

How Pharmacy Networks Encourage Competition and Promote Access

Plan sponsors hire PBMs to manage pharmacy benefits on their behalf. As part of the management of these benefits, PBMs assemble networks of retail and mail pharmacies so that the plan sponsor's members can fill prescriptions easily in multiple locations.

PBMs lower costs and encourage quality care by developing a network of retail pharmacies willing to accept discounted pricing in exchange for access to a plan's members.

- A PBM must establish a network of retail pharmacies so that consumers with prescription drug insurance can fill their prescriptions. Plan sponsors want members to have convenient access to pharmacies providing high quality service. A consumer with a prescription drug benefit plan must utilize a pharmacy that accepts payment for that plan. Therefore,
 - Retail pharmacies must compete to be part of the retail pharmacy network for a particular PBM or risk losing access to the consumer. Store-based retail pharmacies enter into contracts with a PBM to participate in the PBM's retail network and provide prescriptions to a plan's beneficiaries. A GAO study confirmed that PBMs reimburse pharmacies at levels below cash-paying customers, but above the pharmacies' estimated drug acquisition costs.¹
 - A consumer's out-of-pocket costs and co-payments are typically identical regardless of which pharmacy in the network dispenses the prescription. Therefore, network pharmacies compete on service, convenience, and quality to attract consumers within a particular plan.

PBMs offer their clients a choice of more selective networks as a way to reduce costs further.

- A more selective network provides the plan sponsor with the greatest degree of economic control over prescription fulfillment. A pharmacy will offer bigger discounts or a lower dispensing fee to be in a more exclusive network because each pharmacy in the network will fill a larger percentage of prescriptions for the plan.
- Plan sponsors must balance the access and availability of pharmacies against a higher level of discounts achieved by a smaller network. The network must be sufficient to maintain access but selective enough to garner the necessary discounts.

Consumers using a pharmacy in a PBM's network can have their claim processed almost instantaneously.

- As the claim is adjudicated, PBMs also perform drug utilization review (DUR) to alert the pharmacist to any harmful drug interactions. PBMs are often the only entity with complete information on a patient's medications—particularly when enrollees are prescribed medication by more than one physician or fill prescriptions at different pharmacies.

Pharmacy networks reduce costs because PBMs can screen pharmacy claims for fraud, waste, and abuse.

- Approximately 1 percent of prescription drug costs result from fraud, waste, and abuse. Typical fraud, waste, and abuse detected prior to a claim being paid include prescription claims submitted with the improper quantity, improper days supply, improper coding, duplicative claims, and other irregularities.
- PBMs detect pharmacy fraud, waste, and abuse by screening and auditing prescription claims for common errors, irregular information, and suspicious patterns over time. Claims are compared with historical information as well as claims submitted by similarly situated pharmacies. Substantial changes in the volume of claims or the dollar amount of claims from particular pharmacies can indicate fraudulent activity.

¹ *Federal Employees' Health Benefits: Effects of Using Pharmacy Benefit Managers On Health Plans, Enrollees, And Pharmacies*, General Accounting Office, GAO-03-0196.