Pharmacy Benefit Consulting Proposal

For

FELRA & UFCW Health and Welfare Fund

JANUARY 2014

307 International Circle, Suite 390
Hunt Valley, MD 21030
Phone: 763-444-1116
Fax: 410-785-0044
www.ConsultHeritageRx.com

January 15, 2014

Board of Trustees
FELRA & UFCW Health and Welfare Fund
Attention: William (Bill) Jensen, President
Associated Administrators
Sent via email

RE: Proposal for Consulting Services

Dear Bill,

Thank you for this opportunity to propose consulting services to the FELRA & UFCW Health and Welfare Fund ('the Fund') in support of their cost management objectives.

In today's environment, where healthcare cost inflation and consumer demand continue to grow at unsustainable rates, the options for cutting costs are narrowed to 1) reducing the number of covered services, 2) reducing the number of people receiving them, or 3) reducing the costs of services delivered. Our proposal exploits option 3 - reducing the cost of services delivered, and includes a progressive strategy to cut costs by eradicating 'waste' routinely found in prescription drug administration. Our methodology includes a paid claims analysis to identify patterns of fraud, waste and abuse, then mitigate the expense using proven tools and tactics. Our proposal also includes competitive bidding of the pharmacy benefits management (PBM) contract and management oversight of the PBM's contract administration and financial performance.

I welcome the opportunity to meet with the Board of Trustees, Co-Counsel and/or Associated Administrators to review our proposal. If convenient, we could meet in person while I'm in the Baltimore/Washington DC area (Wednesday or Thursday, January 22-23 and the morning of January 24th).

Kind Regards,

Nancy J. Eid
Principal
HeritageRx Consultants

cc: Scott Vogel, Practice Lead

INTRODUCTION

We are pleased to submit this proposal for consulting services to the FELRA & UFCW Health and Welfare Fund ("Fund") in support of their cost management objectives.

The Scope of Work proposed herein is designed to meet three (3) key objectives:

1) **Reduce the Fund's combined annualized specialty and traditional drug program costs by 12%.**

2) **Secure a highly competitive pharmacy benefits management (PBM) contract for the 2014 - 2017 contract term.**

3) **Implement an automated claims audit tool to increase the accuracy of paid claims and reduce PBM access to the cash float that results from underperformance of the financial guarantees at point of sale processing.**

The following sections provide background information on current and emerging Prescription Drug Trends and the ever-changing pharmacy landscape; a detailed scope of work, then concludes with our Consulting Fees with an estimated return on investment (ROI).

BACKGROUND INFORMATION

Prescription drug costs consume a significant portion of the healthcare dollar. Accelerated growth continues, fueled by increased demand for drug therapies, unit price increases that exceed the overall rate of inflation, and the burgeoning costs of treating chronic and complex diseases. While much of the spending produces real health benefits, 'waste' remains in the form of fragmentation of care, overtreatment, billing errors, fraud and abuse. The magnitude of waste, estimated to account for 18-37 percent of national healthcare expenditures in 2011[1] provides substantial opportunity for cost reduction and improvements to the quality of care administered.

Specialty drug utilization within the medical benefit is one of the least understood and poorly managed areas of healthcare. Trending at 17% annually, specialty PMPY costs are expected to overtake those of traditional drug costs by 2018. Despite these alarming trends, efforts to quantify and manage medical specialty utilization and costs are hindered by gaps in reporting and a universal lack of transparency with the amounts paid per claim through the various sites of care.

Within the medical specialty claims system, wide variability exists in the amounts charged for the same medication. Even greater differences are found with the number and types of administration charges applied to Revenue Code Claims. Research conducted by Artemetrx[2], excerpted and shown in Appendix A, Tables 1-3, validate the assertion that significant waste exists in healthcare billing and service delivery.

