

Primary Care Cures

Episode 47: Vinay Patel

A PBM with Transparent Pricing for Employers

Ron Barshop: Most problems in healthcare are fixed already. Primary care is already cured on the fringes. Reversing burnout, physician shortages, bad business models, forced buyouts, factory medicine, high deductible insurance that squeezes the docs and it's totally inaccessible to most of the employees. The big squeeze is always on for docs. It's the acceleration of cost and the deceleration of reimbursements. I want you to meet those on this show that are making a difference with us. Ron Barshop, CEO of Beacon clinics, that's me.

Ron Barshop: I've come to the conclusion that surprised the filling is an actually diabolical scheme. You get a bill, here's what happens on the ground and then you get several more and then you ask for a summary which can take months. You now have questions because you're very confused by all these different bills coming in that have words on there you've never seen before, like in network and out of network. The health insurer will send you to the provider. The provider will send you right back to the health insurer, and you can bounce like that for weeks. Each throws up, privacy roadblocks, claiming they can't talk. And if you're helping a family member out, they're asking for copies of power of attorney, and appointments are representative, which readily disappear on a routine basis.

Ron Barshop: The insurers then refer the claims to a processor. The voicemail menus now puts you in purgatory and the more surprise those keep arriving and then the phone calls start threatening collections after a few months. So name any other industry with this free license and it does take genius to develop these games to block, delay, and obfuscate customer or be less customer centric. The conspiracy theorist in me could argue that this is very thoughtfully planned. That's why I call it diabolical. It's likely a little bit of incompetence and planning or both. But collections are a big business, are \$80 billion last year and it affected 43 million people [inaudible 00:02:07] and collections currently. There's another 40 million people who borrowed 40 billion pay for medical bills last year. So banks are big winners. Returns to collection agencies are owned by public companies like HDA intended and also nonprofits like CHI and Dignity now called CommonSpirit.

Ron Barshop: So we know the returns are about 30% on the collection's industry, which is about triple that of what the hospitals generate on the for profit side, nonprofit side about equal. Stanford did a study and they found that out of 13.6 million bills last year, that about 43% of the outpatient bills were surprised bills of the 5.5 million inpatients that they studied, the surprised bill totals about 42% about the same and the average bill is a couple of [inaudible 00:02:53] thousand dollars. Federal legislation is literally going nowhere. Regulation is uninterested and in fact collection agencies have greater license today than they had a year ago because lobbying what they've done with regulators to harass and shame on a more frequent basis [inaudible 00:03:08] working for. 28 States are passing laws that offer at least some restrictions on surprise billing.

Ron Barshop: The federal regulations like the rich, for example, self-insured group health plans which fights employees of most large corporations are not protected by state laws, so playing games with one in five Americans is no way to win sympathy for big healthcare in an election cycle and voters are officially angry enough to give socialism a very real shot in healthcare. Today we're going to be meeting a guest who is doing what he can to fight the good fight and help individuals out, which are the employers and their employees to get the best deal. His current role is the founder of self-insured pharmacy networks.

Ron Barshop: Vinay Patel is revolutionizing how plan sponsors pay for pharmacy benefits administration. That's PN simple, clear value costs plus model allows plan sponsors to generate significant savings over traditional spread pricing, through [inaudible 00:04:03] price cost of drugs on a per member per month team that is now tied to prescription claims and volumes of billing charges. So and then you're a clinical pharmacist, am I right?

Vinay Patel: That's correct, yes.

Ron Barshop: Okay, well welcome to the show. Tell me how you found your way to this industry.

Vinay Patel: Thank you so much, Ron. It's a pleasure to be on the show with you. So as a pharmacist, I have been working in different settings involving community pharmacy, academia and clinical practice with physicians' offices and throughout all of these areas of practice we continue to see one common thread and that is that the insurance companies, namely those that manage the pharmacy industry, pharmacy benefit managers, control almost every aspect of pharmacy care and practice and we also see on the financial side how traditional PBM practices are overcharging employers and employees to the point where we see cases every day coming through pharmacies where patients have to decide between food and medicine and

that shouldn't be the case. And that's really how we got here to help solve that problem and take on these Goliaths.

