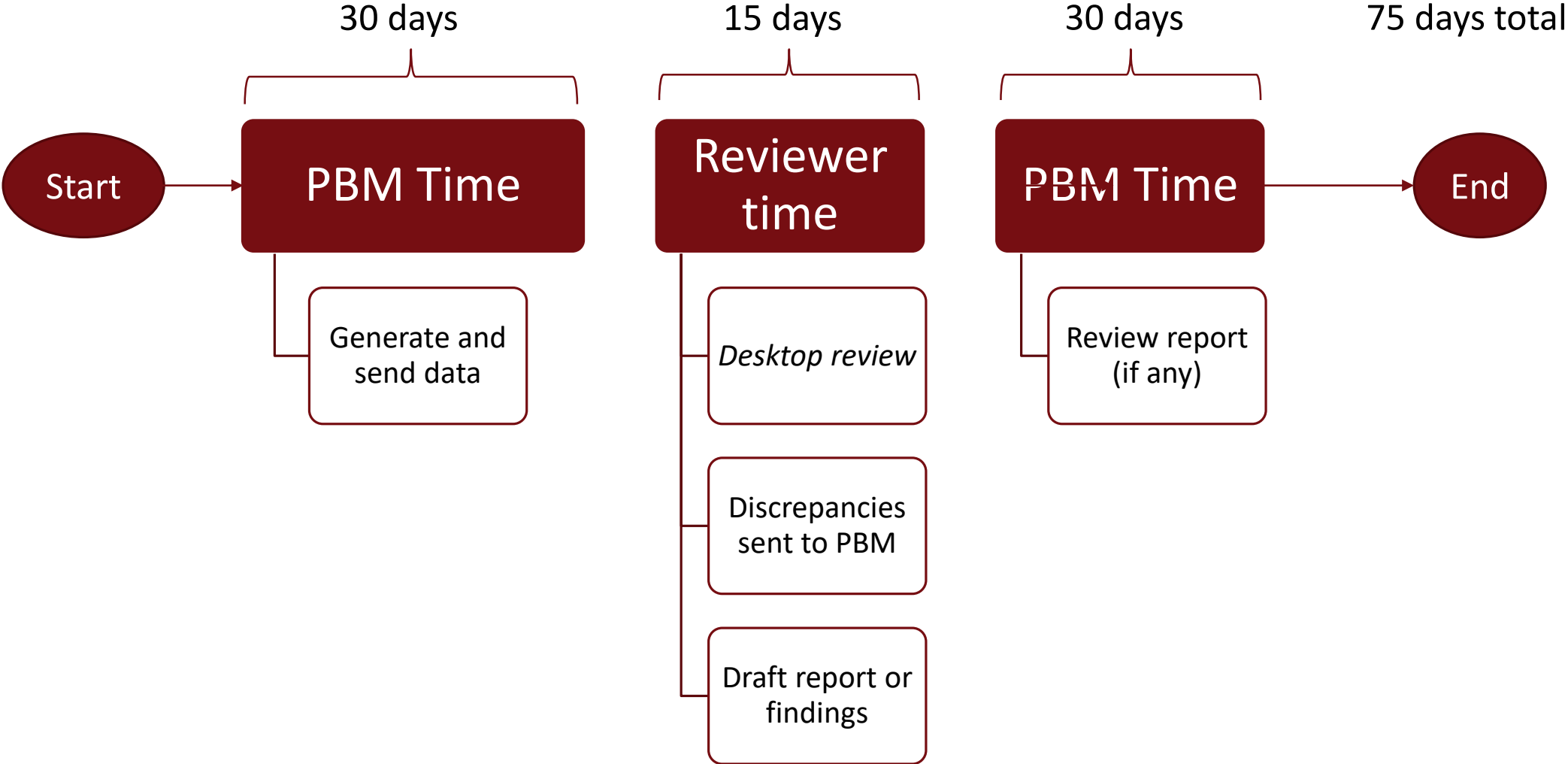
Includes:

1. Your Rx claims data & PBM contract
2. Selecting which manufacturers to audit in-depth.
3. Your auditor going onsite to the PBM's location to review & independently reinterpret how much each manufacturer should have been invoiced on your behalf.
4. A report noting (1) where manufacturers should have been invoiced more or less than what the PBM invoiced, and (2) where you are entitled to more or less than what you received.



Rebate Validation Process – Timeline

Not an audit necessarily...



Rebate Audit Process – Scope

Audits are usually scoped by the percentage of rebates under review

50%

- Usually 5 manufacturers for two – four quarters of rebate invoicing
- Example: Top 5 manufacturers for Q1 & Q2 2017, or Q1 – Q4 2017
- Economical way to start

