

Concepts in Managed Care Pharmacy

Formulary Management

Third in a series

AMCP
Academy
of Managed
Care Pharmacy®

About AMCP

The Academy of Managed Care Pharmacy (AMCP) is a professional association of pharmacists and associates who serve patients and the public through the promotion of wellness and rational drug therapy by the application of managed care principles.

The mission of AMCP is to serve as an organization through which the membership pursues its common goals, to provide leadership and support for its members, to represent its members before private and public agencies and health care professional organizations, and to advance pharmacy practice in managed health care systems.

The Academy now has more than 4,500 members nationally who are part of more than 600 health care organizations that provide comprehensive coverage and services to the 150 million Americans served by managed care.

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AMCP's Concepts in Managed Care Pharmacy: A Series

AMCP's Concepts in Managed Care Pharmacy Series is designed to:

- Explain pharmacy terms and phrases in plain English
- Describe clearly and concisely how these concepts are implemented in the managed care setting

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Formulary Management • 1

Formulary management is an integrated patient care process which enables physicians, pharmacists, and other health care professionals to work together to promote clinically sound, cost-effective pharmaceutical care.¹

What is a Formulary?

A drug formulary is a continually updated list of medications which represent the current clinical judgement of physicians and other experts in the diagnosis and treatment of disease and preservation of health. Initially developed by hospitals in the 1950s as a management tool, the formulary was quickly adopted as a means to ensure that physicians had an adequate and consistent supply of medication for their day-to-day needs. The primary purpose of the formulary is to discourage the use of marginally effective drugs and treatments.

With the shift of health insurance to managed care, formularies have evolved into a formal system of managed care tools for assuring the selection of medications that have been demonstrated to be safe, effective, and affordable while maintaining or improving quality patient care. Formularies are now routinely used not only by hospitals, but by health plans, pharmacy benefit management companies (PBMs), self-insured employers and government agencies (including the Veterans Health Administration, Department of Defense, and most Medicaid programs).

A formulary system is much more than a list of medications that are approved for use by a managed health care organization. The system includes the methods which the organization uses to evaluate and select the medications for different diseases, conditions, and patients. Policies and procedures for the procuring, dispensing, and administering of the medications are also included in the system. Formularies often contain additional prescribing guidelines and clinical information which assists health care professionals to promote high quality, affordable care for patients. Finally, for quality assurance purposes, managed health care systems that use formularies have policies in place to give physicians and patients access to non-formulary drugs where medically necessary.

Formulary Development

Decisions on which drugs are included on a formulary are made by a Pharmacy and Therapeutics (P&T) Committee. The P&T Committee is responsible for developing, managing, updating, and administering the formulary. P&T Committees are comprised of primary care and specialty physicians, pharmacists, and other professionals in the health care field. Often, P&T Committees include nurses, legal experts, and administrators.

Due to the multiplicity of drugs on the market and the continuous introduction of new drugs into the market, a formulary must be a dynamic and continually revised document. In order to keep a formulary current, the P&T Committee meets regularly to review:

- ♦ Medical and clinical literature including clinical trials,
- ♦ Relevant patient utilization and experience,
- ♦ Current therapeutic guidelines and the need for revised or new guidelines,
- ♦ Economic data,
- ♦ Provider recommendations, and
- ♦ The safest, most effective drugs that will produce the desired goals of therapy at the most reasonable cost to the health care system.

P&T Committees look first for medications that are clinically effective. When two or more drugs produce the same clinical results in patients, then business elements like cost, supplier services, and ease of delivery are considered when determining which agent to include on the formulary.

Types of Formularies

Formularies are categorized according to their reimbursement structure. Factors such as the type of managed care plan, the size of the organization, its service objectives and drug benefit provisions, staff availability, and resources to manage the formulary will determine which of the following types of formularies best serves the needs of the health plan's members.

- ♦ **Open Formulary:** The payer provides coverage for all medications regardless of whether or not they are listed on the formulary. The payers include the health plan, the employer, or a pharmacy benefit management company (PBM) acting on behalf of the health plan or employer. However, some drugs such as those for cosmetic use or over-the-counter drugs may be excluded from coverage by plan design. Physicians are encouraged to prescribe formulary agents. Patients may or may not incur additional out-of-pocket expenses for using non-formulary drugs.