Ron Barshop: And they are Goliaths because there's six big ones that control most of the market. My understanding from former insider, I'm not a reporter, but just a guy that I used to hang out with and was with a PBM. He told me there's 17 different ways they can play games. So we know about rebates, we know about games they can play with spread pricing but in reality more that there's more ways they can tap into the revenue stream of what's going on to finding their way to profitability, am I right?

Vinay Patel: Oh, that is correct. Yeah. 17 would be on the low end. I'm in favor of multiple more revenue streams that are tiny but significant.

Ron Barshop: So you can shut down rebates, you can encourage transparency and in the end there's still games that can be played is the problem with PBM. So this friend of mine, he actually started a PBM back before I even knew what they were about 15 years ago and his gambit was to offer 10% on the upside, 10% on the downstream. And so he had his 20% and he gave the pricing and made it available to customers from both sides and it scared the caca out of the big boys. Now, they weren't all consolidated like they are today, but they've acquired him pretty quickly because what he was doing was exposing under their skirt and they didn't want to show their games.

Ron Barshop: I don't know if you're going to be in that same position where you're going to be fighting the good fight and be a soldier in the war and then they're going to need to get you out of the way.

Vinay Patel: The industry has changed so much in 15 years that I personally think that they're so consolidated and vertically aligned that they just see every other tiny startup and disruptor in the market as just a fly on the windshield until we become significant. So we're going to have to work our way through this battle upstream, up the mountain before we even get recognized as relevant enough for them to say, do we want to crush them or do we want to buy them out?

Ron Barshop: So is your customer going to be self-employed plans? It's going to be the employer and the third party administrators that manage them?

Vinay Patel: That's correct. Yep.

Ron Barshop: Okay. So let's pretend I'm one of those guys. What's the pitch? Tell me how you separate yourself from the pack of others that are doing the same.

Vinay Patel: So to start with, in an industry where the conversation around the country is how can I get my drugs for cheaper and the price just needs to keep coming down because those costs are so exorbitant for medications. We come in and say, well, if we keep going down this path, eventually we're going to reach a threshold where you're going to start crushing the reimbursement that pharmacies get below their costs. And then we're going to start to see a lot of pharmacies go out of business. So our model is different. Let's start at the floor. Let's start at what pharmacies are buying drugs for and add a fixed margin on top. None of these list price discounts and games on discounts for medications. Instead, we start at the floor and work our way up, and then we can start having a real conversation around the value of pharmacy benefits.

Vinay Patel: Start viewing your pharmacy benefits as a tool to help reduce those medical costs plans and that healthcare cost trend that's also creeping up as well and represents a larger piece of the pie, at least for now. And so, move away from list price discounts and get towards a value based conversation where we can start utilizing the tools that we have, one of them being pharmacy to help affect those... Keep these patients out [crosstalk 00:08:40].

Ron Barshop: So are you able to tell, able to keep up with a big six with wholesale price to you? In other words, are you paying the same pennies per pill that an express scripts or an Optum is going to be paying, as a large PBM with turbine power you at the same starting gate as them or are you in a different pricing structure because of your volume?

Vinay Patel: So here's the funny thing, PBMs in and of themselves do not purchase a single tablet of a medication that they dispense to members on their plans. So in reality, what they're doing is just taking a price benchmark out there, for example, average wholesale price and saying, "I'm going to give you this discount." And based on what they were able to negotiate with the pharmacy network that they have, they're either passing those savings on, or they're more likely, more than likely happens is they're giving a lower discount to the employers and creating a [crosstalk 00:09:35].

Ron Barshop: Okay. So you're able to buy, say a Gleevec at the same price as the big boys, not Bri, but your reference price, your wholesale price, I guess your blue book price we'll call it, is the same as the big boys when you're looking at the wholesale cost.

Vinay Patel: Exactly. Right, right.

