

# Negotiation Skills for Driving PBM Contract Savings

FEBRUARY 20, 2025

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# CPE Slide Placeholder

- ▶ Bullet 1
- ▶ Bullet 2
- ▶ Bullet 3

# Agenda



Introduction



Discussion



Q&A

# With You Today



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# Learning Objectives



Describe the PBM value chain



Identify areas of savings in PBM contracts



Apply negotiation tactics for PBM contracts

# Discussion



# Current Rx Landscape

## What is a PBM?

Pharmacy Benefit Managers (PBMs) are third party companies that function as intermediaries between insurance providers and pharmaceutical manufacturers.

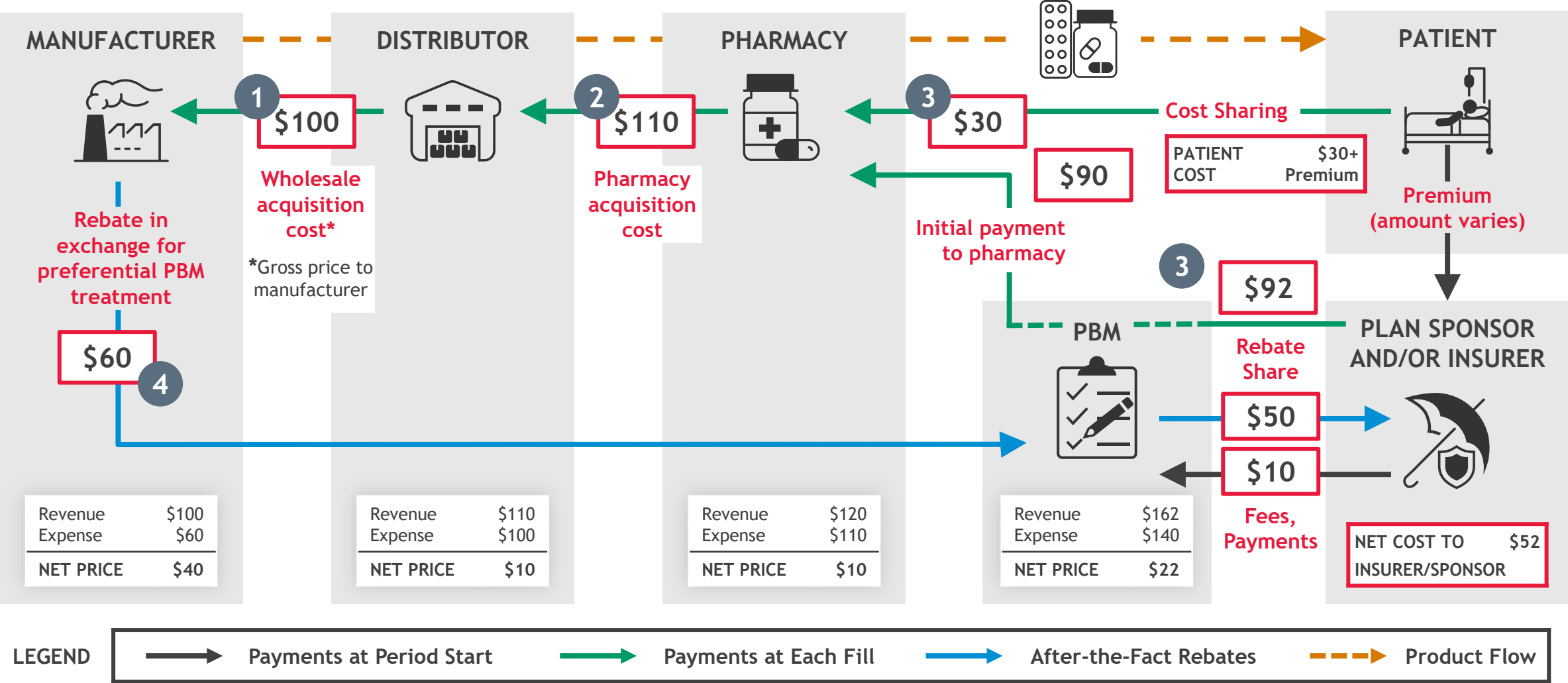
## How do PBMs make money?

PBMs negotiate discounts with drug wholesalers based on overall buying power and negotiate drug rebates from manufacturers in exchange for placement on the PBM's formulary (list of covered drugs). The PBM passes a portion of those discounts and rebates to the health plan, provider, or employer group and retains the difference as profit. The PBM also receives administrative fees from the health plan or employer group.

YEAR	TOTAL HEALTHCARE SPEND (\$T)	Rx SPEND (\$B)	PERCENT OF TOTAL	Rx TREND
2021	4.3	576.9	13.4%	NA
2022	4.5	633.5	14.1%	9.8%
2023	4.9	722.5	14.7%	14.0%

