INSIDE THE BLACK BOX: ALIGNING INCENTIVES ACROSS THE PHARMACY ECOSYSTEM



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THE FUTURE OF PHARMACY BENEFITS

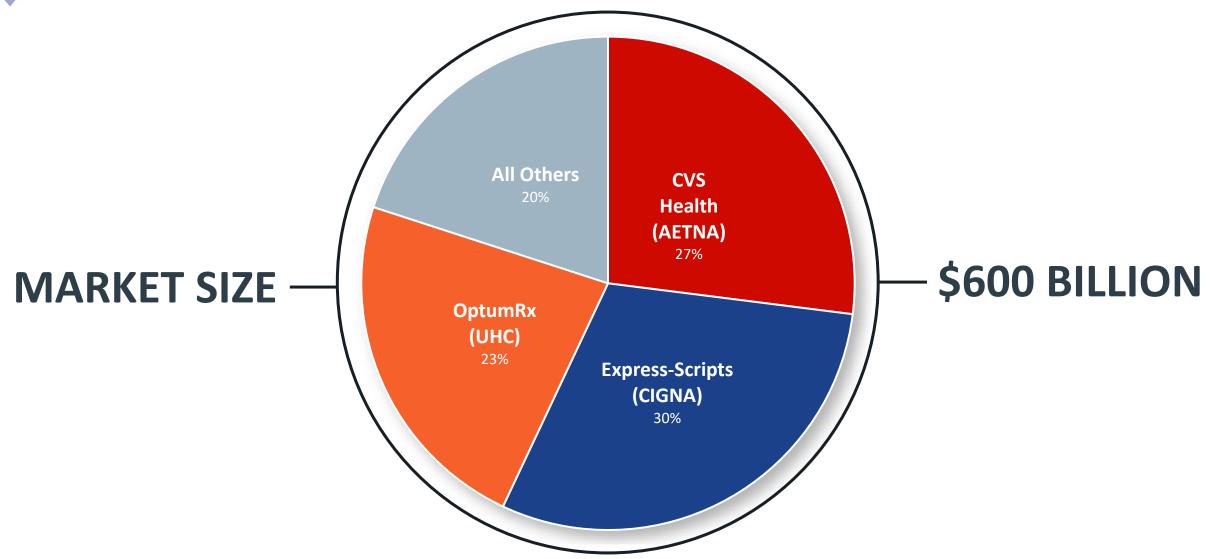




FINANCIAL INCENTIVES MATTER

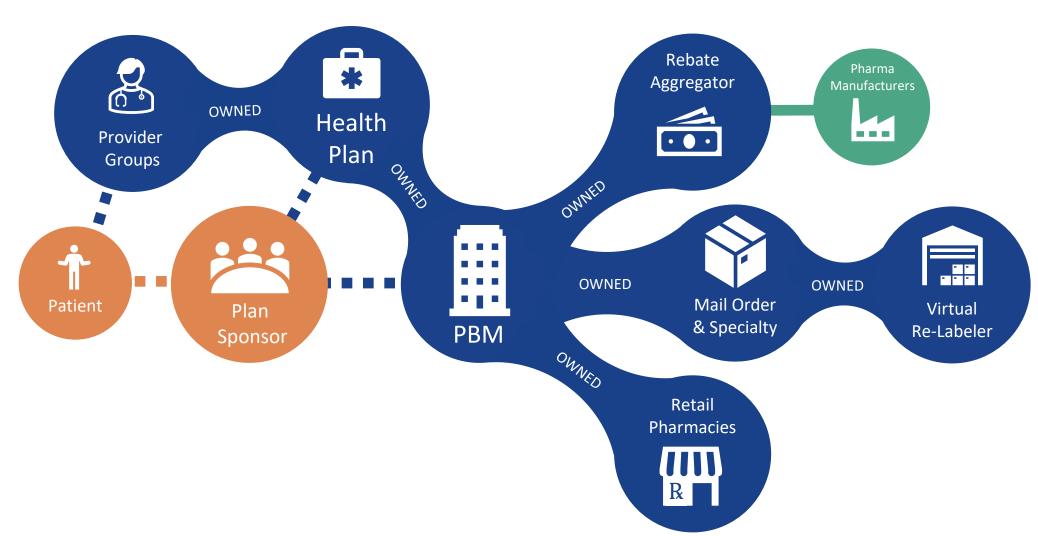


The PBM Industry Is Dominated by the "Big 3" Conglomerates





The PBM's Evolving Role Within the Supply Chain







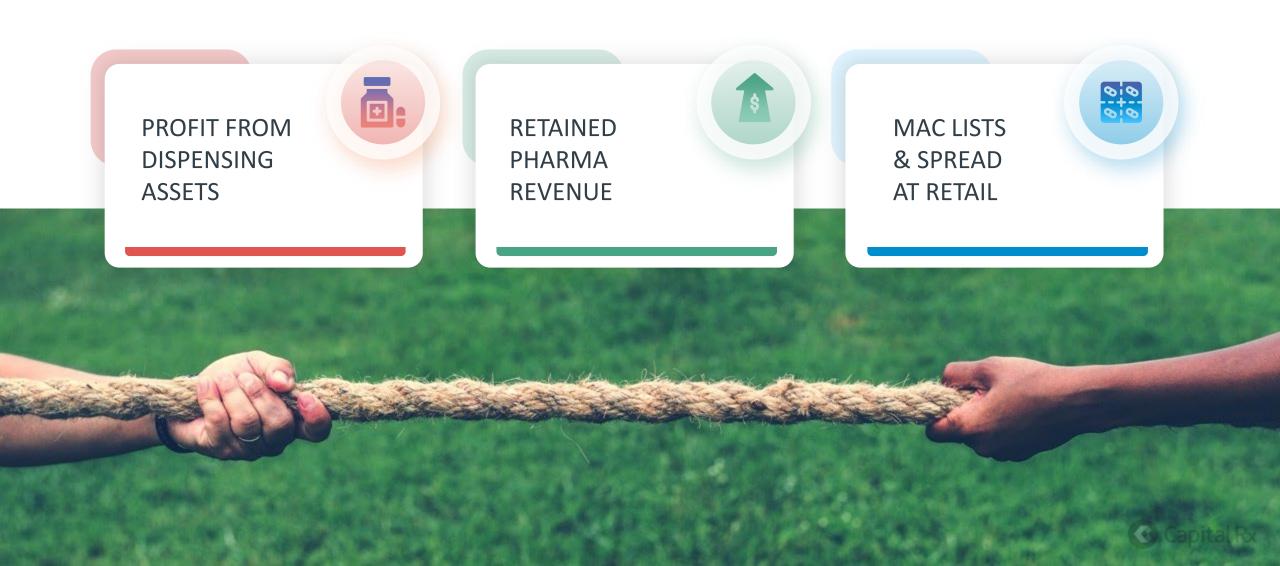
Where Does a Typical PBM's Profit Come From?

		Profit Source	Method of Profit	Potent	ial Conflicts of Interest	
75	Admin Administrative Fees		Dor claim or DEDNA/DNA corvice foor		None	
	Fees	Clinical Program Fees	Per claim or PEPM/PMPM service fees.		None	
		Retail "Spread" PBM charges client more than they reimburse the pharmacy.			PBM benefits from increasing drug	
\$	Retail Network	MAC Lists	PBM juggles clients across multiple MAC lists to game outcomes.	X	prices. MAC contributes to price	
		Network Fees	PBM collects "participation fees" and "clawbacks" from retailers.		volatility for patients.	
	Mail Order Pharmacy Mail &		PBM dispenses drugs at a higher cost than they acquire them.	X	PBM will maximize the volume and the price of claims over time.	
	Specialty	Specialty Pharmacy	PBM dispenses specialty drugs with unknown retained margin.	X	PBM will steer members towards most profitable therapies.	
		Manufacturer Payments	PBM receives multiple revenue streams from pharma, sharing only a portion with the plan.	X	PBM will steer members towards highly rebated products.	
	Pharma Revenue	Data Sale Revenue	PBM sells aggregated claims data to pharma for market research	X	Details of data sharing are not disclosed to patients or plans.	
		Virtual Relabeling	PBM co-markets drug product with manufacturer, controlling the price and retaining an unknown amount of revenue	X	Discourages market competition and conceals PBM revenue	



