

MANAGING THE BENEFIT PROGRAM

This section covers the primary issues to address when establishing the governance and management structure for the MBP, including decisions regarding the “nuts and bolts” of the MBP’s day-to-day

operations. Topics range from claims processing and beneficiary services to controlling costs and educational programs.

III.A. MODELS FOR INCORPORATING MEDICINES COVERAGE INTO A HEALTH INSURANCE PLAN

Where medicine benefits are covered as part of the health insurance plan, the benefits may be carved in, which means they are provided, paid for, and managed as a unified program. However, an increasing number of insurance plans in the United States have opted for a carved-out model, in which the medicines benefit is contracted out to a PBM, which may manage medicines benefits for multiple insurance plans and health systems. Note that the medicines carve-out and the main health benefits should function together, and in some cases, the PBM may actually be a private insurance company that sells this service in addition to marketing its own health insurance products.

Although this PBM model is mainly used in the United States, Namibia and South

Africa have also rolled it out. As large-scale medicine benefits programs spread in other countries, PBM contractors may offer these services more widely. The reason PBMs have grown in their current limited markets is because they have been able to manage benefit programs more cost effectively and efficiently compared to in-house programs managed directly by insurance plans.

In-House Management of the Medicines Benefit

Social health insurance systems in LMICs that offer medicines benefits usually use the carved-in model. In many of these unified systems, both the health care

services and medicines are provided in-house by health facilities and pharmacies operated by government staff or by staff employed by the social insurance plan. Health maintenance organizations in the United States have also used this model. In most OECD countries, the major social insurance schemes have moved away from exclusive reliance on in-house delivery of medicines benefits and instead contract for all prescription services or use a mix of in-house and contracts with private health and pharmacy providers. The in-house management model may involve direct management by a government ministry or establishment of a semi-autonomous nonprofit organization to manage the benefit program.

In some countries, states or provinces manage separate plans and administrative structures rather than rely on a single national administration. In theory, decentralized management should respond better to local needs and more flexibly adjust to local requirements. However, the total cost of operations will normally be higher due to the duplication of management functions, and it may be more difficult to ensure that decentralized plans adhere to national goals and policies.

Some theoretical benefits of in-house management of the medicines benefit include the following—

- The plan has direct control over the program finances, implementation of program policies, and provision of benefits.
- If the plan does not have outside contracts, it avoids the need for negotiation and management, plus the benefit plan can adjust plan policies and benefits without having to renegotiate contracts.
- The plan's direct control of benefits could yield better capacity to monitor quality and costs of services and compliance with plan provisions.
- A unified benefits administration

structure and claims processing system for both health services and medicines benefits could allow for less complicated management structures, less duplication of effort, and potentially fewer administrative costs.

- With a unified program, plan administrators should be better able to directly compare utilization of health services and medicines and identify mismatches between medicine use and health problem prevalence.

Insurance plans can only achieve these theoretical benefits if it has the in-house capacity and management systems to administer the program efficiently, control costs, and monitor access to medicines and services; however, many plans lack this capacity. Moreover, the level of effort and associated capital and operating costs of developing and sustaining an effective unified in-house management system may not be feasible or as cost-effective as contracting.

Contracting with a Third-Party PBM to Manage the Medicines Benefits

In a program where the benefit plan for medicines is contracted to a third party, plans may gain several efficiencies—

- Specialized PBM contractors may support the design or revision of a benefit plan, including performing actuarial calculations, modeling the impact of various design choices, carrying out pharmacoeconomic analysis of formulary alternatives, and so forth. This expertise may not be readily available with unified benefit plans managed in-house.
- These companies may have management systems and information technology that is more modern and efficient than those

of the insurance program itself. This benefit would improve claims processing, facilitate monitoring of utilization of services and medicines, and help detect potential fraud and abuse.

- The specialized benefit manager will have established relationships and experience in contracting with potential providers of prescription services along with the ability to manage those contracts to ensure that providers and beneficiaries comply with program policies.
- PBM companies invest in their human resources, who are highly qualified and experienced.
- These specialized companies can process high volumes of claims for a number of clients. Potential clients will therefore benefit from their economies of scale.
- With an effective and efficient contract benefit manager, the cost of managing the benefit program may actually be lower than the cost of managing the program in-house.

However, the most important challenge to a carve-out model is the identification and selection of potential contract service providers and vendors of PBM services; if there are multiple contract vendors in the country, competition may force vendors to offer high-quality services at affordable prices. If the country has no vendors, the use of a contract benefit manager may not be possible at all. And if the country or region has few contracting options, those vendors may not have the competitive incentive to offer low-cost and high-quality services.

Although the operational management burden is less than it is with an in-house structure, there are still significant management requirements and costs to ensure compliance with contract terms for payment, monitor contractor performance, and enforce contract provisions. Managing through contract requires a

different set of skills than does managing within an organizational unit.

Assuming that the country's legal framework allows contracting, each health plan should compare the in-house capacity to effectively manage the benefit plan with options for contracting outside management and select the option that offers the best mix of access to quality services and lowest cost of operation.

Whether the insurance plan manages the medicines benefit in-house or contracts with a PBM, the insurance plan is responsible for ensuring that the MBP is effectively managed and that beneficiaries receive the benefits they are entitled to under the plan. Throughout the guide, we discuss the activities that the MBP needs to manage to accomplish these goals, but as noted in the following section about a typical PBM contract, the PBM may actually carry out many of these activities once such a contract is in force.

The services offered by a comprehensive PBM firm may include—

- Consultation concerning benefit design
- Complete administration and management of the MBP
- Claims processing and adjudication
- Business intelligence, including management, operational, and executive reports
- Management of exemptions and prior approval processes
- Management of appeals if service is denied
- Development and performance management of the contract provider network
- Quality management
- Managing claims expenditure
- Mail order prescription delivery (currently in the United States)
- Payment to service providers (although some PBMs will not accept

this fiduciary responsibility, instead passing the claim on to the MBP for payment)

- Billing beneficiaries and collecting co-payments
- Negotiation of pricing and rebate contracts with manufacturers and distributors and management of those contracts
- Development and management of formularies
- Management of generic and therapeutic substitution programs
- Management of health technology coverage
- Management of prospective and retrospective drug use review programs
- Management of programs to address inappropriate utilization by beneficiaries and providers
- Clinical services, such as medication therapy management and disease management programs
- Benefit-related clinical advice
- What-if studies and impact analysis
- Management of communications with beneficiaries and providers, including contact centers
- Educational programs for beneficiaries and providers
- Development of a comprehensive medicine product data base for the country

The MBP can normally pick and choose which services to contract, ranging from the entire benefit management program to just claims processing and adjudication. Therefore, a PBM must be able to accommodate the different requirements. Payment terms for the PBM's services will depend on the nature of the services and the willingness of the PBM and the MBP to consider risk-sharing arrangements. Potential options include the following—

- Fee-for-service variations, where the MBP pays a specified amount for each claim processed, each prescription provided, each payment processed, and so forth.
- Payment of a specified amount for overall management services plus a fee for each specific service provided. If the PBM is paying the providers directly, the contract with the MBP will be based on reimbursing the costs of those payments, plus a fee. Contracts should specify that the PBMs pass on the benefit of any rebates or discounts from manufacturers.
- Capitation, where a fixed payment is made based on a negotiated per member per month amount.
- Shared risk arrangements based on a target total cost, as discussed in the section on outpatient pharmacy services.
- Performance-based contracts, where the PBM's fee may be increased or reduced based on achievement of specified objectives.

If a PBM is prepared to consider capitation or risk-sharing contracts, it will probably demand control of formulary management and generic or therapeutic substitution processes to restrain costs.

Selection of a PBM should be competitive, if the market has competition. A competitive process typically involves a request for proposal specifying the scope of services required and the format for technical and cost response or a request for information based on specific questions. A list of such questions to select a PBM is provided in *Evaluating and Selecting a Pharmacy Benefit Manager*.³²

After evaluating the proposal or information submitted, the plan will usually have face-to-face interviews at the PBM's service locations, onsite evaluations, and reference checks with clients. Annex 2 includes selection criteria and contract terms. Most of the considerations

described earlier for contracts with out-patient pharmacy providers also apply when contracting with a PBM.

If the MBP does not have experience in developing and negotiating PBM contracts, it should use an experienced

consultant, at least in the first round of contracting, to make sure the contract meets its needs.

»» See chapter on Contracting for Pharmaceuticals and Services in MDS-3.

III.B. MBP MANAGEMENT AND GOVERNANCE STRUCTURE

The benefit plan sponsor, whether it is the government, a social security institute, or a nongovernmental entity such as a private employer or association, is responsible for ensuring that the management and governance structure ensures operational and financial integrity and that the program provides the promised benefits to eligible beneficiaries. The government (either national or provincial) is usually the sponsor of national health insurance programs. In social security programs, the sponsor will be the social security administration or equivalent. In employer-provided insurance, the sponsor is the employer.

The sponsor will typically need to establish an entity to oversee plan management and ensure that contractors who are hired to manage all or part of the benefit program comply with contractual requirements.

As noted by Wang et al.,³³ good governance practices are essential whether management of the MBP is done in-house or contracted out. They identify five important components—

- **Decision making structure**—empowerment and accountability with clear lines of authority.
- **Stakeholder involvement**—involvement of stakeholders in setting policies and overseeing performance.
- **Transparency**—reliable information on status and performance available to policy makers, managers, and stakeholders.

- **Supervision and regulation**—decision makers, managers, providers, and beneficiaries held accountable for poor performance or deviation from policies and procedures.
- **Consistency and stability**—consistent adherence to the basic plan design and guiding principles and maintenance of financial capacity to avoid abrupt changes in the program.

To ensure that these principles are followed, the plan's management structure should have the following components: a governing body, senior management team, operations management, and specific advisory committees. If the program is carved out, contracts must detail the operation of these functions and be explicit as to how to assess if they have been met and the potential consequences if they are not met.

The more complex a MBP's management and administrative structure, the more expensive it will be to operate. Plan designers should cost out alternatives and ensure that the proposed structure can be supported financially, while still providing coverage to intended beneficiaries. Large plans with sufficient funding may have separate units handling each of the management components described; however, when starting up a small benefit plan, many of the operational and support functions can be combined.

Board of Directors or Governing Board

Most medicines benefit plans will be governed by a board of directors, although some programs may not require a separate board. National or state laws or regulations may mandate the board's specific authority and composition. An MBP governing board may be a sub-committee of a health plan's larger board, with separate management bylaws. Board membership will depend on the type of insurance mechanism—if it is government-financed national health insurance, the government will have the primary voice in determining board composition. In autonomous or semi-autonomous plans, the government may still demand at least some representation on or control of the board. An MBP should have representatives of medical and pharmacy groups or associations on the board, as well as at least one representative of a consumer group or a plan member.

The board's bylaws should spell out its composition, specific roles, authorities, responsibilities, and liabilities. Bylaws should specify that board members must carry out their duties to benefit the plan and avoid real or perceived conflicts of interest. Board members should be covered by insurance that protects them against liability, providing they act in accordance with the bylaws. It is considered a best practice to have staggered term limits for board members, which assures that the plan evolves as new members come to the board, and to help keep the board from becoming entrenched by special interests.

Depending on the size and defined responsibilities of the governing board, the bylaws may prescribe a number of board committees. An executive committee may be appointed for situations requiring rapid decisions. A compensation committee may determine compensation guidelines for plan employees,

including the chief executive officer (CEO). A finance or audit committee may be responsible for reviewing financial performance and audit results. A compliance committee may be responsible for ensuring that the benefit plan complies with applicable laws and regulations. A membership committee may propose nominees to replace board positions as terms expire.

Human Resources

MBPs that are directly managed by insurance plans must be able to recruit, train, and retain a professional staff that operates in different geographic regions and that can deliver the level of service demanded by their sponsors, providers, and beneficiaries. In turn, the organization must meet compensation, organizational development, safety, wellness, and benefits demands of their specialized workforce. While staffing requirements vary widely, MBPs may have staff members who work in the following areas—

- Operations management
- Account management
- Accounting/finance
- Client relations
- Administration
- Beneficiary eligibility
- Information technology (varies greatly by model)
- Clinical oversight
- Government relations

Human resource systems allow the MBP to manage their employee resources, including salaries and benefits, and the systems should be tightly integrated with other financial systems, including accounts payable, to operate seamlessly.

Typical management requirements for any MBP include the following positions, which may require a separate management unit depending on the

MBP's size and complexity. In all of these functional units, the size of the staff will depend on its scope of responsibility, associated workload, and the availability and integration of modern information technology.

The following positions would typically comprise the senior management team.

Executive director or chief executive officer (CEO)

The CEO is ultimately accountable for overall management operations and performance of the benefit plan. In government-financed plans, this person may be appointed by the government, and in other plans, by the board. In all cases, the CEO should have the training and executive leadership skills to manage a large and complex health care organization. Although the CEO may be a member of the board in some settings, the CEO should be accountable to the board, which should have the authority to change the CEO if he or she is not performing.

Chief financial officer (CFO)

The CFO manages the financial operations according to the business plan, including operating budgets and accounts payable and receivable. This position oversees investments, management of operating cash, and maintenance of reserve funds. The CFO is responsible for internal audits, financial risk management, preventing, detecting, and resolving fraud and abuse, and managing compliance with external audits and audit requirements.

Chief information officer (CIO)

This position is responsible for defining, developing, and managing information systems needed to operate the MBP. The CIO's responsibilities are important no matter where the MBP stands in terms of automated versus paper-based systems, because MBP systems need to evolve

along with technology access. The CIO should oversee both information technology governance and service management. Governance responsibilities include facilitating strategic decisions as the information technology system evolves; service management should focus on achieving operational excellence in the current system and the effective and efficient internal supply of information technology services and products.

The staffing required to support the CIO and the information technology office will vary with the type of information system in use. In addition, elements of service and support can be contracted to an external provider. As noted below, the CIO function may be assigned to the head of operations in smaller MBPs, but it really should be a separate position, given the specific skills needed.

Medical director

The medical director is responsible for managing utilization of medical services and quality assurance programs and maintaining medical policies. He or she typically chairs any advisory committees made up of physicians and may chair the Pharmacy and Therapeutics Committee (PTC). The medical director may also manage the authorization process for medical or pharmacy claims. The medical director in some government-sponsored plans may be the same person as the chief medical officer in the ministry of health. In other plans, the medical director may be a prominent physician in the community. Depending on the size and the needs of the benefit plan, this may be a full-time position with one or more deputy medical officers, or it may be a part-time position.

Pharmacy director

Most MBPs will have a chief pharmacist function, which either serves as chair or secretary for the PTC, which is the MBP's most critical advisory committee. He or

she may chair any advisory committees involving pharmacy providers. As with the medical director, in government-financed benefit plans, the MBP pharmacy director may be the ministry of health's chief pharmacist or be that person's appointee. In some settings, the MBP pharmacy director and staff may manage the authorization process for pharmacy claims. This unit may be primarily responsible for the medicines utilization review process.

Operations Management

In larger, more complex benefit plans, this unit may require a full time operations director, or it could be a function of the pharmacy or medical director in smaller plans. The operations unit manages beneficiary and provider enrollment and verification, claims management and adjudication, member services, office management, and facility management. This office may also oversee the information technology function, particularly if the information system is not fully computerized, but usually, a dedicated information technology office with director is recommended.

This unit is the foundation of the benefit plan and is typically the most difficult to manage. The labor requirements for the operations function are directly related to the complexity of the information management system (as discussed in the section on information technology).

In countries where medicines benefit plans vary greatly in size and complexity, private third-party administrators may be contracted to manage the plan's operations functions, or a pharmacy benefit management company may manage most functions of the MBP. PBM companies will be discussed in Section III. D.

