Milliman

Practical Strategies and Tactics to Manage Rising Rx Costs

Orange County Employee Benefit Council

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Topics for Discussion

- Background of the PBM Industry
  - Prescription Drug Trends
  - Drug Delivery
  - Historical Approaches and Considerations
  - Current State of the Market
- Managing Costs
  - Specialty Drugs
  - Clinical Programs
  - Pharmacy Coordination
  - Management Intervention and Strategy
- PBM Contracts
  - Savings Opportunities
  - Case Study
  - Predicting the Future
- Q&A

Some of the Questions to be Answered During the Presentation

- How can plans assess the extent to which their current PBM contracts are competitive?
- What changes to the negotiation and contracting process must health plans make to develop a competitive and long-term PBM relationship?
- What steps should plans and their consultants take to keep contracts competitive and stay current on pricing and industry trends?
- How can plans guard against the addition of contracting language that may make deals less competitive?
- How do different pharmacy network options affect how competitive a contract is? How should plans assess the options?
- How should plans respond when their contracted PBM is acquired or merges?

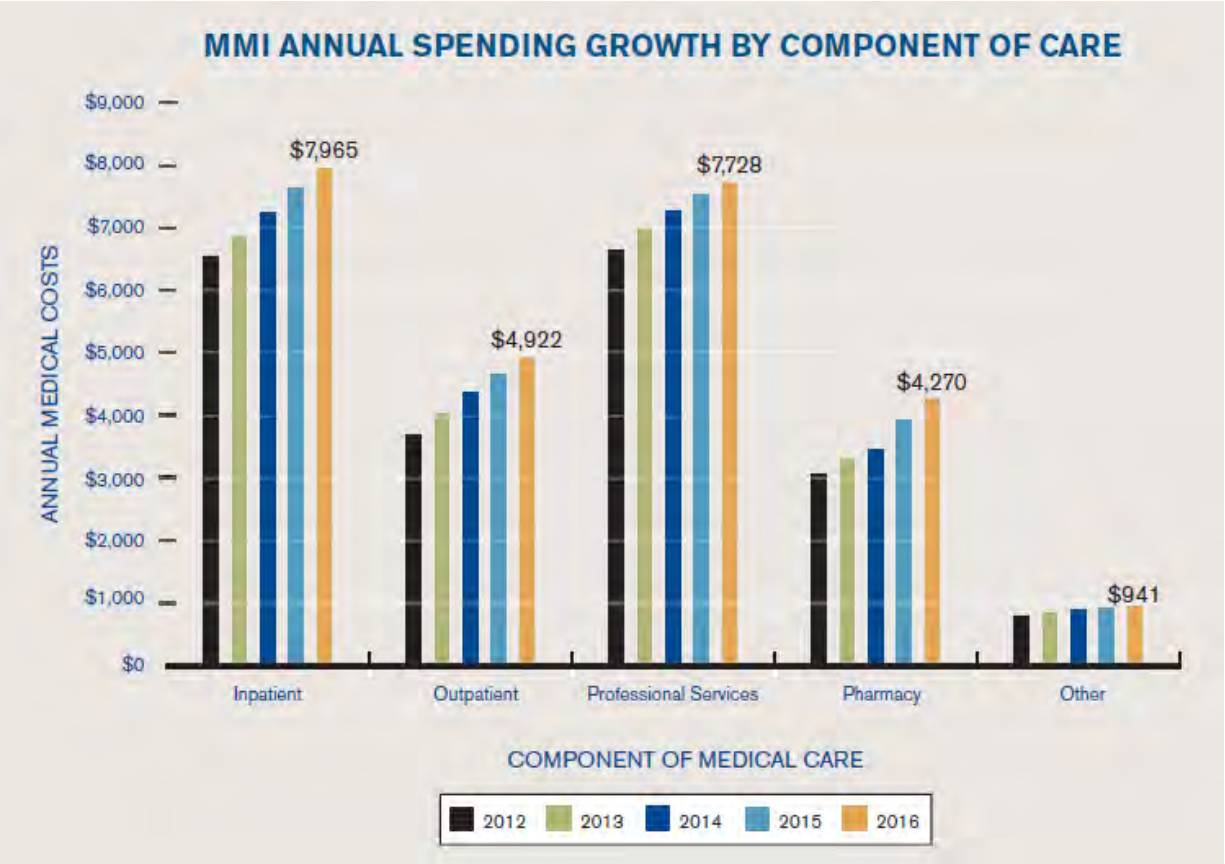
Trends

Prescription drug:

Healthcare costs for a typical American family will exceed $25,000 in 2016.

