Pharmacy Benefits

Why Peeling the PBM Onion Makes You Cry

Presented by

Sheri Alexander, Senior Vice President
Gregory & Appel Insurance

April 24, 2012
Our Agenda

- Why do we Care?
- PBM Landscape
- How do you Buy Drugs?
- Distribution Channels
- Pricing Models
- Pricing Elements
- Roadblocks
- Re-Pricing Landmines
- Red Flags
- Market Trends
Why do we Care?

Two Year Rx Inflation Rates (2010 & 2011)

<table>
<thead>
<tr>
<th></th>
<th>Overall</th>
<th>Generic</th>
<th>Brand</th>
<th>Specialty</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>8%</td>
<td>1.1%</td>
<td>14.2%</td>
<td>15.6%</td>
</tr>
</tbody>
</table>
Why do we Care?

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall Avg. Cost per Rx</td>
<td>$57.18</td>
<td>$58.20</td>
<td>$58.89</td>
</tr>
<tr>
<td>Cost per Day</td>
<td>$2.42</td>
<td>$2.45</td>
<td>$2.55</td>
</tr>
<tr>
<td>Specialty % of Spend</td>
<td>9.6%</td>
<td>10.6%</td>
<td>12.1%</td>
</tr>
<tr>
<td>Specialty % of Prescriptions</td>
<td>.40%</td>
<td>.40%</td>
<td>.43%</td>
</tr>
<tr>
<td>Specialty Cost per Rx</td>
<td>$1,654</td>
<td>$1,846</td>
<td>$2,009</td>
</tr>
<tr>
<td>FDA Specialty Drug Approvals</td>
<td>10</td>
<td>14</td>
<td>18</td>
</tr>
</tbody>
</table>

Did you know….new Cancer medications represent 25% of all pipeline drugs and 50% of all Specialty pipeline drugs.
**Why do we Care?**

<table>
<thead>
<tr>
<th>Top 10 Specialty Drugs</th>
<th>Rx Cost</th>
<th>Treatment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Humira Pen</td>
<td>$2,271</td>
<td>Autoimmune</td>
</tr>
<tr>
<td>Enbrel Sureclick</td>
<td>$2,084</td>
<td>Autoimmune</td>
</tr>
<tr>
<td>Enbrel</td>
<td>$2,078</td>
<td>Autoimmune</td>
</tr>
<tr>
<td>Copaxone</td>
<td>$4,130</td>
<td>MS</td>
</tr>
<tr>
<td>Humira</td>
<td>$2,163</td>
<td>Autoimmune</td>
</tr>
<tr>
<td>Atripla</td>
<td>$2,061</td>
<td>HIV</td>
</tr>
<tr>
<td>Enoxaparin</td>
<td>$1,518</td>
<td>Anticoagulant</td>
</tr>
<tr>
<td>Truvada</td>
<td>$1,339</td>
<td>HIV</td>
</tr>
<tr>
<td>Avonex Prefl</td>
<td>$3,369</td>
<td>MS</td>
</tr>
<tr>
<td>Rebif</td>
<td>$3,503</td>
<td>MS</td>
</tr>
</tbody>
</table>

Did you know…

46% of consumers surveyed in 2011 by PWC said they deferred medical care at least one time in the past year due to cost.

Of these, 22% said they deferred care 5 or more times.
PBM Landscape

• The Big Three 2010 Revenues
  – Medco ($66 Billion)
  – CVS Caremark ($48 Billion)
  – Express Scripts ($45 Billion)

  and then there were two......

• OptumRx (formerly Prescription Solutions) is owned by UHC and is coming on strong at $25 Billion

• Boutique PBMs – dozens to choose from
How do you buy Drugs?

- Carrier Carve-In
- TPA Carve-In
- Carve-Out
- Coalition
• Carrier Carve-In
  – Fully Insured or Self-Funded with a Carrier
  – Access the Carrier’s contract with the PBM
  – Typically traditional pricing (vs. transparent)
  – Carrier keeps all or part of the rebates and “spread” on pricing terms
Distribution Channels

- TPA Carve-In
  - Self-Funded with a Third Party Administrator
  - Access the TPA’s contract with the PBM
  - Typically traditional pricing (vs. transparent)
  - TPA keeps all or part of the rebates and “spread” on pricing terms
Distribution Channels

• Carve-Out
  – Health Plan Fully Insured with a Carrier or
  – Health Plan Self-Funded with a Carrier or TPA
  – Employer holds the contract with the PBM
  – Can be traditional or transparent/pass-through pricing
  – Employer keeps all or part of the rebates and “spread” on pricing terms depending upon contract
Distribution Channels

• Coalition
  – Health Plan Fully Insured with a Carrier or
  – Health Plan Self-Funded with a Carrier or TPA
  – Same as Carve-Out but Coalition (or association or other group purchasing entity holds the contract)
  – Coalition may keep part of the rebates and “spread” depending upon contract
  – Coalition may collect a fee per Rx filled
Distribution Channels