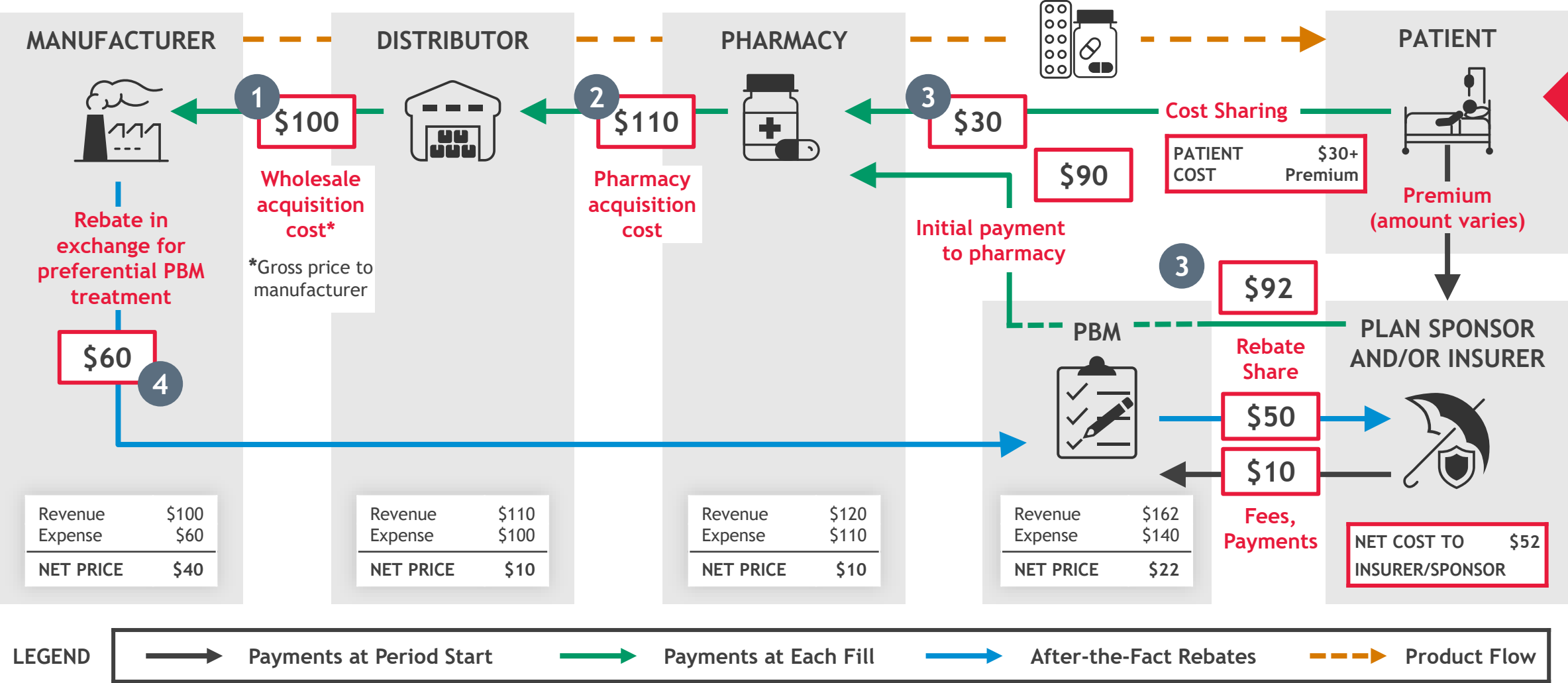
Source: NIH and Kaiser Family Foundation

