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## The rise of preferred provider networks

Mike Sullivan | October 18, 2010

A year ago, the term preferred provider network (PPN) wasn't liked in the pharmacy circle or within group benefits plans. Pharmacies detested the idea of having to be told what they could charge by influential employers, and plan sponsors weren't overly comfortable telling their members where they should and should not do business.

Amazingly, with the exception of a few well-documented cases, large-scale PPNs were non-existent in the Canadian market and until recently. What's even more stunning, most plan sponsors had very little insight into what components actually went in to the total cost of a prescription, how these costs could vary dramatically from one pharmacy to another and how the impact of a dispensing fee cap could be blunted by aspects like ingredient cost mark-ups. Thanks in large measure to the significant government reforms in Ontario (and to a lesser degree what has taken place in Alberta and British Columbia), pharmacy seems to have found "religion."

For far too long, pharmacy stakeholders across the country were focused on happenings at the provincial government level and within publicly funded programs. There was little attention paid to non-public payers (primarily Canadian employers and their plan members), which account for a greater portion of pharmacy spending than public payers. When the Government of Ontario made sweeping drug pricing reforms this summer, the light bulb seemed to go off that it might be a good time for pharmacy to start paying attention to private payers. Hence, we have seen the explosion of PPN offerings and programs targeted to employers in recent months.

Without question, the growing appreciation that the non-public payer world is a large market for pharmacy is great news if you are a plan sponsor or an advisor hoping to bring new solutions to a client. But, there are some potential landmines to consider before venturing too far down the PPN road.

### Quality of the Offering

Some offerings in the market look much more attractive than others in terms of the package being offered and return for the plan sponsor.

In one recent case, a plan sponsor's transactional-level drug claims data was used to compare a handful of different PPN offerings to determine that if all other things were equal, what the impact on cost alone to the plan (admittedly cost is only one variable that needs to be considered) would be. While one PPN offering had a potential cost savings as high as 17% of plan spending, another offering would have cost the plan more than what they actually paid. The benefit of a PPN to a specific plan depends on the demographic of the plan population, the geographical distribution of plan members, existing plan design and cost-sharing structure, and the current therapeutic mix within the plan. One size does not fit all when it comes to PPNs.

### Immediate Commoditization of the PPN Offering

It is disappointing to see so many PPN offerings are simply being marketed as commodities that attempt to compete on price alone.

Pharmacy can bring so much value to the table. It's a shame that some PPNs have absolutely no idea what their customers actually need or are willing to pay for. Some PPN offerings do appear to go beyond just slashing dispensing fees or mark-ups, and it is important that plan sponsors assess the full array of what a properly designed PPN can bring to the table. For example, if a plan sponsor has identified that medication adherence for depression has been declining while the number of mental illness related absences have been increasing (along with their related costs), wouldn't a targeted, measurable adherence program that facilitates better outcomes make sense?

It costs no more than \$1 a day for many common antidepressant therapies—if better adherence drives the cost of treating plan member A's depression from \$100 per year to \$365 per year but the outcomes for that individual are far better, what is the extra \$265 investment worth? From a cost perspective alone, it's certainly less than a disability claim.

The key is that these offerings require appropriate focus and measurement that demonstrate a return, and that by driving savings in given areas of the drug plan benefit provides an opportunity for the plan sponsor to re-invest these savings into interventions that add value, like in the depression example above.

### **Transparency**

A PPN should be completely transparent on what they are offering, including their pricing structure, the associated services that are being committed and ongoing reporting. If there is an unwillingness to share information that may impact decision making, that is the first sign of trouble. A meaningful partnership needs to be fair, balanced and transparent.

We hope the rise of PPNs will drive some excellent benefits to plan sponsors, plan members and pharmacy providers. However in order for that to happen, there needs to be some meaningful consideration given to how well a proposed offering fits a given plan.

*Mike Sullivan is president of Cubic Health Inc., a Toronto-based drug plan management company.*

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