MILLIMAN WHITE PAPER

PBM Best Practices Series: Performance guarantees

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Performance guarantees are an important component of a contract between plan sponsor and pharmacy benefit manager (PBM). PBM processes are complex and responsibilities are performed across multiple departments. Performance guarantees keep PBMs accountable for high-quality service and performance over the term of the contract by placing fees at risk for performance below expected standards.

Introduction

Performance guarantees (PGs) are a list of service expectations for functions delegated to the PBM. PGs can vary from PBM to PBM. At a minimum, the contract should specify the name, standard, measurement criteria, measurement frequency, and dollar amount at risk for each PG.

This paper explores PG best practices plan sponsors can leverage to hold their PBMs accountable for operational performance.

Types of PGs

IMPLEMENTATION VERSUS ONGOING

The PBM implementation process sets the tone for the relationship between the PBM and the plan sponsor.[1] An unsuccessful implementation can have undesirable consequences that last for the duration of the contract and, depending on the line of business (LOB), can put the plan sponsor at risk for noncompliance with state or federal standards. Plan sponsors should contract implementation PGs on a one-time basis at the onset of a new PBM relationship to hold the PBM accountable for a successful implementation. Implementation PGs may include member communications and ID cards, eligibility accuracy, benefit plan design accuracy, and implementation surveys.

Plan sponsors should also contract ongoing PGs to hold PBMs accountable for continuous operational performance levels. PBMs offer PGs for performance metrics across a broad range of activities and service satisfaction surveys. The next section will discuss ongoing PGs in detail.

STANDARD VERSUS CUSTOM

PBMs typically offer standard PGs during contract negotiations unless plan sponsors request custom PGs that are specific to the plan sponsor's LOB or performance history. Examples of standard ongoing PGs include:

- Account management satisfaction and responsiveness
- Claims dispensing accuracy (mail order and specialty)
- Claims dispensing timeliness for clean claims and claims requiring intervention
- Eligibility loads
- System readiness and response times
- Member services call metrics
- Reporting timeliness
- Benefit plan design accuracy

PGs may be measured at the book of business (BOB) level or at the plan sponsor level, meaning the performance metric only includes the plan sponsor's performance. PGs are most effective when measured at the plan sponsor level. When negotiating standard PGs, it is best to include as many PGs as possible to be measured on a client-specific basis because, under the BOB approach, underperformance can be offset by another client's overperformance.

The plan sponsor should negotiate custom PGs when a plan sponsor needs the PBM to commit to achieving a client-specific standard, due to a past PBM service failure in a specific area or where state or federal regulation require higher standards or custom calculation parameters. In both of these situations, the PBM commits to a PG that addresses a specific need at the client level. Plan sponsors should consider custom PGs to address specific business needs, but must be aware of unintended consequences if PGs are not clearly defined.

[1] For more information, see the Milliman white paper, "PBM Best Practice Series: Mitigating disruption and reducing plan costs: Keys to a successful PBM implementation" at https://us.milliman.com/en/insight/mitigating-disruption-and-reducing-plan-costs-keys-to-a-successful-pbm-implementation.

Important considerations

BEST-IN-CLASS CONTRACT LANGUAGE

Effective PG contract language makes PGs specific, measurable, achievable, relevant, and timely. Best-in-class contract language for PGs includes the following elements:

- **Specific:** The PG language should be specific, so that it can be clearly understood by the plan sponsor and the PBM. It is important for the PBM account team to have a clear understanding of PGs, as this enables them to track performance and advocate PG intent to all internal partners. At a minimum, contracts should specify the name, standard, measurement criteria, measurement frequency, and dollar amount at risk for each PG. The contract should also include actionable language that clearly states what happens if the PG is met or missed.
- **Measurable:** PGs must be measurable or auditable so plan sponsors can periodically validate PBM performance. The contract should clearly state how each PG is measured. PG reporting should make all supporting data available for a plan sponsor to review. If there is a PG for a specific percentage threshold, the numerator and the denominator used to calculate that threshold should be included in the reporting. Not doing so enables a PBM to state that it has complied with the PG without providing adequate evidence.
- **Achievable:** The intent of the PGs is to incentivize the PBM to meet the standard rather than pay a penalty to the plan sponsor. Plan sponsors should not consider PG payouts as a revenue stream. If a PBM knows that it is going to miss a PG before the budget year starts, it can underwrite that amount into the contract.
- **Relevant:** The contract should only include PGs for functions delegated to the PBM. For example, if the plan sponsor has its own call center and does not utilize the PBM's call center for member calls, the PGs should not contain language related to this category.
- **Timely:** The contract should outline the timing of the quarterly and annual PG reporting. It also should indicate how many days after the end of the year the PG penalty will be paid out, if applicable.

Dollars at risk allocation

PBMs offer different approaches to the total amount at risk if the PBM misses a PG. Some PBMs offer a lump sum, others a per-member amount at risk, and others a percentage of the total administration fee.

Regardless of which approach the PBM uses for the total amount at risk, best-in-class language allows the plan sponsor the right to allocate the full amount at risk across its choice of PGs. Not doing so allows the PBM to dilute the payout at risk, as some or most PGs are easily met. For example, a plan sponsor may have a PG that requires claims adjudication average speed to be under five seconds. Back in the 1990s, this was a concern, as claims could take a long time to pay, causing point-of-sale (POS) processing issues. Today, this issue typically no longer exists, therefore a plan sponsor can argue this PG is important, but should not have any dollars at risk tied to the performance.

Another example is a contract that has 10 separate PGs for a total of $100,000 amount at risk: best-in-class language would allow the plan sponsor to choose to allocate $20,000 each to five PGs and $0 to the other five. This enables the plan sponsor to allocate at-risk dollars to the PGs that are most relevant to its pharmacy program. Additionally, for this language to be truly effective, plan sponsors should be able change their PG allocations at the onset of each contract year.

Managing underperformance

The real value of including PG language in the contract is to 1) set a performance standard, and 2) make the PBM accountable for correcting systematic or repetitious errors, noncompliance with contractual requirements, or inadequacies in claims control procedures after they have been uncovered. When the PBM misses a PG, post-PG failure contract language should require root cause analysis (RCA) that includes a clear corrective action plan (CAP), which the PBM will put in place to prevent the same issue from recurring in the next contract year. The PG payout should not be the last step in addressing any underperformance, but rather the completed RCA and CAP to ensure the missed PG does not happen again.

For PGs to be truly effective, the PG payouts should be an exception and an added expense for the PBM rather than a normal occurrence. If the same PG is missed year-over-year, this should be a red flag to the plan sponsor that the PG is not achievable by the PBM. When a plan sponsor receives a payout on a specific PG every year, it is likely that the penalty is built into the contract and the plan sponsor is paying the amount elsewhere.

Next steps

Every PBM contract should contain a list of PGs that the PBM has committed to meeting for the plan sponsor. PBMs are typically willing to negotiate PGs during the renewal process or during a request for proposal (RFP) or competitive bid situation. Depending on the plan sponsor's situation, the following are our recommended next steps:

- **Plan sponsors with existing PGs:** Plan sponsors need to conduct an inventory of perceived (or actual) PBM performance issues (regardless of whether a PG is in place), and see if the PGs within the contract align with the issues they face.
- Plan sponsors should review their current PGs to ensure the PGs apply to the plan and meet their current needs. Plan sponsors should also review the language around each PG to ensure it is specific, measurable, achievable, relevant, and timely. If the plan sponsor identifies gaps, it should negotiate with the PBM to revise the existing contract language as soon as possible.
- **Plan sponsors without PGs:** Plan sponsors that do not have PGs in their current contracts should negotiate with their PBMs to include them as soon as possible.
- If a plan sponsor needs assistance with a PG evaluation and contract negotiations, it can hire an expert. A PBM consultant can provide the necessary tools for critical insight into the newest and most effective examples of PBM PG contract terms.

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