Authorization management

As discussed later in this section, a process is needed to manage the

formal authorization of payment or reimbursement for non-standard claims. This process may be managed by the medical director's office, the pharmacy director's office, or the operations office, but for most benefit plans of any size, a designated unit and manager will need to process these requests and claims.

Network relations management

This unit manages relationships with prescribers and dispensers who provide services to beneficiaries, whether the providers are directly employed by the insurance plan or MBP or are independent contractors.

Client relations management

This unit develops appropriate materials for beneficiaries and markets the plan to potential beneficiaries and to organizations that might contract with the MBP.

Compliance office

In countries where the MBP is subject to specific laws and regulations governing operations, someone must ensure that the plan complies with regulations and resolves noncompliance issues quickly. This function may also be responsible for maintaining patient privacy and verifying authority to release information. Larger plans and plans operating in heavily regulated environments will likely need a separate compliance unit and director; in other settings, it might be managed through the CFO's unit.

Advisory Committees

Not every MBP will require all of the advisory committees listed below, but they can be useful in building stakeholder involvement in the benefit plan and assuring that the plan continues to extend access to high-quality and affordable services and medicines.

Pharmacy and therapeutics committee

Probably the single most important advisory committee for an MBP, the PTC comprises physicians and pharmacists (and in some cases mid-level providers and nurses) who select products for the MBP's formulary or preferred drug list. It may be chaired by the medical director or the pharmacy director, but the pharmacy director will normally manage committee operations. In an in-house plan, most committee members may be staff physicians and pharmacists, whereas in open model or mixed plans, at least some members should come from the contract provider community. As with any committee, the PTC should have a written policy to prevent conflict of interest, including requiring disclosure of any potential conflict.

The most effective PTCs draw on the local or national academic community for expertise in clinical pharmacy and pharmacoeconomics to help the committee select products for the formulary that are medically necessary and cost-effective. Medical specialists should evaluate medicines most relevant to their specialty. Section III. E discusses the functions of the PTC and the process for selecting medicines for the formulary.

Similar to a PTC, some plans may have a health technology advisory committee with physicians, laboratory specialists, and other experts who can provide direction regarding coverage of different health technologies.

Drug utilization review committee

This committee manages the standards and procedures for retrospective, concurrent, and if applicable, prospective drug utilization reviews (DURs). The committee reviews utilization data that the MBP compiles, identifies outliers and potential problems, and recommends interventions to correct problems. In an MBP, this committee may be a subset

of the PTC or quality management committee, or may replace the quality management committee or peer review committee (described below).

Credentialing committee

This committee sets standards for service provider credentials and may help the MBP evaluate the credentials of potential new service providers or periodically re-credential existing providers. Typically, members come from medical and pharmacy academic institutions, professional associations, and agencies that license physicians, pharmacists, and drug sellers, such as the boards of pharmacy and medical examiners.

Quality management committee

This committee oversees quality assurance activities, including setting quality standards, reviewing performance data, providing feedback to providers, and approving sanctions when necessary. The quality improvement function is discussed in Section IV.

Peer-review committees

This committee reviews complaints about provider performance and recommends actions to MBP management—a representative committee of physicians would review complaints about physicians and a committee of pharmacists would review complaints against pharmacy providers. This could be a subset of the quality management committee and may only need to be mobilized when complaints are received.

Denial of coverage appeal committee

As part of the process of evaluating requests for policy exceptions or for service coverage that requires authorization, an appeals process is needed when members or providers are denied their request.

The medical director may manage this process with advice from a committee comprised of specialty physicians and at least some participation by non-voting member advocates. It is typically assembled ad hoc when an appeal is submitted.

Provider and member advisory committees

These committees can help build stakeholder involvement in and acceptance of the MBP. In general, provider and

member advisory committees do not have any authority beyond making recommendations, although they may have voting authority in some types of plans. They primarily ensure that the plan is informed about issues affecting stakeholders and serve as a sounding board for changes in plan policies and procedures. One committee can be a mixture of service providers and plan members, or there could be separate committees for medical service providers, pharmacy service providers, and members.

III.C. CLAIMS PROCESSING

This section applies primarily to fee-for-service payment systems, whereby the service provider (or the beneficiary) submits a claim each time a prescription is dispensed.

The requirement to process individual claims is very common in MBPs around the world, particularly in outpatient benefit programs, and it deserves special attention because it is unrealistic in most LMIC settings without access to real-time electronic submission. The volume of claims often outstrips human resource capacity to manage them, leading to major delays in submitting, processing, and adjudicating claims. Such delays lead to the dissatisfaction of both providers and beneficiaries and financial hardship when beneficiaries are forced to pay out-of-pocket and be reimbursed.

In some settings, different payment systems are used, such as bundled payments, where medicines are included in the overall bill for a treatment episode in a hospital or other facility. Other forms of capitation models include the provider receiving a contractually determined sum that covers all services and medicines provided to a beneficiary during the time period covered by the contract. Some of these alternative payment models are covered in Section III.F.

The challenge for MBPs that need to process individual claims is to make the system as efficient as possible, given the financial and technology constraints and to find ways to make the system more responsive to the needs of providers and beneficiaries, while maintaining the financial integrity and sustainability of the MBP.

Many of the specific examples this section describes come from approaches used by commercial PBMs, but the basic steps in the claims submission and adjudication processes are required whether the MBP has fully automated information processing systems or relies on a paper-based system. We try to suggest options to manage the processing systems if access to state-of-the-art technology is unavailable.

The Basic Claims Process

When providers in a fee-for-service model dispense medicines to an eligible beneficiary, the provider (or the beneficiary) will submit a claim to the MBP, which is a request for payment for products and services. Upon receipt, the MBP will adjudicate the claim, which is the official determination of a claim's status. The MBP

will first check to see if the member is currently enrolled and eligible for covered services, then compare the claim's submitted values to the beneficiary's plan benefit definition. If the claim meets all benefit plan criteria, it is approved, and the total payable amount and any beneficiary cost-share contribution is subtracted. If the claim does not meet benefit plan criteria, it is rejected. In most cases, the MBP's information systems can approve or reject the claim and make pricing calculations without any manual intervention.

After the completion of the adjudication process, the adjudicated results are returned to the provider. If the claim is approved, the MBP will reimburse the provider in the next payment cycle. If the claim is rejected, the provider is not reimbursed, but may modify the claim and resubmit it.

Claim Submission Types

The claim submission process significantly affects the overall efficiency of medicine delivery. The timing between claim submission and the return of the adjudicated response to the provider can range from seconds to weeks, depending on the technological infrastructure available. Any delays between dispensing a medication and the payment to the provider can cause cash-flow problems in the provider network, which can put a program at risk of failure. Claim submission technology can be classified into the following four categories: real-time, batch, paper/provider, and paper/patient.

Real-time submission of claims

In a real-time system, a provider's pharmacy system, mobile device, or web portal is used to submit the claim directly to the MBP, where the claim is adjudicated and the results are quickly communicated to the provider. This ensures that all systems align with the

final status of the claim (i.e., MBP and provider). This type of claim submission method is also called point-of-sale because the claims originate at the point of dispensing or sale.

The submission of claims in a real-time environment requires the most comprehensive infrastructure. The provider must have some level of information technology infrastructure, including external communication capability, or they must have access to a specialized web or mobile application that support claims submission.

Because the claim adjudication response can arrive within seconds, the real-time submission method offers the best opportunity to implement complex benefit designs and return clinical messages to providers prior to the beneficiary receiving the prescription. This method also helps providers manage financial and clinical risks because all parties know the cost structure, who is responsible for what payment, and whether certain medicines are safe, based on age or contraindications. Because of the delayed turn-around time in the other three claim submission methods, the provider typically dispenses the medication prior to receiving the adjudicated results, which minimizes the opportunity for claim response-initiated interventions.

Batch submission of claims

The provider's system collects claim transactions during a defined period (e.g., one week) and then securely transmits a group of claims electronically to the MBP for adjudication. The adjudicated results are returned to the provider in a few days via mail, email, or as part of the MBP's regular payment cycle. Having providers submit claims in a batch eliminates the manual keying of claims into the MBP's system, but the claim is not adjudicated until days after the beneficiary has left the pharmacy with medication. This method can work

well for providers who have a computerized dispensing application, but do not have reliable Internet connectivity. The risk, however, is that some co-payments may not be collected, which requires a post-event collection process. In addition, the provider may not be aware of unauthorized dispensing or medical care or certain clinical interventions until adjudication takes place.

Paper-based claims from providers and patients

LMICs may need to use a paper-based claims system for the initial phase of MBP rollout; however, because of variations in the technology infrastructure between urban and rural areas, urban providers may be early adopters of real-time claims submission. Most developing countries will use a hybrid model of claims submission, and the MBP can vary the benefit design rules by the claim submission method until the operating infrastructure evolves.

Large MBPs with paper-based systems require a large staff to review every claim prior to payment, and even if the MBP's management unit is fully staffed with skilled employees, delays in processing and payment are inevitable. One option to avoid the backlog is a sampling process in which a defined percentage of claims are checked for fraud and abuse, with greater priority given to claims from providers or beneficiaries who are high-volume consumers of services or those suspected of abusing the system. Unchecked claims would be paid as submitted. This sort of system would probably result in financial losses due to fraud and abuse, but the losses may outweigh the program sinking under the weight of unprocessed claims.

Another option is a system in which a percentage of each claim is paid before adjudication and then the rest paid once the claim is fully approved. If the claim is ultimately rejected, the amount already

paid could be deducted from future claims from that provider or beneficiary. This type of system is vulnerable to fraud and abuse unless the sampling process is well managed and a strong mechanism is in place to control the partial payments made on a rejected claim.

Paper-based claims from providers

The provider prints paper claims and then sends the claims to the MBP in bulk for adjudication. MBP staff members will manually key the printed claims into the MBP's system. The adjudicated results are returned to the provider as part of the MBP's regular payment cycle. The MBP could adjudicate these paper-based claims either manually or electronically; however, manual processes will lead to inconsistency and delayed turn-around times.

The use of provider-submitted paper claims requires minimal technological infrastructure on the provider's side, because the claim is printed or handwritten by the provider and mailed or delivered to the MBP. Paper submission allows for centralized pricing and payment of prescription claims, and it also facilitates the collection of prescription utilization data that can be analyzed for trends (discussed in a later section). The main disadvantages of the paper claims submission method include the inability to provide clinical messaging back to the provider and the unavoidable delay in reimbursing the provider.

Paper-based claims from patients

The patient pays 100% of the prescription cost and then submits a paper claim to the MBP requesting reimbursement. MBP staff members will manually key the claim into the MBP's system where it will be adjudicated. The adjudicated results, including payment, are returned to the member within a few weeks of submission. Beneficiary-submitted paper claims require a similar turnaround time to provider-submitted paper claims, but with

the added disadvantage that the beneficiary would pay 100% of the drug cost prior to submitting the claim. Paying the entire cost of the medication could put a financial burden on the beneficiary, and the MBP pricing and cost-share contribution rules may restrict the reimbursement amount to well below the amount that the beneficiary paid. This method should only be used when the beneficiary had to go out-of-network because of geographical challenges or inventory shortages.

Claim Adjudication

The process of adjudicating a prescription claim follows a path where benefit rules are applied in sequence to determine if all of the submitted data elements meet the benefit plan definition. Although claim adjudication systems vary in design, the outline below illustrates a comprehensive adjudication sequence for an automated MBP.

1. Receive claim

A prescription claim is received via real-time submission from the provider, keyed via a mobile device or web portal, submitted via a batch transmission, or manually keyed from a paper claim. Submitted claim data is reformatted into an internal transaction format that is useable by the MBP's claim adjudication system.

2. Claim validation

A technical validation ensures that all required fields contain data and that information is in the right format. Other validations include ensuring that the date is valid (e.g., not in the future) and that the claim itself is valid; for example, a reversal or resubmission cannot be submitted if an original claim never existed. A duplicate check ensures that this is the only valid claim.

3. Validate patient eligibility

The submitted cardholder identification (ID)/patient ID, date of birth, patient

gender, and patient name are used to determine if the submitted values match a beneficiary in the MBP's eligibility system. If a beneficiary is found who is eligible for prescription benefits on the date of service, the appropriate benefit plan design is identified. If the beneficiary could not be found or was not eligible for benefits on the date of service, the claim is rejected and returned to the submitter.

4. Validate provider eligibility

The submitted provider ID is used to validate that the provider is in the benefit plan's network and thus is authorized to dispense medicines to the beneficiary. If the provider is not valid or the network excludes the submitted provider ID, the claim is rejected and returned to the submitter.

5. Validate prescriber eligibility

The submitted prescriber ID is used to validate that the prescriber is authorized to write prescriptions for the beneficiary's benefit plan. If the prescriber is not valid or the benefit plan excludes the submitted prescriber ID, the claim is rejected and returned to the submitter.

6. Validate medicine

First, the claim is validated to ensure the medicine is valid (i.e., the product is registered in the country, a valid code is used, and the product is still available and not discontinued). Second, if the benefit plan is an open formulary, a check determines if the submitted product ID (medicine) is excluded from the benefit plan design. The validation usually occurs at both the specific product ID level as well as at a higher level of classification (e.g., weight-loss medications, nonprescription medicines). If the benefit plan is a closed formulary, a check validates that the submitted product ID is explicitly included in the benefit plan.

7. Address generic substitution policy

If the submitted product ID is a branded product and generic alternatives are available, a decision is made to reject

the claim (mandatory generic substitution), to reimburse at the generic rate, or to direct the beneficiary to pay the difference between the brand and the generic cost. If the submitted medicine is not covered by the plan or the benefit plan excludes branded products when a generic alternative is available, the claim is rejected and returned to the submitter.

8. Validate prior authorization

Some products require that the physician obtain approval from the MBP prior to prescribing specific medications. Without preapproval, the adjudication of any claim for the specified products will not be accepted. Unlike the step therapy validation, prior authorization criteria usually involve information beyond what is available in the beneficiary's claims history. Although the prior authorization review is normally a manual or semi-manual process, once the prior authorization has been approved, a claim can be processed without manual intervention.

9. Validate treatment or clinical information

The submitted product ID is used to validate other benefit plan restrictions including—

- **Age:** minimum/maximum restrictions on patient age
- **Gender:** male/female restrictions
- **Quantity:** minimum/maximum restrictions on quantity that can be dispensed per fill/refill
- **Days' supply:** minimum/maximum restrictions on the length of therapy per fill/refill
- **Daily dosing:** minimum/maximum limits on the number of doses per day for the prescribed medicine
- **Quantity/time:** restrictions on the quantity of a specific medicine that can be dispensed during any specific time period

Note that restrictions that depend on patient age, diagnoses, prior therapies,

etc., require the ability to link enrollment and historical prescribing data, for example. Although this is a goal for advanced information technology systems, it is a challenge in many computerized systems and is particularly difficult in paper-based and mixed processing systems.

Examples of quantity and days' supply limit

- Albuterol nebulization (0.63 mg/3 mL, 1.25 mg/3 mL, and 2.5 mg/3 mL) has a maximum quantity of 375 mL every 30 days
- Axert (almotriptan) 6.25 mg and 12.5 mg tablets has a minimum age of 12 and has a maximum of 6 tablets every 30 days
- Baclofen intrathecal (Gablofen intrathecal; Lioresal intrathecal) solution for injection has a minimum age of 4 and a maximum days' supply of 120 days

10. Validate step therapy

A review of the beneficiary's claim history determines if any prerequisite product(s) have been tried before the submitted medicine is approved. Benefit rules can also preclude the return to an earlier prerequisite drug once the beneficiary has moved to another step.

Example of migraine step therapy

- **Step 1.** Use sumatriptan, naratriptan, or rizatriptan
- **Step 2.** Requires the prior use of at least one Step 1 product, then frova or imitrex

11. Determine refill timing

Additional validation determines if a specified percentage of a previous prescription for the same product has been used before a refill of that medicine is

allowed. This type of validation is often called early refill. The percentage specified may be a specific number or may be tiered based upon the submitted days' supply.