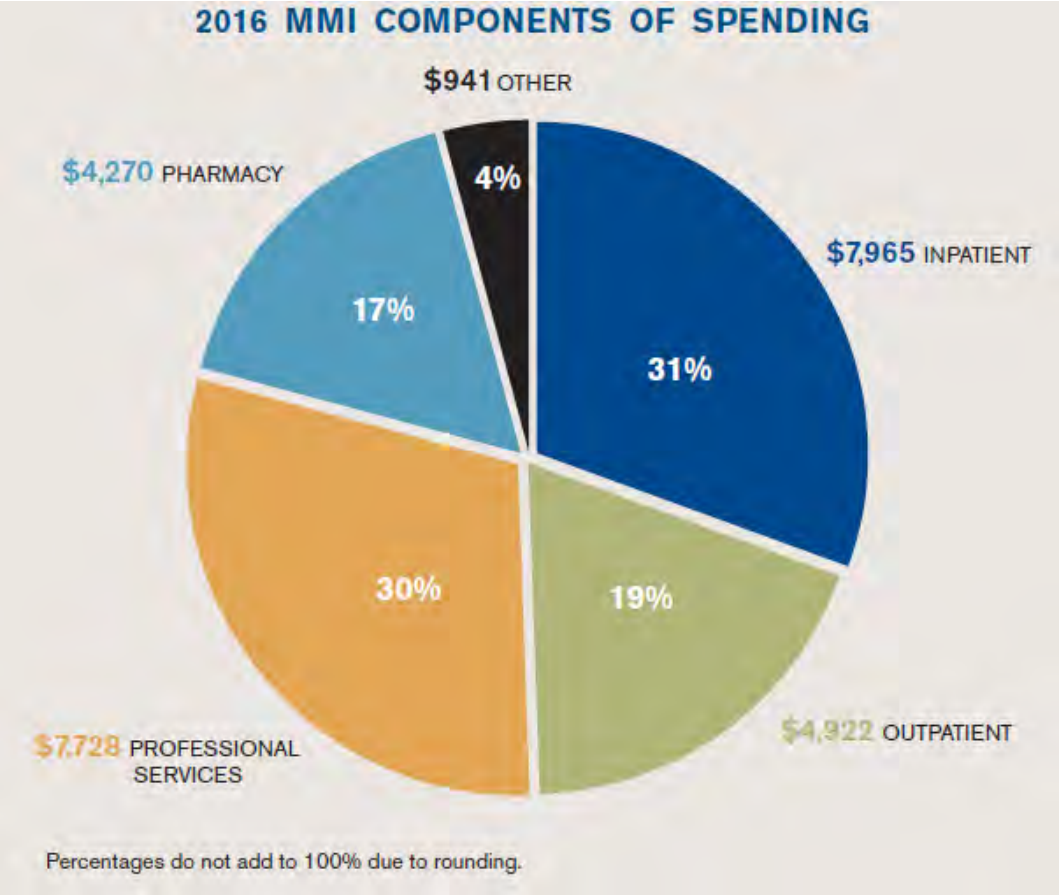
- What cooked up this expensive recipe?

