

# Guaranteed Net Cost

A Pharmacy Benefit Pricing Model Focused on Net Plan Cost

The Guaranteed Net Cost model, developed by CVS Health, offers plan sponsors cost predictability by simplifying the pharmacy benefit pricing model, and more closely aligning our incentives with clients' objective — net plan cost. The model moves away from a focus on components such as discounts and rebate guarantees and toward a more holistic approach that enables plan sponsors to clearly see the net cost of their pharmacy benefit, and select their pharmacy benefit manager (PBM) based on who can ultimately deliver the lowest net cost.

## A Guaranteed Net Cost Model:

- ✓ Guarantees net spend after rebates for each distribution channel
- ✓ Provides plan sponsors predictability for net plan costs
- ✓ Eliminates the need for plan sponsors to project average wholesale price inflation and changes to drug mix, and the impact on their plan

## The Need for a New Approach

The pharmacy benefit industry is going through one of the most dynamic periods in our nation's history. In order to continue to deliver strong cost control — while also optimizing the quality of care — our approach needs to evolve with market dynamics. Current pricing models do not adapt to the rapidly shifting landscape including unprecedented moves by manufacturers such as dropping drug list prices and the introduction of authorized generics. They also focus heavily on the rebate value a PBM can deliver rather than the net plan cost across the entire drug mix. This means that a formulary with many single-source branded products may generate high rebates, but net costs may be higher than with a formulary that prioritizes lower-cost and generic options, which may generate lower rebates.

Current models are complex and make it difficult to draw direct comparisons because:

- Formulary strategies vary among PBMs
- They do not adapt to evolving market trends requiring continuous renegotiation of rebate guarantees
- Minimum rebate guarantees, and which claims are excluded from them, vary
- They evaluate PBMs on their ability to deliver on aggressive minimum rebate guarantees rather than the net plan cost

A Guaranteed Net Cost model tells the plan sponsor exactly what they will be paying per prescription for their pharmacy benefit for each distribution channel.

A Guaranteed Net Cost model offers drug cost predictability and pricing simplicity. By focusing on net cost rather than minimum rebates it creates greater incentive for the PBM to develop and implement strong formulary, utilization and other cost control strategies that drive savings, without compromising clinical care. Under the new model, the PBM will pass through 100 percent of the rebates. The PBM will also take accountability for the impact of average wholesale price (AWP) inflation and shifts in drug mix.

### 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

## Building on a Legacy of Innovation

The Guaranteed Net Cost model builds on the foundation of existing PBM strategies that CVS Caremark has developed to help lower costs for payors. Three primary PBM strategies include:

- Encouraging the use of lower-cost, clinically equivalent generic medications through step therapy
- Ensuring appropriate prescribing through use of prior authorization
- Negotiating the lowest net cost for drugs by utilizing formulary management including preferred placement and drug exclusions



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



## 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, including formulary and utilization management.

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**