Example of early refill plan parameters

Days' Supply	Refill Percentage
1 – 5	50%
6 – 15	70%
16 – 30	80%
31 – 90	85%

12. Validate prior authorization

Some products require that the physician obtain approval from the MBP prior to prescribing specific medications. Without preapproval, the adjudication of any claim for the specified products will not be approved. Unlike the step therapy validation, prior authorization criteria usually involve information beyond what is available in the beneficiary's claims history. Although the prior authorization review is normally a manual or semi-manual process, once the prior authorization has been approved, a claim can be processed without manual intervention.

Example of prior authorization approval criteria for sitagliptin (Januvia®)³⁴

Clinical criteria:

The treatment must be in combination with metformin;

OR

The treatment must be in combination with a sulfonylurea,

AND

Patient must have, or have had, a HbA1c measurement greater than 7% despite treatment with either metformin or a sulfonylurea;

OR

(where HbA1c measurement is clinically inappropriate) blood glucose levels greater than 10 mmol/L in more than 20% of tests over a 2-week period despite treatment with either metformin or a sulfonylurea).

Prior authorizations can also be used to override benefit plan restrictions that would cause a claim to be rejected. These are often used on a one-time basis to allow approval of a claim that falls slightly outside of the standard benefits. Negative authorization (i.e., refusal to reauthorize) can exclude a normally covered product from being approved for an individual. Negative authorization is often used in cases of inappropriate medicine use or abuse.

13. Perform prospective drug utilization review

Before final approval, prospective DUR algorithms review the submitted prescription's ingredient(s), strength, and dosing for appropriateness and for possible interactions or conflicts with other medications the beneficiary is taking. If a serious issue is detected, such as a life-threatening drug interaction, the claim may be rejected and require additional follow-up by the provider or the MBP. Additional information is available in Section III.B.

14. Calculate claim pricing

If a submitted claim moves through all steps successfully, the submitted quantity is multiplied by the appropriate unit cost plus any dispensing fees to determine the total amount payable for the prescription. The unit cost may be a rate established by regulatory bodies or it could be an amount negotiated between the MBP and the provider or other stakeholders. If taxes or professional service fees are due, those payments are calculated and included in the total payment.

15. Determine patient cost-share contribution

Many benefit plan designs require the beneficiary share in the cost of the medication. Often, the beneficiary will pay a percentage of the cost (e.g., 20%) or a fixed monetary amount (e.g., \$3). The beneficiary may be asked to pay a larger percentage for a branded or specialty medication's cost than for a generic medicine.

16. Return claim

All information gathered during the adjudication process, including approved or denied status, payable amounts, and custom messaging, is combined and formatted into the appropriate response layout. The combined response is returned to the requester.

III.D. MANAGING THE INFORMATION TECHNOLOGY SYSTEM

Managing an efficient and reliable information system is perhaps the most difficult challenge for any MBP, particularly in an LMIC setting, but information management is at the core of every MBP. As noted in other sections, an MBP's structure and operations (and therefore the information system requirements and capacity) will vary depending on the beneficiary population, plan design, and the country's technology infrastructure. In settings where full automation is feasible and electronic connectivity with service providers and beneficiaries is reliable, the tasks of managing claims, monitoring services and utilization, and measuring performance are simplified.

As noted, a major limitation with paper-based information systems is the potential for delay at each stage of the claims process, which makes it difficult to keep providers motivated to stay in the program and allow beneficiaries to access needed services. In addition, the lack of electronic systems makes it hard to conduct DURs, monitor adherence to plan policies, and detect problems with overutilization and outright fraud. These are essential functions, however, that must still be incorporated, even in a purely paper-based environment. Paper-based systems can still be serviceable if properly managed and staffed, and they may be required in the early stages of a program where either cost or lack of infrastructure

make a fully automated information system impractical. In fact, not many years ago, MBPs in developed economies operated with primarily paper-based systems by using telephones for communications. The processes were slower and less efficient than those with fully automated systems, but benefit programs functioned.

The following sections outline the information technology systems and operating components.

Data Requirements

The necessity and complexity of each information system component will differ, depending on the type of program being managed. Each of the following major MBP functions has specific data management requirements—

- Processing claims/requests for payment from providers
- Managing beneficiary relations
- Managing relationships with medicine providers
- Managing relationships and interactions with prescribers/health facilities
- Managing the formulary
- Managing procurements and pricing for medicines

Other MBP components, such as financial systems, accounting systems, and human resource management, would have their own set of information system requirements.

In systems where individual claims are submitted to the MBP, regardless of the claim submission method, the consistent definition and exchange of claim data elements is fundamental to the successful rollout of any fee-for-service model. In

the United States, the American National Standards Institute standard for prescription claims is the NCPDP D.0 transaction layout (www.ncpdp.org). The standard file definition supports a significant number of data elements that can be transmitted between the provider and MBP, but only a limited number of those data elements would support claims adjudication in an LMIC (see example on the next page). Consistent claim validation and processing requires standard

CLAIM DATA ELEMENTS AND STANDARD FILE DEFINITIONS IN A FEE-FOR-SERVICE CLAIM

Claim Routing Information is used for real-time routing of claims to the MBP

- **BIN Number** (1Ø1-A1)
- **Processor Control Number** (1Ø1-A4)
- **Group ID** (1Ø1-A1)

Service Provider ID (201-B1) is the dispensing pharmacy that is submitting the claim for adjudication

Prescriber ID (411-DB) is the prescriber that wrote the beneficiary's prescription

Date of Service (401-D1) is the date that the prescription is filled and is used to determine if the beneficiary is eligible for service on a specific date

Cardholder ID/Patient ID (302-C2/332-CY) is the identifier that is used by the MBP for identification of the beneficiary

Patient Name is matched to the MBP's eligibility information to insure that the proper person is receiving benefits

- **Patient First Name** (31Ø-CA)
- **Patient Last Name** (311-CB)

Date of Birth (304-C4) is matched to the MBP's eligibility information to insure that the proper person is receiving benefits

Patient Gender (305-C5) is matched to the MBP's eligibility information to insure that the proper person is receiving medication

- **Product ID** (407-D7) is the unique identifier assigned to a specific medication
- **Quantity Dispensed** (442-E7) is the quantity of the medication that was dispensed (ex. 30)

Days' Supply (405-D5) is the length of time in days that a medication should last before it is exhausted (ex. 10 days' supply with a quantity of 30 would be 3/day).

Claim Data Elements and Standard File Definitions

{ Note – Bold values are the American National Standards Institute D.0 field name and the values in parentheses are the associated field identifiers.

coding mechanisms, such as National Pharmaceutical Product Index codes for products, Board of Healthcare Funder numbers for providers, and International Classification of Diseases codes for conditions. Some countries may have to start at a rudimentary level of developing or enforcing standards for prescription claims within their health systems. The Private Healthcare Information Standards Committee supports LMICs in setting up clinical standards and pharmaceutical coding standards (www.PHISC.org.za).

Beneficiary eligibility

Fundamental to all MBPs is the creation and maintenance of data about the beneficiaries. In most cases, the sponsor

organization regularly provides beneficiary eligibility information to the MBP to keep the data updated. Eligibility data is used to determine benefit eligibility, bill premiums, determine drug appropriateness (e.g., age, gender), and carry out clinical initiatives.

Eligibility information can be provided via secured electronic file transmission (batch), entered via the MBP's web portal, or accessed through a real-time interface with the plan sponsor's system. In some circumstances, a paper-based system can be used to transfer eligibility updates from the sponsor to the MBP's system, where it can be keyed into the beneficiary enrollment system. The box on the next page lists examples of data required for beneficiary accounts.

DATA ELEMENTS FOR BENEFICIARY ACCOUNT RECORDS

- Demographics of primary beneficiary and any eligible family members
 - Full names
 - Ages/dates of birth
 - Gender
 - Social security number, national ID number, if applicable in the country
 - Driver's license number (if applicable in the country)
 - Passport number (might be used in lieu of social security number or national ID)
- Personal contact information
 - Residence address
 - Phone numbers (land line and mobile)
 - Email address (if applicable)
- Employer/work address and contact information
- Benefit eligibility
 - Medicine benefits to be provided to the primary beneficiary
 - Benefits to be provided to family members
 - If user cost sharing is required, provisions that apply to the primary beneficiary and family members
 - Exemptions to cost sharing
- Premium/contribution rates (if applicable) for primary beneficiary and family members
- Pre-existing health conditions (if applicable in the plan design)
- Primary service providers (medical services and prescriptions), if applicable
- Other insurance coverage held by either primary beneficiary or family members that includes medicines
- Effective date of coverage under the MBP

Providers (dispensing facilities)

MBPs should try to get a list of eligible dispensing facilities from a regulatory entity, so they can begin building their provider network based on beneficiary geography and plan objectives. Provider files should be updated regularly to maintain accuracy (see box at right). These files should have a process for receiving updates on changes in license status for prescribers and providers.

Prescribers

MBPs should have a list of physicians or other health care professionals who are eligible to prescribe medicines within the country or coverage area.

Medicine and price

MBPs must maintain an up-to-date master list of any prescription, nonprescription, or specialty medications and other health technologies that can be dispensed or provided to their beneficiaries. Each medication must be assigned a unique identifier that references a product's manufacturer, ingredient, and strength. Providers will use the identifier when they submit claims to the MBP. In addition, each medication in the master list must include product reimbursement information and one or more pricing reference points. The master list should also include clinical information that can support any MBP clinical initiatives. In many countries, the drug registration authority maintains a master list of all registered medicines with the information required for most of these data fields.

MBPs may decide to build and maintain their medicine and price database by collecting data directly from manufacturers, wholesalers, and distributors. If the country has a large number of products available, using an outside vendor to collect and maintain this information may be advantageous. The vendor can regularly provide the consolidated list to the MBP

DATA ELEMENTS FOR CONTRACTED PROVIDERS

- Provider identifier (must be unique)
- Business name
- Business owner
- License number
- Facility type (ex. hospital, clinic, retail, in-house)
- Contracted effective date/termination date
- Preferred payment method indicator (ex. check, electronic payment)
- Facility address
- Payment address
- Banking information
- Phone number
- Email address

DATA ELEMENTS FOR PRESCRIBERS

- Prescriber identifier (must be unique)
- License number
- Prescriber name (family name, given name)
- Facility address
- Phone number
- Email address

DATA ELEMENTS FOR MEDICINE AND PRICE INFORMATION

- Medicine identifier (must be unique)
- Manufacturer
- Ingredient and strength
- Dosage form
- Generic/branded generic/originator status
- Units
- Units dispensed
- Category or therapeutic class (e.g., ATC)
- Type (e.g., prescription, non-prescription)
- Price information (date sensitive)
- Optional: defined daily dose (DDD) for use in DUR

in an electronic form. Many vendors provide this kind of support in South Africa; for example, Medi-Span (www.medispan.com) maintains the master list of products for South Africa, and MediKredit maintains a system of unique medicine identifiers called the NAPPI codes.

Online Portal Applications

An online or web portal is the website “entrance” where users go to access data. The ability for providers, prescribers, beneficiaries, and sponsors to interact directly with MBP systems can make a plan’s operations more efficient. Many portal applications could include the following.

Provider portals can be used by pharmacies or drug dispensing outlets to review beneficiary clinical history, including adherence and real-time claim submission; request prior authorizations; determine payment status; and access the latest clinical or benefit plan information. For providers without a dispensing application, the provider portal could be a substitute if the portal could support provider dispensing operations. For some developing countries, augmenting the portal to better support the computing needs of providers can eliminate the need for provider systems and promote the earlier adoption of real-time claim submission.

Beneficiary portal applications provide beneficiaries with the ability to review their medicine histories, access benefit plan information, instant message with MBP personnel, send online requests for information, register for voice or SMS (short message system—texting) refill or adherence reminders, and request refills if a centralized dispensing benefit is available.

Prescriber portals allow reviews of beneficiary clinical history, including adherence, requests for prior authorizations, and access to latest clinical or benefit plan information.

Sponsor/board portal applications allow program sponsors or advisory boards to determine if program goals are being met. It also allows monitoring of program expenses and forecast future funding needs or benefit changes.

Call Center and Interactive Voice Response

MBPs must be able to effectively develop, staff, and operate a call center that can support provider, prescriber, and beneficiary communication with response standards and indicators. The call center is an integral feature of a fully automated claims management system, but it is perhaps even more critical if providers and beneficiaries are not electronically connected to the MBP. In situations where claims are submitted manually or in batch form, providers and beneficiaries need to be able to call the MBP to request approvals and inquire about claim status.

Where fully automated information systems are used, the call center will require significant technology infrastructure including—

- Desktop or laptop computers
- Headsets
- Local area network and servers
- Call/issue tracking application
- Internet connectivity
- Trunk lines
- PBX (private branch exchange)/automatic call distributor
- Voice over Internet protocol technology
- Interactive voice response system
- At least two-factor authentication procedures/systems

In most developing countries, the call center will have to be located in an urban area that has reliable electricity

and communications infrastructure. In addition, call center staff will need the necessary computer and language skills (including local languages).

All inbound calls should be routed inside the MBP by caller type (i.e., provider, prescriber, or beneficiary) to specific customer service representatives who are trained to handle caller-specific inquiries. This can be accomplished through separate phone numbers for each caller type or through an automated interactive voice response script that can request the caller type. If multiple languages are supported in the call center, beneficiary calls may need an additional check to determine the caller's language.

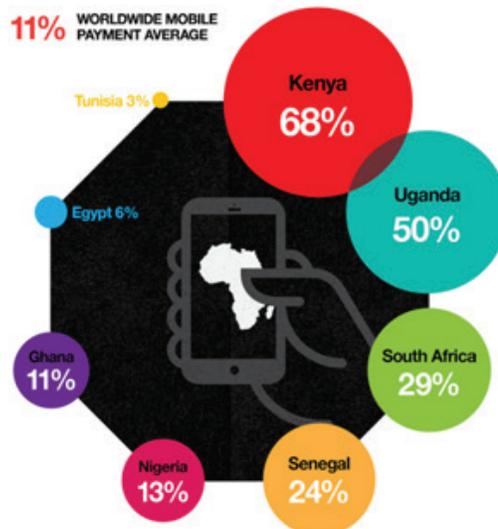
The MBP may find that some routine inquiries (e.g., check claim status or initiate refill request) can be fully automated through the interactive voice response application.

Mobile Applications to Increase Efficiency

Increased availability of general packet radio service or wireless mobile devices offers significant advantages to MBPs in their interactions with providers, prescribers, and beneficiaries. Mobile applications can enable—

- Providers to transmit claim transactions and receive payment information.
- Providers or prescribers to request prior authorizations.
- Providers or prescribers to review a beneficiary's medication history including adherence.
- MBP managers or providers to target outbound communications with beneficiaries including adherence information, refill reminders, and disease management information.

Percentage of mobile phone users who regularly make or receive payments on their phones.



Source: Pew Research Center, 2013.
Graphic by: Ivan Colic, Afrographique

The MOTECH pilot project in Ghana used mobile devices for communications with health care professionals and patients (pregnant women and new mothers).³⁵ A number of lessons from that pilot project are applicable to MBP interactions with providers, prescribers, and beneficiaries including—

Patients

- Phones are often loaned or borrowed among family and friends.
- Even low SMS costs may be too expensive for the poorest populations.
- Illiteracy is prevalent among some target populations, so voice support in the local language is needed.
- If able to read SMS messages, the level of understanding of written messages was rudimentary.

Health care professionals

- General packet radio service for data transmission was more cost effective than SMS message fees.
- Use of Java-enabled devices was more suitable in areas that had

poor network coverage because transactions could be stored on the device until connectivity was available (see earlier batch claim submission method).