Ron Barshop: You're in the same ballpark with them and now you are a giant threat to them because as you start getting more and more market share, they get

exposed. It's the same problem my friend had 15 years ago. They're going to eventually have to get you out of the way because this is a pretty lucrative industry.

Vinay Patel: That is correct. Absolutely. Hit it on the nail.

Ron Barshop: So what is the reason we even have PBMs in the first place if in the case of your competitors, they're supposed to negotiate on my behalf as an employee, and they're negotiating with their bosses back in corporate in the same transaction. I don't get it. How can I possibly do that without a conflict of interest?

Vinay Patel: Again, this is my personal opinion, is the plans have the fiduciary responsibility to make as much money for the plan. There's no skin in the game for them. As we saw in that express scripts lawsuit with the city of Rockford, Illinois, that the fiduciary responsibility remains on the buyer of healthcare to make sure they're getting the best deal. When the city of Rockford went back and said, "Hey, you told us when you came to sell to us that you are here to help control prescription costs." But when push came to shove, they said, "We're not contractually obligated to control your drug spend and this is what leads to the example and the problem that you're highlighting here, we need to make as much money as possible for our plan. That's our responsibility and we need to find business streams or revenue streams that increase our margin-

Ron Barshop: So 60 minutes did an expose based on the filing from that lawsuit. And literally, I don't know of anything that's changed after that 60 minutes showing other than maybe a little red faceness embarrassment, but did anything that literally changed statewide, regulation wise federally or with any types of laws and Congress?

Vinay Patel: So to the best of my knowledge, nothing has been put into law to stop or change some of that behavior. I do know the Senate Finance Committee, Senator Wyden has introduced a bill to help combat some of these PBM practices and that is making its way through Congress that the last updates that-

Ron Barshop: Do you have any faith that Congress can get things done in light of the healthcare lobby that has almost half a billion dollars to spend on essentially buying favor?

Vinay Patel: Yeah, that's a great question, Ron. I want to stay optimistic and hopeful that we can get something done in this country that we all agree upon, which is healthcare costs are out of control and including prescription drug costs. But will it happen? If I were to put money on it and this, the margins

are slim that we will get something significant done. But we do have some people that do want to take the charge. We look to them for leadership and courage to try to get [crosstalk 00:12:40].

Ron Barshop: I used to think that companies like United health Care or HCA where the King Kong, the big health care space, it's not, it's the PBMs. They have much larger market cap. They don't have a bigger lobby, than pharma, the medical devices than the hospital lobby, but they have a lot of clout with the dark money. The dark money, meaning executives from these organizations can funnel non FTC filed dollars into these campaigns. So we really actually don't know the full extent. It's estimated that it's about the same as the publicly filed half a billion in dark money. But it was kind of shocking to me that the PBMs actually have bigger strokes financially than the other monsters that are 800-pound gorillas.

Vinay Patel: Yeah, and you're absolutely right. That's why they want to buy them up. You saw these vertical integrations with Cigna and Aetna, and of course United got into this game way earlier than the other guys but yeah.

Ron Barshop: So let's talk about pennies per pill versus dollars per pill that an employer gets when they engage you guys. What kind of discounts are you seeing passed on to the employers with you involved?

Vinay Patel: So on average when we look on balance, just repricing claims at pharmacies and of course I would be remiss if we didn't mention that part of our value proposition is we want to drive traffic to independent community locally owned pharmacies across the country. If your audience isn't aware or know, a third of all pharmacies in the country are still locally owned, independent pharmacies. Most think it's somewhere in the neighborhood of 10% and it's a dying breed. I can tell you that that number represents over 22,000 pharmacies in our country that has in total about 66-67,000 individually community pharmacies. That 67,000 includes CVS, Walgreens and the like and everything. And then a third of that is independent community owned pharmacies.