Annual Spending



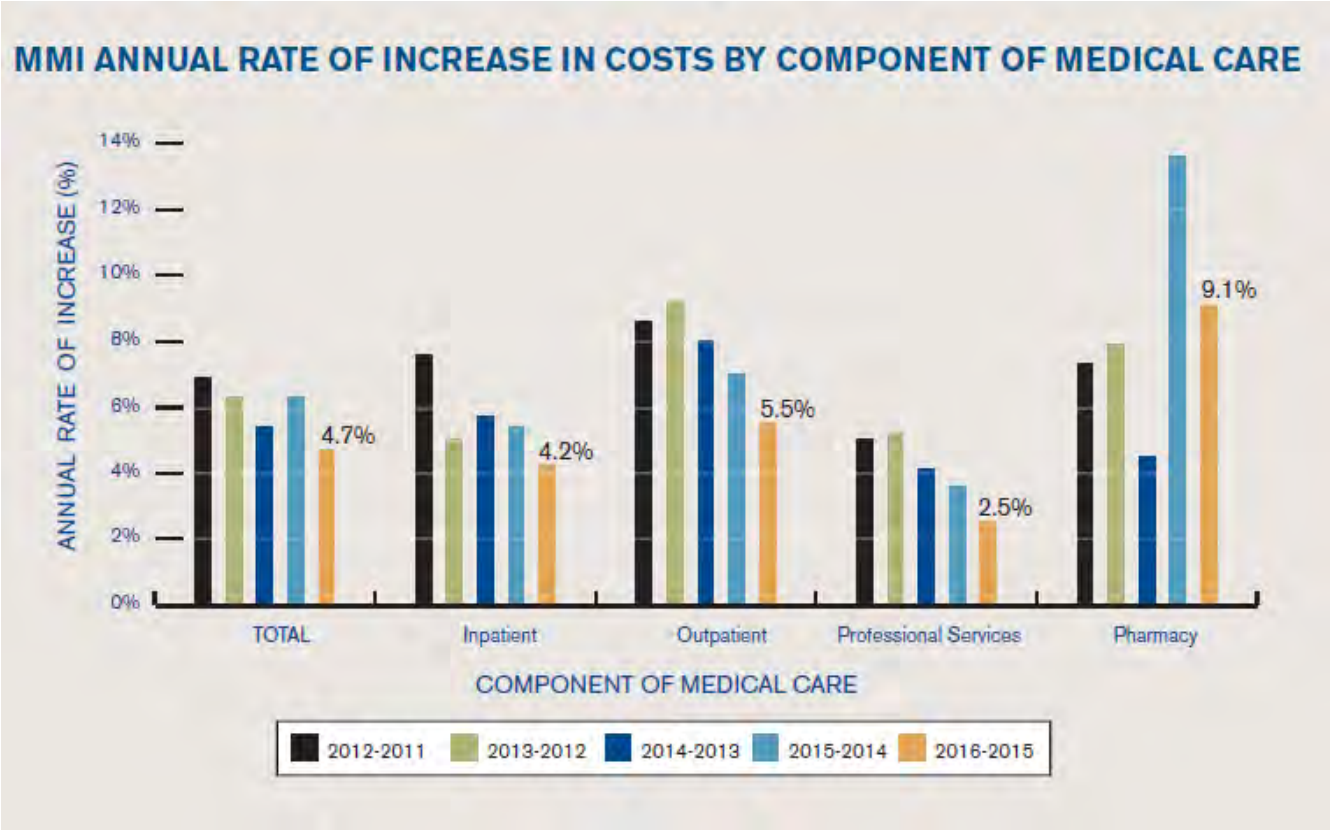
Source: 2016 Milliman Medical Index

Breakdown of Spending



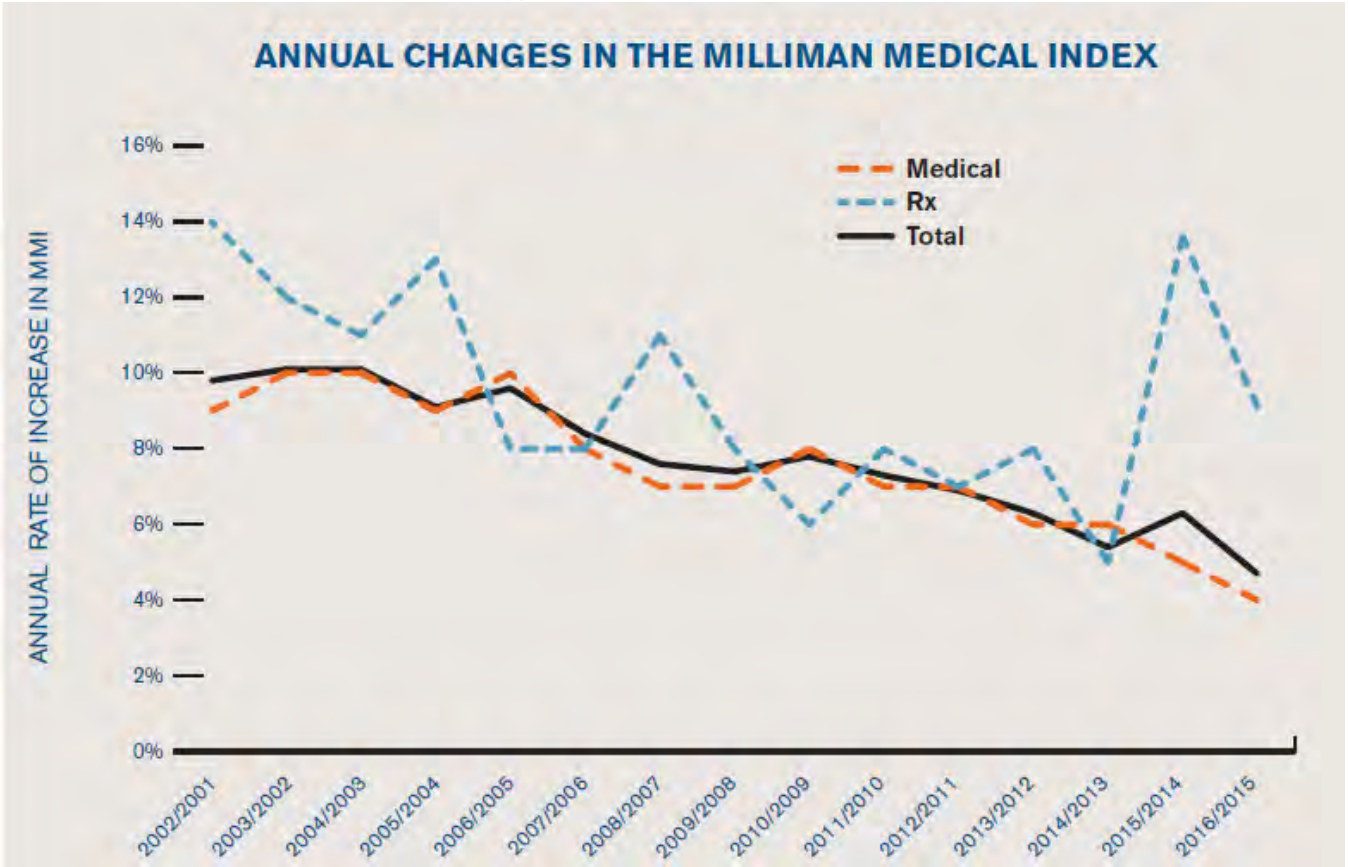
Source: 2016 Milliman Medical Index

Trends – Total



Source: 2016 Milliman Medical Index

Trends – Medical vs. Pharmacy



Source: 2016 Milliman Medical Index

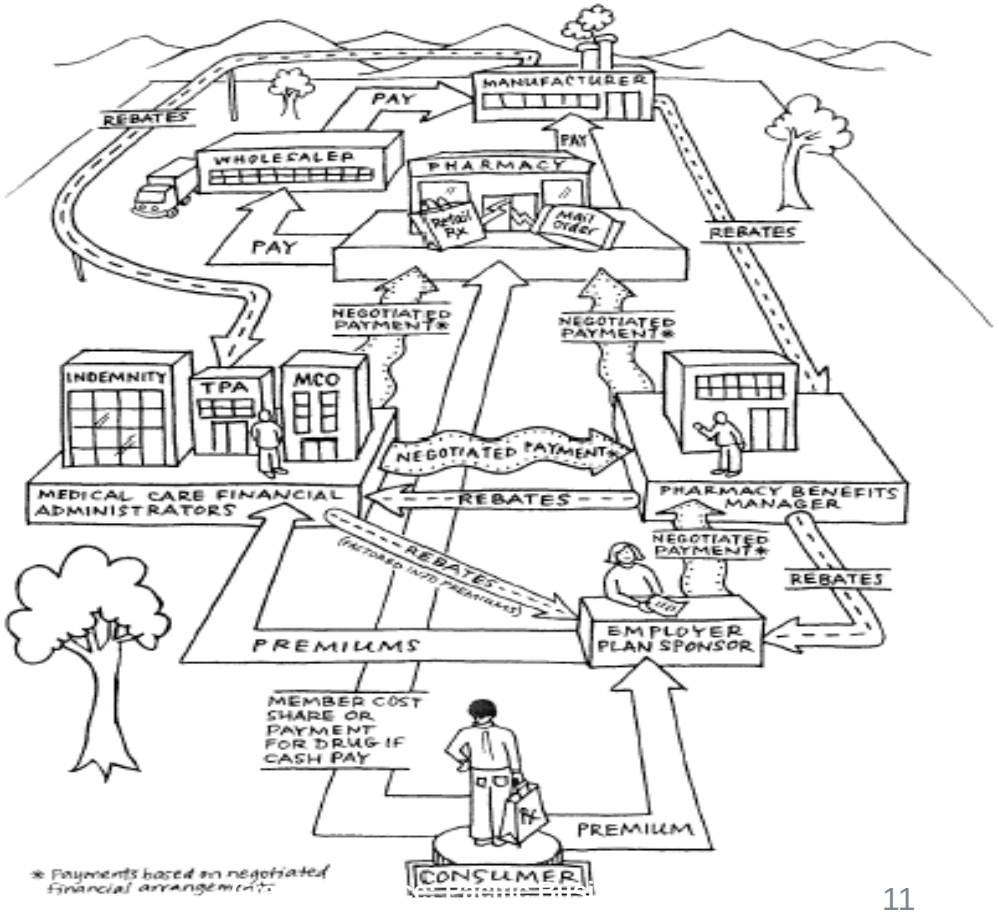
Drug delivery and PBM basics

The PBM industry:

Pharmacy Benefit Supply Chain

Main stakeholders:

- Manufacturers
- Wholesalers
- Pharmacies
- Group Purchasing Organizations
- Pharmacy Benefit Managers
- **Plan sponsors**
- **Consumers**



Goals and Objectives

PBMs are intermediaries between pharmaceutical manufacturers, pharmacies, and various pharmaceutical purchasers (employers, health plans, etc.)