- The use of a standardized mobile device improved training and troubleshooting.

III.E. MANAGING BENEFICIARY SERVICES

This section discusses the critical processes in managing beneficiary qualification, enrollment, and participation in the MBP. We cover the intricacies around important management issues such as exemptions and authorization systems, which are used to manage exceptions to standard program provisions.

Note that in most programs, the enrollment process refers to enrollment in the insurance program that offers medicine benefits as part of the program. Separate enrollment in an MBP is normally not required.

Beneficiary Enrollment

The enrollment process is the first contact between beneficiaries and the insurance plan, so enrollment must be managed effectively. All processes must be carefully designed and tested before announcing that the plan is open to enrollment. Failure to do so may result in financial losses if the plan and its MBP mistakenly accept enrollees who are not eligible, not to mention damaging the program's reputation.

Applications for enrollment

Applications for enrollment may come from individual members or be submitted on their behalf by government agencies, employers, unions, or associations. Depending on the type of management information system available to the MBP, applications may be on paper forms or submitted electronically. If the management information system is a

mixed system—paper and electronic—it might involve submitting both types of applications, with paper forms scanned into the system. As is the case with other management processes, a paper-based element will require more effort to capture and verify the required information than an automated system. It will also add time from application to certification. But automated systems also require more capital to implement and more training for the employees who manage enrollment. The MBP must make the process as quick and efficient as possible in manual, mixed, or fully automated systems.

Verifying eligibility

A critical step in most benefit programs is verification of eligibility at the time of enrollment and during confirmation of continued eligibility. This may not be a major concern in some national health insurance schemes where all citizens are eligible, but even in those cases, it may be necessary to verify citizenship and residency, determine eligibility for specific services, or approve exemption from cost sharing.

The level of effort and costs involved in managing verification of eligibility for plan participation will vary by the type of plan and the country context. If the employer pays for the member's coverage, the MBP may choose to accept the employer's assurance of a participant's eligibility (unless further medical history or testing is required to enter the plan). When individuals submit applications, the MBP should verify the accuracy of

the information. This is particularly true for individuals who claim eligibility in a category targeted for special benefits or exemptions from cost sharing. A physical visit to the applicant's residence or workplace may be necessary or verification via phone or email with references provided, if appropriate. Some LMICs may not have a good dwelling address system for verification, therefore, innovative options such as finger biometric identifiers linked to national databases can be considered.

Managing the enrollment and verification process, whether automated or manual, requires significant numbers of staff, and although computerization can reduce the number of clerical staff need to process manual submission, it will require a more skilled and higher paid workforce to manage the computerized system.

Identification Card and Other Materials

Once the plan has confirmed eligibility for benefits, the MBP needs to provide each member with ID cards certifying the member's eligibility for benefits. This ID card will typically contain—

- Members name—if family members are covered, each person may have a card with their own name, or the member's card may specify names of eligible family members, and each gets a duplicate of the member's card
- Employer's name and group number, if applicable
- Member's account number or policy number
- Cost-sharing status including required amount of co-pays, co-insurance, or deductibles
- Eligibility for preferences or exemptions from cost sharing
- Contact information for the MBP and PBM, if applicable

This member ID may be in the form of a standard paper or plastic card; a "smart card," which could allow the provider to access the member's information electronically; or potentially be included as part of a mobile phone application. The choice will be based on the technology available and the costs to implement and manage the process.

In addition to the ID card or equivalent, the MBP needs to provide each primary member with materials related to the plan. These typically will include—

- Certificate of coverage stipulating the dates of effective coverage and which beneficiaries are covered.
- Summary of member's coverage, including the specific medicine benefits available, cost-sharing requirements, and eligibility for preferences or exemptions from cost sharing.
- Member handbook that explains the features, benefits, and limitations of the MBP and spells out—
 - Services and medicines covered and any exclusions from coverage.
 - A list of providers who are authorized to provide services and medicines; specifies if member is limited to specific providers as their primary source of services.
 - Expectations for member's responsibilities and penalties for non-compliance with program policies (and incentives for compliance, if any).
 - Program policies and procedures for accessing services and for payments and reimbursements.
 - The process for obtaining out-of-network coverage and accessing alternative providers (if applicable) including any differences in cost share policy that may apply.
 - The process for authorizing services and requesting exceptions to plan policies.

- Any additional member services available such as educational materials, disease management initiatives, wellness programs, etc.
- Primary pharmacy services provider (individual or network), as applicable.
- Pharmacy benefits management, if applicable.
- Primary medical services provider, if applicable.

The plan can make these materials available online, via email or smartphone applications, or through paper copies, which may be the most realistic option where Internet access is not universal. In some countries, the benefit plan is required to provide paper materials, even if the materials are available electronically.

Status Review and Re-Enrollment

The insurance plan should define the period for reviewing each member's eligibility to participate. In most situations, where the members or employers are paying for participation, the review occurs annually, but given the level of effort and associated costs required to conduct the review and recertification process, lengthening the period to two years or more may be necessary. Long intervals between reviews or failure to review eligibility will waste money as the program pays for services and medicines for people who are no longer eligible for coverage. However, national insurance or social security insurance plans may have longer eligibility periods, in some cases for a lifetime.

The re-enrollment process is similar to the enrollment process, except that the emphasis is on verifying that the member and any family members enrolled are still eligible for the program, that personal information in the record is still correct, and that members have been compliant with program policies and procedures and have met financial obligations.

Managing Confidentiality of Patient Information

Many countries have explicit laws and regulations that govern confidentiality of beneficiary information and their medical treatment records. Even if the country has no official restrictions, the MBP should still develop and enforce its own policies to protect patient privacy and ensure contracted service providers follow the same policies. Components of this privacy program would include—

- Safeguards that protect the information from unauthorized access.
- Limitations on disclosure of the information without express consent of the beneficiary.
- Policies and procedures that limit who can view and access information.
- Training programs to make sure program staff and contractors are familiar with the policy and procedures (and regulations that may apply); the MBP must ensure that all internal systems comply with privacy regulations and that contracted outside service providers also comply with the same restrictions.
- Monitoring programs to assure that policies and procedures are being followed both internally and by contractors.
- Penalties for unauthorized disclosure.

Managing Exemptions

As discussed in Section II, cost sharing is a feature of most benefit plans in developed economies, but is viewed as problematic in some LMICs. In LMIC programs that do have cost sharing, it is customary to have targeted exemption policies that lower or eliminate cost sharing for targeted segments of the population. However, unless these exemption programs are managed

effectively and transparently, abuse may become widespread with exemptions granted based on political clout or social or familial contacts or on outright corruption, with the sale of exemptions. If not managed effectively, beneficiaries who should get exemptions fall through the cracks and are denied access to quality services and medicines.

Designing exemptions for the plan

Determining which beneficiaries should receive exemptions begins in the design process, in conjunction with determining targeting policies and procedures. If exemptions are based on targeting categories of people, the plan's enrollment process needs to verify that beneficiaries and family members claiming exemptions are part of a target category. If exemptions are based on either direct or proxy means testing, the plan will need extra staff to investigate the beneficiary's financial situation. In some administrative structures, a separate unit may process exemptions, in which case a specific form requesting the exemption may be submitted as part of the enrollment process, and routed to the responsible unit.

Verifying exemption requests

In settings with computerized information systems, the exemption request, review, and verification process will be largely automated and based on electronically submitted forms or scanned manual forms. The forms are compiled and reviewed by the computer software, which flags gaps or conflicting information that a staff person must physically verify.

In most LMICs, computerized record systems are not widely used, particularly in public sector benefit programs, and the exemption verification process may be a paper-based submission and review, combined with physical visits by program staff to verify statements made on the beneficiary's application. Whether the requests for exemptions are

managed electronically or manually, an MBP official eventually must certify the eligibility of the beneficiary for exemption. In some community-based plans, a committee from the community may determine the exemption eligibility.

Most exemptions should be granted for a specific period, such as a year or two, before recertification. As with the re-enrollment process, the focus is to make sure that nothing has changed to invalidate the exemption. This is, of course, not required for categories such as "senior" (65 years or older).

The benefit plan can consider adding an appeal process, whereby a beneficiary can appeal the exemption denial to a higher level of benefit plan management.

Reviewing exemption processes and policies

Considerable pressure to subvert the verification process can exist, both during the first-level review and in an appeal, if allowed. The MBP will need a process to review the work of those involved in granting exemptions to assure that the program's policies and procedures are implemented fairly. This will require additional staff and may require a dedicated unit.

MBPs that have cost-sharing programs with exemptions should periodically review the impact of the policies on access for targeted populations and on program operating costs, to assure that the program is not costing more than it is worth or restricting access for target populations. An exemption review could also include an update of program policies when the exception becomes the rule.

Managing Service Authorizations and Exclusions

The MBP design needs to define which services and medicines are automatically

covered and which are excluded (as discussed in Section II). Some services and medicines may be subject to formal authorization by the MBP on a case-by-case basis.

Most benefit plans allow some exceptions, such as allowing payment or reimbursement for a medicine or a procedure that is normally excluded from plan coverage, but only for specific patients in certain circumstances, on a case-by-case basis, and with formal authorization. Authorization may also be required for the numbers of prescriptions dispensed per visit or the quantity of medicine dispensed, if they are limited in the benefit plan. Some US plans require authorization to cover medicines for “off-label” uses.

Currently, in most MBPs in LMICs, prior authorization processes relate to high-cost medicines that require verification of clinical conditions, not standard medicines on the national essential medicines list.

Authorization categories

Kovacs et. al. describe basic authorization categories as³⁶ —

- Prospective or prior authorization or approval
- Concurrent authorization
- Retrospective authorization
- Sub-authorization

Prior authorization

Prior approval (or prior authorization) is the most common model used to manage exceptions. In this model, the provider notifies the designated unit at the MBP or the pharmacy benefit management company that a beneficiary is presenting with a prescription or request for services that requires prior approval. The medicines or services are not dispensed or provided until approval is received. Once approval is received, the patient is only responsible for any cost share requirement. In some plans and for some medicines, the

pharmacy may be authorized to dispense a limited quantity of the medicine (usually a one to two day supply) to cover the patient’s needs during the time required to process the approval request.

Concurrent authorization

This request is generated while the treatment that would require authorization is already under way. The MBP will typically grant at least conditional approval, but it may instead redirect treatment options.

Retrospective authorization

This authorization request occurs after the beneficiary has received the service or medicine. This model is a potential option when the benefit plan’s design requires beneficiaries to pay out-of-pocket for the full cost of services and medicines and then get reimbursed by the benefit plan. Requiring beneficiaries to pay out-of-pocket is not a viable model for socially focused benefit plans, because patients who cannot afford to pay will be denied access, and those who can pay run the risk of having their reimbursement denied.

A retrospective authorization system may be considered in situations where the providers and MBP have no real-time communications capacity, and the provider is willing to risk providing medicines to beneficiaries and then submit a claim subject to retrospective authorization. Even plans using prior authorization, however, will have some requests for retrospective authorization from some providers, due to a breakdown of communication systems or other problems that prevent a connection with the MBP to obtain prior authorization.

If all such requests are denied and the claims are not paid, the providers will stop providing the services, which will alienate providers and beneficiaries. Therefore, in some cases when the services were urgently needed, but the MBP is unable to respond quickly, it may need to grant retrospective approval for

payment. Both providers and beneficiaries who repeatedly request retrospective authorization when the standard policy is prior authorization, should receive educational interventions, and if those fail, be denied future claims.

Appeal process

The MBP needs a defined process by which providers or beneficiaries can appeal denials of requests for prior authorization. The process may be managed by a dedicated review committee or by the medical director (or equivalent). In some plans, the governing board could be directly involved.

Sub-authorization

In this model, the authorization of exceptions is linked, meaning if one product or service is approved, then another service that would normally require approval is automatically authorized. This is most applicable in hospital settings; once hospitalization is approved, authorization flows down to the associated services. For an MBP, that could apply to coverage for a specific medicine, which means that ancillary treatment is also authorized. For example, if insulin is authorized, then other diabetic supplies, such as syringes and test strips, would also be authorized.

Processing authorizations

In paper-based systems, requests are submitted by paper or by phone. Once plan staff receives requests, they classify them into three batches: pending review, approvable without further information, and denial, although partial approval may allow partial payment. The pending classification could result from needed information, approval could be in full or with a co-payment, and denial means the request is denied in its totality with no reimbursement.

In fully automated settings, with real-time adjudication, the provider submits the authorization request electronically, and in some cases, it may be

approved electronically or by the MBP or PBM, while the patient waits at the point of service. The provider may need to speak directly with an MBP official to get approval.

With telephone requests, the provider or the beneficiary will speak with an MBP manager who will approve, deny, or refer the request for further review, which allows for immediate intervention at the time of the authorization request. The provider or patient may be required to sign and fax a form attesting to the information submitted. In paper-based systems, the provider will mail or fax the request to the MBP, then wait for the MBP to determine whether to approve payment. This will obviously be the slowest processing option.

Approving authorizations

The MBP must identify who is authorized to approve requests. The officials at the MBP or PBM company who are responsible for the primary review of an authorization request should have the clinical education needed to make the appropriate judgments and communicate with providers. For an MBP, that person would typically be a pharmacist, although a physician or nurse is an alternative. Requests classified as needing further review may be referred to a medical director or chief pharmacist.

In benefit plans where the prior authorization process is fully or mostly automated, one review official can handle many requests in a day—most of the requests are handled by the computer software and only require quick review and sign-off. In paper-based systems, the authorization review process may require staff members to manage the workload and minimize the turnaround time for ruling on requests and managing the appeal process.

As with exemptions, there should be a process allowing patients or providers to appeal claims that are denied initially.

The claims might be referred to the medical director or to an appeals review committee made up of pharmacists, physicians, and patient advocates, or

the plan could have a contract with a separate organization that specializes in reviewing and ruling on denial appeals.

III.F. MANAGING DISTRIBUTION OF MEDICINES TO BENEFICIARIES

As discussed in Section II, the delivery of medicines to MBP beneficiaries can be through in-house facilities that are staffed by plan employees (the closed model); through contracts with outside medical and pharmacy facilities, which could be public, private, or NGO entities (the open model); or a mixture of both. Although the term “pharmacy” is used to designate the contracted dispensing provider in this section, in some countries, the service provider may be a licensed drug shop, public or private health clinic, or dispensing prescriber. A variety of providers may be needed to provide access to all target beneficiaries because of the inadequate distribution of pharmacies in the country (i.e., urban locations).

Managing the delivery of medicines to members using in-house facilities and staff is well beyond the scope of this guide, but it is covered in detail in MDS-3.

When evaluating systems for delivering medicines through any type of contracted provider, several criteria are important³⁷—

- The provider payment system should provide positive incentives for the dispenser to improve quality of care by reaching out to the prescriber or beneficiary when he or she detects potential problems with the treatment. For example, the plan could pay a negotiated fee each time the pharmacist intervenes or increase the dispensing fee for

pharmacies who review medication regimens for beneficiaries.

- The management system and the provider contracts should have mechanisms to monitor services and ensure that beneficiaries receive required services and that the claims are submitted as the contract mandates.
- The system should provide incentives for prescribers, dispensers, and beneficiaries to choose the most cost-effective medicines to treat health problems. Incentives could involve a higher dispensing fee when a generically equivalent product is substituted for a brand name product, or where markups on the cost of the medicine are allowed, the markup could be higher for lower-cost products that are generically or therapeutically equivalent to higher-cost products.
- The system should encourage prescribers and dispensers to participate in the benefit program and serve covered beneficiaries.
- The administrative systems should be consistent with available technology and existing claims-processing capacity and manageable for beneficiaries, service providers, and claims administrators.
- The service delivery and payment systems should promote equitable access for all covered beneficiaries.