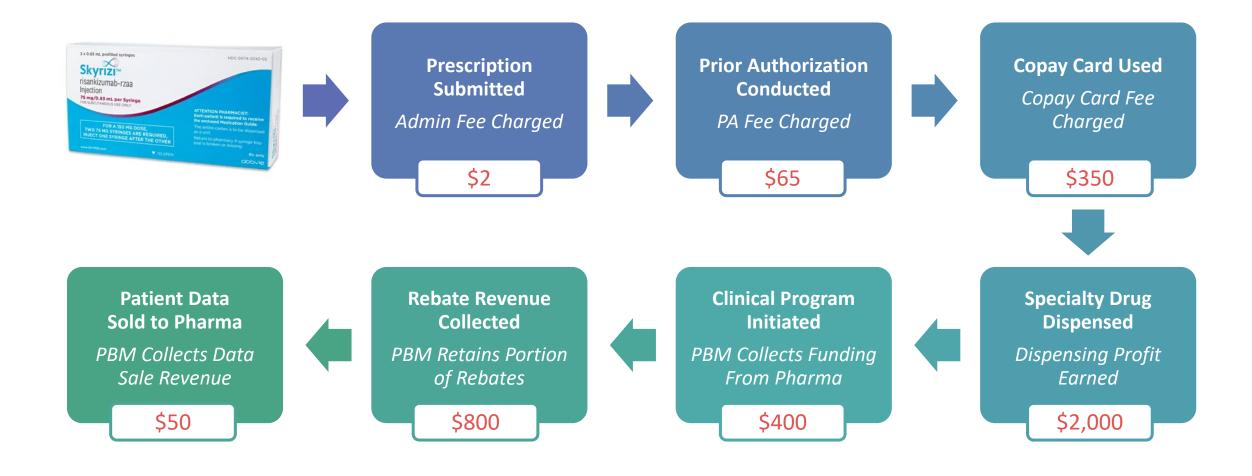


Does your PBM make more money when you spend more money?





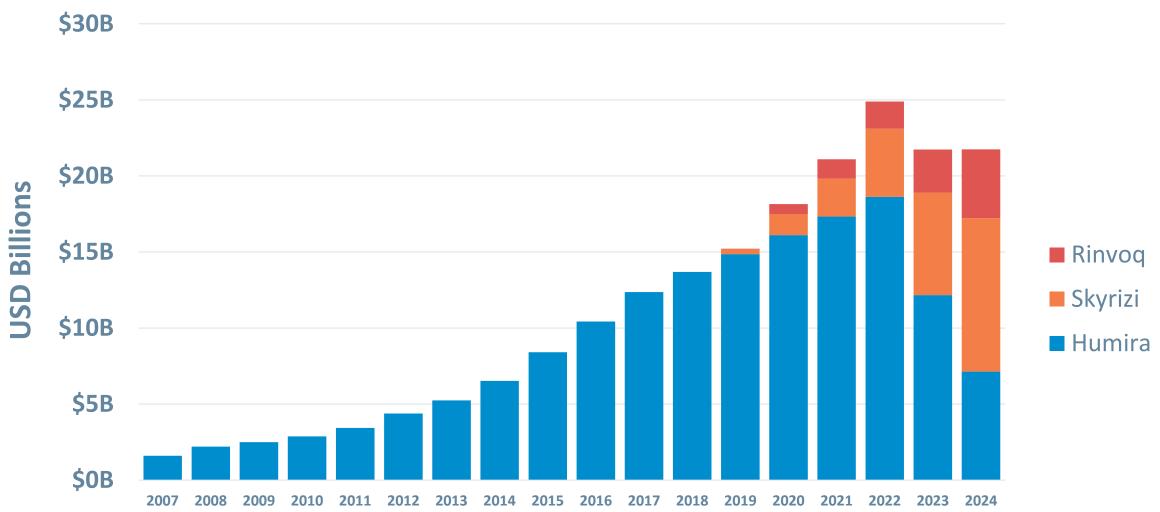
A "Journey of PBM Profit" for Specialty Drugs







Annual U.S. Revenue by Product





PBMs As "Virtual Manufacturers"







Owned By	Express-Scripts	CVS Health	OptumRx
Product Focus	Biosimilars, Mail Order Generics Biosimilars Biosimilars Biosimilars		Biosimilars
Headquarters	Cayman Islands Ireland Irela		Ireland
PBM Controls AWP/WAC?	Yes	Yes	Yes
Subject to CAA Disclosures?	No	No	No
Plan Sponsors Can Audit?	No	No	No

