

Insightsfeature

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Guaranteed Net Cost

A Pharmacy Benefit Pricing Model
Focused on Net Plan Cost

 **CVS**Health®



The pharmacy benefit market is poised for change and the time is right for a new, simpler approach to pricing that focuses on net plan cost.

The Guaranteed Net Cost model, developed by CVS Health, guarantees average net spend per prescription, after discounts and rebates, for each distribution channel. It provides plan sponsors cost predictability and more closely aligns pharmacy benefit manager (PBM) incentives with our clients' objectives.

Guaranteed Net Cost

Pharmaceutical manufacturers — and no one else — set drug prices. CVS Health, as a health care innovation company, and CVS Caremark, as a PBM, have been focused on helping lower costs for our clients. Our industry-leading approach has helped create significant value for plan sponsors and their plan members — keeping unit drug cost growth to just 0.2 percent in 2017 despite a nearly 10 percent inflation in average wholesale price (AWP) of drugs.

▪ **The Guaranteed Net Cost model guarantees average net spend per prescription, after discounts and rebates, for each distribution channel.**

However, the pharmacy benefit industry is going through one of the most dynamic periods in our nation's history. And our approach, in order to continue to deliver strong cost control — while also optimizing the quality of care — needs to evolve with market dynamics. As we look to how we can help plan sponsors not only respond, but stay ahead of changing trends, we developed a model that is both simpler and provides cost predictability.

A Guaranteed Net Cost model eliminates the need for payors and consultants to project drug price inflation, or estimate shifts in drug mix, and calculate the impact on plan costs.

In a Guaranteed Net Cost Model:

- ✓ The PBM takes accountability for the impact of inflation and shifts in drug mix, and incorporates the total value of rebates
- ✓ Guarantees are by distribution channel vs. brand/generic
- ✓ 100% of rebates are passed through to the client

Why We Need a New Approach

Current pricing models offer discounts and rebates, but do not provide net cost predictability

The complexity of current models impedes direct comparison between PBMs because formulary strategies, minimum rebate guarantees, and which claims are excluded from such guarantees, can all vary. This can obscure the actual value a PBM delivers in terms of cost control strategies through effective formulary design and utilization management programs.

What's more, developments in the pharmaceutical market are creating unique challenges. Growing public and political pressure over high drug prices have led manufacturers to take unprecedented measures. One drug maker recently dropped the list price of their drug by 60 percent, a first in the history of any industry.

Current pricing models aren't designed to capture the full value of these changes without contract changes. They also rely heavily on minimum rebate guarantees when evaluating PBMs. This leads to a focus on the rebate value a PBM can deliver rather than the net plan cost across its entire mix of drugs. This can lead to a preponderance of single-source branded products on formularies, which may generate high rebates, but net costs may be higher than with a formulary that prioritizes lower-cost and generic options, and will likely generate lower rebates.



Pharmaceutical manufacturers — and no one else — set drug prices. As a PBM our job has always been to help our clients manage costs in the face of escalating prices without compromising clinical care, so they can continue to offer their members an affordable benefit.

- Derica Rice



Building on a Legacy of Innovation

Beginning in 2012, CVS Caremark was the first PBM to implement formulary exclusions — removing high-cost therapies in favor of lower-cost, clinically equivalent options, including most recently, replacing the long-acting insulin Lantus with its lower-cost biosimilar Basaglar.

We also offer zero-copay drug lists to clients giving them the option of covering all generic medications for chronic diseases, as well as some key branded drugs, at no out-of-pocket costs to their members. Lower costs can help improve adherence and lower downstream health care costs. Clients also have the option to pass on rebates to their members at the point of sale just as CVS Health does for its employees. About 10 million of the lives covered by our PBM are in plans that do the same.

Other ways we help clients lower costs are by helping ensure appropriate prescribing through prior authorization (PA) and encouraging the use of lower-cost generic alternatives through step therapy. In 2017, CVS Caremark reviewed 3 million PA requests, saving payors more than \$2.9 billion.



The Right Choice for the Future

The Guaranteed Net Cost model puts the emphasis where it belongs — net plan costs. It simplifies our approach, and enables us to deliver greater value to plan sponsors by negotiating on behalf of clients to procure lower prices, help clients optimize care, and develop strong cost control strategies that help payors drive savings.

Guaranteed Net Cost reinforces the alignment of your objectives with PBM incentives

Guaranteed Net Cost Model:

Is About
Simplicity

Drug Cost
Predictability

And Continued
Transparency

It is a move away from a focus on components such as discounts and rebate guarantees and toward a more holistic approach that enables plan sponsors and consultants to clearly see the net cost of their pharmacy benefit.

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We have an opportunity to build a simpler economic model that accounts for changing market trends and better aligns PBM incentives with our clients' objective — low net plan cost.

- Derica Rice

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Related Insights

[White Paper: Current and New Approaches to Making Drugs More Affordable](#)

[High Drug Prices: Who is Responsible?](#)

[2017 Drug Trend Report](#)

This document contains references to brand-name prescription drugs that are trademarks or registered trademarks of pharmaceutical manufacturers not affiliated with CVS Health.

Savings will vary based upon a variety of factors including things such as plan design, demographics and programs implemented by the plan.

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