Vinay Patel: And so our preferred network is the independent pharmacies, but we have access to all the pharmacies. When a member goes to an independent pharmacy, they'll get the cost plus rates. And if we look at, on-balance repricing claims at our cost plus rates, we see about a 15 to 20% savings. But it all depends on that unique contract that that employer has with that PBM. We've seen contracts as bad as 35% savings and some that are as good as five to 7% savings. So it's really unique when based on the terms that that plan sponsor has signed with that PBM and how good of a job they did negotiating.

Ron Barshop: So your pricing is going to be different for every employer. Are you saying you're negotiating prices? Because I thought you said you have sort of a standard markup that's the same for every size employer, big and small.

Vinay Patel: That's correct. That's correct. When we look at our pricing compared to what they're paying today, that savings will differ based on what their contract says today that they're paying with their current PBM.

Ron Barshop: Okay. What is your expectation? What do you think you're going to look like in five years? Are you going to be much larger or do you see a lot of room for growth in this industry?

Vinay Patel: This industry has tremendous opportunity. As you said earlier on, six players control the majority of the market and just three control about 80% of the market. I think if we go after just the three that control about 80%, the big three, the really big three there is tremendous, tremendous opportunity, especially with the enlightenment, a phase, that age that I like to call it, with employers waking up to realizing that depending on their industry, they can't afford to spend more on healthcare than they do today.

Vinay Patel: You've seen all of these cost shifting structures come to two to a head here in the last couple of years with high deductible health care plans and there's only so much we can do on that front to keep shifting costs away from the employer to the employee. As they come to realize this, there are more and more who will go self-funded more and more will take control back into their hands to really effect the healthcare spend, so they can spend it back into their companies to spend back on their employees or infrastructure or growth, whatever they have their priorities set on. And so in five years I can see us controlling a million lives going after big corporations like Delta and Coca Cola and Home Depot that will really want to ride on this momentum that we've built with the smaller self-funded employer groups over the last five years, five years now.

Ron Barshop: What is your sweet spot in terms of size? What are you looking at right now in terms of your typical?

Vinay Patel: Right now our sweet spot is about a thousand employees. A company that has about a thousand employees has enough local control where the board or the executive leadership team is making the healthcare decisions. And it hasn't all been shifted into a department, into HR. And we're able to go in and really share the story of local companies wanting to work with local healthcare entities like local community owned pharmacies. And they understand that and they value that. And then when they see the model, the financials, that makes sense to follow that. And of course all the games

that they may not realize because of the complexity that exists today in the pharmacy industry. That's what makes for a great customer in our eyes, the ideal customer.

Ron Barshop: Okay. So you're optimistic about the future, obviously.

Vinay Patel: Yeah. Definitely.

Ron Barshop: Okay. And do employers and employees have reason to be as optimistic with folks like you coming into the system?

Vinay Patel: If I understand the market correctly, employers are already investigating solutions to try to save their businesses because of how much healthcare is eating into their costs and their employees costs. And so as they look for solutions, there's a tremendous amount of startups just like us, not just in the pharmacy space, but all across the healthcare space and that can be overwhelming. What I see the opportunity is once we, once they identify the trusted players and the players that are going beyond transparency to really showcase how a model like ours can depend on them seeing all the information instead of hiding the information and hiding their claims data from them that they'll come around. It's going to take some time.

Ron Barshop: So do you think one of your secret powers is your transparency?

Vinay Patel: Absolutely. Without a doubt. That in a game where there's so much frustration, confusion, the employers that we talked to, they say, they tell us, we know that there's a game being played in pharmacy. We don't know how much they're making because we don't understand all of it, but we know that there's something going on and that creates so much distrust when you come in here and you're able to showcase on our claims exactly how much the pharmacy is getting paid, exactly how much the drugs costs now with a true benchmark and exactly how much you are taking on a per member per month model instead of a per claim model that incentivizes PBM to increase the claims, it's a breath of fresh air.

Ron Barshop: Okay. I'm going to take a step away from pharmacy. So pharmacy is basically only about 15% of the spend of our almost 4 trillion spend we have a year. Really, hospitals are about 40% of the spend. Do you see any other colleagues of yours that are doing something in a similar space for other verticals in healthcare that are bringing transparency to the table? Is transparency a trend that seems to be breaking out all over or is that just my imagination?