PBM goals and objectives include:

- Manage drug spend appropriately
- Maximize manufacturer rebates
- Optimize pharmacy discounts and dispensing fees
- Decrease administrative costs
- Improve health outcomes
- Facilitate efficient administration of pharmacy benefits
- Growth and Profitability

Historical approaches and considerations

The PBM industry:

Key Events for PBMs in the Last Decade

- Medicare Part D
  - Increased 65+ covered population that PBMs can manage by ~ 50%
  - 65+ pharmacy spend is 3-6x that of a < 65 population
  - More covered members => more contracting leverage
  - Pass-through pricing in Medicare Part D
- Major brands lose patent and shift pharmacy spend to more profitable generics
- Specialty pipeline continues to grow
- Increased scrutiny with more government business
- More competition from smaller niche PBMs and large health plans
- M+A activity within and across sectors

Current state of the market

The PBM industry:

PBM Considerations – Preferred Networks

- Better contracting terms in exchange for lower cost sharing
- Pharmacies exchange better terms for additional market share
- Essential in Part D, spilling into commercial RFPs as requested option
- Pharmacies pay rebates to Part D plans for preferred placement
- CVS Caremark structure allows for increased coordination of pharmacy and PBM business
- Tradeoffs with preferred vs. exclusive networks
- Access issues
- More pharmacies nationally than several fast food chains combined
- More pharmacies than medical options in PPO style plans
- CMS investigating access closely in Part D given proliferation of preferred networks

PBM Considerations – Formulary Management

- Payers more willing to exclude certain medications to save money if limited or no clinical downside
  - Hep C is latest example
  - Brands being forced to compete in other brand only classes, including biologics
- Market developing rapidly as more therapeutic classes added to exclusion list
- More opportunities recently with flood of new generic products and existing brands looking to preserve market share while they can
- Customization of formularies occurring at lower membership levels
- Tiering structures getting larger under Part D and spilling into commercial
- Preferred / Non-preferred generic and specialty tiers
- Willingness to move “house” brands to generic tiers and high cost generics to brand tiers

PBM Considerations – Formulary Management

- Pharmacy manufacturer coupon programs
  - Seen as way to circumvent formulary
  - Not used in Medicare Part D
- Large formulary differences among PBMs and plans causing confusion among doctors
- E-prescribing may not have plan design information by member
- More physician time spent trying to attain access

PBM Considerations – Risk

Accepting insurance and other risk

- Started in mid-1990's with bad PBM risk deals and big losses
- Gun-shy since then but starting to re-emerge
- Risk Mechanisms:
  - Part D – Almost all midsize and large PBMs participate
  - Contractual trend guarantees or GDR targets
  - Outcomes and adherence related measures
  - Reinsurance with smaller employers looking at self-funding

Request for proposals

Savings opportunities:

Request for Proposals
PBM Selection

Important questions to ask when evaluating a PBM:

- Does the PBM fulfill the organization's needs in terms of costs, customer service, range of drugs available, and other factors?
- Is the organization getting the best possible financial arrangement?
- Is the contract written in a way that allows for transparency?
- Is the PBM willing to contract auditable and sustainable terms that the organization finds acceptable, such as transparency and fiduciary responsibility?
- Is the organization geared up to change PBMs (i.e., to go through with the implementation process and the oversight of PBM operations)?

Overview of the RFP Processes

- Prepare RFP
- Distribute
- Obtain questions
- Conduct a bidders conference call or in-person bidders meeting
- Respond to the questions
- Analyze financial bids
- Grade responses
- Summarize the responses
- Make recommendations for finalists
- Interview finalists

Draft Request for Proposal

- Financial requirements
  - Request traditional and pass-through pricing bids
  - Request minimum discount
  - Request minimum per claim guarantees for rebates from manufacturers
- Qualitative requirements
  - Administer current plan design and current formulary
  - Maintain pharmacy access
  - Performance guarantees
  - Utilization management capabilities
  - Various other contractual provisions

Next Steps

- Select finalists and request best and final offers
- Determine need for site-visit or on-site PBM presentation
- Review pros and cons of traditional vs. pass-through
- Review contract terms
- Begin implementation

Important contracting provisions

Savings opportunities:

