With pharmacy benefit plan costs rising steadily year after year, employers are on the hunt for ways to manage those dollars.

One option many explore is carving out the pharmacy benefit program from their medical benefits.

But what exactly does carving out mean? In turn, what’s carving in? And, at the end of the day, which is the smartest move for your company? Let’s take a look.

Carving in occurs when a group contracts directly with a health plan provider for medical and pharmacy benefit services. The health plan provider will either administer the pharmacy program itself or subcontract pharmacy benefit services to a pharmacy benefit manager (PBM). In the latter situation, the PBM’s only direct relationship is with the health plan provider.

Examples of carving in: Cigna administers both medical and pharmacy benefit services. Anthem administers medical benefit services and subcontracts PBM services to Express Scripts. The scope of services subcontracted can vary by health plan, with the PBM operating behind the scenes in support of the health plan.
Carving out occurs when a group contracts directly with a PBM to administer the pharmacy benefit program. The group holds a separate, direct contract with a health plan provider to administer medical coverage. There are over 60 PBMs in the United States. The three largest stand-alone PBMs are Express Scripts, CVS Health/Caremark and OptumRx, and together they control 75 to 85 percent of the total PBM market share.

There are benefits to both.

**Why Employers Carve In**

- Simplicity. There is only one vendor contract and relationship to manage and one Summary Plan Description to provide to employees.

- The integration of medical and pharmacy benefits can help identify gaps in care, enhance the member experience, improve outcomes and reduce total medical spend. Many health plan providers have published studies or white papers documenting the value of integration. Actual integration of pharmacy and medical information may vary greatly by vendor. A detailed review of the medical vendor and the use of a subcontracted PBM or in-house Rx provider will need to occur to derive specific results.

- Tracking deductible and out-of-pocket payments is seamless and occurs on a real-time basis.

- More control and influence over the health plan and physician providers.

- Generally, one ID card and one customer service point of contact for plan members.

- While the ability to manage specialty drugs more holistically across medical and pharmacy benefit programs exists, there may be differences in how each vendor manages this critical and high-cost component.

- Smaller groups can leverage resources, programs and scale they might not be afforded under a direct contract.

- One dedicated account team for integrated medical and Rx.
Why Employers Carve Out

› Pharmacy benefit management is the main focus of carve-out pharmacy vendors.

› Freedom to select and choose a PBM that is best positioned to meet the employer's unique needs. That may mean a large national PBM with significant resources (e.g., Express Scripts, Caremark or OptumRx), a midsize PBM that can be more nimble than a larger national PBM (e.g., MedImpact, WellDyne, Navitus or Envision) or a smaller “boutique” PBM offering unique capabilities or concierge service (e.g., MedTrak, Maxor, EmpiRx or Sav-Rx).

› Access to a potentially broader scope of services, versus a prescribed scope of services dictated by the health plan.

› Competitive offers. Carve-out PBMs are often willing to compete more aggressively to win business by agreeing to “best-in-class” contractual language with strong financial guarantees. This may also result in a greater opportunity for full disclosure and transparency in the financial contract.

› Potential for greater flexibility, control and access to customized solutions in plan design, network, formulary and clinical programs.

› Strong reporting capabilities. Detailed, timely reporting can help the plan provider monitor changes in claims utilization, identify trend drivers and support strategic actions to manage drug spend.

› Dedicated pharmacy account team whose sole focus is managing pharmacy benefits.

Which One Is Right for You?

Even with the pros and cons outlined, making the decision to carve in or carve out isn’t always easy. Employers and brokers should work together to determine what makes the most sense for the organization and its employees.

Learn More

Lockton Benefit Group’s Pharmacy Analytics Practice works with employers to assess pharmacy benefit costs, trends, utilization and risks, in addition to projecting future savings, outcomes and sustainability. For more information, please contact your Lockton account team.

Not a Lockton client? Contact us at 816.960.9000.