• Carve Out and Coalition Considerations
  – Eligibility
  – Data Management/Reporting
  – Clinical integration
  – Stop Loss integration (for self-funded groups)
  – CDHP integration
  – ID Cards
  – Plan Document
  – Summary Plan Description
Pricing Models

• Traditional Pricing
  – No administration fee
  – Contract holder (carrier, TPA or Coalition) negotiates terms then passes on “net pricing” to the employer.
  – Carrier, TPA or Coalition keeps the “spread” and all or part of the rebates

• Transparent/Pass-through Pricing
  – Administration fee charged per Rx or PEPM
  – Full contract pricing and all rebates are passed through to the Employer on a transparent basis
  – Typically the most cost-effective pricing model
Pricing Elements

• Dispensing Fees (Retail and Mail Order)
• Administration Fees (in Transparent models)
• Rebates (may be tied to Brand Only or Brand and Generics)
• Retail/Mail Brand & Generic Discounts (off of AWP)
• WAC vs. MAC
• Specialty Pricing (typically a schedule)
• Carrier and TPA Integration Fees (if applicable)
• Commissions (Broker fees may be included on a per Rx basis paid directly by the PBM)
• Coalition fees and/or commissions (if applicable – typically on a per Rx basis paid directly by the PBM)
Roadblocks

• Carriers and TPAs do not want us to carve-out the pharmacy benefits
  – They lose rebates
  – They lose spread
  – They may tell you that you can’t carve out the Rx
  – They will likely add additional administration and interface fees to make up for lost revenue if you do carve-out
Roadblocks

• So what do we do?

  – The best results are achieved when the medical plan and pharmacy plan are put out to bid in two separate RFP sections *but at the same time*.

  – Be sure the Pharmacy RFP goes directly to the PBM marketplace as well as to the carriers/TPAs

  – The PBM analysis should include a comparison of contract terms, a claims re-pricing (with specific instructions), a geo-access report and a formulary disruption analysis
Re-Pricing Landmines

• AWP/Price Surfing
  – Should use the AWP in effect on the date of claim
• Network Swapping
  – Narrow network pricing should not be substituted
• U&C (Usual & Customary Claims)
  – Should be excluded from the re-pricing
• SSGs (Single Source Generics)
  – Should not be co-mingled with Brand
• Therapeutic Switching/Mandatory Generics
  – Lipitor vs. Simvastatin = $160.40 vs. $8.42
• Compound Drugs
  – Should be excluded from the re-pricing
Red Flags

- Pharmacy spend accounts for 15% or more of overall health plan claims cost
- Retail Setting Generic Fill Rate is below 80%
- Utilization Rate is in excess of 1 prescription per member per month

Did you know…. a 1% increase in Generic Dispensing Rate = between 1.5% - 2% decrease in overall drug spend.
Market Trends

- Average Retail Copayment Amounts (30 days)
  - $10 Generic/$27 Preferred Brand/$47 Non-Preferred Brand/$84 Specialty
  - CUPA 2011 $10 Generic/$25 Preferred/$45 Non-Preferred

- Increase spread between tiers (2.5 x minimum)
- Adding 4th tier with higher copays for Specialty
- Adding preventive Rx coverage to HDHP plans
- Replacing copays with coinsurance (min/max)
- Value-Based Benefit Design
- Prior Authorization
- Step Therapy
Market Trends

• Mandatory Generics
• Mandatory Mail
• 90 Day Retail
• Include OTCs
• Narrow Networks
• TMAC (Therapeutic Maximum Allowable Cost), i.e.
  – Ulcer meds range from a $12 generic to a $263 Brand
  – TMAC set at $25 – member pays anything above the schedule
• Predictive Modeling/Patient Engagement to manage high cost claimants

Remember.... a 1% increase in Generic Dispensing Rate = between 1.5% - 2% decrease in overall drug spend.
Who We Are

- Founded in 1884
- Employee and Family Owned (26 owners)
- 112 Employees – 28 dedicated to Employee Benefits
- Flat Management Structure
- Financial Stability – We are not for Sale
- No outside Shareholders - Answer only to our clients
- Nimble, effective, flexible
- Employer of Choice – Indiana Chamber Best Places to Work – top 10 three years in a row
- Long-term relationships – passionate about serving our clients
- Commitment to Indiana - Revenue stays local
- Pledge 10%+ of our pre-tax income to local not-for-profits
Questions?

Sheri Alexander, Senior Vice President
Employee Benefits Division Manager
Gregory & Appel Insurance
1402 N. Capitol Ave., Suite 400
Indianapolis, IN 46202
Direct dial #: 317-686-6456
salexander@gregoryappel.com