Effective Contracting

- Effective contracting is crucial to the success of the plan's pharmacy benefit.
- Plans should consider doing the following every two years:
  - Renegotiate
  - Request aggressive renewal terms
  - Procurement
- Contract enforcement
  - Audits
  - Reconciliations
  - Invoice reviews

Key PBM Contracting Issues

- Aggressive financial discounts
- “Lesser of” pricing for all network and mail-order pharmacies
- Defining the pricing guarantees
- Defining minimum rebate guarantees
- Defining key terms, such as transparency or pass-through
- Quarterly or year-end financial guarantee true-ups
- Agreeable termination clause
- Clear definition of a generic drug
- Measurable performance guarantees
- Auditing and market check provisions
- Customer service and member communications
- **100% of the rebates**

Exhibits to the PBM Contract

- The original proposal
- List of administrative services
- Financial terms
- Performance guarantees with definitions
- Proposed maximum allowable cost (MAC) list
- Specialty drug price list
- HIPAA business associate agreement
- Plan design document
- Plan pharmacy program specifications

Market checks

Savings opportunities:

Benefits

- Market checks can be used as leverage in contract renewals to remind the PBM what level they should be performing at.
- If the current PBM refuses to meet the market check rates that are known to be consistent within the market, a plan may want to take its business to the market to procure a new PBM contract.
- In our experience, plans are often able to improve their pricing arrangements using a market check or RFP between 5%-30% of their currently contracted rates, with an average savings around 11%.

Overview

- Review the current pricing arrangement
- Compare the current arrangement to recent offers seen or negotiated with other PBMs
- Analyze a full plan year of data and then project forward based on assumptions identified below
- Chose pricing offers based on competitive guarantees
- Reprice projected claims using the current contract and the comparator PBM pricing
- Calculate the repriced total cost as ingredient cost, plus dispensing fees, plus administrative fees, less rebates over the projection period
- Report the findings

Market check case study

Savings opportunities:

Case Study: Market Check

Total Cost Over Contract Period (in Thousands)					
		Current Pricing	PBMA - Original Offer	Recommended Target	PBMA - Final Offer
Retail	Brand	$9,536	$9,176	$9,176	$9,149
	Generic	$9,540	$8,109	$5,724	$7,030
Mail (35-90 Days)	Brand	$3,822	$3,586	$3,448	$3,482
	Generic	$2,506	$1,942	$1,504	$1,659
Mail (1-34 Days)	Brand	$37	$34	$34	$34
	Generic	$20	$16	$12	$13
Specialty		$2,947	$2,836	$2,836	$2,836
Retail/Mail/Specialty Combined	Total	**$28,407**	**$25,700**	**$22,735**	**$24,204**
Rebates	Retail	$1,324	$1,558	$1,656	$1,558
	Mail	$632	$744	$760	$744
	Specialty	$0	$0	$0	$0
	Total	**$1,956**	**$2,302**	**$2,415**	**$2,302**
Dispensing Fees		$808	$685	$685	$685
Admin Fees		$61	$0	$0	$0
Total Estimated Costs (Costs less Rebates)		**$27,319**	**$24,083**	**$21,005**	**$22,588**
% of Current Contract		**0.00%**	**-11.85%**	**-23.11%**	**-17.32%**
Total Estimated Savings		**$0**	**$3,236**	**$6,314**	**$4,731**

Post-contract oversight audit

Savings opportunities:

Verifying Contract Compliance

- Once the PBM's operations are in place, an audit is necessary to:
  - Ensure the integrity of the contracted arrangement
  - Verify that the PBM is providing the sponsor and its members all contract benefits
  - Validate invoicing and rebate payments
- The audit should involve a thorough assessment of administrative functions, including:
  - The accuracy and timeliness of cost controls, systems, and procedures
  - The accuracy of management information
  - The accuracy and timeliness of claim payments and rebates
  - The effectiveness of internal controls

Predicting the future

The PBM industry:

PBM Considerations

- Expect more diversification and expansion beyond traditional middleman duties, including M+A activity
- Major concerns around government price controls that could reduce or eliminate their role
- Where is the next silver bullet with most traditional brands already losing patent and a big specialty pipeline? (Biosimilars?)
- Continued emphasis on pharmacy adherence as means to reduce medical costs and improve outcomes
- More exclusivity within pharmacy networks and formularies

