

# Taking the “Double Stuff” out of the Rx Cookie

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**A**re your clients on a fiscal benefits diet? Would they like to be? Before making any drastic plan changes, why not consider taking the “Double Stuff” out of their prescription drug coverage?

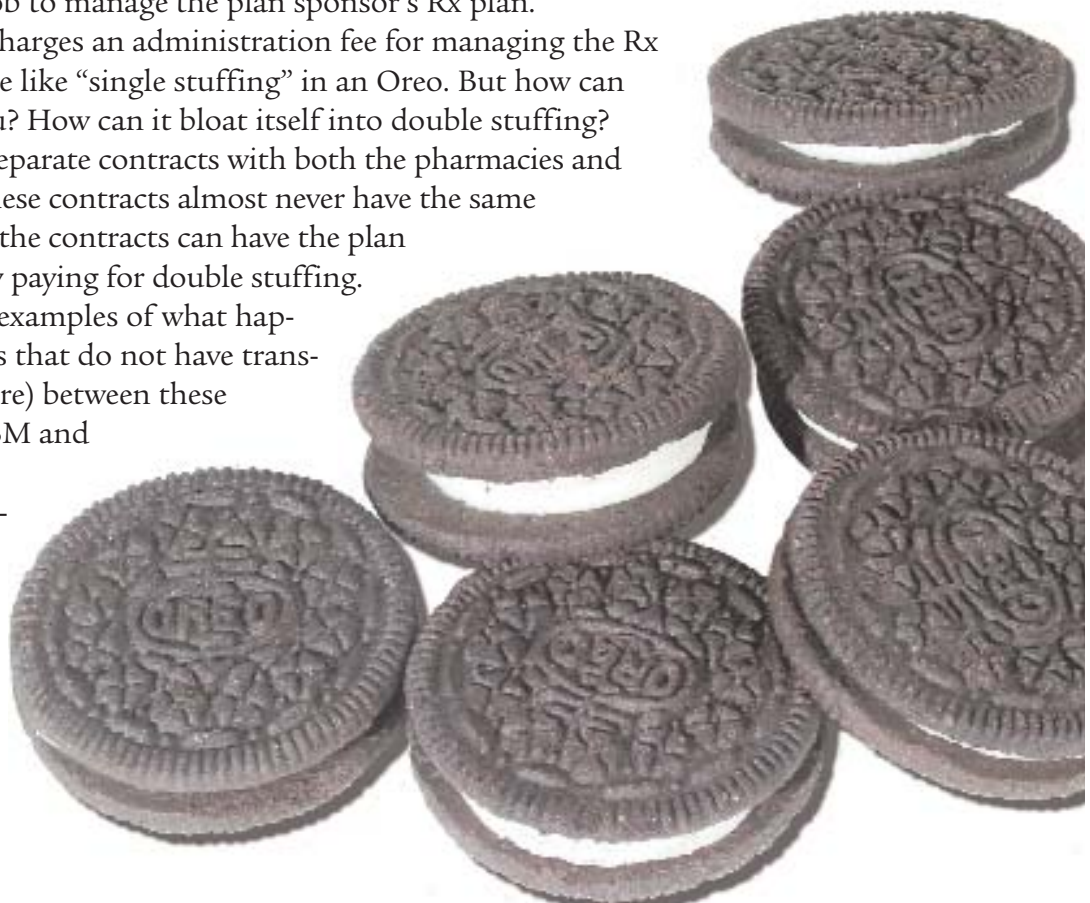
Unfortunately, the current financial model sold to most health plan sponsors is based on the configuration of a double-stuffed Oreo cookie. It is easy to fix once you understand how the cookie is stuffed and can find a vendor that has transparent contracts with both the plan sponsors and the pharmacies.

On one side of the cookie is the plan sponsor. On the other side are the drug manufacturer and the drug dispensing facility. In the middle is the pharmacy benefit manager. It's the PBM's job to manage the plan sponsor's Rx plan.

The PBM usually charges an administration fee for managing the Rx plan. Consider it to be like “single stuffing” in an Oreo. But how can that work against you? How can it bloat itself into double stuffing?