# Pharmacy Value Chain

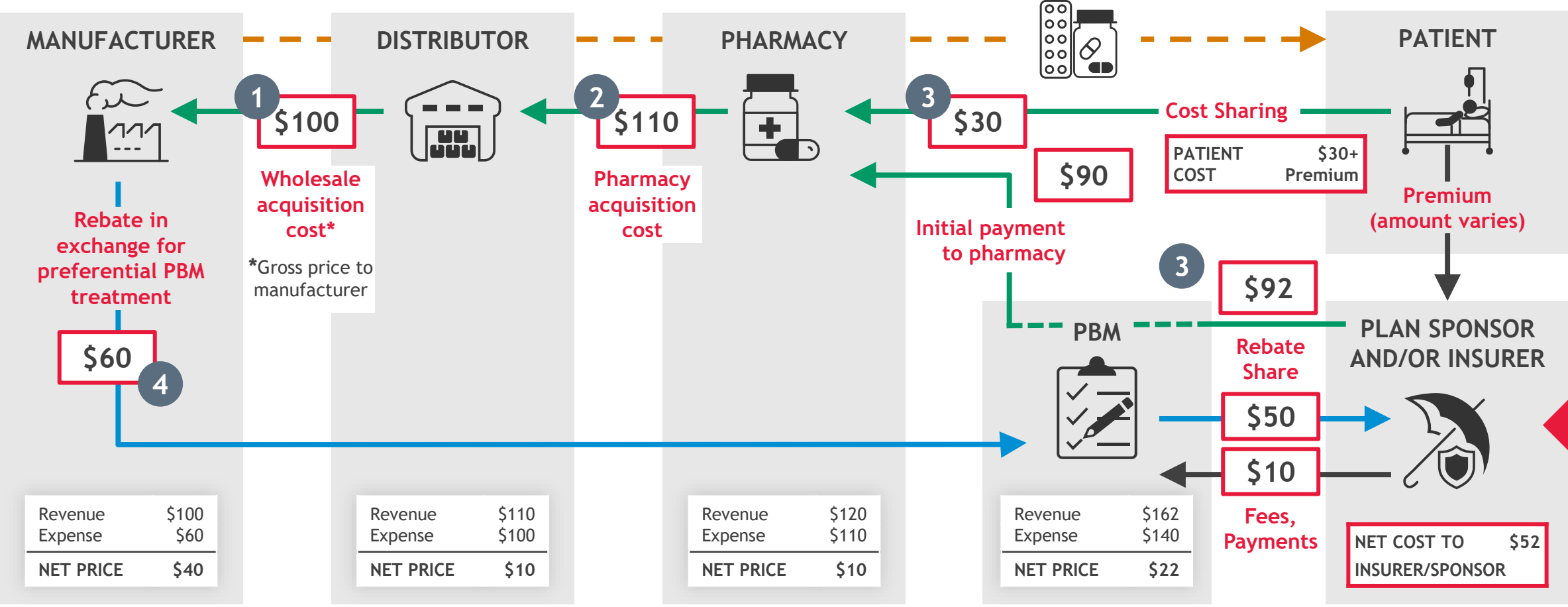




# Pharmacy Value Chain

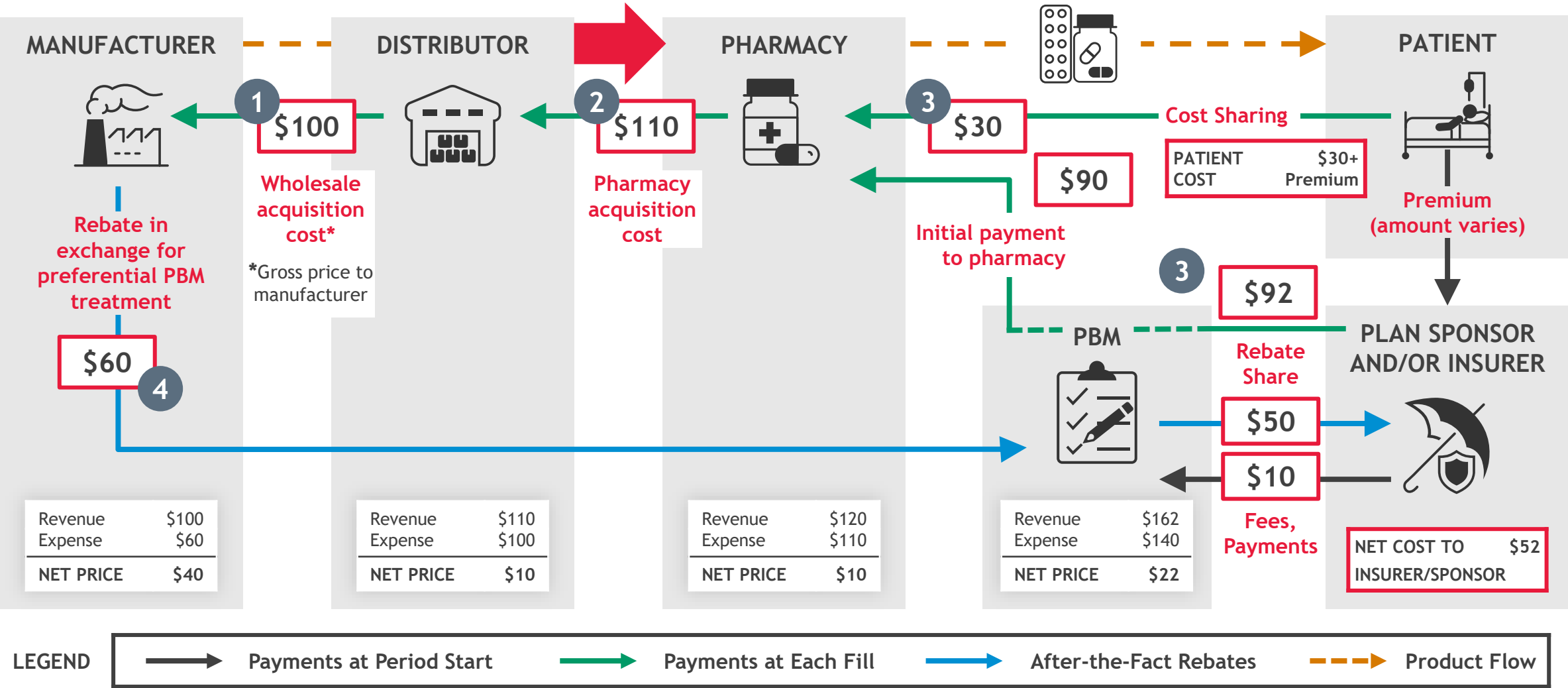


# Pharmacy Value Chain

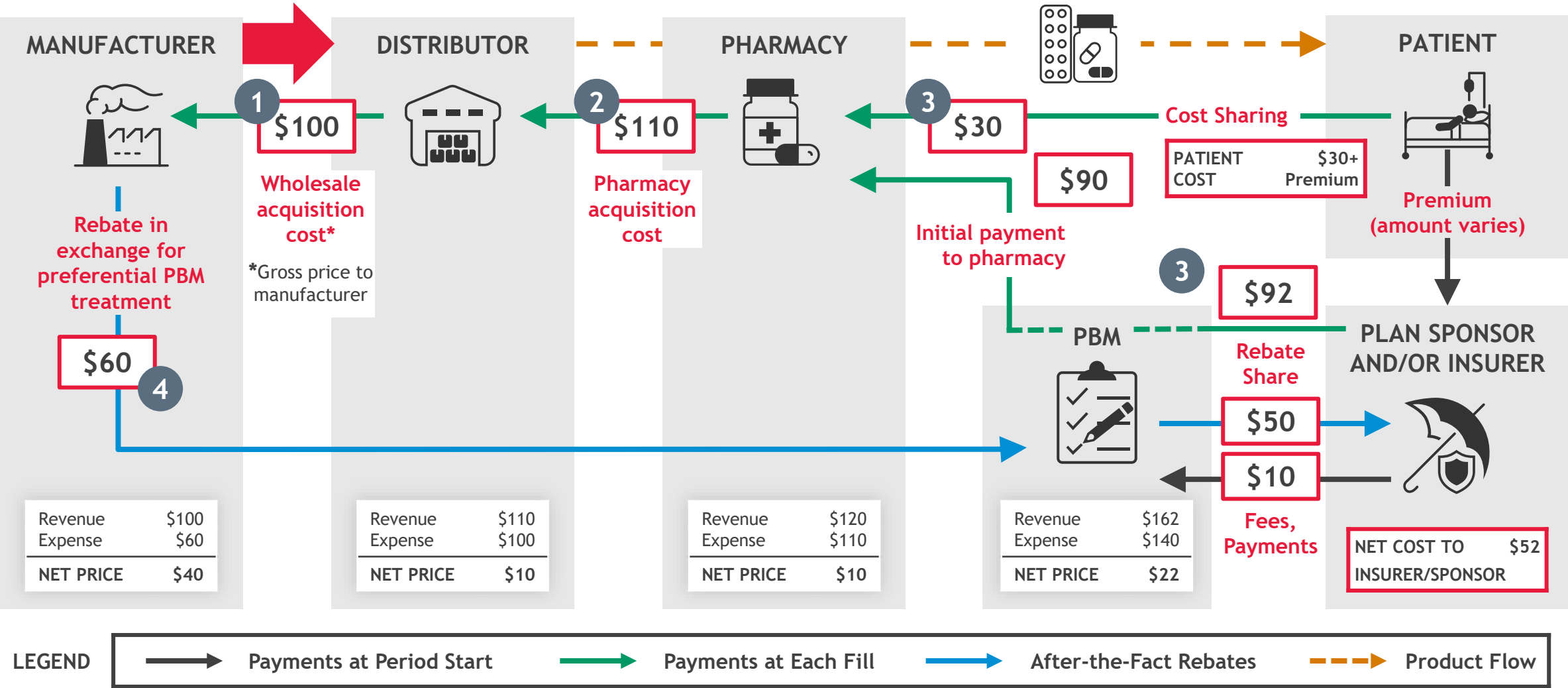


**LEGEND**    Payments at Period Start    Payments at Each Fill    After-the-Fact Rebates    Product Flow

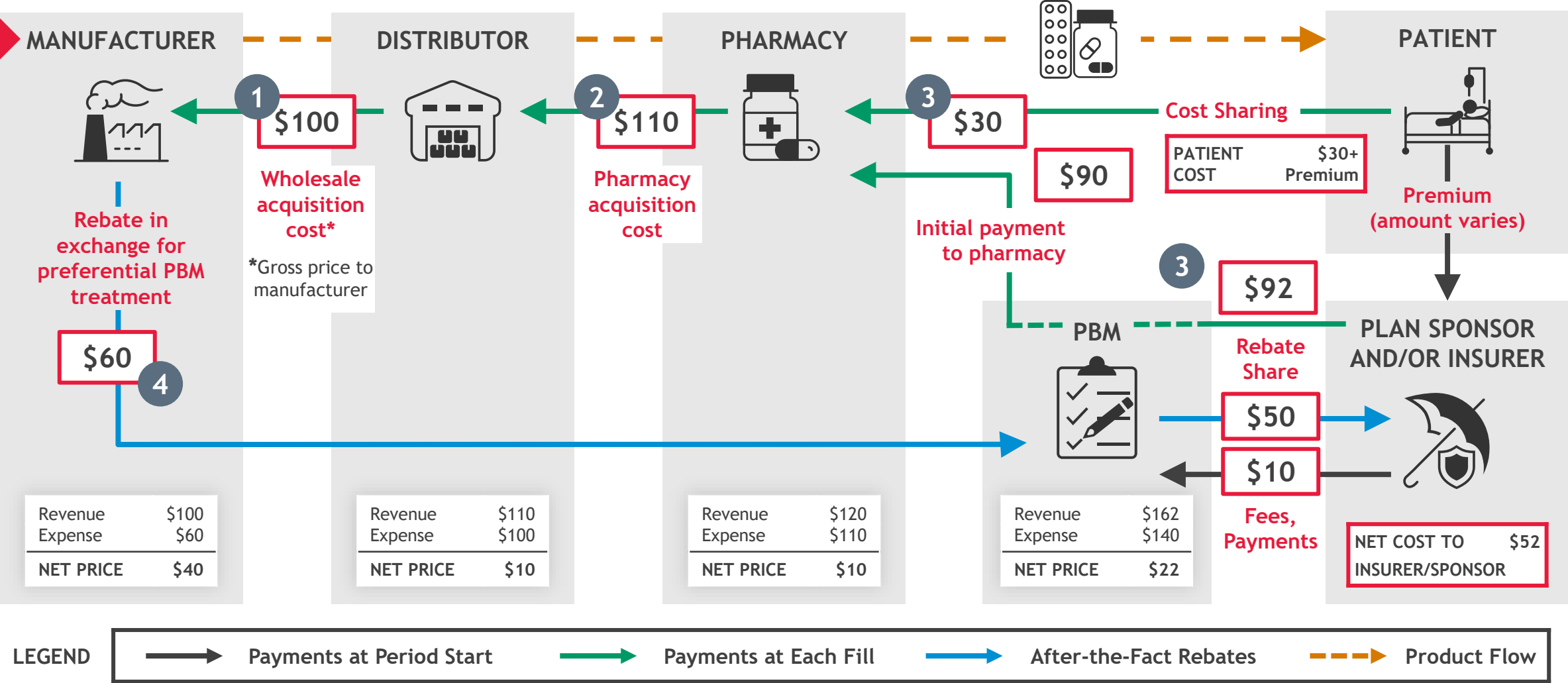
# Pharmacy Value Chain



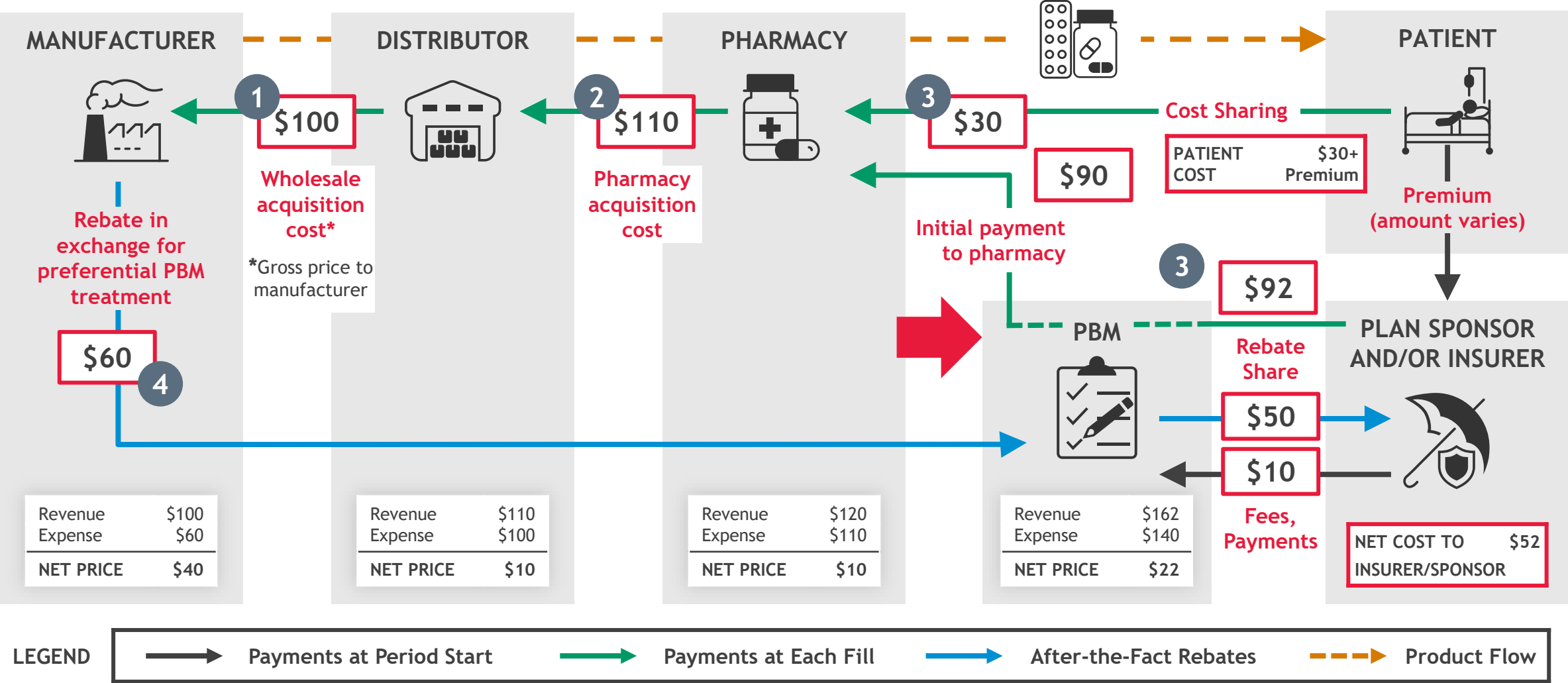
# Pharmacy Value Chain



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# Pharmacy Value Chain



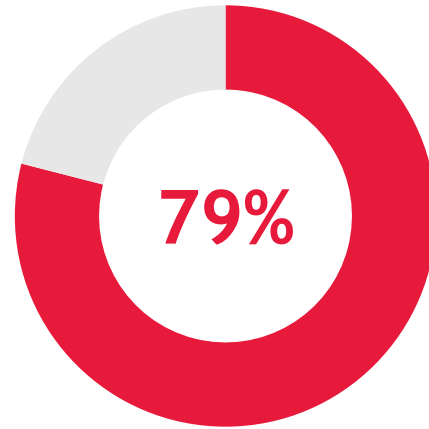
# Question #1



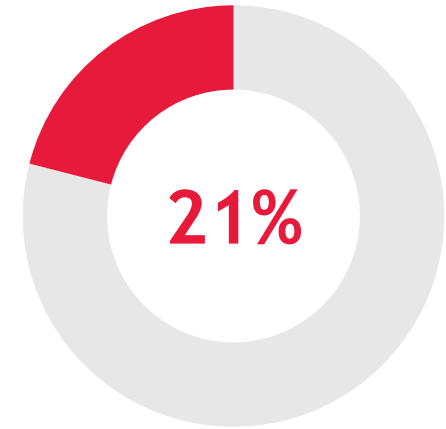
