



# Brokers Weigh In on Prescription Drug Benefits

The Council and McKinsey teamed up to survey 100 brokers and consultants on the state of the pharmacy benefits market.

BY MATTHEW SCALLY, TROY HORVAT AND JERIS STUELAND

**With continually rising costs over the past decade** and new formulations (e.g., anti-obesity medications) receiving FDA approval, prescription drug benefits are top of mind for brokers and employers.

A recent 38-question survey on prescription drug benefits conducted by McKinsey in partnership with the Council of Insurance Agents & Brokers in the first half of 2023 helps reveal current trends, pain points, and opportunities in this market. One hundred survey responses were received from brokers and benefits advisors at multinational, national, regional and independent brokerage firms, which informed the insights provided here. The 2022 McKinsey Employer Healthcare survey and 2022 McKinsey Consumer Health Insights survey are also referenced in this article to provide additional data and insights.

## KEY FINDINGS

- ▶ Broker respondents reported that employers are seeking improved offerings to address both prescription drug costs and member experience; however, cost-focused solutions are overall the highest ranked, and many of the solutions in which brokers reported employer interest suggest that a key element of experience is member out-of-pocket cost.
- ▶ Brokers reported growth of about 10 percentage points or more over the five years in several offerings that aim to address prescription drug costs, including both solutions facilitated by traditional pharmacy benefit managers (PBMs) (e.g., step therapy, mandatory specialty pharmacy networks) as well as those that bypass traditional PBMs (e.g., use of a transparent PBM or a carve-out to source specialty drugs from a non-PBM).

- ▶ Employers continue to pursue both carve-in and carve-out strategies for contracting with PBMs, and brokers reported that a majority of employers pursuing both strategies believe they are making the most cost-effective choice.
- ▶ Although brokers reported that cost considerations weigh heavily in the prescription drug benefits offerings employers choose to adopt, when choosing which broker to work with, employers give more weight to experience and service level than cost considerations.
- ▶ Brokers self-reported that operating models differ based on brokerage size, with multinational brokerages more likely to have a structured process for choosing a PBM partner and more likely to drive uptake of innovative offerings by employer clients and regional brokerages more likely to report long-standing clients.

# Cost and Employee Experience Top Solutions

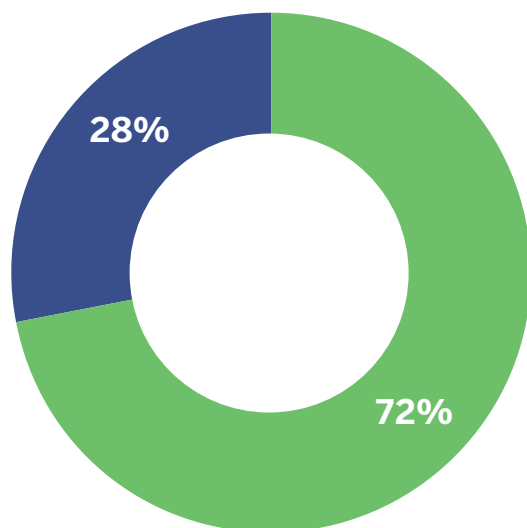
In the area of prescription drug benefits, brokers reported that employers are seeking new solutions to address increasing prescription drug costs and improve the employee benefits experience.

Cost-reduction solutions received the highest response rate overall. Brokers believe employers will be most interested in cost-reduction methods that will require innovations from and/or disruption of traditional PBMs, including financial arrangements for value-based care, pass-through PBM pricing, and carve-outs for sourcing of specialty drugs through alternative channels.

On the employee experience side, the offerings for which brokers reported the highest employer interest are those that also help reduce employee out-of-pocket costs. For example, 22% of brokers reported that price shopping/transparency solutions would be a top priority for employers, while only 5% ranked adherence solutions a top priority and 2% ranked same-day delivery on top.