➤➤ **See Part II Pharmaceutical Management in MDS-3.**

Separation of Prescribing and Dispensing

One issue for the MBP is determining which service providers should deliver medicines to members. Inpatient medicines and many specialty medicines, particularly injectables, are routinely administered by the medical provider and may be bundled in the overall charge for patient services.

If prescribers of outpatient medicines are also reimbursed for dispensing those medicines to the patient, the prescriber benefits financially as the number of prescriptions goes up, thereby increasing the risk of overprescribing. On the other hand, if generic medicine policies and payment and reimbursement policies are not harmonized with the prescribing or dispensing policy, the prescriber who does not dispense may have little incentive to prescribe lower-priced medicines. Prescribing or dispensing restrictions could lower the total number of prescriptions issued, but could also increase average prescription costs and MBP expenditures on medicines.³⁸

In some countries, national or state laws or regulations mandate the separation of prescribing and dispensing. If the prescriber is legally barred from dispensing, he or she can try to evade the ban by owning a pharmacy and steering patients to that pharmacy. This can lead to another round of regulation, such as banning physicians from having any financial interest in a pharmacy. If the dispensing prescriber is not legally banned, the MBP will need to develop its own policies. If all plan members have reliable access to licensed dispensing outlets, it makes sense to limit or ban MBP reimbursement for medicines dispensed by prescribers, while tying reimbursement for their medical services to compliance with the plan's formulary, generic drug policies, and clinical practice guidelines.

However, some places may have limited access to licensed dispensing outlets,

so although the MBP separates the functions, it may need to make some exceptions to allow prescriber dispensing to ensure full access to the entire target population, if the exceptions are legal. Generally, MBP's attempts to change existing laws regarding prescribing and dispensing authority will be met with strong opposition from whichever professional groups feel their roles are being undermined. The critical point is that the MBP's policy on dispensing prescribers needs to link to its policies on generics and on reimbursement to providers to limit perverse incentives for overprescribing while providing positive incentives for cost-effective treatment and compliance with clinical practice guidelines.

Choosing Providers

An important MBP decision is how much freedom to give beneficiaries in choosing medical and pharmacy service providers.³⁹ From the MBP's point of view, monitoring service quality and compliance with program policies and guidelines is easier with a limited set of providers; in addition, administration of the contracts is less burdensome and expensive.

Open access and network

Open access means that members can receive medicines from any outlet licensed to provide prescription medicines to consumers, without any contractual relationship between the provider and the MBP. To the MBP, this is the least desirable way of providing medicines to beneficiaries because the plan has limited or no leverage over dispensing practices, choice of products, or pricing and markups. This may sound good from the provider's perspective, but because the MBP has no contractual obligations regarding payment time or guarantees, the provider and members may find this option to be undesirable in practice.

Open network means that a beneficiary can receive services and medicines from any licensed provider who is willing to accept the MBP's terms and conditions (known as "any willing provider"). An open network still requires that the provider sign a contract with the benefit plan to get claims paid, but the option must be open to any willing provider who meets the criteria. In some country settings, laws and regulations may mandate that any willing provider must be allowed to provide pharmacy benefit services to members.

The open network model potentially provides benefit plan members with access to the largest selection of potential service providers. Again, the open network model may appear preferable to providers and members, but the provider will receive a relatively uneven volume of medicine benefit payments, and patient visits to the outlet will be more erratic. The MBP will find it harder to standardize and manage the claims adjudication and authorization process, which may slow payment turnaround. The MBP will also find it more difficult to assure quality and review utilization; in addition, it may have less leverage to negotiate discounts on fees or medicine prices. As the MBP or PBM company introduces or expands electronic information systems that require automation on both provider and plan sides, an open model will make that process more complex.

Closed network and preferred providers

In a closed network, the MBP selects a group of preferred service providers to provide medicines to members. The preferred providers may include individual outlets (community pharmacies, selected pharmacy chains, health centers and hospitals, NGOs, or mail order outlets). In some plans, members may go to any provider in the preferred network, but other plans may assign members to a certain provider that the member must

use unless an exception is authorized. The latter is standard in the case of mail-order prescription services.

In a closed network, the preferred providers benefit from higher volumes of patients, prescriptions, and sales. Assuming competition exists for preferred provider status, the MBP may be able to negotiate discounts on dispensing fees and mark-ups on medicine prices. A closed network model makes it easier for the MBP or PBM to establish efficient mechanisms for submitting and adjudicating claims, manage authorization processes, communicate with providers, and monitor service utilization and quality, such as through customer satisfaction surveys. Those efficiencies may then allow the MBP to reduce turnaround times for claim payment and be more responsive to provider and member issues. As discussed below, with a closed model, the MBP will need to deal with out-of-network coverage when members are unable to access a preferred provider.

Choosing a network type

As mentioned, each MBP will need to review the potential providers and geographic distribution of beneficiaries and providers to determine whether an open or closed model is most appropriate for the situation. Another consideration is the extent to which political factors could affect the choice of providers in a closed model. If the closed model is used to steer beneficiaries to politically connected providers or favored providers, it may adversely affect both access to and costs of medicines.

Benefit plans that use an open access or open network model may want to analyze the potential benefits of moving to the opposite model. Changing the model may or may not be politically feasible, even if it reduces costs, enhances access and service quality, or increases managerial effectiveness. Mapping stakeholders and analyzing political feasibility would be a

prerequisite to attempting to change the model for existing plans.

Out-of-network coverage

Designers of an MBP need to decide whether and how to provide coverage for medicine benefits when beneficiaries are traveling or otherwise unable to obtain prescriptions from an accredited network provider. One option is for the beneficiary to pay out-of-pocket and then submit a claim to the MBP for reimbursement. This method clearly limits access for beneficiaries who cannot afford the out-of-pocket payment. Another option is for the provider or beneficiary to contact the MBP online or by phone, explain the circumstances, and obtain approval before dispensing the medicine. Assuming approval is granted, the beneficiary would only pay the standard co-payment or co-insurance, and the provider would bill the MBP for the remainder of the charge. In some plans, the standard co-payment or percentage may be higher for out-of-network prescriptions, but if this is an option, the increase should not be enough to reduce access for poorer beneficiaries.

Mail-order prescriptions (where feasible) may be the preferred choice for beneficiaries who are unable to access a local network provider. Although it may be the most cost-effective option for the MBP and the beneficiary, issues may arise with the delivery time, if therapy must be started immediately or if interruption of chronic therapy would be harmful.

Identifying and Contracting with Pharmacy Providers

As part of an MBP's certification and contracting process with authorized medicine providers, it confirms that each provider meets specific quality standards and that the provider agrees to accept an approved rate schedule (if supported by

current regulations). In addition, MBPs can define a restricted network that requires the providers to accept stringent criteria on information technology capabilities, formulary adherence, clinical interventions, or reimbursement rates, but such demands may cause logistical obstacles for beneficiaries and could complicate their timely access to medications. With a very large provider network, the MBP has less influence on its providers, which may weaken its strategic initiatives to reduce costs or provide timely clinical interventions.

The MBP needs to develop standards for evaluating the credentials of potential service providers and their capacity and willingness to provide access to quality services and medicines. In addition, each contract provider must sign an agreement to comply with all contract terms. (Annex 1 has more details on credentialing and contract terms.) Identifying all potentially eligible pharmacy service providers is required in both open and closed network models, although in the open model, the basic premise is that any willing provider with the proper credentials is eligible to sign a contract; however, the MBP or PBM company will still need to verify that the provider meets the standards before approving the contract.

Potential providers across the country may be identified through lists of licensed outlets from the national licensing agencies, such as the board of pharmacy or board of medical examiners, and from the respective professional associations. Requests for expressions of interest in participation can be published in newspapers and online, depending on the context. Or requests can be mailed, emailed, or delivered by phone to eligible providers. The MBP's credentialing unit may do the due diligence on a provider's fitness for a contract or a national agency such as the board of pharmacy, ministry of health, or a contracted professional association may manage it. If a PBM is

providing services to the MBP, it will usually identify providers and manage the credentialing and contracting process. Additionally, monitoring of contracted pharmacies must be continual to ensure consistent service delivery.

Mail order and online service providers

Prescription and nonprescription medicines are available by mail order in much of the world, often through orders placed online through pharmacy websites. In highly developed economies, insurance programs and MBPs contract with dedicated mail order pharmacies to deliver medicines to beneficiaries. These contracts may supplement contracts with local pharmacies or pharmacy chains, but at least in the United States, many benefit programs use mail order as the primary supplier of prescription medicines, particularly for chronic care medicines. Mail order may also be used to provide medicines to beneficiaries who are traveling or otherwise unable to access the network provider.

Currently, few LMICs have mail-order pharmacies, but the following example from South Africa illustrates an alternate approach—courier service delivery to designated pick-up points. The issues discussed regarding mail-order pharmacy services in this section are also applicable to courier pharmacy services.

Where the service is viable, centralized mail-order or courier pharmacies may

offer lower prices than community pharmacies because they can obtain volume discounts from manufacturers. They may also offer discounted dispensing fees through economies of scale and automation of the dispensing process. Mail-order prescription services can also reduce the MBP's administrative burden because only one provider serves beneficiaries in a large geographic area, which simplifies claims processing and adjudication. Mail-order pharmacies that contract with benefits programs will typically have call centers to manage issues raised by beneficiaries and providers. These call centers may also contact providers to suggest changes in the prescription based on the formulary or the therapeutic substitution policies of the MBP. Many beneficiaries may appreciate the convenience of home delivery or pick-up at a local facility, particularly if they are older, disabled, or have difficulty traveling to a network pharmacy. However, the lack of personal contact with a pharmacist limits the opportunity for patient counseling.

One potential constraint to an MBP's use of mail order or courier prescription services is opposition from community pharmacies or pharmacy chains and their professional associations. MBPs should anticipate and handle this opposition, if possible. Analyzing the political situation and managing the political issues may be just as important as negotiating a good contract and analyzing the potential impact on access and program finances.

COURIER PHARMACIES

In countries where pharmacies are only in urban areas, the postal service is poor, and there is no other type of drug outlet, such as licensed chemical sellers, a courier pharmacy may be an option. A courier pharmacy delivers chronic care medications to clients on a monthly basis. The Western Cape Province of South Africa has contracted with a third-party courier pharmacy company, UTI, to deliver HIV and AIDS, hypertension, and other chronic care medications to over one million South Africans living in rural areas. The Western Cape Province's Central Chronic Dispensing Unit receives paper prescriptions from visiting physicians after patient visits. The medications are dispensed at a central point by a team of pharmacists and shipped by the courier company to the church or farm closest to the beneficiary, where he or she can pick them up.

Another potential constraint to mail order is the lack of reliable home addresses for beneficiaries in many LMICs. Without consistent use of addresses or access to postal boxes, assuring delivery is difficult. The benefit of the courier service alternative is that medicines are shipped to a public, NGO, or commercial facility where beneficiaries pick them up.

When negotiating a contract with a mail-order or courier pharmacy service to provide medicines benefits, the following considerations apply⁴⁰—

- License and accreditation status
- Status and capacity of the physical facility where prescriptions will be filled
- Advanced technology to support the dispensing processes
- Qualifications of professional and support personnel for dispensing and managing interactions with prescribers
- Capacity to support formulary management and drug utilization review processes
- Capacity to manage generic or therapeutic substitution policies and generic substitution rates achieved for other clients
- Shipping (including labeling and packaging) methods to beneficiaries and delivery capacity to geographic target areas
- Average price to be charged for ingredient costs of commonly used medicines compared with community pharmacy prices
- Dispensing fees compared with community pharmacy fees
- Capacity and willingness to offer discounts on medicine prices and dispensing fees
- Promised versus demonstrated service level and turnaround time for delivering prescriptions

- Capacity to manage claims submission process in line with MBP requirements
- Capacity to manage cost-share process
- Error rates and error prevention procedures
- Error correction process
- Billing accuracy rates
- Performance standards on managing exceptions, denials, and appeals

Contracting for specialty medicine services

The following criteria are used to define specialty medicines⁴¹—

- Chronic disease target
- High medicine cost
- Special handling requirements
- Need for close clinical support and customized dosing
- Typically a small patient population

Examples of disease conditions where specialty medicines are used include cancer, hemophilia, kidney failure, intractable arthritis, and multiple sclerosis.

Specialty medicines may be administered in clinics, physician offices, or hospitals and may be covered by the inpatient medical benefit. However, some countries now have specialty pharmacies that prepare and distribute these products. The pharmacies typically store the specialty medicines, prepare the product for administration, and deliver them to a clinic or physician's office. Delivery may be on a just-in-time basis for a patient appointment or even to a patient's home, depending on the medicine and the therapeutic requirements. In some situations, the specialty pharmacy may directly administer the medication to the patient. In the United States, many specialty pharmacies have been acquired recently by large commercial PBM companies.

Payment for specialty pharmacy services and the cost of medicines may be either based on a negotiated charge for each medicine and professional service or on a fixed charge covering bundled services and medicines discussed previously for inpatient services.

MBPs that plan to cover specialty medicines or innovative health technologies may need to adjust their cost-sharing policy because these products and services are usually much more expensive than standard therapies. If the beneficiary cost share is based on a percentage of the medicine's cost, many patients would not be able to pay or experience severe financial hardship—essentially denying them access. Even flat co-payments may lead to inequity if they are significantly higher. Therefore, funding for targeted exemptions will be required to assure equity where cost sharing is in effect.

The evaluation criteria for prospective specialty pharmacy providers and the contracting considerations are essentially the same as those applied to outpatient and mail-order providers, as discussed earlier.

»» See chapter on Contracting for Pharmaceuticals and Services in MDS-3.

Determining Reimbursement Terms for Providers

In open and hybrid models, a key design decision is how providers will be paid and how much. Most socially focused benefit plans will want a system where the beneficiary pays only a cost share or nothing and the contract service provider submits the claim to the benefit plan. This system can limit the choice of service providers, because some may be unwilling to take the risk of waiting for payment from the benefit plan, but it avoids subjecting beneficiaries to out-of-pocket costs they cannot or will not pay; however, assuming

the claims process is fair and reasonably prompt, the providers benefit from higher volume of patients and prescriptions because more eligible members can access the benefit. The discussions of payment and claims management in this section focus on that model, and payment terms generally follow the fee-for-service model, although we also include other options, such as bundled pricing and capitation.

In many countries, medicine pricing is regulated by a government agency that is separate from the insurance system (see the discussion of managed market entry and reference pricing below). Where reimbursement rates are not governed by one of these mechanisms, the reimbursement rate for medicine costs (also known as ingredient costs) is usually the most complex payment parameter for the MBP to establish. Some benefit plans have a policy stating that pharmacies will be reimbursed based on “usual and customary charges” or the cash price charged for a medicine for a patient without insurance. This will typically be the most expensive of the available options, and it gives the MBP limited leverage over prices charged for medicines—making it unlikely to be financially sustainable. However, usual and customary prices language can ensure that the plan is not charged more than that price in situations where the pharmacy is deeply discounting prices for certain medicines to other customers. If a contract includes such a provision, the MBP will need a way to audit the usual and customary prices paid by the community. In some countries, a government agency or advocacy organization regularly surveys medicine price information from private pharmacies. The MBP may want to do its own price surveys, for example by using “mystery shoppers” that go to the outlets with prescriptions to determine what prices are being charged.

Components of payment terms

As discussed in Section II, the basic models for determining allowable sales prices for medicines can be based on markup or set for each medicine with variations based on reference pricing. Some plans receive a rebate from the manufacturer or from a contract PBM for part of the medicine price.

The basic components of payment terms for pharmacy services are as follows—

- Cost of the medicine (ingredient cost) in cost-based reimbursement or the established sales price in reference pricing and similar systems
- Dispensing fee
- Fee for additional professional services, such as medication therapy management or disease management programs
- Sales tax or value added tax, if applicable

If the MBP is being designed and implemented in a country with government-mandated price regulations, then its policy on reimbursement to providers will need to comply with those regulations. If there are no government regulations, the MBP will need to develop its own policies. This is discussed in the section on contracting with service providers.