**When was the last time your organization renegotiated the terms of your PBM contract pharmacy services?**

1. Within the last 1-2 years
2. Within the past 5 years
3. We have not renegotiated our contract
4. Don't Know

## Current PBM Landscape



Market Share of  
Top Three PBMs



Market Share of  
All Others

Currently the top three PBMs process 80% of the total prescriptions in the U.S., leading to reduced competition and potentially allowing them to exert undue influence on drug pricing.

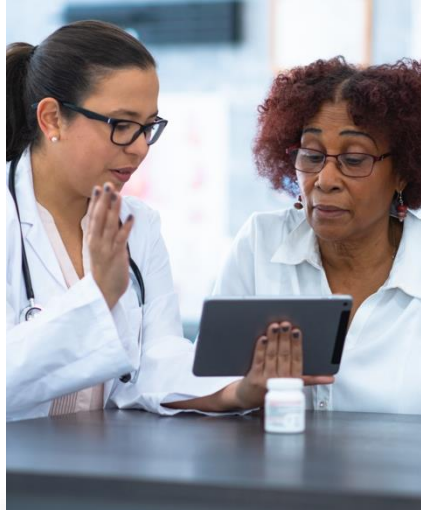


# Five Focus Areas for Negotiating your BPM Contract



1

**Know  
Your Data**



2

**Be Clear  
on Key  
Definitions**



3

**Understand  
Contract  
Adjudication  
Language**



4

**Install  
Market Checks**



5

**Don't  
Overlook  
Smaller Firms**

# 1

## Know Your Data

- ▶ Knowing your data is probably the single biggest key to success when negotiating your PBM contract.
- ▶ Having a deep understanding of how your drug spend currently is allocated, how your members are using your plan, your formulary adherence, and utilization by drug class is imperative to understanding your greatest cost levers and potential risks.
- ▶ Having a firm grasp on your data helps in:
  - Contextualizing discount/rebates
  - Formulary management
  - Patient adherence
  - Compliance and reporting



