

# Efficiently Navigate the Complexities of Formulary Contracts

Solve the challenges associated with formulary validation and compliance.

Model **N**

EBOOK



# Introduction

To ensure life-saving products reach the patients who need them, pharmaceutical manufacturers engage in negotiations with payers and pharmacy benefit managers (PBMs) to secure favorable formulary placement for their drugs. However, this prioritized positioning isn't always provided, leading to millions of dollars in overpayments and reduced market access. As a result, ensuring compliance with formulary positions per contract agreements has become a significant challenge with substantial revenue implications.

## CONTENTS

- The challenges with formulary compliance ..... 3
- Manual processes leave money on the table ..... 6
- Take an automated approach to formulary validation ..... 8

**\$169B**

Pharma manufacturers spend an estimated \$169 billion in market access rebates for preferred positioning in formularies.<sup>1</sup>

<sup>1</sup>Wonder. "US Pharmaceutical Market Access Rebates Expenditure." November 2, 2023.



# The challenges with formulary compliance

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# The challenges with formulary compliance

In contracts with payers, PBMs, and managed care organizations, manufacturers often agree to offer rebates, volume-based discounts, and/or value-based payment models in return for preferred formulary positions. Where a drug falls on a formulary has direct implications on patient access, market share, and overall revenue.

However, due in part to the sheer volume of plans and the dynamic nature of the formularies, inadvertent non-compliance with contract terms can occur – resulting in restricted patient access, revenue leakage, and strained payer relationships.

Prior to paying any invoices, you should validate your formulary position. But doing so is often easier said than done. Here's why.



## Frequently changing formularies

The speed at which drug advancements are made prompts frequent formulary changes, including pricing tier adjustments, additions or removals of drugs, new coverage criteria, step therapies, and quantity limits. These changes can occur at any time. So, unless you're accessing formulary data regularly, the data on which your rebate payments are based is likely out of date.



## Unavailable or delayed data

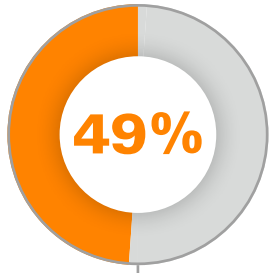
Because formularies, prescription claims, and contracted rebates originate from PBMs, health plans, pharmacies, and other vendors, the data needed to validate formulary position is not immediately available. And when you do receive it, you'll have to consolidate and standardize vastly different formats before processing it.



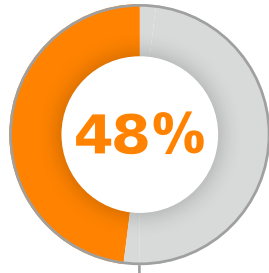
## A resource-intensive process

More than likely, you simply do not have the staff that can audit all your products across all plans in the time allotted within rebate payment cycles. To streamline efforts, you're probably validating only a subset of products for high-value plans annually—which means you have little to no insight into compliance outcomes and trends for the majority of your contractual agreements.

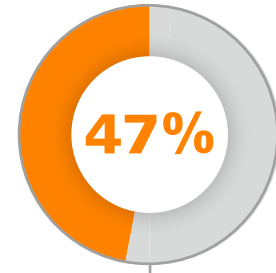
### Top challenges to validating formularies and achieving compliance<sup>2</sup>



Extensive manual effort to effectively validate formulary plans against contracts and policies



Limited access to formulary data



Limited resources to validate all products across all plans

<sup>2</sup> Model N 2024 State of Revenue Report.





Manual processes  
leave money on the table

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# Manual processes leave money on the table

Overwhelmingly, manufacturers rely on spreadsheets and manual processes for auditing and verifying formulary compliance. Handling and reconciling the massive volume of prescriptions across thousands of complex contracts without any automation is cumbersome and time consuming. Not to mention it increases the likelihood of payment-related errors and delays.

Even if they're using consultants to perform formulary coverage audits, manufacturers are only looking at a subset of their products at a particular point in time. Unless plans and drugs are comprehensively reviewed on an ongoing basis, overpayments will happen, and patient access for certain products will be limited.

**\$25M to \$75M**

Annual audits in individual companies have uncovered \$25 to \$75 million in rebate overpayments from formulary non-compliance.

The combination of incomplete, outdated, and inaccurate data and manual processing means most manufacturers are unable to perform validations in the time allotted for invoice processing. That means they often resort to paying rebates and then clawing back any overages. This "pay-and-chase" model wastes valuable resources and can jeopardize customer relationships. And it usually doesn't amount to anywhere close to full recovery. Model N customers report that they typically recoup only 10 to 20% of their money after prolonged settlement processes with PBMs and payers.

**To protect revenue and ensure patient access, the best practice for formulary management is to validate and avoid overpayments by auditing all products across all plans within their payment cycles.**



Take an automated approach  
to formulary validation

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# Take an automated approach to formulary validation

With Model N Formulary Compliance, you can execute ongoing validations across formularies and products throughout the year, instead of focusing on a sample of your products or just high-value plans annually or biannually. This full-service automated data solution collects and consistently stewards formulary data that covers most commercial and government plan formularies across all therapeutic areas.

Formulary Compliance integrates with Model N Payer Management and Validata, providing an end-to-end solution for managing payer contracts. After Validata scrubs the prescription-level data, compliance evaluation occurs through Formulary Compliance. Payer Management then calculates rebate payments on validated claims. These integrations enable you to correct calculations and prevent overpayments from occurring – drastically reducing revenue leakage and the time spent on post-payment recovery.



