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# FEHB Program Carrier Letter

## Fee for Service Carriers

U.S. Office of Personnel Management  
Insurance Services Programs

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**Letter No. 2010-04**

**Date: February 22, 2010**

Fee-for-service [xx]

Experience-rated HMO [ ]

Community-rated HMO [ ]

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### **SUBJECT: Pharmacy Benefits Management (PBM)**

The purpose of this letter is to provide fee-for-service carriers with new FEHB pharmacy benefit management (PBM) transparency principles.

The Office of Personnel Management (OPM) believes transparency and ethical business practices are essential elements of an effective FEHB prescription drug program. Since 2005, FEHB carrier contracts have included PBM transparency requirements. These requirements include restrictions and protocols relating to PBM management of drug benefits. We are updating these contractual requirements for the 2011 contract term to include the principles of transparency pricing. The transparency principles are as follows:

- Pass-through transparent pricing is an arrangement based on the PBM's cost for drugs in which the carrier receives the value of the PBM's negotiated discounts, rebates, or other credits.
- The PBM's profit under the contract comes from clearly identifiable sources.
- The PBM's administrative fees, such as dispensing fees, are clearly identified to retail claims, mail claims, and clinical programs, if applicable.
- All contracts and other documentation that support amounts charged to the carrier contract are fully disclosed to and auditable by the carrier, or its agent, and the OPM OIG.

Carriers shall implement these principles and use pass-through transparent pricing in contracting with PBMs. We suggest you share these transparency principles with your current PBM contractors. They must be included in any future PBM procurements.

In addition, carriers should include mechanisms aimed at managing costs, such as requiring PBMs to increase generic dispensing rates, which are more effective than generic substitution rates in lowering drug costs; requiring periodic mid-market checks during the contract term; and using procurement procedures that require re-competition of PBM contracts within 2-3 years, unless the contracting officer approves an exception.

Please provide us with your acknowledgement that you will implement these initiatives and transparency requirements in your PBM contracting arrangements.

Thank you for your commitment to the FEHB Program.

Sincerely,

A handwritten signature in cursive script that reads "Kathleen McGettigan".

Kathleen McGettigan  
Acting Associate Director for  
Retirement and Benefits