"We believe we have the opportunity to **capture value** from our newly created Cordavis business"

- CVS HEALTH Q3 2023 EARNINGS CALL







	Total Day Supply	Total AWP	Discount	Total Cost	
Retail Maintenance Claims	550,000	\$10,000,000	19%	\$8,100,000	
Mail Order Sales Pitch	550,000	\$10,000,000	24%	\$7,600,000	\$500,000 "Savings"
What Really Happens	627,000	\$11,400,000	24%	\$8,664,000	\$564,000 Increase
EOY "Savings" Report	627,000	\$11,400,000	Would have been 19%	Would have been \$9,234,000	\$570,000 "Savings"

Note: Figures above are illustrative.

RFP data from Big 3 PBMs shows higher rates of excess day supply dispensed at mail order vs. retail



Retail Network Magic

	Pharmacy	Network Contracted Rate	Actual Reimbursement	Amount Charged to Plan	Comments
CLIENT A					
Claim #1	Independent Pharmacy	\$100	\$60	\$100	Independent is temporarily shortchanged
Claim #2	Owned Pharmacy	\$120	\$120	\$80	CLIENT A sees \$20 artificial "savings" vs. Independent
CLIENT B					
Claim #3	Independent Pharmacy	\$100	\$140	\$140	Independent is made whole for prior reimbursement shortfall
Claim #4	Owned Pharmacy	\$120	\$120	\$120	CLIENT B sees \$20 artificial "savings" vs. Independent

Total Reimbursement to Owned Pharmacy	\$240		Owned Pharmacy is Reimbursed More
Total Neimbursement to Owned Filannacy	- γ2 4 0		Owned Filantiacy is Reinibursed More
Total Reimbursement to Independent Pharmacy	\$200		
CLIENT A "Savings" for using Owned Pharmacy	\$20	+	Owned Pharmacy Appears Less Expensive to Clients
CLIENT B "Savings" for using Owned Pharmacy	\$20	-	— Owned Filanniacy Appears Less Expensive to Chefits





Incentives Drive Behavior

How is Your PBM Account Team Compensated?			
Sale of Clinical Programs	?		
Mail Order Volume	?		
Case Profitability	?		
Client Satisfaction	?		



Stopping a 'moral obscenity': Senate Judiciary Committee expresses support for PBM reform

Sen. Chuck Grassley, R-Iowa, suggested Congress could once again move to overhaul PBMs' controversial business practices after it passes President Donald Trump's

conservative megabill this summer.

Published May 14, 2025





Senate Judiciary Chairman Chuck Grassley, R-Iowa, speaks during a comm Office Building in Washington, DC, earlier this year. The committee held a

US FTC finds major pharmacy benefit managers inflated drug prices for \$7.3 billion gain

By Ahmed Aboulenein and Amina Niasse

January 14, 2025 4:31 PM ECT ...

ary 14, 2025 **HR BREW**







Lawsuits targeting employers' work with PBMs put HR on alert

Several lawsuits highlight employers' role negotiating health plan contracts with pharmacy benefit managers that include pricey prescription drugs.

ition's three largest pharmacy benefit managers have significantly s, including for heart disease, cancer and HIV, at their affiliated

tedHealth Group's <u>(UNH.N)</u> C Optum, CVS Health's <u>(CVS.N)</u> C ess Scripts -- marked up prices at their pharmacies by hundreds 3 billion in revenue in excess of the acquisition costs of the drugs,



TOTAL REWARDS (COMP & BENEFITS)



Class Action ERISA Lawsuit Updates



FEBRUARY 2024

Lewandowski v. Johnson & Johnson, et al.



JULY 2024

Navarro v. Wells Fargo & Company



MARCH 2025

Seth Stern et al. v. JPMorgan Chase & Co. et al.

