Editor's Note

The year 2020 marks the 25th anniversary of the *Journal of Managed Care & Specialty Pharmacy*. To commemorate this milestone, we are publishing a series of articles that document the changes to the journal and profession over the past 2 and a half decades. Each month we reprint an original article from a previous year, dating back to 1995. The reprinted articles

feature topics of significance in our industry. Each reprinted article is accompanied by a contemporary reflection that will consider the historical significance of the topic, as well as the current and future state.

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Editor-in-Chief

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PRACTITIONER UPDATE

Managing the Pharmacy Benefit: The Formulary System

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OBJECTIVE:

To review the development and implementation of prescription formularies by managed care organizations, identify their current applications, and recognize future trends in the managed care pharmacy environment.

DATA SOURCES:

Current journal articles and texts regarding the use of formularies and the managed care environment.

DATA SYNTHESIS:

Not applicable.

CONCLUSION:

Formulary systems have proven to be a

valuable means to control the pharmacy benefit and can be expected to expand in both scope and sophistication.

KEYWORDS:

Formulary, PBM, P&T committee

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In 1960 public and private expenditures on health care amounted to \$26.8 billion; by 1994 this amount had grown to \$949.4 billion. Spending for pharmaceuticals accounted for 8.2% of this total.¹ This rapid inflation in medical spending, relative to the general consumer inflation rate, caused a paradigm shift in healthcare insurance from fee-for-service reimbursement to a managed care environment. In 1976 there were six million people enrolled in HMOs. By 1995 that number had reached 58.2 million.¹ This surge of enrollment in managed care organizations (MCOs) led to the increased use of outpatient medication formularies that are now such an integral component of the managed care pharmacy landscape.

This article describes the beginnings of the formulary system as a tool used by hospitals in the 1950s, to its current application in the outpatient setting. It also discusses the types, impact, and effectiveness of the various levels of formulary management. In addition, the article examines the future structure that prescription formularies are likely to attain and the forces that will drive tomorrow's prescription benefit.

DEVELOPMENT OF THE FORMULARY SYSTEM

The prescription formulary was developed initially as a management tool. Early on, hospitals realized the need for an inpatient formulary. Without a listing of approved medications, there was no way a hospital pharmacy could control its inventory and ensure that physicians would have an adequate and consistent supply of medication for their day-to-day needs.

In 1950, the Joint Commission on Accreditation of Hospitals (JCAH) encouraged formation of a Pharmacy and Therapeutics (P&T) committee and the development of a formulary system. By 1965, a P&T committee was required by JCAH before a hospital could receive accreditation.²

As early as 1969, the Task Force on Prescription Drugs realized that while "the use of a formulary is not a guarantee of high-quality medical care, rational prescribing, effective utilization review, and control of costs...the achievement of these objectives in a drug program is difficult, if not impossible, without it."³