---

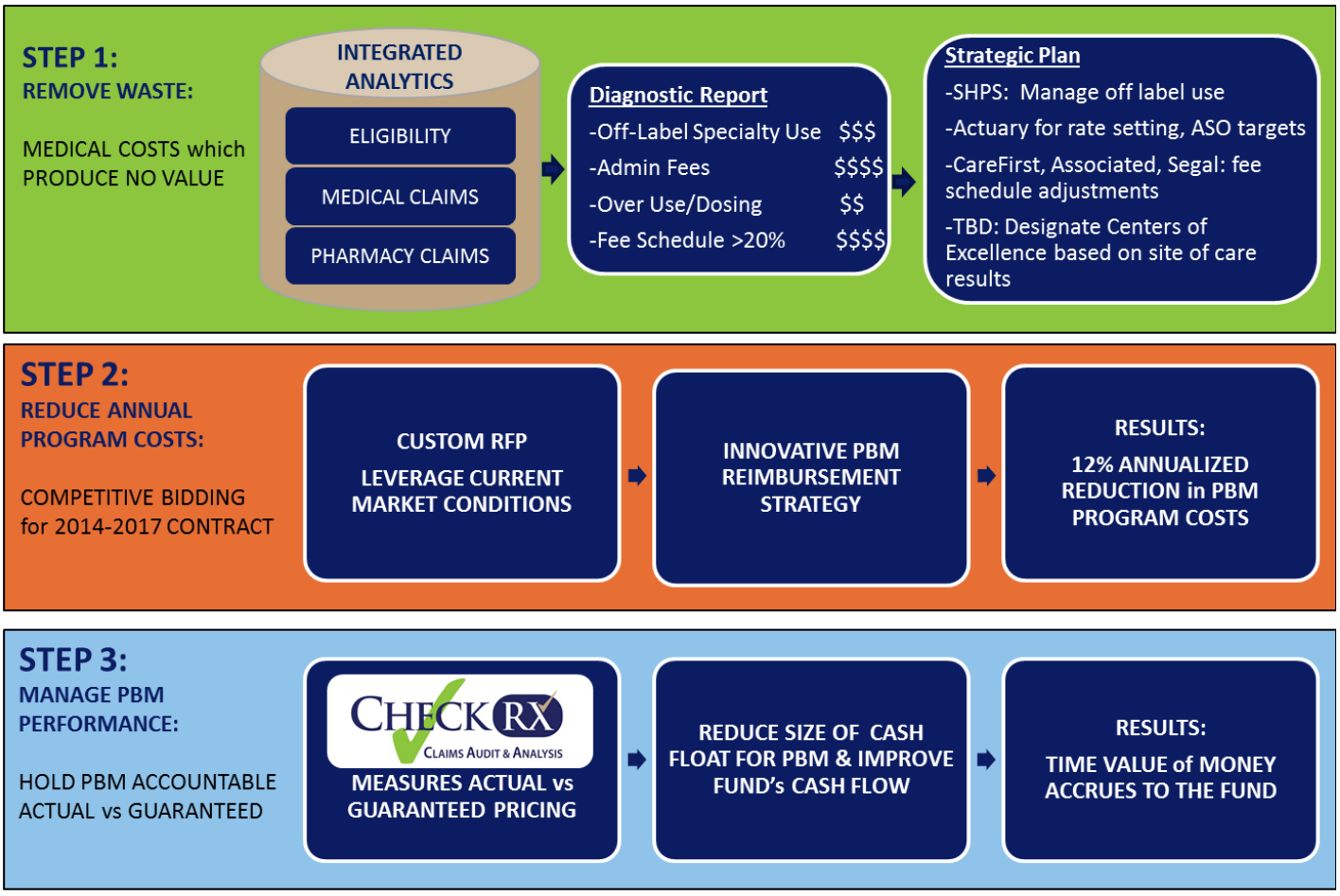
[1] Berwick and Hackbarth Study, 2012
[2] PBMI 2013

PROPOSED SCOPE OF SERVICES

A key strategy included in our proposal is the detailed analysis and interpretation of the Fund's integrated medical and pharmacy claims data, designed to measure current costs, future savings opportunities and expected outcomes. Based on Peer Review literature and industry experience, HeritageRx reasonably assumes the Fund has discoverable savings opportunities of 15% or more, based on current utilization and costs.

Running concurrent with this 'discovery' phase is a procurement strategy, which takes advantage of the current competitive provider market and the launch of a new sales season (with refreshed pricing) for the major PBMs - - creating a window of opportunity for the Fund to optimize savings and value from the competitive bidding process for the 2014-2017 contract term. The third component of our proposal focuses on tightening the grip around the PBM claims processing and contract administration, using automation to audit and reprice claims quarterly.

Value Proposition and Project Overview



PROJECT DETAIL:

PHASE 1: Quantify Fraud, Waste and Abuse

Project Steps

1) Integration of pharmacy and medical historic data sets; detailed analysis of medical specialty claims, processing and administration to detect fraud, waste and abuse.
2) Specialty Pharmacy Claims Assessment--analyze specialty program performance, including:
    a. Total specialty pharmacy spend across medical and prescription benefits
    b. Specialty pharmacy billing within the medical channel for:
        i. Medical – HCPCS
        ii. Medical – Revenue Codes
    c. Drug administration charges and variances in specialty drug ingredient costs billed through the medical benefit
    d. Drug use and spend by therapy class within the medical benefit
    e. Drug and administration costs by site of care for top specialty products
    f. Top 10 revenue codes by cost billed in outpatient hospital setting
3) Clinical Assessment
    a. Off-label/inappropriate use review of specialty pharmacy products
    b. Utilization outliers (dosing; duplicate therapies; primary diagnosis doesn't match treatment)
    c. Clinical profile and spend for specialty patients by diagnosis
4) Reimbursement Assessment
    a. HCPCS Pricing Schedule review
    b. Quantities, dosing by ICD-9 Diagnoses and site of care
    c. Medical rebate payments
    d. Fees, ASP pricing and percent discounts applied by medical site of care

Deliverables

HeritageRx will present a Diagnostic Report to the Fund that encompasses all findings from the integrated data review. The Report will detail savings opportunities, outcomes which can be validated through empirical data, and a customized action plan for implementing savings strategies.

