Pharmacy Benefits: ARE CARVE-OUTS ON THE WAY OUT?
Over half of midsize to large US employers currently carve out or plan to carve out pharmacy benefits within the next year, reveals Accenture research. Yet several market factors may drive a reversal of this trend. What does this shift mean for health payers, and how can they leverage an integrated medical and pharmacy offering to influence this potential shift?

The search for value

Spending on prescription drugs accounts for more than 14% of healthcare costs, and it is expected to grow by about 5% annually through 2027. Desperate to drive down high and rising costs, employers and brokers are increasingly choosing self-funded products and pharmacy carve-outs—contracting directly with pharmacy benefits managers (PBMs)—in search of rebates and other discounts.

Feeling the sting of revenue loss and network discount erosion in the wake of this exodus, major health payers have recently invested heavily to develop a vertically integrated offering hoping to reverse the carve-out trend and increase consumer engagement. If they want to compete for—and win—business, payers must demonstrate the value of integrated offerings to employers and brokers.

From carve-outs to carve-ins

While there is a clear trend among employers toward carve-outs today, national payers could reverse that trend due to recent changes in the market. First, consider the billion-dollar deals that crowd the headlines, and build investor expectations for value creation and synergies. With these mega-mergers, every national payer is positioned to deliver an integrated offering. All five of the largest national payers now either own, or are owned and integrated with, a major PBM. By building integrated models, PBMs are hoping to unlock value in multiple areas such as cost reduction and member experience. Is this the fall of the standalone PBM model? That depends on whether payers and their in-house PBMs can successfully define and deliver an integrated offering to the core employer customer base.

Another market change that could reverse the carve-out trend is employers’ embrace of industry disruption from these recent M&A transactions. Over 70% of employers shared positive views when asked about it. Not only did the majority think a combined health and pharmacy benefits company would have a favorable impact on the marketplace, they agree that the formation of these new health companies has caused them to rethink their benefits strategy.

These reactions are a strong signal of just how hungry employers are for disruption. After all, they are staring down skyrocketing drug costs with no relief in sight and welcome anything that might help them to achieve higher cost savings and a better customer experience. This alone makes employers receptive to the integrated offering value case—if payers can prove it.

And finally, the continued pressure to drive down drug costs and pass savings to healthcare consumers is cutting into the value of carve-out PBMs. The market is already seeing newly combined companies pledge to pass point-of-sale rebates directly to consumers for new employers purchasing their products.

Going beyond the card

These trends could fuel the shift toward carve-in pharmacy benefits. And demand for transparency, rising drug prices and new legislation will add fuel to the fire. Yet employers and brokers still want “hard facts” to understand the real value at play. It is not enough to push integration, issue a single medical and pharmacy card, and be done with it. What happens beyond the card matters most. This is why integration cannot be a hollow commitment.

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1 Accenture 2018 Employer Healthcare Survey
4 Accenture 2018 Employer Healthcare Survey
5 Accenture analysis
It must be operationalized in ways that demonstrate and guarantee quantifiable benefit to employers and consumers, starting with these fundamentals:

**Win at pricing.** Above all, price will still determine which PBMs employers select, whether it is a carve-in or a carve-out. In fact, 46% of employers say that cost is the top influencer when selecting a PBM. With operational synergies, economies of scale and margin stacking from an integrated offering, major payers are able to translate bundled medical and pharmacy into more competitive pricing. It also makes for a greater runway—and more willingness—to pass on rebates from prescription drug manufacturers directly to employers and consumers.

**Improve care with data.** Eighty-eight percent of employers believe integration of pharmacy and medical data is either an essential or important part of the buying decision. Payers can capitalize on this perspective by rethinking how pharmacy data is used to identify and influence the management of conditions and claims. This requires reshaping the operating model to ensure accountability for both medical and pharmacy data and to enhance coordination of care and ultimately improve medical outcomes. With access to both medical and pharmacy data, payers’ clinical teams should be able to effectively track comorbidities and high-risk prescriptions, and potentially intervene when members are not adhering to treatment plans or when lower-cost care options are available. If payers can define the accountability and communication structure for their integrated data, they should be able to elevate service experience and close care gaps.

**Enrich experiences.** Service is the top reason employers switch health insurers. With an integrated offering, payers can improve customer retention by reducing administrative burden. Payers act as trusted advisors for employers while simultaneously minimizing effort and uncertainty for members. For example, there is often a lag between when a person is diagnosed with diabetes and when an insurer is informed. However, a truly integrated insurer will know the moment a diabetes related prescription is filled. The payer could connect the member with case managers and other specialists or provide the employer with insights on cost management for its population of employees with diabetes. While many employers can receive weekly or daily pharmacy data from their carve-out vendors, it may be missing key information, such as dosage frequency, which requires additional effort to understand the impact on medical outcomes.

**Put skin in the game.** The reality is that employers and brokers expect to get something out of these mega-mergers, and both increasingly expect payers to put skin in the game on integration. While the headlines are full of promise, no one has actually demonstrated the value in hard numbers. Think of it this way. If payers are singing the praises of an integrated offering that carves in pharmacy, shouldn’t they be willing to guarantee some level of cost savings? The market’s expectation for performance guarantees based on validation suggests that the answer is a resounding “yes.”

**Race to the future**

While the trajectory of integrated offerings is still uncertain, national payers are in a tight race with each other to demonstrate the value of their integrated offering in the face of a growing carve-out trend. Winning the race will require payers to boldly commit to cost savings for employers and engage them in the front office with consultative insights. Success means proving the value, not just promising it.

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6 Accenture 2017 PBM Employer Survey
7 Accenture 2017 PBM Employer Survey
8 Accenture 2018 Employer Healthcare Survey
9 Accenture analysis
ABOUT THE ACCENTURE 2018 EMPLOYER HEALTHCARE SURVEY

Accenture conducted an online survey of 500 US employers with 50 to over 10,000 employers across industries to understand their healthcare buying behaviors and group purchasing decisions. The employers surveyed were of different age, gender, years in the role, company revenue and location. The survey was conducted in March and April 2018.

ABOUT THE ACCENTURE 2017 PBM EMPLOYER SURVEY

Accenture conducted an online survey of 102 employers across different industries in the United States to gather input from employers on how they purchase pharmacy benefit manager (PBM) services, importance of offerings, understanding of value-based contracts and how they value providers in the PBM space. The survey was conducted in October 2017.

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