## Model N Validata

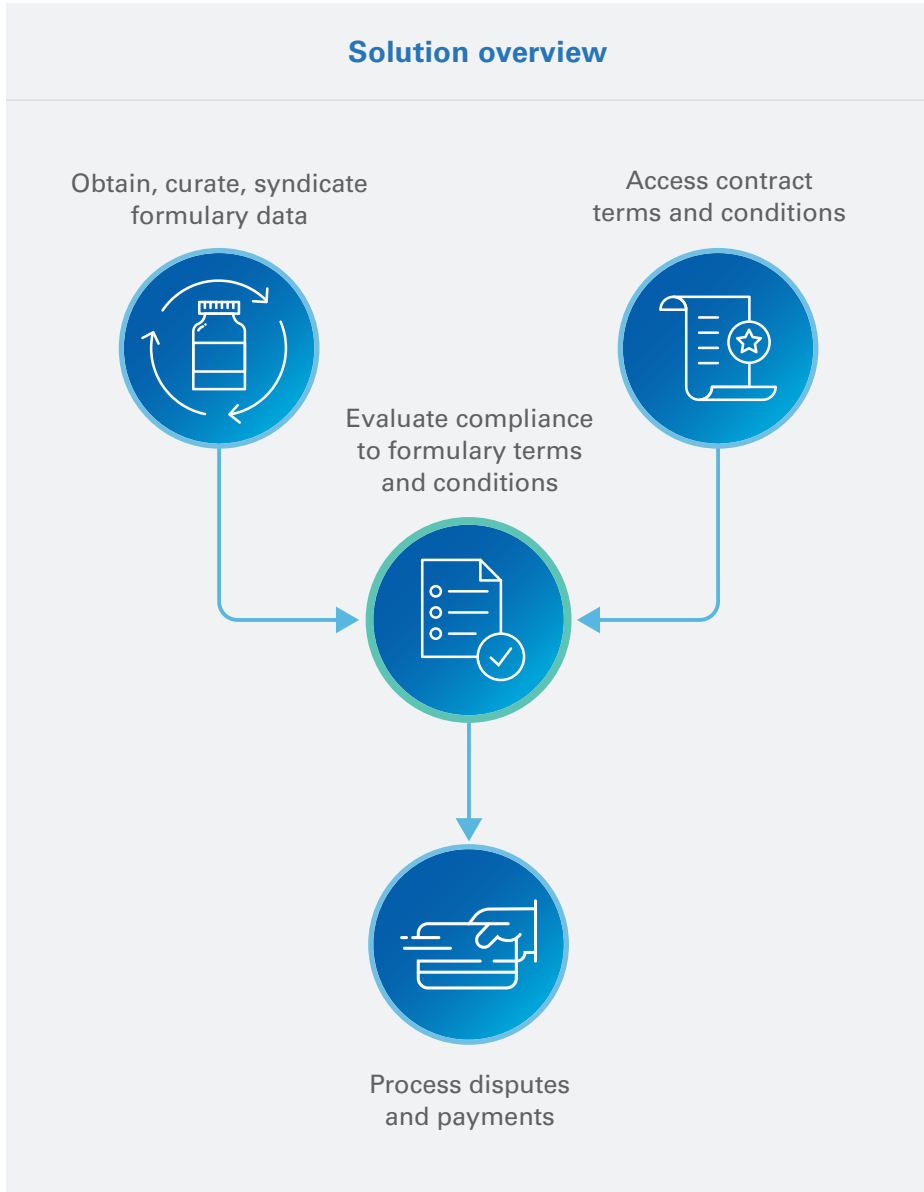
Ensure you pay the right claims at the right time for the right amount. Through automated script-level validation tools, Validata helps you enforce agreement terms and reduce inaccurate payments by making sure rebates are only paid on eligible prescriptions.



## Model N Payer Management

Reduce risk with payer and PBM contracts. Payer Management prevents costly errors, late fees, and overpayments by automatically calculating formulary-based rebates, price protection, admin fees, and other rebate types.

## Evaluate formulary compliance during rebate processing



## Scale your processes to be more thorough and complete

Formulary Compliance minimizes revenue leakage and maximizes market access by enabling you to:

- ✓ **Compare contractual terms and conditions** that govern utilization data against published formulary data to determine formulary compliance.
- ✓ **Validate formulary compliance** at the plan, formulary, or prescription level.
- ✓ **Access insights into compliance outcomes** and trends to support account management and future negotiations.

# Conclusion

Model N Formulary Compliance solves the challenges with ensuring formulary compliance, giving you the power to optimize revenue and improve the lives of patients through better access to your life-saving products.



Ensure patient access



Increase operational efficiency



Achieve revenue and market share goals



Improve relationships with payers and PBMs



Eliminate overpayments

Schedule a demo to see Model N Formulary Compliance in action.

## About Model N

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Model N is the leader in revenue optimization and compliance for pharmaceutical, medtech, and high-tech innovators. Our intelligent platform powers your digital transformation with integrated technology, data, analytics, and expert services that deliver deep insight and control.

Our integrated cloud solution is proven to automate pricing, incentive, and contract decisions to scale business profitably and grow revenue. Model N is trusted across more than 120 countries by the world's leading pharmaceutical, medical technology, semiconductor, and high-tech companies, including AstraZeneca, Stryker, Seagate Technology, Broadcom, and Microchip Technology. For more information, visit [modeln.com](https://www.modeln.com)

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