**EMPLOYEE EXPERIENCE**  
Top employee experience tool: price shopping/transparency tool

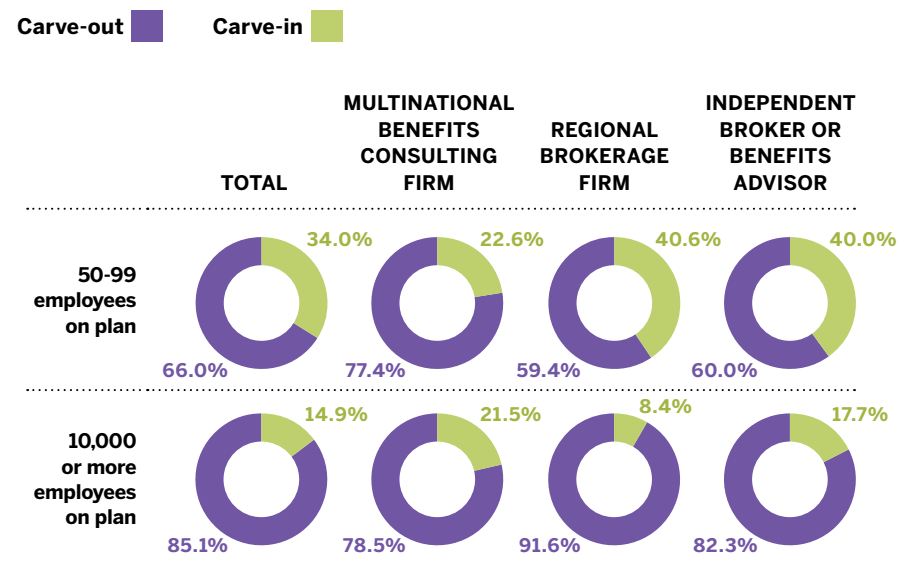
**COST REDUCTION**  
Top cost reduction strategy: value-based care plans or total cost of care guarantees



# Employer Size Drives PBM Carve-Out Decisions

Overall, brokers reported that larger employers were more likely to carve out prescription drugs (to contract directly with a separate PBM or PBM coalition instead of contracting directly with a health insurer to receive integrated medical and pharmacy benefits). Employers with more than 10,000 employees were over 20 percentage points more likely to carve out than employers with fewer than 500 employees. Interestingly, regional and independent brokers reported much greater adherence to this trend than multinational brokers. Regional brokers reported their larger clients were over 30 percentage points more likely to carve out than smaller employers, and the difference between the larger and smaller clients of multinational brokers was less than 2 percentage points.

Among both employers choosing to carve in and those choosing to carve out, brokers reported potential cost savings as a key driver. However, the average reported cost savings was higher for employers choosing to carve out, at 4%, compared to those choosing to carve in, which saw on average no reported savings.