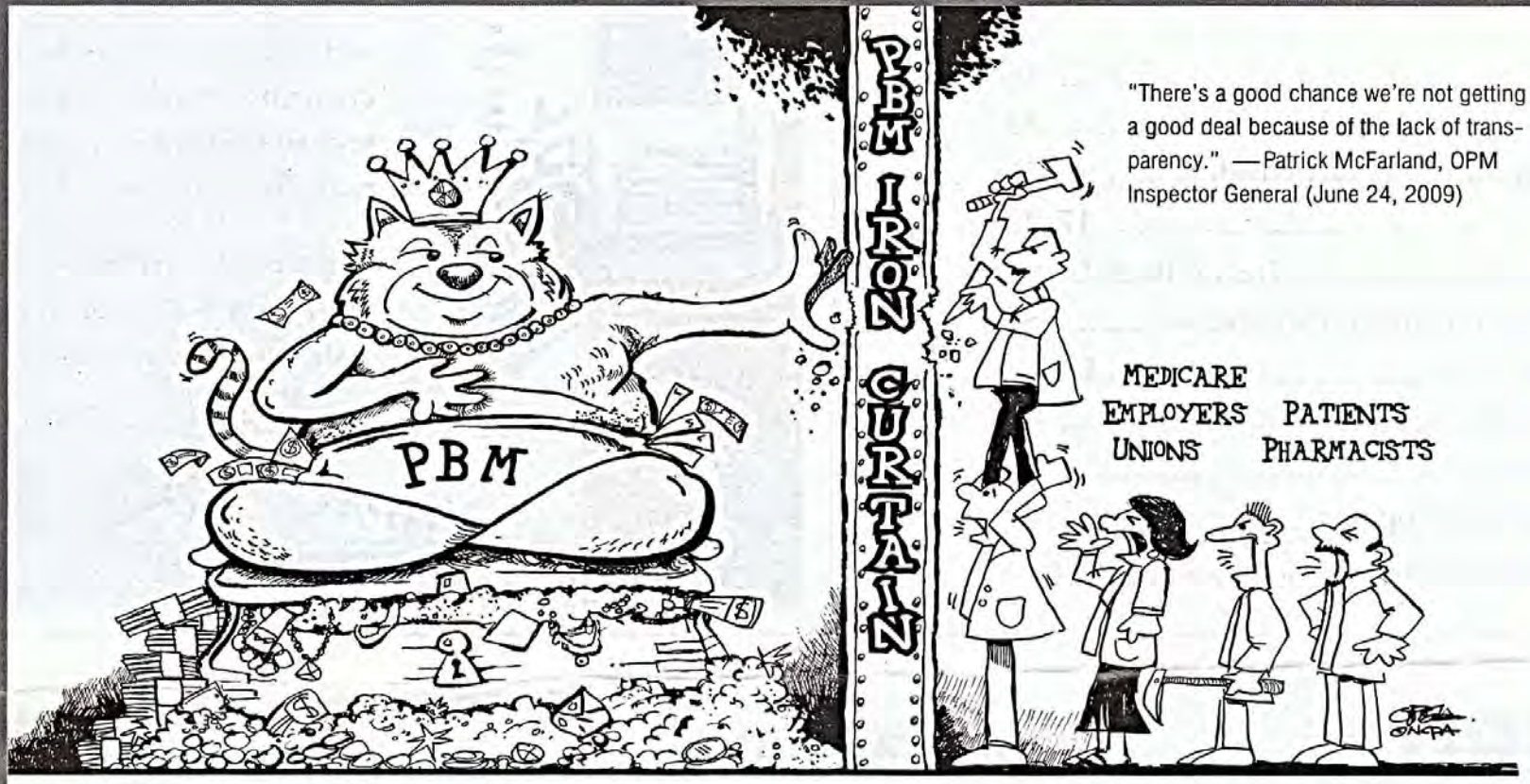
PBM Considerations

- Greater customer demand for market checks and/or shorter contracts
- Continued growth in specialty pharmacy
- Managing the pharmacy spend in both the medical and pharmacy benefit
- Focus on consumerism
- New approaches to PBM contracting and pricing

2017 Considerations

Newer items to consider to maximize the savings:

- Should you consider an exclusionary formulary?
- What would you look for in a preferred pharmacy network?
- What will your specialty drug spend be in future years?
- Should you consider having certain drugs process through the medical or pharmacy benefit? (White bag vs. Brown bag)
- What are those rebates really worth?



"There's a good chance we're not getting a good deal because of the lack of transparency." —Patrick McFarland, OPM Inspector General (June 24, 2009)

PBM Transparency – key to lower Rx costs

Thank you!

Questions

www.milliman.com/Solutions/Services/Pharmacy-benefits-consulting/
www.milliman.com/MyRxConsultant/

Glossary

Average Wholesale Price (AWP): A published national average of list prices charged by wholesalers to pharmacies. Average wholesale price (AWP) is not an actual price that purchasers or PBMs normally pay. It is used by most PBMs for setting prices reimbursed by outpatient pharmacies and prices charged to plan sponsors.