Reimbursement under managed market entry and reference pricing systems

In many high-income countries, managed market entry, often combined with reference pricing, sets the official price for reimbursement for ingredient costs. Australia, Canada, and most of Europe manage the entry of new medicines into reimbursement programs. Annex 5 summarizes a useful review of the various managed market entry programs in Europe.⁴²

Reference pricing

A review found that many high- and middle-income countries had adopted reference pricing for medicines in one form or another, including Australia, Germany, the Netherlands, New Zealand, South Africa, Spain, Taiwan, and regionally in Canada.⁴³ Others found that only a few low-income countries' medicines benefit plans used generic reference pricing, but they cited Kyrgyzstan as a successful example.⁴⁴

The two overall categories of reference pricing are internal reference pricing, based on the range of prices in the national market and external reference pricing, which may be based on average international prices from different references.⁴⁵ Some countries may be able to access information from programs such as the WHO/Health Action International Project on Medicine Prices and Availability, which compiles pricing data from multiple countries. MSH publishes the *International Drug Price Indicator Guide* each year, which can help the MBP determine how local market prices from manufacturers and wholesalers compare with prices available internationally; however, that source would be unsuitable for setting the cost basis for payment in a particular country.

There are also two approaches to applying reference prices—generic and therapeutic—and some programs use both. With generic reference pricing, the reference price pertains only to generically equivalent products. In therapeutic reference pricing, the reference price pertains to all products in a specific therapeutic class, whether generic or branded (e.g., proton pump inhibitors, histamine 2 antagonists, statins).

Reference pricing and its variations establish a set reimbursement or sales price for a medicine based on market price information on all versions of that product that are available. The reference price may be based on prices that are available in the local market or on a

basket of prices for the same product in comparable countries. The reference price is usually set below the highest priced product in the markets being considered, but may not be set at the lowest price. For example, in some European countries, the reference price is set at a level just above the lowest third of market prices for the targeted group of products. Once a government or an MBP establishes a generic reference price system, the payer pays the pharmacy provider only the reference price for that generic medicine, no matter which brand of the generic product is dispensed. In the therapeutic reference price system, only the reference price for that therapeutic category of products is paid, no matter which generic or branded medicine in that category is dispensed. This provides an incentive to prescribers and patients to choose a low-cost generic medicine or one in the therapeutic category that is priced at or below the reference price; in many cases, this therapeutic reference pricing means switching the treatment regimen from one chemical entity to another.

Single-exit pricing

South Africa has implemented a variation called the single exit pricing system. In this system, the government establishes the allowable price for each level of the supply chain using a method similar to reference pricing. The manufacturer's single exit price is the same for all providers and all purchasers. Wholesalers and distributors are eligible to negotiate for logistics fees, and dispensers are allowed to add a dispensing fee up to a maximum that applies to all providers.

Maximum allowable cost

In the absence of a government-mandated reference pricing system, the MBP may wish to set its own standard reimbursement prices by determining average medicine prices in the national market, at least for high-volume products. An approach that some US benefit plans use for paying ingredient costs for generically equivalent products is

maximum allowable cost, which bases the payment rate on either the lowest-priced generic product available for a particular medicine or on an average price of all generic equivalents in the market (with maximum allowable cost pricing in benefit plans usually based on government-established limits). This approach is closely akin to reference pricing.

When a government or MBP adopts either a maximum allowable cost or reference pricing, there is no question about paying for ingredient costs for products covered by the mandate. The pharmacy provider will be paid for ingredient costs at the maximum allowable cost level or the reference price for that generic medicine or the reference price for that therapeutic category.

Cost-based reimbursement

These systems are based on the acquisition cost to the dispensing provider. That cost can be difficult for the pharmacy to calculate if they purchase from different sources and in different package sizes.

In some settings, an estimated average ingredient cost (with or without standard percentage discounts or markups) will be used as the cost basis for reimbursement; for example, in the United States, the published average wholesale price has long been used as a standard cost basis for medicines, even though it is an artificial price that no pharmacy actually pays. Newer variations in the United States include average sale price, based on information submitted by suppliers to the federal government, and average manufacturer price, based on all manufacturers' list prices for medicines as reported to the government. Again, few pharmacies actually pay any of these prices because of discounts and rebates offered by manufacturers and wholesalers, negotiated discounts, and rebates in cost-based reimbursement.

In the absence of maximum allowable cost, reference pricing, or

government-mandated pricing such as the single exit price, once the cost basis for payment of ingredient costs is established, the question is whether any discounts or markups can and should be incorporated into the contract terms. When pricing is based on an artificial price, such as the average wholesale price, the contract terms will usually state “average wholesale price less x%,” because pharmacies rarely if ever pay that much to suppliers. For other types of averaged prices or government-established prices, the contract may stipulate payment of the average or government list price plus a fee, and in some situations, a percentage markup may be allowed on the actual or estimated cost. This markup can be important in environments where inflation in the pharmaceutical market is significant, so that the pharmacy can continually replenish stock. The problem with percentage-based markups is that the dispenser has an incentive to sell higher-cost products. In some plans, a higher percentage markup is allowed for low-cost generic medicines than for higher-priced medicines.

The MBP may be in a strong position to negotiate discounts if many providers are competing for access to a restricted provider network. The MBP may also be able to negotiate discounts on both medicine prices and fees. This is less likely to work in the open network model, but discounts could be possible if the MBP has the political power to make them a standard term in all contracts.

Manufacturer rebates

In the United States, manufacturer rebates are widely applied to reduce net medicine costs. Rebates, which are partial refunds from the manufacturer, may go directly to the benefit plan or to the PBM. A PBM contract should require that it shares the rebate with the benefit plan. Rebate levels may be regulated for government-funded programs, such as Medicaid and Medicare in the United States, or through direct negotiation with

suppliers, which commercial pharmacy benefits companies now usually manage. The main concern with rebate systems is transparency—whether suppliers accurately report the average actual prices on which rebates are based and the utilization and the benefit plan itself receives the advantage of the rebates.

Dispensing fees

Prices for standard pharmacist services, such as dispensing fees, may be established through government laws and regulations or through negotiation between payers such as insurance plans and service providers. The dispensing fee is usually a standard amount for all prescriptions, or it may be tiered, for example, adjusted higher for lower-cost generic medicines. The plan may negotiate with the national pharmacy association or with individual pharmacies or pharmacy chains for the fee. In cases where the government does not establish a statutory fee level, large payers such as benefit plans may negotiate a discount on those fees in exchange for the business. As is the case with discounts on ingredient costs, such negotiations are most likely to produce results in a closed rather than open provider network.

Fees for additional professional services

Where benefit plans have been operating for many years, some reimburse pharmacists for additional services. One such service is called medication therapy management, where the pharmacist intervenes with patients or prescribers to address a problem identified through drug regimen review or DUR. Other examples might be administering vaccinations or managing the patient’s chronic drug regimen. If laws permit and pharmacists have the training, capacity, and willingness to provide these services, the MBP could negotiate a fee, perhaps based on advice from the applicable professional associations.

Taxes

The last component of the fee-for-service payment is reimbursement for taxes.

Many countries have eliminated sales or value added taxes on medicines, but if taxes do apply in the country, they will need to be reimbursed to the provider as part of the payment terms. WHO has recommended that countries remove taxes on essential medicines to promote equitable access to medicines, but not all countries have taken this step.

World Health Organization recommendations

WHO's 2013 guidelines on pharmaceutical pricing policies make recommendations that will likely influence country-level policies and regulations. In summary, the basic WHO findings and recommendations include the following—

- Regulating markups can control excessive prices and promote use of cost-effective medicines, if the regulations fit the country context and if compliance is reliably monitored and enforced. But lack of transparency and other unintended consequences are concerns.
- Cost-plus price regulation is not generally recommended due to the difficulty in obtaining accurate and reliable cost data and the potential for suppliers to manipulate the system.
- Countries should consider exempting essential medicines from taxes and assuring that savings are passed to patients or purchasers.
- Countries should consider external reference pricing in combination with other methods for setting allowable prices, making sure to use appropriate comparator data. (Note that the international pharmaceutical industry contends that this strategy adversely affects tiered pricing strategies.)
- Promoting the uptake and use of high-quality, low-priced generics is a critical price control strategy, which may require changes to laws and regulations.

- Countries should move toward health technology assessment, which is a formal process to evaluate the properties, effects, and impact of health technologies including medicines, to help decide which new medicines to include on essential medicines lists and reimbursement lists for benefit programs.
- More research is needed on several issues, including the role of rebates in price control.

»» See chapter on **Pharmaceutical Pricing Policy in MDS-3.**

Capitation and case-bundled payment for outpatient pharmacy services

Capitation and bundled payments are alternatives to the fee-for-service approach.

Case-bundled payments are best known in the form of diagnostic-related group reimbursements, whereby a provider receives a fixed amount for each episode of a certain disease or medical condition that he or she treats, no matter which treatments and medicines are provided. It is most common in the hospital setting and is discussed later in that section.

Capitation involves risk sharing between the MBP, which makes the payments, and the PBM or medical/pharmacy provider. Instead of paying ingredient costs plus fee for each prescription dispensed, the plan negotiates a fixed fee to be paid to the pharmacy that covers all products and services provided to plan members who use the pharmacy, hospital, or clinic. One version is a contract that provides a fee paid in advance based on a per-member per-month amount. This is coupled with a requirement that members use a designated pharmacy provider. These average out over the months when the assigned members use few or inexpensive medicines, with the months when utilization is heavy

or more expensive medicines are prescribed. Under capitation, the pharmacist or other provider has an incentive to dispense the least-expensive products, which can be good or bad, and also to limit or deny needed medicines if they exceed capitation budgets. Therefore, it is critically important that the MBP is able to capture and analyze utilization data to assure that beneficiaries are receiving the level of services and the medicines they need.

The capitation model has fallen out of favor for outpatient medicine benefits in the United States, primarily because plan sponsors did not find significant decreases in overall costs, and changes in Medicare made it less attractive for PBMs; however, some newer and more complicated risk-sharing models have emerged. One example is a contract between a PBM and a benefit plan based on an annual cost per member for ingredient costs. If at the end of the year the total medicine costs per member are lower than the target, the PBM and the MBP share the savings, but if the annual per member costs are higher than the target, the PBM must pay half of the difference. A monitoring system needs to ensure that member access and service quality are not compromised by the PBM's efforts to stay under the target.

In many LMICs that have limited availability of data on utilization and morbidity patterns, it may be difficult for either the MBP or the contract provider to accurately project demand for medicines over a capitated population, and providers may also be unwilling to take the risks involved with capitation. Moreover, the limited availability of utilization data makes it hard to ensure that beneficiaries receive optimal care. While fee-for-service models incentivize overuse of medicines, capitation has the opposite effect—incentivizing providers to underuse medicines—both of which result in suboptimal care.

Reimbursements for inpatient medicines

As mentioned, the main consideration in paying for inpatient medicines is whether the medicine charges are included in the total patient bill for the hospital stay (bundled billing) or whether they are listed as separate line items with a charge for each dose administered (unbundled billing).

Bundled charges for medicines are the most common when inpatient medicines are covered under the medical benefit rather than the pharmacy benefit, and

THE UNIVERSAL COVERAGE SCHEME IN THAILAND

Some LMIC benefit programs are working with alternatives to fee-for-service models in their medicines benefit plans. One example is the universal coverage scheme in Thailand, which implements outpatient capitation contracts with a closed network of registered providers and assigns beneficiaries to a designated provider.⁴⁶ The scheme reported a significant decrease in per capita expenditures compare to the civil service medical benefit scheme, which continued using a fee-for-service model; in 2011, the expenditures per capita were 3.8 times those of the UHC scheme. However, the UHC scheme underprovided some necessary but costly services under capitation, and subsequently, some of those services and medicines were removed from capitation and paid on a fee-for-service basis.

Other countries in Southeast Asia are supposedly exploring capitation and related models in government-sponsored MBPs. It will be instructive to see how well these programs can capture utilization data to monitor levels and quality of services and how sustainable these models prove to be over time.⁴⁷

when the basis for inpatient reimbursement is a single fixed payment for a patient's hospital stay. This payment may be based on diagnostic-related groups, fixed-rate per diem payments (a form of capitation), fixed rates established by a government for specific diseases or conditions, or disease-based reference pricing.

Of course, when the patient needs expensive medicines, hospitals may want to charge for them separately or insist on separate charges or higher bundled rates. When the hospital reimbursement rate is based on individual charges for each procedure, medicines are billed separately. Generally, bundled billing will lower inpatient medicine costs; bundling gives the hospital the incentive to administer the most cost-effective medicines to treat the patient's particular health problem. Likewise, the incentive to minimize the use of medicines could lead to the

patient not receiving more effective, but higher-cost therapy or not receiving the needed medication at all.

Hospitals usually prefer to charge for medicines based on cost plus a markup, with a minimum fixed price set for doses of inexpensive medicines. Whenever a markup is allowed, the incentive is to prescribe and administer more and higher-cost medicines. If the MBP has leverage, it may be able to insist on no markup over cost or use a form of reference pricing to set the payment rate for different medicines (see discussion of pricing options for outpatient medicines). But some incentive for over-prescribing will remain.

Bundled billing does make it more difficult for the MBP to access the data on which medicines are being prescribed and administered, therefore limiting its capacity to monitor the utilization of inpatient medicines and confirm that patients are receiving appropriate therapy.

III.G. MEDICINE SELECTION: FORMULARIES, TREATMENT GUIDELINES, AND SUBSTITUTIONS

The MBP's formulary includes the medicines that it approves for prescribing and dispensing to beneficiaries and for payment or reimbursement. The American Academy of Managed Care Pharmacy defines the formulary list as follows:⁴⁸

"A drug formulary or preferred drug list is a continually updated list of medications and related products supported by current evidence-based medicine and the judgment of physicians, pharmacists and other experts in the diagnosis and treatment of disease and preservation of health. The primary purpose of the formulary is to encourage the use of safe, effective and most affordable medications."

Designing a Formulary System

One of the critical aspects of the MBP benefit design and management system is determining which medicines the plan will pay for (called a positive list). Most MBPs also have a list of medicines and therapeutic medicine categories that are excluded from eligibility for payment by the MBP (negative list). Many plans provide exceptions for specific patients, requiring specific authorization from the MBP.

Typical categories of medicines that are excluded from the medicines benefit include—

- Most over-the-counter (non-prescription) medicines

- Medicines to treat sexual dysfunction and hair loss
- Infertility treatment
- Medicines to promote weight loss or gain
- Anti-smoking medicines
- Medicines to treat alcoholism or drug addiction
- Soaps, shampoos, and sunscreen or tanning preparations
- Dietary supplements
- Herbal medicines and other traditional medicines

Formulary lists are either open or closed. The basic open formulary options for an MBP are an unlimited open formulary list and a tiered open formulary list (or preferred medicine list). The unlimited open formulary list can include any medicine registered in the country for some level of payment coverage, unless the medicine or the category of medicines is expressly excluded in the plan design. As new medicines are registered, they automatically become eligible for coverage unless they are in an excluded therapeutic category. On a tiered open formulary list, any non-excluded medicine is still eligible for payment, but the amount reimbursed may be lower or the cost-share higher than for preferred medicines in the same therapeutic category. Some plans may require prior approval for nonpreferred medicines before they are eligible for payment. Tiered formularies are discussed further in the next section.

A closed formulary list is a specific list of medicines that are eligible for payment by the MBP. Many LMIC benefit plans use a national essential medicines list as the basis for a closed formulary list, although they may add supplemental medicines. MDS-3 describes approaches for developing and maintaining essential medicine lists and formularies.