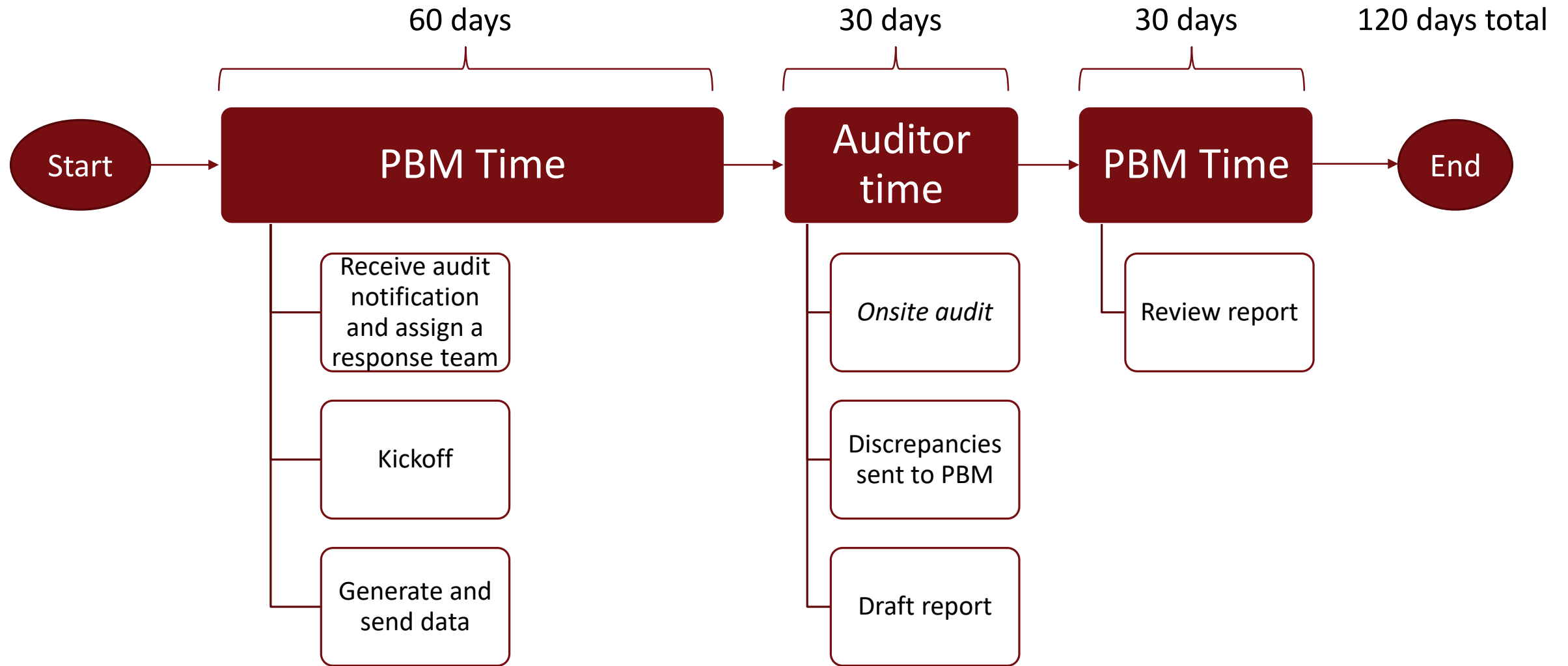
70%

- Usually 10 manufacturers and four quarters of rebate invoicing
- Best practice – include a few “big” pharma & “specialty” pharma

85%

- Usually 15 manufacturers and four quarters of rebate invoicing
- Most In-depth if you suspect issues
- Your PBM will almost *never* allow more manufacturers to be reviewed.

Rebate Audit Process – Timeline



Potential Rebate Audit Findings

Typical findings

- Approximately 60% of the rebate audits we conduct identify collectable (\$\$\$ impact) findings

Top errors observed in Burchfield's onsite rebate audits

1. Failure to invoice at the correct rate - disadvantage status errors (occurs in approx. 40% of audits)
 - These errors may be worth a few hundred dollars to millions of dollars, depending on the severity
2. Failure to use the correct formulary errors (occurs in approx. 20% of audits)
 - These errors may be worth a few hundred dollars to millions of dollars, depending on the severity
3. Failure to invoice at the correct rate - price protection errors (occurs in approx. 10% of audits)
 - These errors may be worth a few hundred dollars to thousands of dollars, depending on the severity
4. Reporting errors (occurs in approx. 10% of audits)
 - These errors do not typically result in collectable findings (except in the cases of performance guarantees)



Comprehensive Audit Strategy



Learning Objectives

- ✓ Recognize the Evolution of PBM Rebates and their Contribution to Plan Savings
- ✓ Understand the Rebate Guarantees in Your PBM Contract
- ✓ Differentiate Between a Rebate Validation and a Rebate Audit
- ✓ Describe the Components of a Successful PBM Rebate Audit
- ✓ Anticipate Potential Findings of a Rebate Audit
- ✓ Incorporate a Rebate Audit into Comprehensive Plan Management Strategy



Key Messages

1. Rebates do not have to remain the “black box” of your PBM contract
2. PBM Rebates now account for very large portion of overall plan savings
3. The only method to assure your plan is receiving the full value of manufacturer discounts is to complete a PBM rebate audit
4. Benefit plans will be subject to greater internal and potential external review
5. A comprehensive audit strategy – including rebate audits – is the cornerstone for documenting financial performance of your PBM partner



Thought of the Day

*“We cannot solve our problems
using the same thinking
we used when we created them.”*

Albert Einstein



Contacts

Survey: <http://bit.ly/RebateAuditJan2018>

Craig Oberg, RPh

Managing Consultant – Key Markets

coberg@burchfieldgroup.com

(651) 389-5666

Derek Frye

Practice Lead – Audit & Compliance

dfrye@burchfieldgroup.com

(651) 389-5673

Website: www.burchfieldgroup.com