**78%**  
of broker respondents said clients who carve out did so to receive the lowest total cost.

**52%**  
of broker respondents said clients who carve in did so to receive the lowest total cost.

**4.0%**  
Average reported cost savings from carving out

**-0.1%**  
Average reported cost savings from carving in



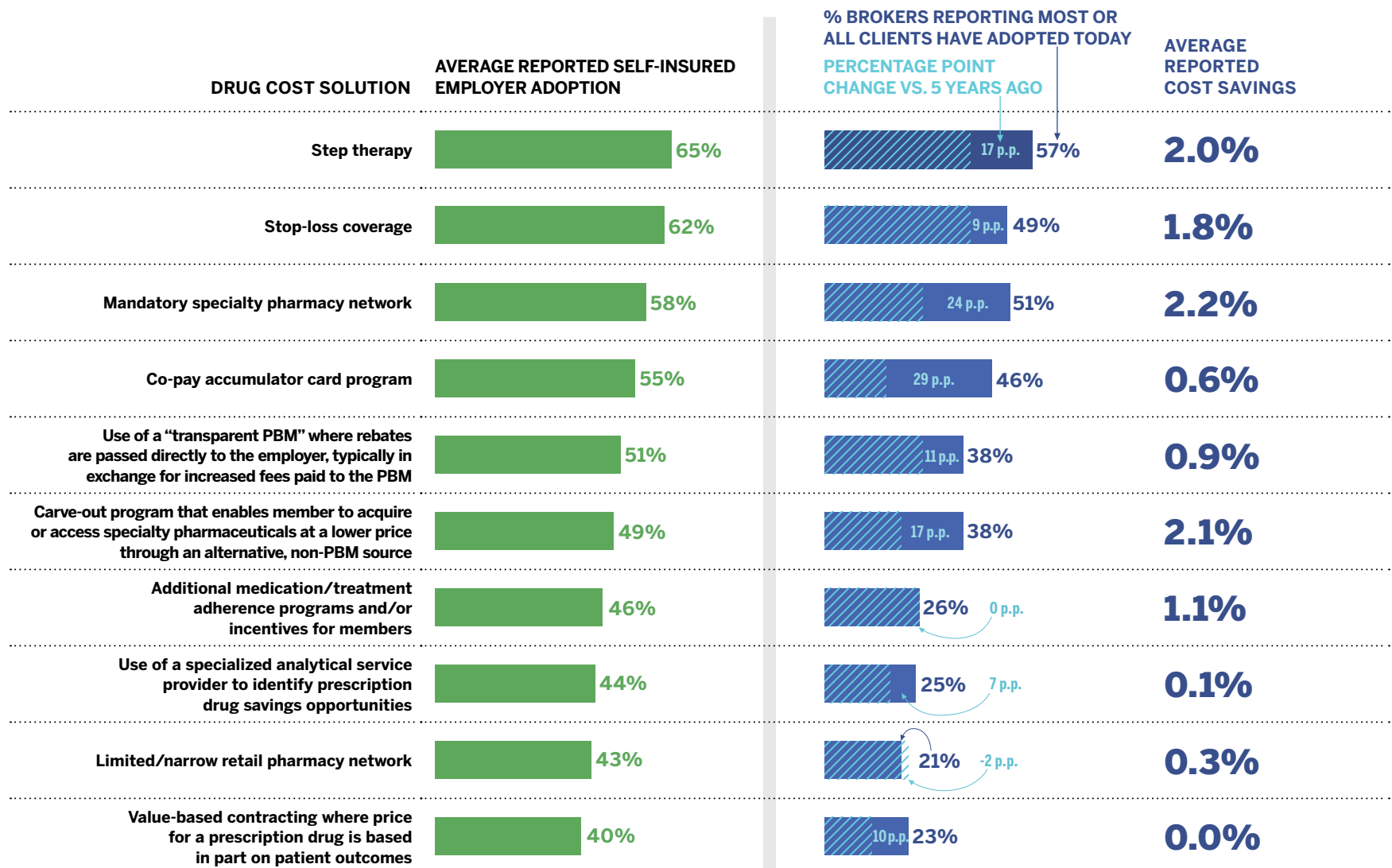
# Brokers Report Strong Uptake of Solutions to Address Drug Costs

According to survey respondents, over the past five years employers have adopted a range of levers, including programs run by traditional PBMs as well as those that bypass traditional PBM operating models, to address prescription drug costs.

Two offerings specifically targeting specialty drug costs—mandatory specialty pharmacy networks and carve-out programs to source specialty drugs from outside traditional PBMs—had among the fastest uptake and had the highest reported savings. Both programs saw growth (the percentage of brokers reporting that all or most of their clients have adopted these solutions was more than 15 percentage points higher today than five years ago), and respondents reported that both reduced prescription drug costs for clients by more than 2% on average.

The only offering for which brokers reported decreasing uptake over the past five years is limited/narrow retail pharmacy network. This suggests employers may continue to consider “choice” a key value driver for employees.

Interestingly, value-based contracting (VBC), which brokers projected would be the most interesting to employer clients in the future, had the lowest average adoption to date, with a reported 0% average cost savings. Anecdotal data suggest limited value-based options for pharmaceuticals to date mean this trend is still at a nascent stage.



Source: Council-McKinsey Survey on Prescription Drug Benefits, 2023 (n=100)