The lawsuits allege a "failure to exercise prudence" as a fiduciary in:

- The employer's selection of a conflicted PBM
- Allowing the PBM to charge exorbitant prices for specific drugs
- Allowing steerage to PBM-owned pharmacies where prices were higher

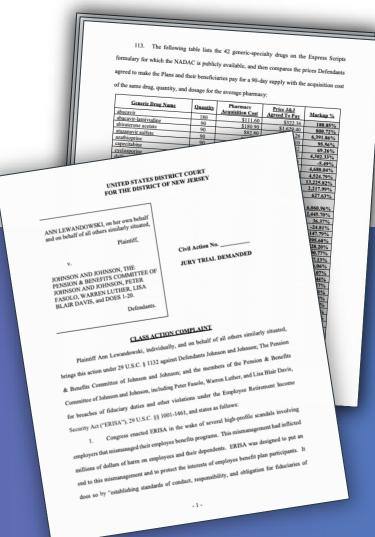


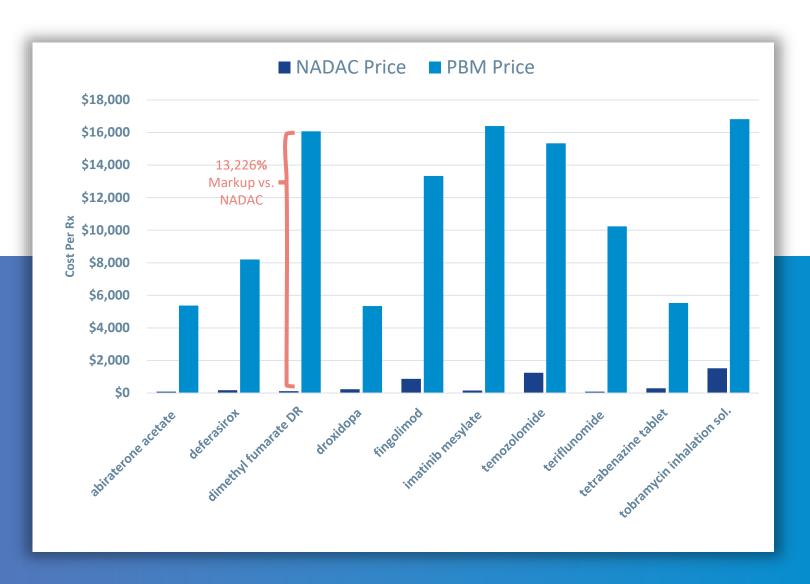






Lawsuits Focus on Alleged Overcharges for Generic Specialty Drugs









The States: Crucibles of Experimentation for PBM Reform













House Bill 1697

Effective July 2025

- Prohibits spread pricing
- Prohibits steerage to PBMowned pharmacies
- Introduces new per-member tax on PBMs to fund \$25M grant for independent pharmacies

PBM TAX APPLIES





The States: Crucibles of Experimentation for PBM Reform

Prevents or prohibits PBM spread pricing

Prohibits PBM discrimination against non-affiliated pharmacies

Requires reimbursement based on NADAC or similar index





Modernizing the PBM Procurement

"Old World" RFP

"New World" RFP

Client Is Insulated from Bidders Until Finalist Round	Pre-RFP Interviews Provide Valuable Insights
Include Largest PBMs for "Pricing Pressure"	Include PBMs Best Aligned with Client's Goals
Financial Modeling Focuses on Rebates & Unit Cost	Holistic Financial Model Accounts for Drug Mix
AWP/MAC Guarantees Required	Modern Pricing Formats (like NADAC) Considered
PBM Business Models Not Scrutinized	PBMs Commit to Full Financial Alignment
Proposals Bundle "Profit Center" Services	Modular Services Stand on Their Own Merits





Pharmacy Purchasing Coalitions

Historical Appeal

- Uses purchasing clout to optimize pricing terms
- Outsource ongoing management of the PBM contract
- Value-added services built in (audit, clinical consultation, etc.)
- Knowledge-sharing across coalition members

New World Considerations

- Perceived conflict of interest for consultant ("steerage")
- Contract terms not always advantageous (i.e. data sharing)
- Often prohibit or discourage customization
- Negotiating leverage may be less impactful in a cost-plus world



Brokers & Consultants: Key Considerations





What Does The Future Hold?

- Continued state regulation of PBMs
- Potential federal PBM regulation
- Increased adoption of cost-plus benchmarks (i.e. NADAC)
- Increased interest in modular pharmacy benefit arrangements
- Decrease in mandatory/exclusive
 Mail Order arrangements
- Decreased focus on Rebates as driver of vendor selection