Many PBMs have separate contracts with both the pharmacies and the plan sponsors. These contracts almost never have the same terms. In some cases, the contracts can have the plan sponsor unknowingly paying for double stuffing.

Let's look at some examples of what happens with most PBMs that do not have transparency (full disclosure) between these two contracts (the PBM and the pharmacy). To understand the examples, we must first understand how most drugs are purchased by participants in group Rx plans in the U.S.



- The doctor gives a drug plan participant a prescription.
- The drug plan participant takes the prescription and PBM drug card to a pharmacy or uses mail order.
- The pharmacy checks with the PBM to verify the participant's eligibility and plan design.
- The PBM approves of the claim and returns price and co-pay data.
- The pharmacist charges the participant whatever co-pay the plan stipulates.
- The pharmacist charges the PBM the balance owed.
- The PBM sends its version of the charges to the plan sponsor for the drugs, fill fee and admin fee.
- Manufacturer-sponsored rebates may or may not be returned to the plan sponsor by the pharmacy benefit manager.

First, we will look at both sides of a common brand-name drug transaction using Lipitor.

**For a 30-day supply of Lipitor 10 mg.,  
Avg. Wholesale Price (AWP) = \$63.00**

**What the Pharmacy Got Paid**

Contract Terms of Participating Pharmacy:  
(AWP - 15%) + Fee of \$1.50

**Amount Approved to Pharmacy Before Co-pay**

(\$63.00 - 15%) + \$1.50 = \$55.05

After \$25 Co-pay = \$30.05

46%/54% Participation

**What the Plan Sponsor Is Charged**

Contract Terms of Sponsor:

(AWP - 13%) + Fee of \$2.50

**Reported to Sponsor** (\$63.00 - 13%) + \$2.50 = \$57.31

After \$25 Co-pay = \$32.31

44%/56% Participation

Don't forget "r" word here (rebates)

- Potential access fee of \$2.26 on each Lipitor Rx each month
- Approximate rebate on claim = \$5.04
- Potential profit to PBM in addition to administration fee is \$7.30 for each Lipitor claim

In this example, the pharmacist was paid \$30.05 while the plan sponsor was charged \$32.31. This was done by having different discounts from average wholesale price (AWP) and charging a higher fill fee to the plan than what was paid to the pharmacist. The plan sponsor is not receiving any return of its rebates and the potential profit to the PBM on every sale of Lipitor is \$7.30.

This is a very common financial model and the reason that plan costs are going up and pharmacists are reporting smaller margins. The PBM is getting the "double stuffing" in the middle.

Now look at both sides using an example with a common generic drug transaction:

**Ranitidine (generic for Zantac)  
150 mg. #60**

**What the Pharmacy Got Paid**

Contract Terms of Participating Pharmacy: (AWP - 30% **or** the MAC price whichever is less) + Fee of \$1.50  
(\$109 - 30%) + \$2.00 = \$78.80 @ AWP

MAC Price amount is .20 x 60 + \$2.00 = \$14.00

**Amount Approved to Pharmacy Before Co-pay is the MAC Amount of \$14.00, not the AWP**

After \$10 co-pay is applied = \$4.00

71/29% Participation (10/14)

**What the Plan Sponsor Is Charged**

Contract Terms of the Sponsor:

(AWP - 30%) + Fee of \$2.50

(\$109 - 30%) + \$2.50 = \$78.80 Potential

**Reported to Sponsor: AWP -30% + fill fee = \$78.80**

After a \$10 co-pay is applied = \$68.80

12/88% Participation (10/\$78.80)

- Potential access fee of \$64.80 per generic Zantac (Ranitidine) per month
- Approximate rebate on claim = \$0
- Potential profit to PBM in addition to administration fee is \$64.80

In this example, the plan sponsor has an average wholesale price discount contract with the PBM. It is AWP less 30%, which is good. But the PBM has a contract with the pharmacist that is either an AWP discount contract or a maximum actual charge (MAC) contract. And since the MAC contract price is always far less than the AWP price, the PBM pays the pharmacist the MAC price and charges the plan sponsor the AWP price. This is in addition to charging an administration fee.

