

Industry Shifts to Brand-Only Rebates

Changes in drug mix, drug pipeline dynamics and near-term projections fuel the evolution of the rebate payment paradigm.

Considerable changes have occurred in the world of prescription drug plans within the previous five years. In that time period, average plan generic utilization has increased from roughly half to over 75 percent or more in many cases. A number of forces have driven this phenomenon, including unprecedented generic drug introductions as well as a relative dearth of new blockbuster brand drugs brought to market.

The result of this shift from a total plan cost perspective has been decidedly positive as every 1 percent increase in generic drug utilization generally results in 1-2 percent total cost savings for the plan. The prescription drug trend, or the year-to-year percent change in spending on prescription drugs, has decreased from the mid-teens as measured five to ten years ago, to the low single digits or even negative for some plans today.

One of the services customarily provided by Pharmacy Benefit Managers (PBMs) like Serve You is the contracting, reconciling and pass-thru of drug discounts (or rebates) from pharmaceutical manufacturers for selected brand drugs. Historically, these discounts have been passed back to the plan sponsor on a "per-total-claim" basis, meaning the PBM pays back to the plan sponsor a specified rebate amount for every paid claim processed, brand or generic, regardless of whether a rebate was actually earned on the claim or not.

This arrangement became an industry standard at a time when a large fraction of all claims were eligible for rebates. Since then, as average generic utilization has increased dramatically and is expected to approach or exceed 80 percent in the next 24 months, and as rebate-

eligible claim volume has decreased accordingly, it has become necessary for PBMs to restructure the status quo rebate pass-thru arrangement with plan sponsors.

As rebates are earned on prescriptions for brand drugs only and not on prescriptions for generic drugs, the revised PBM pass-thru methodology is based on brand claims only (payment "per-brand claim") and not all claims (brand and generic claims) as it was before.

This new "per-brand" rebate pass-thru methodology further aligns incentives between the PBM and plan sponsor. A primary goal in prescription drug plan optimization is relentless promotion of generic drug utilization whenever possible while keeping in mind that rebates in today's environment play an important, albeit diminished role in the mission of achieving the lowest-net-cost prescription drug benefit. The updated rebate sharing arrangement responds to these industry trends in striking the appropriate balance, consistent with the mission of the plan.

2011-2012 PATENT EXPIRATION SCHEDULE

The following is a partial list of blockbuster brand drugs looking to lose patent protection through 2012:

Levaquin – June 2011	Provigil – April 2012
Zyprexa – October 2011	Plavix – May 2012
Lipitor – December 2011	Actos – August 2012
Lexapro – March 2012	Singular – August 2012
Seroquel – March 2012	