# Question #2



CHANNEL	SCRIPT COUNT	GROSS COST
Generic	1,000,000	50,000,000
Brand	400,000	175,000,000
Specialty	4,000	222,222,222
<b>Total</b>	<b>1,404,000</b>	<b>450,000,000</b>

OPTION A		OPTION B	
Discounts	Rebates	Discounts	Rebates
15.0%	\$0.00	10.0%	\$0.00
35.0%	\$100.00	30.0%	\$90.00
15.0%	\$500.00	20.0%	\$1,000.00

**Based on the data above and the two contracting options, which would result in lower total plan cost?**

**1.** Option A

**2.** Option B

## Total Cost by Contract Option

OPTION A							
Channel	Script Count	Gross Cost	Discount	Discounted Cost	Rebate Per Script	Rebates	Total Cost
Generic	1,000,000	50,000,000	15%	42,500,000	\$0.00	--	42,500,000
Brand	400,000	175,000,000	35%	113,750,000	\$100.00	40,000,000	73,750,000
Specialty	4,000	222,222,222	15%	188,888,889	\$500.00	2,000,000	186,888,889
<b>Total</b>	<b>1,404,000</b>	<b>447,222,222</b>		<b>345,138,889</b>		<b>42,000,000</b>	<b>303,138,889</b>

OPTION B							
Channel	Script Count	Gross Cost	Discount	Discounted Cost	Rebate Per Script	Rebates	Total Cost
Generic	1,000,000	50,000,000	10%	45,000,000	\$0.00	--	45,000,000
Brand	400,000	175,000,000	30%	122,500,000	\$90.00	36,000,000	86,500,000
Specialty	4,000	222,222,222	20%	177,777,778	\$1,000.00	4,000,000	173,777,778
<b>Total</b>	<b>1,404,000</b>	<b>447,222,222</b>		<b>345,277,778</b>		<b>40,000,000</b>	<b>305,277,778</b>

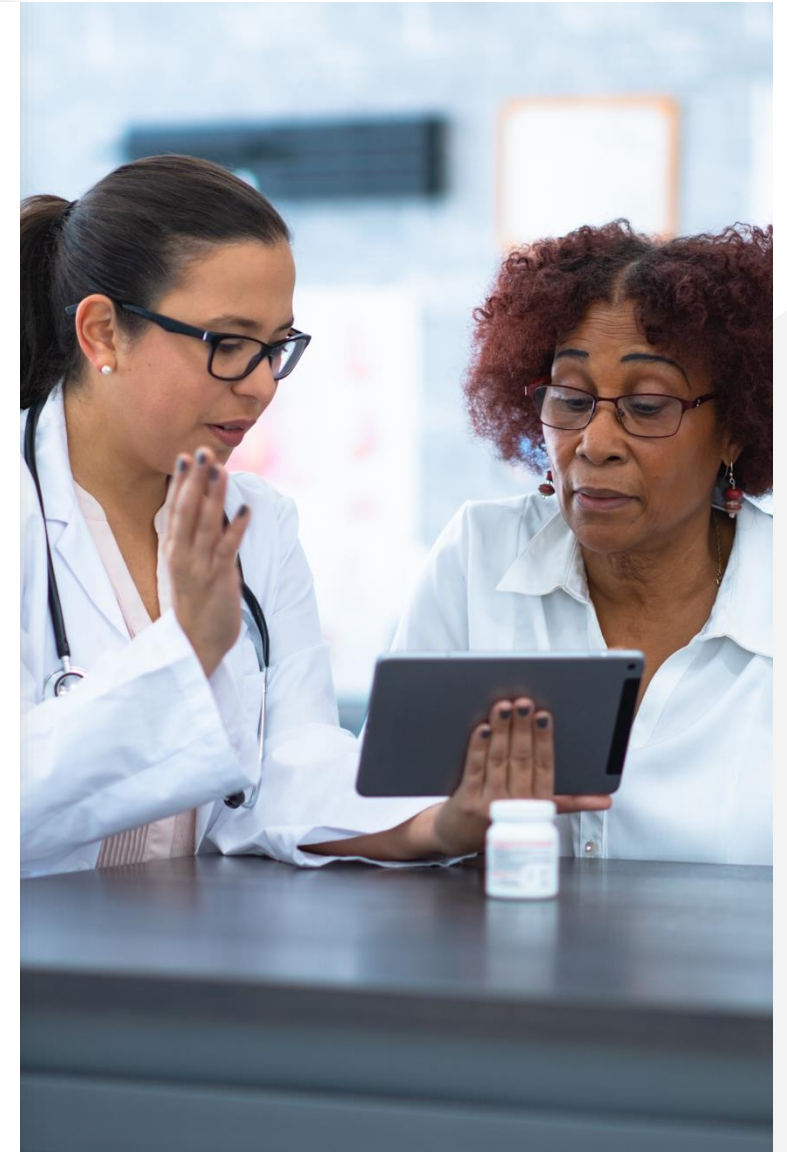
Option A has a lower total cost

# 2

## Be Clear on Key Definitions

Pharmacy contracts are complex, often containing technical legal terminology and concepts that are unfamiliar or difficult to understand. Without a clear understanding of the contract details, companies are vulnerable to coverage risk and might miss out on valuable rebates and discount opportunities. A few examples of definitions to pay attention to are:

