Segal

Client Story
Benefit Audits

Aiming to mitigate soaring prescription drug benefit costs for its members, a health insurance purchasing agency for public school districts performed an audit of its PBM — revealing $4.6 million in undistributed discounts and rebates.

The challenge

A public entity overseeing a large health plan covering more than 30,000 employees and their dependents was seeking a provider with the unique expertise to interpret its complex pharmacy benefit manager (PBM) contract and objectively assess its pricing performance.

With an average annual prescription drug spend upwards of $50 million, the entity — a purchasing agency delivering benefit and risk coverage to public school districts and charter schools in the Southwest — leveraged its purchasing power to negotiate more favorable premiums and benefits than individual school districts could do on their own.

The client wanted to confirm that its PBM had been adhering to its contractual agreements, a challenging ask given the complex nature of drug pricing strategies and clauses PBMs often employ. Such methods have led to heightened scrutiny from a wide range of stakeholders, from congressional legislators to health plan sponsors.

Our solution

Plan sponsors rely on PBMs to be good partners in helping them comply with their fiduciary responsibilities, especially as it relates to cost management. By conducting regular, independent claims audits, plans are able to identify mismanagement and measure the financial performance of PBMs, the key reason this client engaged our team.

Our approach was to conduct a financial claims audit, looking at pricing terms for average wholesale price (AWP) discounts, dispensing fees, rebates and generic dispensing rates (GDR) guaranteed in the contract. Provisions related to dispensing channels, drug type allocation, drug class exclusions and more were reviewed. With claims data in hand, our team calculated the PBM's performance for each contract period versus promised outcomes.

The results

The audit performed for this client revealed that its PBM failed to meet certain pricing guarantees as defined in its contract.

More important, Segal's team determined that the PBM was taking contract clauses from one pricing guarantee and misapplying it to another, a practice that is inappropriate and disallowed contractually.

In the end, Segal identified substantial additional shortfalls in pricing discounts and rebates, along with monies that should have been returned to the client — funds that could have been used to help offset healthcare costs. For a two-year period, we determined there were undistributed funds to the client of $1.6 million in discounts and $3.0 million in rebates.

In all, the client should have received an additional $4.6 million — a huge savings by any measure — if the pharmacy benefit manager had delivered on its pricing promises.

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