In *The Green Mountain Eyeshade* (Vol. 1, Issue 2, 2004), the Vermont state auditor, Elizabeth M. Ready, cites an example where her state was charged \$8.49 for Ranitidine but the pharmacist received just \$4.02, resulting in a "double stuffed" profit of \$4.47 (111%) for the PBM.

This is what I mean by double stuffing the Oreo cookie. Unless a plan sponsor is working with a truly transparent pharmacy benefit manager—one that provides detailed reporting showing exactly which parties got paid what for the drug and all other fees and charges—it is impossible to both identify and remove the double stuffing from the cookie.

Following are some more examples of double stuffing that happen to the largest of organizations. One would think that given the size of these groups, and the fact that they are state and federal government agen-

cies, they would have the resources to eliminate or prevent these problems. Apparently they don't.

▀ On September 12, 2002, the Arkansas Division of Legislative Audit reported that the Department of Finance and Administration's Employee Benefit Division had contracted with a company called Aspect Enterprises Limited (AEL) since March 2000 to provide pharmacy benefits consulting services. AEL's fees were paid by the company they were supposed to be watching, AdvancePCS. The state then contracted with AEL directly for one dollar "to eliminate any appearance of conflict of interest." Obviously, the cook is paying the inspector to look the other way while the cookie is being made. (Source: Arkansas Division of Legislative Audit Special Report - Prescription Drug Plan)

▀ In Illinois, the poor elderly get a prescription drug benefit that many other senior Americans would envy. Patients in its SeniorCare program need pay only \$1 for generic drugs and \$4 for brand-name drugs. The state picks up the rest of the tab, up to an annual limit of \$1,750, after which the participating senior pays 20% of the price.

But under Express Scripts' management, the participants' \$1,750 annual ceiling for fully covered drugs turned out, in some cases, to be hundreds of dollars less. For example, in January, 76-year-old Olive White filled an asthma prescription. She paid \$1 for two albuterol inhaler canisters. Express Scripts paid her drugstore \$24. (Albuterol inhalers cost drugstores \$4 to \$10 each.) But Express Scripts charged Illinois \$33 for the prescription, keeping \$9 for itself, for a 38% markup on what it paid the drugstore.

All told, Express Scripts charged the state more than \$180 above what it paid Ms. White's pharmacy for her prescriptions from July 2002 to January 2003. Her daughter discovered the difference when she tried to pick up one of her mother's prescriptions for \$1, but the pharmacist said she owed 20% of the price instead. He added that Ms. White would have to keep paying 20% of her costs through the fiscal year that ends Monday. When Ms. White's daughter told the pharmacist that she was sure her mother hadn't hit her limit, the pharmacist produced a list of the prescriptions her mother had filled. Indeed, it came out to only \$1,570. When Ms. White called Express Scripts, the company provided her a list with the same drugs, but the total amounted to about \$1,750. In this example, the taxpayers and the card holders are paying for the "Double Stuffing" that Express Scripts Inc. is enjoying. (*Wall Street Journal*, Barbara Martinez, June 30, 2003)

▀ On December 11, 2003, the New York Times News Service reported that the Bush Administration said on December 10 that "it will monitor the prices of prescription drugs purchased by Medicare beneficiaries to ensure that they are not overcharged when they start using drug discount cards next June." The article goes on to state that "the sponsors of drug cards will be allowed to change their prices—and the list of covered drugs—on a weekly basis." To avoid price gouging and bait-and-switch tactics, Medicare, or as it is now known, CMS, will have to monitor this. Here the federal government acknowledges the opportunity for double stuffing in its own program. (Source: *The Baltimore Sun*, December 11, 2003.)

There are many things that affect the total cost of any prescription drug program. In order to remove the

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double stuffing that occurs in most pharmacy benefit plans, you must understand how each of the advisors and vendors are being compensated. You must understand the contracts that they have between one another as well as the contracts that they have with your client's organization.

A good place to start the analysis is to ask for a copy of the contract between the pharmacy networks and the pharmacy benefit manager. I strongly urge everyone to contact someone who clearly understands the issues and can help you construct a valuable and efficient pharmacy drug program that does not require you to pay for double stuffing in the Rx cookie. ■



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