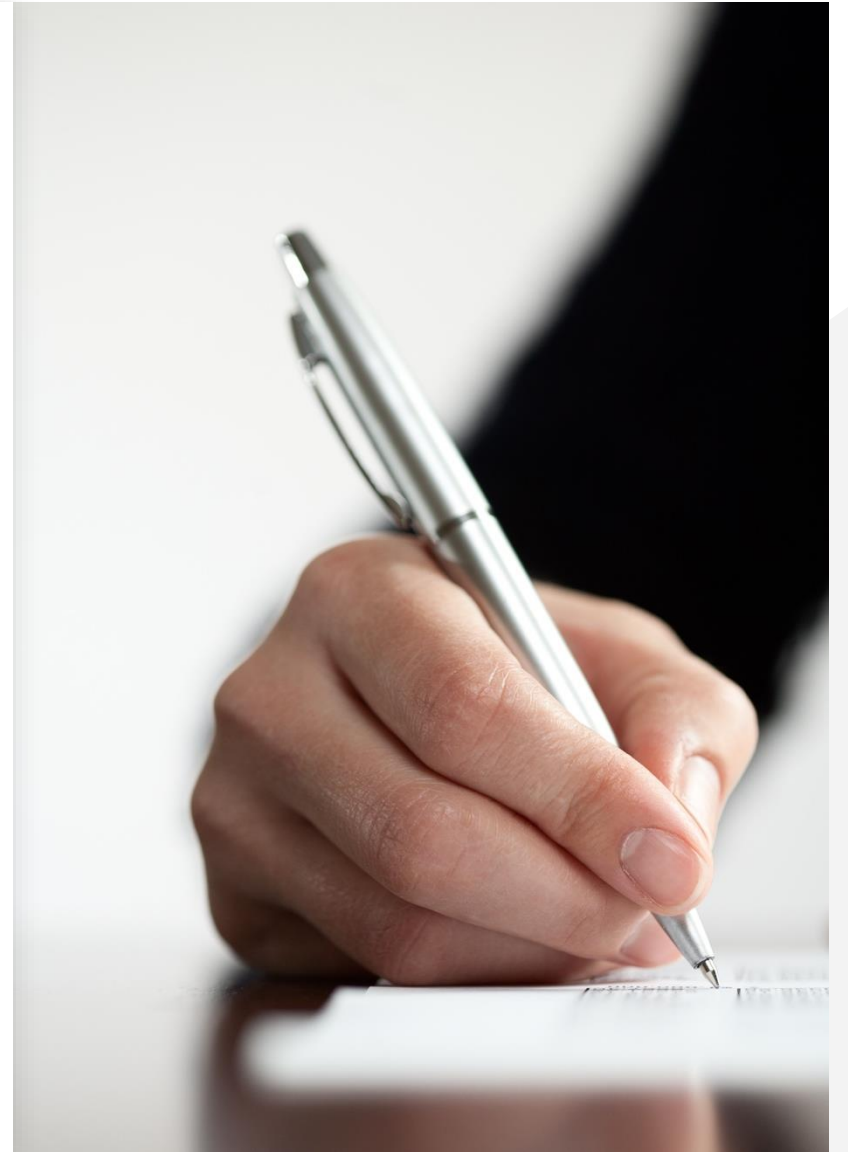
- ▶ **Specialty Drugs:** A prescription medication that is typically expensive and used to treat rare, chronic, or complex conditions. They may require special handling, administration, or monitoring.
- ▶ **Limited-Distribution Drugs:** LDDs are a type of specialty drug, but with the added distinction that it can only be dispensed by a very limited number of select specialty pharmacies.
- ▶ **340B Drugs:** The 340B pricing program requires drug manufactures to provide discounted drugs to eligible providers.



# 3

## Understanding Contract Adjudication Language

- ▶ Often times, the contract that a company signs is not providing the value they had anticipated simply because they did not fully comprehend the terms by which their contract would be adjudicated.
- ▶ Some pieces of adjudication language to pay careful attention to are:
  - Will guarantee surpluses in one drug class be applied to offset losses in another?
  - Which drugs or classes of drugs are excluded from rebate and discount guarantees?
  - Which entity is entitled to any rebates generated on 340B claims?



# Sample Year End Reconciliation

DISCOUNT RECONCILIATION						
Formulary Type	Scripts	Total Spend	Discount Guarantee	Guaranteed Amount	Actual Amount	(Under) / Over Payment
Generic	400,000	10,000,000	55%	\$4,500,000	\$4,000,000	500,000
Brand	200,000	50,000,000	30%	\$35,000,000	\$36,000,000	(1,000,000)
Specialty	80,000	40,000,000	20%	\$32,000,000	\$31,000,000	1,000,000
<b>Total</b>	<b>680,000</b>	<b>100,000,000</b>		<b>\$71,500,000</b>	<b>\$71,000,000</b>	<b>\$500,000</b>

REBATE RECONCILIATION						
Formulary Type	Scripts	Total Spend	Rebate Per Script	Guaranteed Amount	Actual Amount	(Under) / Over Payment
Generic	400,000	10,000,000	\$15.00	\$6,000,000	\$6,500,000	500,000
Brand	200,000	50,000,000	\$100.00	\$20,000,000	\$17,500,000	(2,500,000)
Specialty	80,000	40,000,000	\$200.00	\$16,000,000	\$17,000,000	1,000,000
<b>Total</b>	<b>680,000</b>	<b>100,000,000</b>		<b>\$42,000,000</b>	<b>\$41,000,000</b>	<b>(1,000,000)</b>

# Question #3



What is the total amount owed to the carrier from the PBM according to the reconciliation?