# Brokers Rate Experience over Cost in Attracting Clients

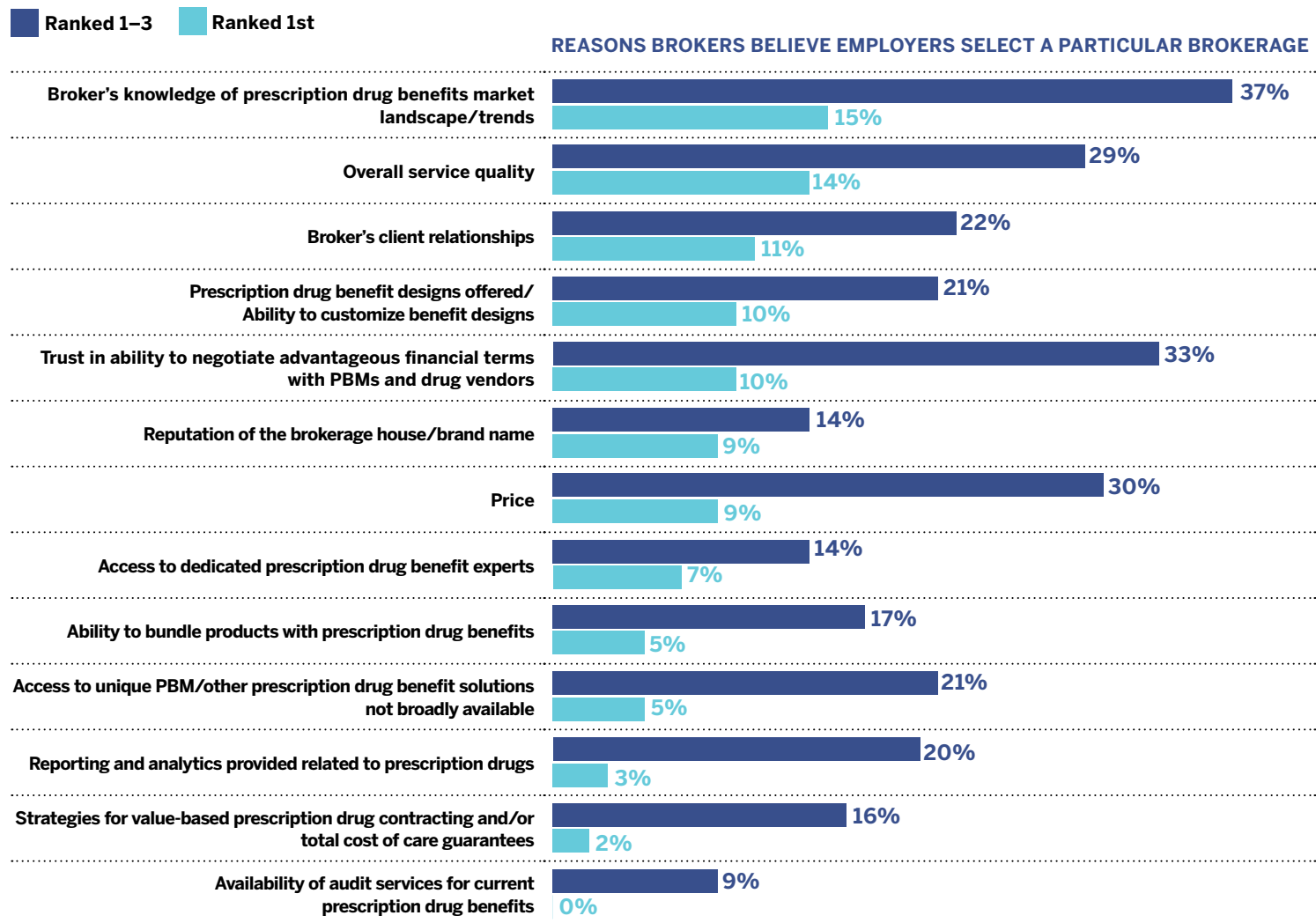
According to survey respondents, employers value expertise and service quality above cost when selecting a broker. More than 10% of brokers ranked each of three experience-related factors as the top driver in an employer's choice of broker:

1. Knowledge of prescription drug benefits/market trends (15% of brokers ranked the most important factor in employer choice)
2. Service quality (14%)
3. Broker/client relationship (11%).

Price-related factors were only the fourth and sixth most highly rated factors: trust in ability to negotiate advantageous financial terms (10%) and overall price (9%). Tied for fourth was another experience-related factor: benefit designs offered/ability to customize benefit designs (10%).

It's worth noting that, although value-based prescription drug contracting had been ranked highest by brokers in terms of expected employer interest going forward, brokers' ability to offer a strategy for VBC drug contracting was ranked relatively low in terms of factors driving employer choice of broker. Again, this is potentially driven by the lack of VBC prescription drug programs available on the market today.

The annual McKinsey Employer Healthcare survey confirms brokers' belief that experience trumps cost in employer choice of broker. When asked about the reason for switching benefits consultants, 61% of employer respondents named service options or service quality as the primary driver for switching, versus 22% who named price as the primary driver.



n=94

Source: Council-McKinsey Survey on Prescription Drug Benefits, 2023. N=100. Answers of "Not sure" or "I don't know" excluded; McKinsey 2022 Employer Health Benefits Survey, N=1574

