

The 60 Second CFO Brief

Do You Make These Five Mistakes with Your Pharmacy Benefit?

You Could Be Leaving Millions of Dollars on the Table.

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These are tough times. No corporation can afford to conduct business as usual; and most CFOs in America are desperately looking for ways to reduce costs. Yet there is one area that is often overlooked. Your pharmacy benefit cost.

We all know health care costs are continuing their steady rise, and pharmacy benefit cost makes up 10% to 20% of your total health care costs. Pharmacy costs are expected to rise between 6% and 7% in 2009. Unfortunately these costs are often hidden and neglected.

A quick way to calculate your potential pharmacy benefit savings is as follows. Take your number of employees in thousands and multiply it by \$100,000. For example, a company with 11,000 employees has the potential for savings of \$1.1 million. Ask yourself if this is a significant enough opportunity that you want to do something about it.

For corporations with retiree medical benefits, the ruling under FASB 106 requires accrual for these benefits. The Board believes that failure to recognize an obligation prior to its payment impairs the usefulness and integrity of the employer's financial statements. Failure to manage these costs has a compounding effect.

Here are five pharmacy benefit mistakes your organization may be making that could cost the company millions.

- 1. Allowing Human Resources to negotiate with Pharmacy Benefit Manager (PBM) companies without the clout of pharmacy benefit specialists.**

HR has its hands full with other priorities, is often understaffed and can lack the scale required to get the best deal when negotiating with PBMs. PBMs often come to your HR/Benefits team with offers to extend the contract for incremental savings. While many HR departments have some staff and expertise, chances are they only see PBM contracts once every two or three years. Are they up-to-date on the latest pharmacy pricing, trends and definitions of terms? Why take this risk when millions could be at stake?

- 2. Relying on general health care consultants or brokers.**

Many organizations rely on general health care consultants and brokers to "bring them the best deal". The first question to ask is: Are these organizations truly independent, or do they have an agenda such as selling their own PBM consortium? These generalist firms often claim to have the necessary pharmacy benefit expertise, but the real questions



are: Do they have any experts and what makes them experts? Are you gaining access to them? It's straightforward to get some small savings when going out to bid, and this is what most of these firms do. Often, the approach is to expect that a bidding process will simply give you the lowest cost. It may give you better price points, but doesn't necessarily get you to the lowest cost. What are you missing? The devil is in the details and it's easy to look away. That's why it's often a good idea to consult a pharmacy benefit specialist.

3. Believing PBMs always have your best interest at heart.

PBMs offer a valuable service. They're a partner to your business. They're also in business to make money. Ask yourself what the average stock appreciation has been for your PBM over the last four years versus what your stock appreciation has been. Would you be surprised that the top PBM stocks have grown by more than 500% compared to the Standard and Poors' average of 30%? It's time for that partnership to balance. Seek an ally who has experience with PBMs.

4. Not taking the opportunity to review your contract, regardless of when it expires.

Times are changing. Everything should be up for review. Don't let the fact that you are in year one of your agreement keep you from looking at additional opportunities. The fact is that most money is left on the table in the details of the contract; such as failing to define critical terms or to ask for the right to audit results.

5. Not monitoring your PBM's ongoing performance.

Your HR department conducted an RFP on its own or your generalist brought you some bids, and your selected PBM told you how much you would be saving. Does that sound familiar? How do you know you're actually saving money? How do you know your rebates are calculated correctly? How do you know you've even got the right to check? Auditing your PBM's results is the only way to tell if you're getting the savings that are due to you through the procurement process. Yet, all audits are not equal. Select a firm with experts who have experience with your PBM, who can interpret your contract, and who have a detailed process to evaluate the adjudication of claims.

If your organization has missed the opportunity to leverage additional savings from your PBM arrangement, it may be worthwhile to get another assessment. At The Burchfield Group, this is what we do. We save our clients millions of dollars while preserving the quality of the benefit for the employee. Often, a 20 minute conversation with us can reveal areas of concern and refine a focus for savings. Pharmacy benefit savings guaranteed.

**The Burchfield Group
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The Burchfield Group is a pharmacy benefit management consulting and auditing firm. Burchfield brings innovative perspectives to managing pharmacy benefits, helping plan sponsors evaluate and select PBM vendors, designing pharmacy benefit plans, monitoring plan and PBM performance, and auditing results. Our staff of experts has a vast knowledge of the PBM industry. Current clients include many Fortune 500 companies, large and small corporations, Taft Hartley trust funds, managed care organizations and Blue Cross and Blue Shield plans.