1. \$3,500,000
2. \$2,500,000
3. \$1,000,000
4. \$500,000



## Reconciliation Results Based on Adjudication Method

DISCOUNT RECONCILIATION						
Formulary Type	Scripts	Total Spend	Discount Guarantee	Guaranteed Amount	Actual Amount	(Under) / Over Payment
Generic	400,000	10,000,000	55%	\$4,500,000	\$4,000,000	500,000
Brand	200,000	50,000,000	30%	\$35,000,000	\$36,000,000	(1,000,000)
Specialty	80,000	40,000,000	20%	\$32,000,000	\$31,000,000	1,000,000
<b>Total</b>	<b>680,000</b>	<b>100,000,000</b>		<b>\$71,500,000</b>	<b>\$71,000,000</b>	<b>\$500,000</b>

REBATE RECONCILIATION						
Formulary Type	Scripts	Total Spend	Rebate Per Script	Guaranteed Amount	Actual Amount	(Under) / Over Payment
Generic	400,000	10,000,000	\$15.00	\$6,000,000	\$6,500,000	500,000
Brand	200,000	50,000,000	\$100.00	\$20,000,000	\$17,500,000	(2,500,000)
Specialty	80,000	40,000,000	\$200.00	\$16,000,000	\$17,000,000	1,000,000
<b>Total</b>	<b>680,000</b>	<b>100,000,000</b>		<b>\$42,000,000</b>	<b>\$41,000,000</b>	<b>(1,000,000)</b>

	OPTION 1	OPTION 2	OPTION 3	OPTION 4
Discount channels can offset each other	No	Yes	Yes	Yes
Rebate channels can offset each other	No	No	Yes	Yes
Discount and Rebate totals can offset each other	No	Yes	No	Yes
Reimbursement from PBM	\$3,500,000	\$2,500,000	\$1,000,000	\$500,000

# 4

## Negotiate Annual Market Checks

The pharmaceutical industry is always evolving, marked by constant innovation, new drugs and therapies entering the marketplace, the introduction of off-label indications, and shorter patent lifespans. As a result, even short-term deals negotiated with PBMs can quickly become outdated. That is why it is crucial to include an annual market review in any PBM contract to protect against changes that result in misalignment with the market.

A **market check** is an annual review of active contracts and pricing to determine if your current deal is misaligned with the marketplace. An adjustment can be made to bring your contract in line with your peers providing insurance against unexpected changes.



# 5

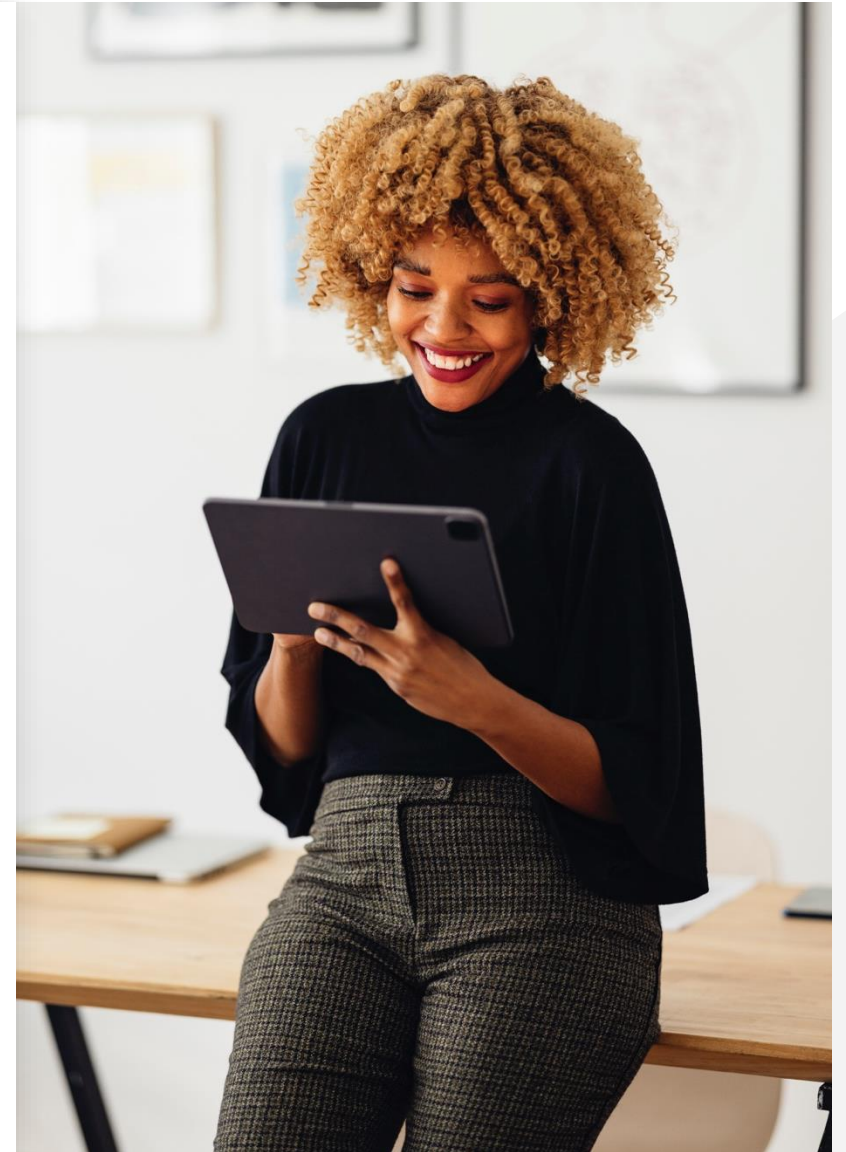
## Don't Overlook Smaller Firms

### Advantages

- ▶ Personalized Service
- ▶ Agility and Flexibility
- ▶ Lower Admin Cost
- ▶ Transparency
- ▶ More Client Control

### Disadvantages

- ▶ Limited Resources
- ▶ Inability to Scale
- ▶ Limited Network
- ▶ Compliance and Regulatory Challenges



# Question #4



**Would you like to chat with Gregg about today's presentation?**

1. Yes
2. No

# Q&A



A modern office interior featuring a staircase with a glass railing on the left, a reception desk with the BDO logo on the right, and large windows overlooking a city skyline. The scene is dimly lit, suggesting dusk or dawn.

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