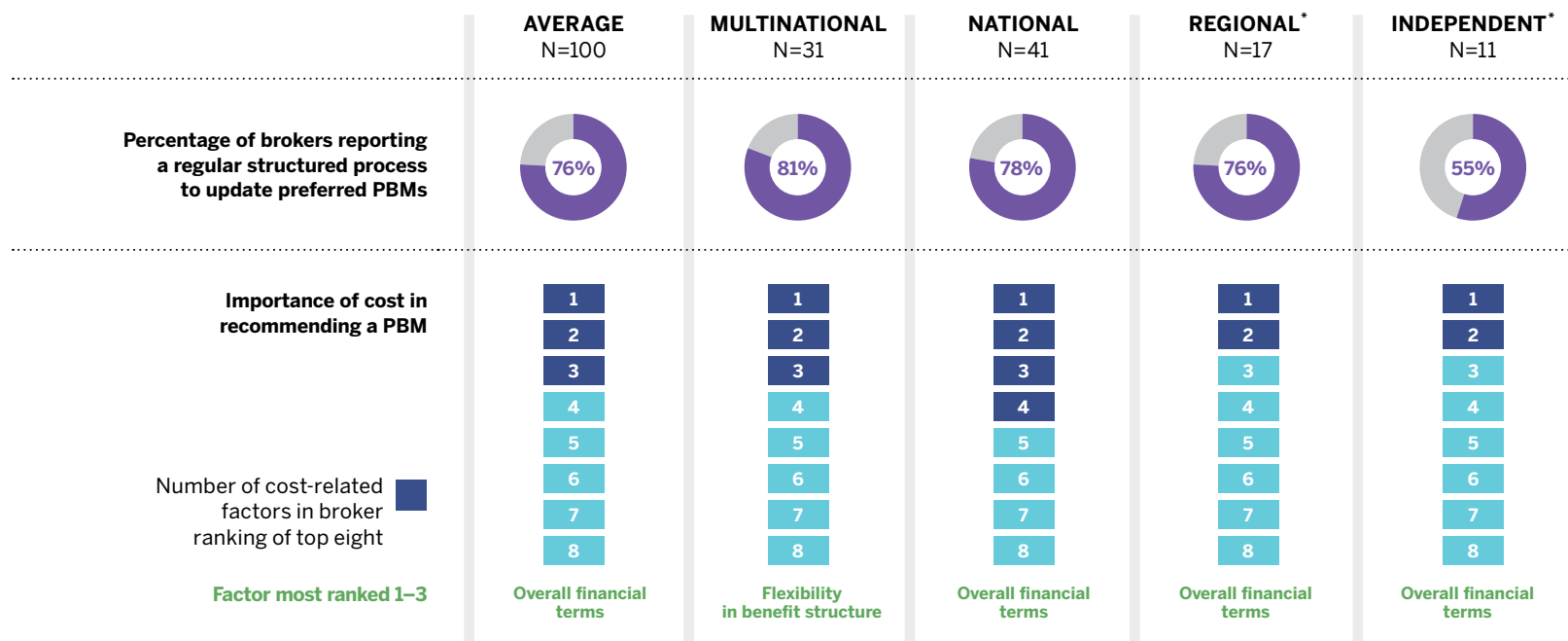


# Brokers Weigh In on Internal PBM Strategy

Reflecting on their internal processes, brokers' responses tended to differ by market segment. The larger the brokerage house, the more likely it is to have a regular, structured process for updating its preferred PBM partner, with over 80% of multinational brokers reporting such a process, over 25 percentage points more than independent brokers reporting such a process.

Brokers of different sizes also reported somewhat different considerations when recommending PBMs to their clients. While multinational brokers prioritize overall financial terms, employee and employer experience tends to be equally important as cost-specific factors. Cost-specific factors are the top priority for national brokers, while they also place an emphasis on the reputation/brand name of PBMs. Regional and independent brokers first prioritize the overall financial terms, followed by experience for employers and employees, in particular quality of PBM administrative and operational processes and level of member responsiveness.

Multinational brokers also reported that their clients are approximately 10 percentage points more likely to adopt innovative prescription drug benefits strategies. However, regional brokers reported the longest-standing client relationships, with over 85% of their clients having been in their book for over five years, as compared to multinational brokers, who reported that fewer than 65% of their clients have been with them for more than five years.



\* Low sample size. Results are directional.

Source: Council-McKinsey Survey on Prescription Drug Benefits, 2023, N=100. Answers of "Not sure" or "I don't know" excluded.

Matthew Scally is partner at McKinsey; Troy Horvat is expert associate partner at McKinsey; Jeris Stueland is senior expert at McKinsey. Other McKinsey contributors include Jayant Sinha, partner; Sam Blackburn, senior business analyst; and Ivy Gong, associate.