

Are Mail Order Pharmacies Cost Effective?

Many insurance carriers contract with a Pharmacy Benefit Manager (PBM) to administer the pharmacy plan benefits. PBM's often offer incentives to encourage groups to purchase a mandated mail order program. Is this a cost effective practice? The Wall Street Journal reports that approximately 21% of employers have a mandatory mail order program, and analysts predict that the number will be increasing.

A 2006 article in the Wall Street Journal shows that Medco, one of the largest PBM's, earns around 50% of its net income from generic prescriptions filled at its mail pharmacies. Given such profitability, PBM's that own a mail order business are pushing to move customers from retail to mail order based prescription fulfillment.

In the June 2007 edition of Benefit News, pharmacy benefit consultant Jeff Hawes tackles these questions:

Is mail order always more cost effective? *Studies have yet to definitely support this widely accepted notion. A recent study by Virginia Commonwealth University revealed that when an employer plan required two retail copays for a 90 day supply, the employer spent 7% more because of lost copayment dollars. In 2005, the American Pharmaceutical Association determined that an employer must receive at least 2.5 times the retail copayment for a given mail order prescription to break even.*

Is mail order pricing really better? *Pricing on branded drugs via mail order is often less based on a discounted average wholesale price basis. However, where reimbursement for generic products is capped in retail through maximum allowable cost programs, most mail order programs do not place a cap on generics. As a result, generics can end up costing more through mail order.*

Are there two sides to efficient distribution? *One of the benefits of mail order programs is their efficient distribution. However, not enough is known about potential negative impacts of efficient distribution. What role does waste play in increasing payer costs? What impact do patients stockpiling drugs have on programs costs? What about the system wide costs of drugs that are lost or damaged in the mail?*

How effective are mail order systems at handling non-traditional requests? *As good as they are in handling routine medications refill, they may have difficulty handling those special requests. Some examples include: Prescription claims submitted too soon. Do they reject the claim? Do they inform the patient that delivery will be delayed? Refill requests that arrive when a patient is nearly empty of supply. What do they do if a patient runs out of medication before a new supply arrives in the mail? What about medications on backorder? Will the mail order pharmacy work with the prescribing physician toward a short term solution?*

Voluntary mail order programs offer the benefits of convenience and potentially, lower copayment costs. While mandated mail order programs can bring lower premium rates, the cost effectiveness of such programs can be offset by some of the factors noted above. Whether or not mandated mail order results in favorable renewal rates is still very much a topic of discussion.

If your company is currently on a mandated mail order program and is thinking of changing, please ask us to review open choice prescription drug programs at your renewal.

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Cor-Ben Consultants, Inc.

4920 A Reed Road Columbus, OH 43220
(614) 326-7356 or (800) 589-1418 Fax: (614) 326-7365
www.corbenconsultants.com

Gregg Mann, *President*
gmann@corbenconsultants.com

Joelle Burwell, *Account Manager*
jburwell@corbenconsultants.com

Melissa Sims, *Account Manager*
msims@corbenconsultants.com

Ty Cramer, *Sales Agent*
tcramer@corbenconsultants.com

Tim Murnane, *Sales Agent*
tmurnane@corbenconsultants.com

Susan Rastelli, *Administrator*
srastelli@corbenconsultants.com

Pam Moreau, *IT Manager*
pmoreau@corbenconsultants.com

Becky McKelvey, *Administrator*
beckym@corbenconsultants.com

Bill McKelvey, *Administrator*
bmckelvey@corbenconsultants.com

Missy Jacob, *Accounts Receivable / Payable*
mjacob@corbenconsultants.com

Cindy Roby, *Claims Specialist*
croby@corbenconsultants.com

Kellie Mann, *TPA Services / Self Insured Account
Representative*
kmann@columbus.rr.com

Judi Whittington, *TPA Services*
jwhittington@columbus.rr.com

Cor-Ben Consultants, Inc.
4920 A Reed Road
Columbus, OH 43220