An MBP's closed formulary list may limit the number of different medicines listed in most therapeutic categories, or it may

be unlimited, with no explicit restrictions on therapeutic duplication. Criteria for adding new medicines to the closed formulary list may be strict and may require that if a new medicine is added when other therapeutic alternatives exist, an older medicine must be taken off the list. For unlimited closed lists, the primary criterion for adding a new medicine is whether it adds clinical value or offers a cost-effective alternative to other drugs in the category. In some closed formulary plans, medicines not on the list are not eligible for payment under any condition; some plans allow coverage of unlisted medicines with prior approval, although they may be subject to higher cost share.

Open unlimited formularies are popular with pharmaceutical companies, physicians, and beneficiaries, but they are generally much more expensive for the MBP. Advocates of open formularies argue that closed formularies deny access to optimal individualized treatment and unnecessarily restrict choices available to prescribers and beneficiaries. Some studies (often sponsored by the pharmaceutical industry) have suggested that some patients suffer adversely and that other expenditures, such as hospitalizations, increase when closed limited formularies are too restrictive.

Closed formulary lists can significantly reduce overall medicine costs for the health system or benefit plan without reducing the quality of patient care and therapeutic effectiveness. This is only true, however, when clinically qualified staff and committees carefully select and regularly review the medicines on the closed list and that exceptions are allowed when an individual patient really needs a medicine that is not on the list. An MBP should consider changing from an open to a closed formulary list if it is struggling financially.

Closed limited formularies help reduce MBP medicine costs in several ways—

- Many manufacturers will offer significant pricing discounts or more aggressive rebates to place their medicine on the formulary list.
- If the formulary is effectively managed and enforced, beneficiaries should have access to the most cost-effective medicines in the various therapeutic categories.
- If the MBP is dispensing medicines through in-house pharmacies, procurement expenditures decrease because manufacturers compete for formulary status, and inventory holding costs come down because the pharmacies do not need to stock as many medicines.

An MBP that pays for medicines with an open unlimited formulary list may find it instructive to analyze the costs of medicine in high use and high-expenditure therapeutic categories and determine its savings if only the most cost-effective alternatives in those categories were prescribed and dispensed. An example of how to conduct this therapeutic category analysis is available.⁵⁰

»» See chapter on Managing Medicine Selection in MDS-3.

A 2005 study from the Kaiser Family Foundation⁴⁹ reports that the US Veterans Administration was able to save \$100 million over two years by closing selected therapeutic categories. When a class of drugs was closed, 85–97% of prescriptions dispensed went to the on-formulary medicine, compared to 23% of the preferred drug in another class of drugs that was not closed.

Selecting Medicines for the Formulary List

As discussed in the earlier section on administration and management, MBPs

that maintain a formulary list should have a pharmacy and therapeutics committee to select medicines for the list, review new medicines and new therapeutic guidelines, and update the list accordingly.

The MBP's medical director or chief pharmacist usually chairs the PTC, and members should include qualified physicians and pharmacists from the academic community as well as some who are full-time practitioners. Ideally the committee should have members with expertise in pharmacoeconomics or access to consultants to assess the merits and costs of formulary medicines objectively.

The PTC's role will not usually require full-time effort, but the committee must meet regularly to carry out its responsibilities. Specialists should be invited to comment on medicines relevant to their specialty if they are not formal committee members. PRC members should be free from conflict of interest, and in cases where there might appear to be a potential conflict, such as a physician who is participating in a clinical trial of a new medicine proposed for the formulary list, the potential conflict of interest should be declared and managed (e.g., recusal from discussions and decisions where the conflict of interest applies).

The PTC should develop formal written criteria for selecting medicines for the formulary list. General questions include—

- Is the medicine clearly indicated to treat diseases that are within the MBP's scope?
- Is the medicine safe when used as directed and effective to treat the target diseases or health indications for which it is intended?
- What are the side effects, interactions, and dangers with the medicine? How frequently do they occur?
- Are other medicines equally or more safe and effective for the target

indications? What therapeutic value does this medicine add compared with other medicines in the same therapeutic category?

- Is the medicine included or under consideration for inclusion in relevant STGs?
- Is the medicine cost-effective for the target indications? How does the cost per treatment course compare with alternative medicines in the therapeutic category?
- What are the short- and long-term costs of listing the medicine? Will changes in STGs and education for providers and beneficiaries be required? What will be the impact on the MBP's total medicine expenditure if the new medicine replaces an older medicine in standard use, both in terms of medicine costs and the costs of informing providers and introducing the new medicine into practice?

As noted, a country's national essential medicines list or equivalent would be a logical starting point for the MBP's formulary list, with additional medicines added to treat health problems beyond the scope of the essential medicines list but within the MBP's scope.

Although cost-effectiveness and cost impact are strong considerations when deciding which medicines to include on the formulary list, controlling costs should not be the only goal. Instead, the PTC should work to assure that beneficiaries receive the most appropriate medicines that are safe and effective to treat their health needs, while maintaining the MBP's financial health.

Proposals for adding a new medicine to the formulary list may come from members of the committee itself, from medical or pharmacy providers who serve beneficiaries, or directly from manufacturers. Formulary decisions will be much easier if the information on medicines proposed for inclusion are presented in a

standard format. In some PTCs, the chief pharmacist prepares the data for review; in others, the manufacturer presents the required information. The Academy of Managed Care Pharmacy has developed a standard format for submitting data for the PTC to review, which can be downloaded from their website.⁵¹ A good review of the role and function of the PTC in an MBP is found in Navarro et al.⁵² In addition, MDS-3 has practical guidelines for developing STGs and formularies and managing the medicine selection process.

➤➤ See chapter on Selection in MDS-3.

The Role of Standard Treatment Guidelines

Some MBPs around the world use STGs to guide to medical practitioners on the recommended approach to treating specific diseases and health conditions. At a basic level, the STGs may designate first-line and second-line therapies. In other settings, the guidelines may advocate a stepped therapy algorithm, starting with one or two potential medicine regimens that will most cost-effectively treat most patients and that have the most favorable efficacy profile versus side effects and toxicity. If the first regimen fails, the provider moves to a second, and if that fails, to a third regimen, and so on.

As is the case for formulary lists, the STGs serve a dual purpose: 1) to standardize treatment of common diseases to ensure that beneficiaries receive optimal therapy based on the most current state of medical knowledge, and 2) to control medicine costs by encouraging prescribers to focus on the most cost-effective regimens. When appropriately developed, updated, and enforced, STGs can improve health outcomes while reducing total medicine costs.

Although beyond the reach of MBPs in most LMIC settings, the MBP can

develop its own STGs based on international guidelines, such as those from WHO, or on national guidelines developed by professional organizations in coordination with the ministry of health. Or the MBP can develop them in-house, in consultation with the PTC or special committees of qualified medical academics and practitioners. If the MBP does develop in-house STGs, they should be harmonized with international and national guidelines.⁵³

The different types of in-house STGs include—

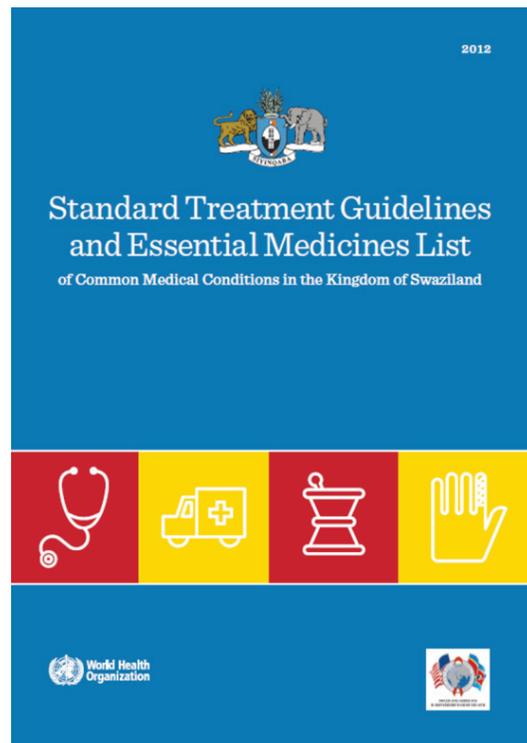
- Individual STGs for health problems such as malaria, HIV/AIDS, or hypertension.
- Packaged guidelines that cover a set of common diseases affecting certain groups, such as maternal and child health, which might include pre- and postnatal care, immunization, diarrheal disease, acute respiratory illness, and malaria.
- Comprehensive guidelines that might cover 50–100 commonly encountered health problems.

Clearly the more health problems the STGs cover, the higher the potential impact on rationalizing treatment and reducing medicine costs—assuming use of the STGs is encouraged and monitored. But as the number of guidelines grows, so does the effort and cost required to regularly review and update them. In benefit plans that have both formulary lists and STGs, medicines recommended in the STGs must align with the formulary lists, and STGs should be updated to reflect changes in the formulary list.

Linking STGs directly to MBP coverage and reimbursement has inherent challenges. For instance, if the MBP obtains services from private as well as public sector providers, then private sector providers need to be involved in the development of the STGs to ensure their buy-in and acceptance of the guidelines. In addition, many health systems link STGs to the minimum benefit package and emphasize using only the most cost-effective medicines. Private providers' commitment to the MBP will probably be higher if avenues to access more expensive alternatives are available. In Ghana, for example, the national health insurance formulary list, which was based on the STGs, was expanded to address private sector interests and increase participation by providers and potential plan participants. As discussed, if a formulary list is more extensive, mechanisms such as tiered co-payments and prior approval can encourage use of the most cost-effective products. The goal should be to avoid the perception or reality of having separate standards of care for wealthy and poor beneficiaries.

When considering a change in plan STGs, there are several questions to consider—

- Is the new medicine regimen readily available to in-house and provider pharmacies? This must be confirmed before revising the STGs and formulary list.
- For in-house pharmacies, what is the



impact on inventories of medicines that are being replaced in the STGs?

- What is the impact on medicine costs for the MBP? Is the revised regimen affordable to treat all beneficiaries who need it?
- What is the impact on affordability for patients? Will cost share be affected?
- How will prescribers react? Will there be an immediate change in prescribing or will adaptation be slower? Will there be significant resistance? How will that affect the market?
- How will beneficiaries react? Will there be significant differences in medicine form or their treatment experience?
- What communications and educational activities will be required to transition to the revised STGs? Those activities and materials need to be developed and rolled out before a final change is made effective.

»» See chapter on Treatment Guidelines and Formulary Manuals in MDS-3.

Generic Substitution Policies

Along with effective formulary management, generic substitution policies can have a major impact on MBP medicine costs. Generic medicines are products that have been certified by the national drug regulatory authority as being equivalent to a brand-name medicine in safety, purity, strength, and effectiveness. In most markets, once generic equivalent medicines are approved, they are much less expensive than the branded product. However, “branded generics,” which are generic medicines marketed with a company’s brand name, may be marketed beside the generics with the International Nonproprietary Name (INN). Branded generics are typically more expensive than those marketed under the INN, unless a national law or

regulation, such as South Africa’s single-exit pricing policy, limits the price for all versions of the generic medicine.

Assuming it is legal under national or state laws and regulations, MBP generic substitution policies can mandate that the pharmacist or dispenser substitute a generically equivalent product for a prescribed brand name product whenever it is available. Policies may further require dispensing the lowest priced generic available. However, this sort of policy needs to consider the challenges of guaranteeing product quality in the market; reimbursing only the lowest-priced generic product may lead to dispensing inferior quality products in countries where the regulatory authorities cannot control the quality of all medicines that are marketed.

In some MBPs, if the branded product is prescribed, the patient must be offered the choice of a lower priced generic, and if the patient insists on the branded product, he or she is responsible for the cost difference. In many settings, the prescriber may specify “dispense as written” on the prescription for a brand name, which prevents automatic generic substitution, but the MBP can require that the dispenser contact the physician and explain the price difference, requesting authority to substitute. The MBP may also require prior approval before a brand name product is dispensed when a generic equivalent is available.

The MBP’s PTC should determine whether some medicines should not be subject to mandatory generic substitution. These exceptions might include some medicines with a narrow therapeutic window that have known potential for lack of bioequivalence, such as some medicines for epilepsy, some medicines that are manufactured as modified release formulations, or some medicines that have multiple medicines in the same tablet or capsule.

As noted, some LMICs may not have the capacity to ensure that all generic

products in the market meet safety, purity, strength, and effectiveness standards. Similarly, there may be questions as to whether all medicine manufacturers and distributors in the country adhere to international standards for Good Manufacturing Practices and Good Distribution Practices, which involves proper storage and shipping as well as tracking the product's chain of custody from manufacturer to end user. Falsified medicines may also circulate in the market.

In a country where substandard and falsified medicines are perceived as a significant problem, prescribers and beneficiaries will be more resistant to mandatory generic substitution policies. The MBP can take some measures to promote confidence in generic medicines, such as specifying in contracts with manufacturers, distributors, and pharmacy providers that all medicines sold to the MBP and dispensed to beneficiaries must meet specified quality standards. It may be feasible in some settings to specify that medicines must come from manufacturing plants that are WHO prequalified or certified by a stringent regulatory authority. Although specifying quality standards is necessary, it may not be sufficient. The MBP should also encourage active prescriber and dispenser participation in national pharmacovigilance and problem-product reporting programs.

Because generic medicines are so important to controlling costs, and some national regulatory authorities lack the capacity to effectively control the quality of medicines in their markets, large MBPs may consider developing parallel pharmacovigilance and quality testing programs in collaboration with the regulatory authorities and national or regional testing laboratories. Some of the larger social insurance programs, particularly in Latin America, have in-house laboratories to test medicines and other health products. Some LMICs

have implemented medicine product screening programs by using thin-layer chromatography, which is a quick way to detect fake or substandard medicines.⁵⁴ An MBP could explore the use of this technology where medicine quality is suspect.

Therapeutic Substitution Policies

Where therapeutic substitution is allowed by law and mandated by MBP policy, the pharmacist or dispenser will be authorized or directed to substitute a preferred medicine on the formulary list that provides equivalent therapeutic benefits. For example, if the MBP, PTC, or STG names captopril as the most cost-effective angiotensin-converting-enzyme (ACE) inhibitor for hypertension, a beneficiary's new prescription for a different ACE inhibitor, such as enalapril, would prompt the pharmacy provider to contact the physician and advocate a switch to captopril. In some plans, the pharmacist would make the switch without contacting the prescriber, unless the physician has included "dispense as written" on the prescription. Even then, the pharmacy provider would be required to contact the prescriber and promote a switch.

As discussed, therapeutic substitution policies will usually be more unpopular with prescribers and beneficiaries than generic substitution will be, but this policy is a standard complement to closed restricted formulary lists, because it ensures that the most cost-effective medicines are prescribed for MBP beneficiaries. The policy will be easier to implement in MBPs that provide medicines through in-house staff model facilities, but with proper incentives, they can use it with contract service providers.

Financial Incentives to Promote Adherence to Formulary and STG Policies

Tiered formulary lists and stepped care policies are two approaches that tie payment or reimbursement and cost share to generic dispensing and adherence to formulary medicines and STGs.

Tiered formularies

Tiered formularies are common in the United States, but not yet the norm elsewhere. They offer potential economic benefits, but without automated information systems, would be difficult to manage. As technology evolves, they may become more common in LMIC settings.

In a typical three-tiered formulary list, cost share amount differs depending on the tier: Tier one is for generic medicines, and the cost share is the smallest amount or percentage; the cost share is increased (often doubled) for tier two medicines, which are brand name medicines, which may be generically equivalent to a tier one medicine, or they may not be preferred choices, even if they are included on the formulary list. The third tier, with the highest cost share, is for medicines (usually brand name) that are either not on the formulary list or the preferred medicine list. Coverage for this tier often requires MBP authorization in addition to the highest cost share. In some plans with a fourth tier, the beneficiary must pay the entire cost for medicines, although the MBP may have negotiated a discount price from the manufacturer to offset the cost.