- ♦ **Closed Formulary:** Non-formulary drugs are not reimbursed by the payer. Administrative procedures are used to allow patients and physicians reimbursement for and access to non-formulary medications where medically appropriate.

- ♦ **Partially/Selectively Closed Formulary:** This is essentially an open formulary with either a few selected drugs that are not covered, or one in which reimbursement might be denied for an entire class of drugs such as those for cosmetic purposes or weight loss. Guidelines may be developed in which only specific physician specialists may prescribe a certain medication. These are usually very expensive medications which require a high level of expertise in prescribing and in monitoring treatment. Exception policies and procedures ensure that coverage for these select drugs is granted where medically necessary. New drugs are usually covered by the health plan until the P&T Committee decides which ones will be reimbursed.

Formularies Complement Other Health Care Management Tools

A formulary is one component of health care management. It enhances other existing pharmaceutical care practices designed to optimize patient care, including:

- ♦ **Sound medical treatment and prescribing guidelines or protocols:** Also called critical pathways or therapeutic guidelines, these recommended series of actions concerning a specific disease or condition involve drug therapy and all other aspects of patient care such as laboratory tests, x-rays, and surgery. They enhance consistency, improve quality of care, and improve outcomes for patients while reducing costs.

- ♦ **Drug utilization review and drug use evaluation programs:** These reviews of patient data evaluate the effectiveness, safety, and appropriateness of drug use and often alert clinicians about prescribing and drug regimen problems and about patients who may be inappropriately taking drugs that can produce an undesirable reaction or create other medical complications.

- ♦ **Physician, pharmacist, and patient drug education programs:**

The success of the formulary system is largely dependent on its educational component. Physicians, pharmacists, patients, and other health care professionals must understand the rationale behind formulary decisions. The formulary education process must continuously provide the following:

- ♦ Drug information monographs, newsletters, and in-service training to furnish physicians with information needed to provide a high standard of care.
- ♦ Pharmacist education regarding changes in formulary content or policy, along with the rationale behind the formulary changes to ensure greater formulary compliance.
- ♦ Patient education which explains how decisions are made, the role of the patient, and the importance of formulary compliance to both the patient and the managed health care system.

The Role of the Pharmacist

Pharmacists are key to the success of formulary management. Pharmacists have the knowledge and skills to coordinate the activities of the P&T Committee and have the expertise to lead formulary management initiatives and make recommendations based on sound clinical judgement.

To ensure the success of the formulary management process, pharmacists guide P&T Committees through the steps of deciding whether or not a drug should be included on the formulary and development of drug benefit-related policy and therapeutic guidelines. In addition, pharmacists:

- ♦ Determine the P&T Committee agenda;
- ♦ Analyze and disseminate scientific, clinical, and health economic information for P&T Committee member review;
- ♦ Record and archive P&T Committee meeting minutes;
- ♦ Follow-up with research when necessary; and
- ♦ Communicate P&T Committee decisions to health plan prescribers, other health care professionals, and patients, as appropriate.

The Importance of the Formulary Management Process

Providers and payers recognize that a team approach involving physicians, pharmacists, and other health care professionals working together to coordinate patient care produces the best clinical, humanistic, and economic outcomes.²

Formulary decisions impact all aspects of health care management. In the face of the escalating number and complexity of drug products, rising drug prices, and direct-to-consumer advertising, the formulary management process provides the managed health care system with the ability to objectively discriminate between superior and marginal drugs. Such efficient and effective use of health care resources can minimize overall medical costs, improve health plan member access to more affordable care, and provide an improved quality of life.

References

- ¹ Academy of Managed Care Pharmacy. *Concepts in Managed Care Pharmacy Series – Pharmaceutical Care*. 1997.
- ² Academy of Managed Care Pharmacy. *Concepts in Managed Care Pharmacy Series – Disease State Management*. 1998.

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- ♦ *Pharmaceutical Care*
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