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Pharmacy Cost-Containment Strategies

Employer Guide for Self-Funded Health Plans

A practical framework for improving transparency, controlling trend, and managing pharmacy spend without losing sight of employee access and outcomes.

CONTROL COSTS

IMPROVE TRANSPARENCY

DRIVE BETTER OUTCOMES

SUPPORT EMPLOYEE ACCESS

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This guide outlines practical pharmacy cost-containment strategies for self-funded employers.

How to Use This Guide

- Review current pharmacy contracts and data
- Identify the highest-cost opportunities first
- Build a cross-functional action plan with your advisor, PBM, TPA, and stop-loss carrier

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Why Pharmacy Strategy Matters

For many self-funded employers, pharmacy spending is one of the fastest-growing and least transparent components of the health plan. The goal is not simply to cut costs, but to improve value, manage trend, and support employee access to clinically appropriate care.

1 What Is Driving Trend?

- Specialty-drugs account for a disproportionate share of spend
- GLP-1 demand is increasing employer exposure
- Pricing is often opaque across retail, mail, and specialty channels
- Rebate-driven formularies can distort true net cost

2 Why Self-Funded Employers Need a Strategy

- You bear the direct financial risk
- You need visibility into where every pharmacy dollar goes
- A reactive approach leads to higher costs and poor member experience

3 Core Objectives

- Improve transparency
- Lower net cost
- Strengthen clinical oversight
- Reduce waste and avoidable variation
- Support employee outcomes and access

Bottom Line

Pharmacy cost containment works best when employers actively manage contracts, utilization, specialty drugs, and member support rather than treating the PBM arrangement as set-it-and-forget-it.

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Start With PBM Contract Transparency

A strong pharmacy strategy begins with understanding how your PBM is paid, how drugs are priced, and whether the contract truly aligns with your plan's interests.

Key Areas to Review

- Spread pricing vs. pass-through pricing
- Rebate treatment and rebate pass-through
- Administrative, data, and specialty fees
- Retail, mail, and specialty network pricing
- Formulary exclusions and channel requirements
- Audit rights and termination provisions

Questions Employers Should Ask

- What is our true net cost after rebates and fees?
- Are any sources of PBM compensation undisclosed?
- Are savings guarantees based on the right benchmarks?
- Do contract terms limit our flexibility?

Important Reminder

The objective is not to negotiate the biggest rebate.
The objective is to achieve the lowest total net cost with the right clinical outcomes and member experience.

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Manage Specialty Medications Strategically

Specialty medications often represent a small percentage of prescriptions but a large share of total pharmacy spend. That makes focused oversight essential.

1. What to Review

- Dispensing channel
- Drug billed through pharmacy or medical benefit
- Availability of biosimilars
- Clinical appropriateness and dose

2. Savings Levers

- Specialty pharmacy steering
- Prior authorization
- Dose optimization
- Manufacturer assistance
- Alternative sourcing when appropriate

3. Site-of-Care Considerations

- Hospital outpatient departments are often the highest-cost setting
- Consider physician office, infusion center, or home infusion when clinically appropriate

4. Watch the Medical Benefit

- Some of the highest-cost drugs show up in medical claims
- Review J-code and Q-code spending, especially for oncology and infusion therapies

Employer Insight

Pharmacy cost containment is incomplete if specialty and physician-administered drugs are not actively managed.

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Strengthen Formulary & Utilization Management

A high-performing formulary should balance clinical quality, employee access, and total net cost rather than relying solely on rebate-driven decisions.

1 Core Management Tools

- Generic substitution
- Biosimilar adoption
- Prior authorization
- Step therapy
- Quantity limits
- Dose optimization

2 Design Principles

- Favor clinically effective, lower-cost alternatives when available
- Exclude low-value medications when appropriate
- Avoid unnecessary disruption for members with stable therapy
- Support decisions with independent clinical review

3 Common Pitfalls

- Focusing only on discounts and rebates
- Using programs that create member frustration without improving outcomes
- Failing to monitor actual utilization patterns

Best Practice

Utilization management should protect the plan from waste while still helping members access the right therapy at the right time.

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Address GLP-1s & Manufacturer Assistance

GLP-1 medications and manufacturer-funded programs can create major financial and operational implications for self-funded employers. These solutions require a disciplined strategy.

GLP-1 Strategy Considerations

- Define clear clinical eligibility criteria
- Use prior authorization and ongoing monitoring
- Separate diabetes management from weight-loss decisions when appropriate
- Evaluate total cost impact, not just member demand
- Tie coverage to meaningful engagement and outcomes

Manufacturer Assistance Considerations

- Understand employee eligibility requirements
- Review accumulator and maximizer implications
- Confirm plan document alignment
- Coordinate with the PBM, TPA, and stop-loss carrier
- Prioritize clear member communication and advocacy

Key Reminder

These strategies may create savings, but they should be implemented carefully to avoid treatment disruption, compliance issues, or reimbursement surprises.

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Review Medical-Benefit Drugs & Site-of-Care Management

Not all drug costs show up in the PBM report. Self-funded employers should also monitor drugs billed through the medical benefit and evaluate where care is delivered.

1 What to Analyze

- J-code and Q-code medications
- Oncology and infusion claims
- Hospital outpatient drug administration
- Physician-administered drugs
- Duplicate billing or excessive provider markups

2 Why Site of Care Matters

- The same medication may cost dramatically more in a hospital outpatient setting
- Lower-cost alternatives may include physician office, ambulatory infusion center, or home infusion
- Clinical appropriateness should guide the transition

3 Potential Cost-Containment Tools

- Site-of-care steering
- Centers of excellence
- Specialized clinical review
- Direct contracting or alternative payment strategies

Takeaway

A pharmacy strategy is stronger when pharmacy-benefit and medical-benefit drug claims are managed together rather than in separate silos.

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Align Pharmacy Strategy With Stop-Loss & Employee Support

Pharmacy savings strategies should be coordinated with stop-loss terms and supported by strong employee advocacy to avoid unintended risk and disruption.

Stop-Loss Alignment

- Confirm claim eligibility under the stop-loss policy
- Determine whether savings programs accumulate toward the specific deductible
- Review exclusions for alternative funding or nontraditional sourcing
- Ensure plan documents and stop-loss terms are aligned

Employee Support & Advocacy

- Help members navigate prior authorization
- Support transitions to lower-cost alternatives or biosimilars
- Resolve denied or delayed claims quickly
- Guide employees to the right pharmacy or care setting
- Communicate changes clearly and proactively

Coordination Team

Advisor | PBM | TPA | Stop-Loss Carrier | Clinical Support Team

Cost-containment programs are more effective when employees receive personalized support instead of a generic denial notice.

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Build an Employer Action Plan & Scorecard

The most successful self-funded employers use pharmacy cost containment as an ongoing management discipline rather than a one-time project.

1. 90-Day Action Plan

1. Review current PBM contract terms and compensation
2. Analyze gross cost, net cost, and specialty spend
3. Identify the top drivers of pharmacy and medical-benefit drug trend
4. Evaluate formulary, utilization management, and site-of-care opportunities
5. Confirm stop-loss alignment before making major program changes
6. Build a member communication and advocacy plan

2. Suggested Performance Scorecard

- Gross pharmacy cost
- Net pharmacy cost
- Specialty drug spend
- Medical-benefit drug spend
- Biosimilar utilization
- Manufacturer assistance captured
- Member disruption and satisfaction
- Year-over-year pharmacy trend

Final Thought

The employers that manage pharmacy best are the ones that understand where every pharmacy dollar goes and act on that insight with discipline, transparency, and follow-through.