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EXCLUSIVE

Foot Locker, Teamsters Show Their Drug-Benefit Managers the Door

Employers and unions say the PBMs are favoring costlier drugs over less expensive options and aren't open about their rebates

By Melanie Evans Follow

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Employers and unions are getting fed up with the firms they have used for years to help control their spending on prescription drugs—because their costs keep soaring.

Footwear retailer Foot Locker dropped UnitedHealth Group's OptumRx drug-benefit manager last year, while a Teamsters fund in Philadelphia recently reupped with its replacement for CVS Health's Caremark.

Among their frustrations: They are being told to cover costlier drugs even when less-expensive options are available.

The employers and unions express concern that they are getting stuck with higher-cost drugs because the drug-benefit managers can pocket some of the bigger rebates negotiated with the medicines' makers. The employers and unions say they can't know for sure because the drug-benefit managers aren't open about their fees and other sources of revenue.

After Alabama fabric maker Phifer replaced its drug-benefit manager, Prime Therapeutics, the new firm got rid of some expensive drugs—such as the nerve-pain medicine Gralise, which has a list price of $1,532 for one month's supply compared with $13 for the generic equivalent.

Phifer's new drug-cost middleman, known as a PBM for pharmacy-benefit manager, also substituted a generic migraine pill costing 80 cents a dose for a powdered brand called Cambia that lists for $118.26 per treatment.

“Do the games ever end?” said Russell DuBose, Phifer’s vice president of human resources. Under the new PBM, Phifer’s drug spending has dropped 18% to date this year.

Caremark, OptumRx and Cigna Group’s Express Scripts—the largest of the middlemen—said they save their customers money and give employers information and options to tailor drug benefits to best suit their workers’ needs.

Big drug-benefit managers also said they win a lot of repeat business, which OptumRx said indicates customers like their choices and the information they get on their spending. Prime Therapeutics declined to comment.

The frustrations of some employers and unions are starting to shake up the important but under-the-radar sector for controlling spending on retail prescription drugs, which the Centers for Medicare and Medicaid Services projects will reach $411.6 billion this year.

PBMs last year handled virtually all of what amounts to 6.4 billion 30-day prescriptions, according to the research firm Drug Channels Institute.

To keep a lid on costs, the firms negotiate with drugmakers over how much each prescription will cost and then pass along the rebates they win. The PBMs can threaten to exclude a drug from the menu, or formulary, of medicines a health plan will cover if they don’t get a sufficient rebate.

Yet retail drug spending under private insurance has increased 3% each year, on average, for the last decade, according to CMS.

“What’s wrong with this market? Everything,” said Michael Thompson, chief executive of the National Alliance of Healthcare Purchaser Coalitions, which represents employers, unions and other organizations buying private health plans.

Jonathan Levitt, a healthcare lawyer at the firm Frier Levitt, said one of his employer clients settled an arbitration case with a PBM over how much information it should provide about the rebates it negotiates and another is now in a similar arbitration with a PBM.

Foot Locker replaced OptumRx last year because it wanted more information about how much the PBM was profiting off its work for the retailer, said Linda Gulbrandsen, Foot Locker's vice president of North American benefits.

"We know our vendors work hard. We expect them to make money. But we expect to know every penny that they are making off of our team members," she said.

OptumRx said Foot Locker's contract had been negotiated through a group working on behalf of several customers. Companies that contract with OptumRx directly can have more flexibility in setting terms.

Foot Locker hired a smaller pharmacy benefit manager, Navitus Health Solutions of Madison, Wis., which tells employers it passes through to them 100% of the drug rebates it negotiates.

Navitus also does more to prioritize the use of low-cost prescriptions, Gulbrandsen said. Employees who need pricey drugs can get them, but are asked to first try cheaper options, when it is appropriate, she said.

Roughly 8,500 workers and their families enrolled in Foot Locker's health plan. During the first year after the switch, spending on drugs dropped 5%.

Phifer left Prime Therapeutics, which works with many Blue Cross and Blue Shield health plans, at the end of 2022 because its costs were rising 7% a year and Prime wasn't offering new solutions for controlling the increases.

"It was wash, rinse, repeat of the prior year," DuBose said.

Phifer hired MedOne Pharmacy Benefit Solutions, which promotes the "different path" it takes from traditional PBMs. Founded by an Iowa pharmacy chain owner in 1999, MedOne, of Dubuque, Iowa, now counts more than 400 clients.

Because of the money it has saved on drug spending, Phifer was able to hold its premiums for 2024 flat, DuBose said.

The Teamsters Health and Welfare Trust Fund of Philadelphia and Vicinity, which replaced Caremark with venture capital-backed Capital Rx in 2019, recently renewed its contract with the upstart middleman because it has saved the fund more on drug spending each year than the fund projected, including 17% the first year.

Capital Rx also agreed to pass through all the rebates it negotiates, said Maria Scheeler, executive director for the Teamsters fund, which provides drug benefits to 16,000 people. “Best decision ever,” she said.

CVS said it has earned the long-term trust of employers, unions and others by being transparent, working to lower drug costs and offering options for health plans that meet the needs of the customers.

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