Vinay Patel: That's a great question, Ron. We do know of a few other people in parallels here in healthcare that are doing something different. Whether it's

a transparency theme. I don't know if I can make that conclusion yet. From the government's perspective, we saw an announcement just earlier this week where they're going to ask all insured companies and hospitals to list all the prices that they get paid from every plan type, from cash, to all the insurance carriers in their area. And so I do see that from a government perspective, they're trying to push that, they're trying to push transparency to get people to realize exactly how much, what they're paying and what is benchmarked and everything else.

Ron Barshop: You know what I see going on there with that, it seems to me a noble charge at the windmills, but it that takes a lot of courage for Ms. Verma to put this out there because she's not going to be in the administration seven or eight years when this lawsuit is over. It's just going to be a new administrator. It's going to be a new political environment, is almost seems like optics. I know that she's got noble intent and she, you've got to start somewhere. I mean, you can't just leave the status quo, let the game be played as it is, but I'm just, I'm concerned that who knows who's going to be in her seat in seven or eight years and if they're going to have the same intent she has. So let's talk about how people can find you. Where would people look to find you?

Vinay Patel: So they can go to our website, WWW. S as in Sam, I as in India, Pharmacy Network.com. We're on LinkedIn and Twitter as well as IPN PBMs, our Twitter handle, Self-Insured Pharmacy Networks, LLC is our LinkedIn handle so they're welcome to call me. My office phone is (919) 436-3359, extension 101, and they can email me Vinay.Patel@sipharmacynetwork.com. I'm happy to have conversations and field all kinds of opportunities. And even if it's just consulting, we've helped plan sponsors look at their contract and get better terms to save them money, even if we didn't win business and help process their claims.

Ron Barshop: Now, there's actually a prize at the end of my show for anybody who does what I'm about to ask you to do. But if you could say it on a banner, a message to all Americans that you think is important in healthcare, what would that message say and I'll explain what the prize is later.

Vinay Patel: So you're saying Ron, if there was a banner flying all across America and what would that message say on that banner?

Ron Barshop: Yeah. What would your message be to Americans?

Vinay Patel: I would tailor my message specifically to all the companies that represent self-funded plan sponsors. And my message would be don't stop fighting because you don't realize how much leverage you have in the industry. 60% of Americans are employed by self... And healthcare are employed

by sell funded companies. If they just work together and unify to come together to upend the current status quo, they could revolutionize healthcare and we wouldn't have to wait for the government to do anything.

Ron Barshop: Okay. So the prize would have been if you actually could have said it on a banner, which you didn't but it's still a good message.

Ron Barshop: So here's the thing, I completely agree with you. Employers are basically the game changer here because they're funding this mess and we employers until we wake up, are going to keep funding this mess.

Vinay Patel: Right.

Ron Barshop: So I don't know any statistics about how many folks are bringing transparency into their companies that are bringing self insured plans, are creative into their companies, the health Rosetta advisors into their companies. But there is a ecosystem with people that are working to drive-

Vinay Patel: Absolutely.

Ron Barshop: Costs down and care up and outcomes through the roof because we have nowhere to go but up. But you and I are on the same page on that. All right, well we'll watch your progress and stay in touch with you and they will try and get you back on the show again. And when you get that millionth of patient, let us know so we can get you out to have a little celebratory conference on the phone. Okay?

Vinay Patel: Ron, thank you so much for the time and the opportunity to come onto your show and share our message with your audience. It's been wonderful to have this conversation with you and others.

Ron Barshop: Okay, great. Thanks again. Thank you for listening. You want to shake things up? There's two things you can do for us. One, go to Primarycarecures.com for show notes and links to our guests. And number two, help us spotlight what's working in primary care by listening on iTunes or wherever you get your podcasts and subscribing and leave us a review. It helps our megaphone more than you know, until next episode.