PBM Contracting

Terms, Conditions, & Definitions

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Drug Reclassification – Reclassifying a drug from a Generic to a Brand in order to increase the PBM profit margin and the cost to the plan sponsor- DAW 5 & 9.

Generic Drug Classification- SSG, New to Market, Patent Litigated, and Limited Supply Generics. How are they classified? Brand or Generic?

Provide Portion of POS Rebates – The PBM practice of including less than 100% of the rebates attributable to a brand drug in the value of a Point Of Sale (POS) rebate arrangement. Fourteen forms of Pharma revenue that are not defined as rebates.

Rebates based on Days Supply- 90-day scripts drive a 30-day rebate.

Audit Recover Retention – Paying less than 100% of the retail pharmacy audit recoveries to the plan sponsor.

Less than 84-day supply fills at mail order- receive retail pricing and rebates.

HIV & Transplant Medications- Classifying these as non-specialty to avoid paying a Specialty Rebate.

Specialty Medications Classification- EDD, LDD, Biosimilars, Generics, and garden variety Specialty drugs. How are these defined and how are they bucketed?

Manipulating or Taking Spread on Compound Claims – Adjudicating compounds using one adjudication methodology and re-adjudicating them using a different methodology that allows the PBM to make money on both the re-adjudication and the pricing spread.

NDC Switch – Switching the last two digits of the NDC code to a larger package size that has a higher AWP, increasing the gross margin to the PBM and the cost to the plan sponsor.

Market Share Fees – Paying PBMs for achieving additional market share percentages of a single or bundled group of drugs.

Management Fees – Paying PBMs a fee for managing a drug, typically expressed as a Manufacturer Administrative Fee (MAF) that is typically between 4-4.5% of each drug's AWP.

Mail Autofill – Automatically shipping and billing members and the plan every 90 days without a member requesting a refill, creating additional cost and warehousing of medications, especially for diabetic test strips.

Repackaging & Relabeling AWPs – The ability of entities to repackage or relabel medications and create their own AWPs that are higher than those published for the drug in MediSpan or other pricing sources, creating greater cost to the plan sponsor.

Mail Copay Waiver – Waiving generic mail co-pays for the purpose of getting members to switch to mail order, even if the per unit price of the generic is more expensive for the plan at mail order.

Rebate Manipulation – Excluding certain classes of brand drugs from receiving rebates, thereby increasing the rebate amount guarantees on a smaller set of drugs and winning business because the guarantees are higher under a smaller total of brand drugs.

Rebate Retention – Establishing another company that holds the rebate contracts with manufacturers, typically called a rebate aggregator, and contractually paying 100% of the rebates to the plan sponsor without telling them that the rebate aggregator is keeping 20% of the rebates before the PBM receives them, diminishing the total rebates being paid by 20%.

Collect OTC Rebates – Getting paid rebates for OTC drugs and not disclosing or paying them to the plan sponsor.

Collect Insulin Rebates – Getting paid rebates for Insulin and not including these rebates as payable to the plan sponsor.

Collect Non-formulary Rebates – Getting paid rebates for non-formulary drugs and not paying them to the plan sponsor.

Collect diabetic test strips rebates- Getting paid rebates for diabetic test strips.

DIR Fees – Direct/In-Direct Reimbursement Fees- A per script fee charged by PBMs to retail pharmacies for each script they process.

Manipulate Device Claims – These are 501k claims which are devices that have an NDC number. They do not have a negotiated brand or generic discount, so can be billed at whatever cost the PBM wants to assign.

No Pass-through U&C Claims – The PBM can create spread on U&C claims by adjusting them to their contract discount.

Reclassify Generic as Brand – MediSpan has generic drug classification subgroupings that can be manipulated by re-classifying them as brands so the PBM meets their discount guarantees for both brands and generics.

Zero Balance Due Claims- Including Zero Balance Due (ZBD) claims in the discount reconciliation at a 100% discount in order to increase the overall discount achieved and create the optic of greater discounts being achieved than actual.

Sister Companies Collect Other Rx Monies – PBMs set up companies that hold rebate contracts and take a percent of the rebates being paid before passing the balance along to the PBM. This allows a PBM to pay 100% of the rebates they receive and keep a percent for themselves through their intermediary company.

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Full Claims File Audits- Ensures accuracy of finding potential errors.

Termination Files at No Cost- Without this in the contract, the necessary files can be as much as $5,000 for each file- typically 4 files.

Selecting Higher AWPs – This is when the PBM adjudicates the higher 100-unit AWP instead of the 5,000-unit AWP for common drugs that the PBM is buying at the 5,000-unit AWP.

No Ceiling for Pharma Price Increase – This is when a PBM doesn't negotiate an AWP escalator clause in their drug manufacturer contracts under which the drug manufacturer is required to add additional rebates that are equivalent to the AWP increase for each drug, thereby offsetting the ingredient cost increase of the drug.

Clawbacks – The PBM practice of "clawing back" any difference between their contract discounts with retail pharmacies and the amount the member paid.

Multiple MAC Lists – The PBM practice of establishing more that one generic MAC list, allowing them to manipulate pricing underneath their discount guarantees with plan sponsors, thereby increasing their gross margins.

Right to terminate- Without cause after the first year and if the PBM is acquired.