Brand Name Drug: A patented drug generally manufactured and sold by a drug labeler (single source brand name). There are instances in which more than one labeler may produce a brand name drug. These types of brand name drugs are referred to as multi-source brand name drugs.

Dispense as Written (DAW): Dispensed as written (DAW) is a code indicating which party is requesting the brand to be dispensed when a generic drug is available. The DAW codes are as defined by National Council for Prescription Drug Programs (NCPDP) as follows:
0 - No product selection indicated
1 – Substitution not allowed by prescriber
2 – Substitution allowed – patient requested product dispensed
3 – Substitution allowed – pharmacist selected product dispensed
4 – Substitution allowed – generic drug not in stock
5 – Substitution allowed – brand drug dispensed as generic
6 - Override
7 – Substitution not allowed – brand drug mandated by law
8 – Substitution allowed – generic drug not available in marketplace
9 – Substitution allowed by prescriber but plan request brand

Glossary

Exclusion: Exclusion means that a drug, product, or service is not covered.

Fill Date: The date the prescription was filled; sometimes called “service date.

Generic Drug: Generic drug is a drug that is no longer protected by a patent. These drugs can be manufactured and distributed by different companies and must be approved by the U.S. Food and Drug Administration. Generic equivalent drugs are the same as brand name drugs in dosage form, safety, strength, route of administration, quality, performance characteristics, and intended use. Generic alternative drugs are not chemically identical to the brand in question, but are in the same therapeutic class and intended to treat the same conditions as the brand in question.

Mail Order: Mail order is a participating pharmacy that provides home delivery services through common carriers, as well as other services described in the PBM contract.

Medi-Span: Medi-Span is a division of Wolters Kluwer Health, Inc. that publishes a master drug database that provides a codified drug dictionary, drug vocabulary, and drug pricing for prescription drugs and medication-based over-the-counter products in the United States.

National Council for Prescription Drug Programs (NCPDP): A not-for-profit membership organization (www.ncpdp.org) that creates national standards for electronic healthcare transactions used in prescribing, dispensing, monitoring, managing, and paying for drugs and pharmacy services.

Glossary

National Drug Code (NDC): National drug code (NDC) is an 11-digit number, which serves as a universal product identifier for drugs. The U.S. Food and Drug Administration maintains and publishes NDC numbers and listing information.

Over-the-Counter (OTC) drugs: Over-the-counter (OTC) drugs are drugs that can be bought without a prescription. They are not covered under most prescription plans.

Paid Claim: For the purposes of this report, a paid claim refers to a claim that was not rejected by the PBM.

Pharmacy Benefit Manager (PBM): A pharmacy benefit manager (PBM) is an entity that administers the prescription drug portion of a health insurance plan offered by plan sponsors: self-insured employers, insurance companies, and health maintenance organizations (HMOs). PBMs provide pharmacy claims processing, mail order pharmacy services, and other services, such as rebate negotiations with drug manufacturers, development and management of pharmacy networks, formulary management, drug utilization review programs, generic drug substitution, and disease management programs.

Pharmacy Network: A pharmacy network consists of retail pharmacies, independent pharmacies, and mail order pharmacies under contract with a PBM contractor to provide services to a prescription drug plan, typically at a negotiated discounted fee.

Glossary

Retail Pharmacy Network: Retail pharmacy network is also known as “network.” This refers to a negotiated list of available pharmacies. The retail network can include both national chain pharmacies and independent pharmacies.

Specialty Drug: Specialty drugs are pharmaceutical products that are typically expensive and require special handling and monitoring. They can be administered through injection, infusion, inhalation, or other non-oral methods. Many are biologically developed (biologics) and can be used to treat chronic, life threatening, and rare conditions such as various types of cancer, growth hormone deficiencies, multiple sclerosis, hemophilia, and rheumatoid arthritis. There is not an industry standard definition of a specialty drug; each PBM tends to have its own definition and list of drugs that it treats as specialty drugs

Specialty Pharmacy: Specialty pharmacy is a contracted pharmacy providing prescription items that require special handling or administration. A PBM usually contracts the discounts, administrative fees, and dispensing fees at a rate different from other discounted arrangements. Many PBMS own their own specialty pharmacies.

Usual and Customary (U&C) Charge: U&C charge is the amount a retail pharmacy will charge a patient who is not covered by a benefit plan or who chooses to self-pay for the prescription. This is also referred to as the "cash" price.