Some plans have only two tiers, one for generic medicines and one for brand-name medicines that have generic alternatives. In one variation, the plan has two tiers for generic medicines, with the lowest co-pay reserved for the lowest-price generic alternative and a second tier with a higher co-pay for higher-cost generic equivalents. The third tier is the branded medicine, with

a significant increase in cost share, and the fourth tier is non-formulary medicines. Other MBPs have other four- or five-tiered designs, where the highest tiers might include lifestyle or specialty medicines, if they are covered at all.

When a prescriber writes a prescription for a tier two or three medicine, the MBP can require that the pharmacist inform the beneficiary when a generic equivalent with lower cost-share is available and let the beneficiary make the decision or require that the dispenser contact the prescriber and attempt to get the prescription changed to a lower tier alternative.

Higher tiered cost-sharing will normally reduce overall costs in the MBP because most beneficiaries will opt for the lower cost share choice. Some argue that equity suffers in this plan because poorer beneficiaries are forced to accept low-cost medicines that may not be the best choice for them; opponents may also argue that it prevents some beneficiaries from accessing needed treatment or reduces patient adherence. But tiered formularies that incentivize high use of generics with lower co-payments have been shown to increase adherence.⁵⁵

A related option to tiering is differential fees and markups. As discussed in the section on payment for medicines to providers, the MBP may allow a higher markup percentage or a higher dispensing fee for generic medicines than for branded medicines. In this model, the dispenser has the incentive to dispense the lower-cost medicine whenever feasible. Generic and therapeutic reference pricing and related strategies will also provide incentives for dispensing lower-cost generic medicines.

Stepped care

Developed country MBPs use stepped care policies to encourage adherence to STGs. In this model, prescribers are required to start the beneficiary with the first recommended medicine from an STG to obtain payment for the service or

medicine. The MBP verifies that the patient has tried step one before authorizing payment for medicines from a second level of the STG. MBPs in the United States primarily apply this model to high-cost specialty and injectable medicines that must be administered by a medical provider, but the policy could be applied to any STG. Similar to tiered formularies, this concept is not widely applied in LMICs, but that may change as MBPs evolve.

MBPs may apply financial incentives to stepped care policies by tying cost share percentages, allowable markups, and service fees to STG adherence, with

lower cost share for step one medicines compared to second or third step medicines that are prescribed first. Any such incentives must be carefully structured and monitored to insure that some beneficiaries do not lose access to needed medicines.

Other interventions

MBPs can also use a variety of behavior change and educational interventions to influence the selection of medicines by prescribers, dispensers, and beneficiaries. These are discussed in Section III.I of this manual.

III.H. MEDICINE PURCHASING STRATEGIES

Large social insurance programs that have long-standing pharmaceutical procurement systems use a combination of competitive tenders and direct negotiation to reduce the prices of medicines. Many of these programs have traditionally used in-house (staff model) facilities to provide services and medicines to their beneficiaries. Procurement management for these systems is beyond the scope of this manual, but is addressed by the procurement and tendering chapters of MDS-3.

Medicine benefit program that distribute medicines to beneficiaries through contracted service providers can negotiate payment terms for medicines purchased from those contract providers, as discussed in section III.F.

The MBP may have additional options for reducing the overall cost of medicines—by negotiating with manufacturers and suppliers of medicines for discounted pricing or rebates or by tapping into existing pooled procurement mechanisms for certain medicines. However, in many countries, only the government has the authority to negotiate prices.

»» See chapter on Procurement in MDS-3.

Negotiated Pricing and Manufacturer Rebates

Pricing discounts and rebates are two different ways to reduce medicine costs through negotiation with manufacturers. Manufacturers apply discounts at the time a medicine is purchased, and provide rebates retroactively, based on use of the specific medicines covered by the rebate. Discounts are usually a specified percentage off either list price or an average price, such as wholesale acquisition cost or other standard average price that is commonly used in the country.

Pricing discounts are generally only available when the MBP or health facility takes possession of the medicines and dispenses them in-house. Rebates from manufacturers can be available to insurance programs and MBPs that provide medicines through contracts with private prescribers and dispensers. The rebate is generally a flat percentage off of the list or average price of the medicine that is refunded to the MBP based on documented use. MBPs can negotiate rebate agreements with manufacturers—in many cases a commercial PBM will have experience in both negotiating and managing rebate

contracts and may have existing rebate agreements with multiple manufacturers.

In countries where large MBPs are well established, these entities may negotiate discount pricing from manufacturers below even standard government pricing or negotiate higher rebates than those that law or regulation mandate. A recent study reported on discounts and rebates achieved in the hospital setting in five European countries.⁵⁶ A 2011 study of health insurance programs in LMICs, however, found that relatively few were trying to negotiate for discount pricing or rebates.⁵⁷ Every MBP, at a minimum, should negotiate to reduce medicine costs.

The negotiation of discount prices and rebates is closely tied to the formulary management process. Manufacturers will be more eager to offer deep discounts and significant rebates when they are competing to list their products on a closed restricted formulary, but many will still offer discounted pricing or rebates to get preferred status on an open formulary list.

The manufacturer may wish to tie the rebate percentage to market share or the percentage of prescriptions for their product compared to competing medicines in the same therapeutic category by offering higher rebate percentages with increasing market share. In some cases, the MBP and the manufacturer may enter into a volume purchasing agreement where the MBP is eligible for rebates, if certain market goals are reached.

Assuming that medicines dispensed are itemized on claims, MBPs can periodically analyze claim data (e.g., quarterly) to support market share agreements with the manufacturer. Amounts owed can be recorded in the MBP's accounts receivable system and serve as another source of revenue to offset the overall cost of medicines.

The following information is often included in manufacturer contract reporting to benefit programs in OECD countries—

Invoice information

- Manufacturer identifier (must be unique)
- MBP identifier (must be unique)
- Reporting period (e.g., October 1, 2013–December 31, 2013)

Detail information (multiple occurrences)

- Therapeutic classification
- Medicine identifier (must be unique)
- Total prescriptions filled
- Total quantity filled
- Total medicine cost

In most LMIC programs, the manufacturers/suppliers do not typically report sales information to benefit programs. However, they know the quantities and value of government procurements and sales to pharmacies and depend on market surveys to determine their relative market share.

If the MBP wants to negotiate direct rebates with manufacturers, it will need to have staff or consultants with the necessary expertise to manage the negotiating and contracting process. Some countries may have a commercial PBM firm available to manage the negotiations on behalf of the MBP on a short-term consulting contract, although as discussed, this is rare in LMICs. If the MBP does contract with a PBM to manage all or part of the program, part of that contract should address the negotiation of rebates and discounts and ensure that the MBP receives the benefits from the rebates. It is not uncommon for rebates to be shared between the PBM managing the contract and the MBP sponsor; the contract should state the percentage split, along with a requirement of transparency for disclosing all rebates received.

Navarro et al. provides a thorough description of the process for negotiating discount and rebate contracts.⁵⁸

Pooled Procurement

Pooled procurement, also known as group purchasing, is a mechanism whereby member institutions pool their procurement volumes and negotiate tenders on behalf of all members, thereby reducing medicine prices for all. Like negotiated discounts, this mechanism primarily is available to MBPs that purchase, store, prescribe, and dispense medicines through in-house facilities and staff.

A number of global pooled procurement mechanisms negotiate for discounted prices and purchase medicines for LMIC health systems. Most of these mechanisms would not be accessible to MBPs directly; however, a socially focused MBP might be eligible, for example, if it were designated as a Principal Recipient or a Sub-recipient on a Global Fund grant. In some countries, forming a pooled procurement system with the public sector or with other individual MBPs may be feasible. Pooled procurement and the requirements to manage it successfully are discussed in MDS-3's procurement chapter.

For MBPs that provide medicines through provider contracts, two or more independent MBPs should be able to negotiate rebates that apply to the whole group. If a PBM company is administering the medicine benefit for multiple MBP sponsors, this pooled negotiation would definitely be feasible, assuming the various MBPs harmonize their formulary policies.

The Affordable Medicines Facility for malaria, hosted by the Global Fund, is not exactly a pooled procurement scheme, but rather a buyer co-payment mechanism. In this model, the Global Fund pays the manufacturer for most of the costs of artemisinin-based combination therapy medicines, which are then distributed at deeply discounted prices to public and private sector outlets in selected LMICs, under the assumption that the

discounted prices will be passed to consumers. MBPs in participating countries could require that contract pharmacy providers access this program and pass the discounted prices along to the MBP. The first countries to use this mechanism were Cambodia, Ghana, Kenya, Madagascar, Niger, Nigeria, Tanzania/Zanzibar, and Uganda. Criticism suggests that the segments of the population that most need access to the discounted medicines do not necessarily receive them. Exploring a buyer-co-payment mechanism for other categories of medicine may be possible in the future.

➤➤ See chapter on Procurement in MDS-3.

Purchasing Options for Expensive Specialty Products and Innovative Health Technologies

Access to most specialty products (i.e., high-cost medicines requiring special handling or with limited therapeutic indications or expensive diagnostic imaging) in LMICs has mainly been limited to the wealthy. High prices and lack of financing have restricted access to specialty medicines and health technologies. International initiatives have significantly expanded access to treatment for HIV and AIDS, both through measures that reduce prices in LMICs and through major donor-supported funding for procurement and distribution. Funding for access to other categories of specialty medicines, however, has not kept pace.

Clearly, it is more difficult to achieve significant discounts or rebates for innovative single-source medicines that are therapeutically superior to alternatives, but some options exist. For select specialty products, for example, the manufacturer may provide substantial discounts or even donate products for select patient groups. In MBPs that would normally require large

co-payments for a specialty medicine or product, the manufacturer may pay the beneficiary co-payment through rebates. This helps the beneficiary, but not the MBP, who must still pay a high price.

In countries with specialty pharmacies or PBMs, these companies may be able to negotiate discounts for some specialty medicines, and contracting with one of these firms for specialty medicine services may be beneficial, assuming the discounts are passed on to the MBP.

As discussed in Section III F, managed market entry agreements are common in Europe and other developed economies and are becoming more prevalent in LMICs. Expensive specialty medicines are frequently a target for price negotiations before reimbursement approval under an MBP. These negotiations are often contentious and can result in litigation. The process is obviously more applicable in countries where intellectual property (i.e., patent) rights are enforced.

Several innovative risk-sharing approaches have been negotiated for specialty products. These include agreements based on conditionally reducing prices for an MBP, for example through⁵⁹—

- Per patient caps on expenditures (UK)
- Overall annual expenditure for the medicine (France)
- Conditional treatment continuation—providing a deep discount for a set period until the short-term treatment goal is either met or not met, and then continuing treatment at a higher price (Italy)
- Reference-based pricing—an innovative drug is priced at the level of the existing medicine until a comparative trial proves the superiority of the innovative medicine
- Cost sharing—cost of initial course of therapy is discounted (Italy)

Another risk-sharing example includes reimbursement to the benefit plan if

treatment fails to demonstrate specific benefits (Australia, Canada, France, Italy, and UK).⁶⁰

An emerging option for reducing the cost of some specialty biological medicines is the advent of “biosimilars.” A manufacturer designs a biosimilar to have active properties that produce the same or similar therapeutic effect to a biological product that has previously been licensed by another manufacturer, but different enough that the new product is not technically a generic equivalent. Typically, biosimilars are priced lower than the original licensed product. In some countries in Europe and Latin America, biosimilars are eligible for accelerated approval by regulatory authorities (and then for reimbursement by MBPs). Acceptance of biosimilars by MBPs, providers, and patients is tied to the level of cost savings the product offers—the deeper the discount, the more likely the biosimilar product’s acceptance.

Lyles recently reviewed these issues affecting acceptability of biosimilars and commented on a study from three countries Latin America.⁶¹

The current reality is, however, that despite the available pricing options, the cost puts many innovative specialty medicines beyond the reach of most LMIC medicines benefit programs. As the movement toward UHC gains momentum, and as international attention focuses on managing chronic as well as acute disease, financing and targeted initiatives for specialty medicines will be needed. International discussion about tiered pricing for some specialty medicines is ongoing (e.g., most recently for hepatitis C), but whether that mechanism will benefit LMIC benefit plans in the near future is unclear. Similar to the mechanism for artemisinin-based combination therapy for malaria, donors and agencies could potentially establish a “facility” for purchasing or subsidizing discount pricing for selected specialty medicines.

III.I. INFORMATION AND EDUCATIONAL PROGRAMS

This section covers the basic requirements for information that the MBP should make available, including print materials, text/email messaging, and online portals. In addition, the MBP can use educational programs to increase the buy-in of beneficiaries and service providers, while improving their adherence to MBP policies and ultimately the benefit program's health impact.

Basic Informational Requirements

The MBP should provide print and online materials that fully describe MBP coverage and all of the policies and procedures that apply to providers and beneficiaries. Materials should complement outreach programs that target providers and consumers and explain the rationale for MBP policies and procedures, the benefits of formularies, STGs, and generic medicines, and the principles of appropriate medicine use.

Prescribers, pharmacy providers, and beneficiaries must be informed about which medicines are on formularies and preferred drug lists and the cost-share status for each medicine (if cost share varies). The lists must be updated as the master formulary list changes. If feasible, the list can include information on medicine cost, although this will require more frequent reviews and updates. Lists can be printed, online, or distributed through mobile applications, but it is the MBP's responsibility to ensure that all who need it have the information. In addition, STGs must explain the basic treatment algorithms and steps to follow; the MBP may choose to add information on the therapeutic rationale and expert sources for the recommendations, cost per course of treatment, or literature references.

Large MBPs may be justified in using the

resources to develop complex formulary manuals with summary information on pharmacology, indications, contraindications, and side effects. Ready access to this information may increase the likelihood that prescribers will select the formulary medicines and use them more appropriately.

Responsibility for developing the information for stakeholders on formulary medicines and STGs may rest with the MBP's PTC if it has the capacity, or it could be contracted out to university schools of medicine or pharmacy or relevant professional associations.

Where providers and beneficiaries have Internet access, the MBP should establish and maintain a website that provides access to plan information, updated materials for providers and beneficiaries, and a mechanism for direct communication. Section III.D describes the basic contents of a typical MBP portal.

Educational Programs

In LMICs, MBPs must commit to providing a high-level of service to their sponsors and beneficiaries, but also to help advance pharmacy practice in their countries. In that role, the MBP can deliver objective clinical material to their provider and prescriber networks on the latest treatment information for diseases as well as medicine adherence information. This is particularly critical in countries where providers and prescribers have limited opportunities to stay current on industry best practices and evolving drug therapies. MBPs can use their claims experience, clinical knowledge, and communication infrastructure to deliver unbiased content to help remote providers and prescribers advance their professional development. This outreach can take a number of forms—

Rx FOR CHANGE

The Canadian Agency for Drug and Technologies in Health has a web-based database that includes reviews and analyses of interventions to improving performance of health care providers and patients (<https://www.cadth.ca/rx-change>). This is an excellent resource for MBP managers charged with developing and improving behavior change programs and educational initiatives for providers and beneficiaries.

- Clinical material included with claim reporting and payment information
- Webcasts to support continuing education programs (distance learning)
- Regional instructor-led training programs

- Continuing education conference calls
- Clinical or education material on the web portal
- Outreach and continuing education on STGs for prescribers

Educational outreach is an added expense, but it should be considered as a long-term investment. Effective educational outreach programs may be able to increase the use of generics and adherence to formulary lists and STGs and also boost provider and beneficiary satisfaction. The MBP's medical director should oversee educational outreach programs by ensuring that the format and content is appropriate for its audiences and that all providers and beneficiaries can access the programs.

➤➤ See chapter on Medicines and Therapeutics Information in MDS-3.

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