Timeline

The Diagnostic Report will be completed within 45 days from receipt of the eligibility file, medical and pharmacy claims for the most recent 12 month period. Results and recommendations will be presented to the Fund in writing as well as an in-person meeting scheduled at the discretion of the Fund. Program recommendations, based on findings from the

report, can be implemented at the discretion of the Fund. Fees for Consultant support or oversight of the implementation will be provided upon request.

PHASE 2: Competitive Bidding of PBM Services for 2014 - 2017 Contract Term

Project Steps

1) Develop a custom RFP for PBM services to commence on or before July 1, 2014. The claims, eligibility and financial data from Phase I can be used to build the actuarial models and financial tables, reducing the time and expense of requesting claims detail extracts from the PBM.
2) The RFP will include requests for current and future state pricing and services to give the Fund maximum flexibility in administering the pharmacy benefit without the need to re-bid or contract for services. Strategic opportunities the bidders will be asked to price for FUTURE consideration or implementation include:
    a. Cost-Plus and Reference Based Reimbursement
    b. High performance formularies
    c. Shared risk arrangements with the PBM
        i. Performance guarantees requiring semi-annual reconciliation of the MAC, reducing out of pocket expense for the Fund.
        ii. Inflation caps on specialty drug pricing for the 3 year term.
        iii. Medical specialty rebates

Our proposal includes consultant oversight of the RFP process from beginning to end, analysis of bidder responses, best and final pricing and contract negotiations to include all technical, financial and service provisions within the agreement.

Deliverables

1) Technical due diligence of the PBM market, performed on behalf of the Fund.
2) Strategic design and management of an RFP, soliciting best service, superior pricing and transparent, auditable contract terms
3) Maximum transparency and audit control of the Fund's claims adjudication and pricing, reducing or eliminating the claims.

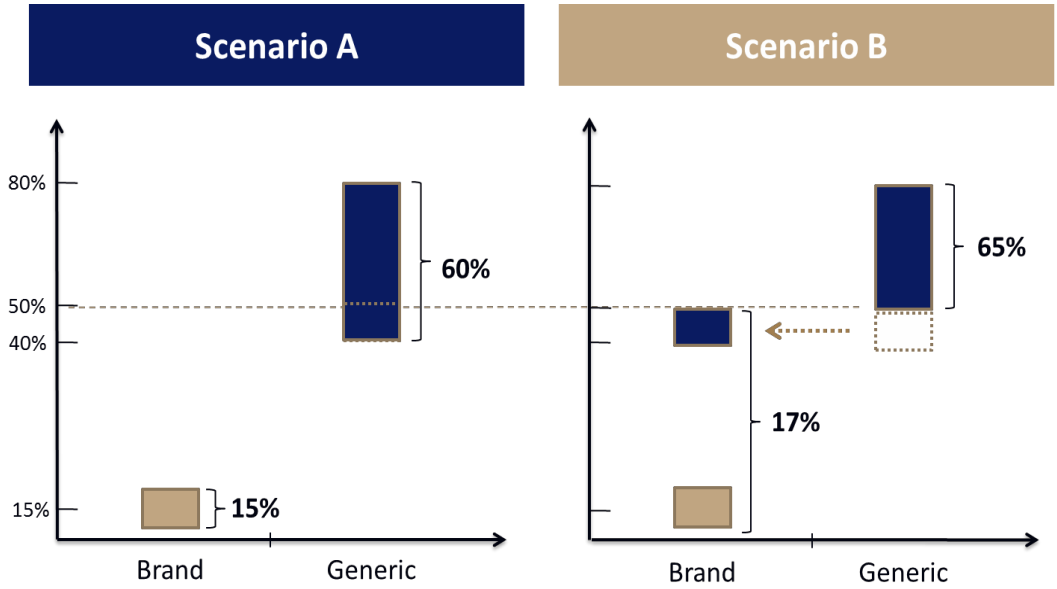
Timeline

The RFP process will commence upon approval from the Fund, and can be completed within 60-90 days.

PHASE 3: Track and Measure Results

Overview

The pharmacy benefit is by far the most complicated benefit to procure and negotiate—PBM pricing is complex and ever changing. Specifically, each PBM uses proprietary definitions of a brand or a generic drug claims and added caveats in a manner that easily inflates the optics of an AWP discount, but in reality do not materialize, e.g. "pricing optics". Consequently, getting to an apples-to-apples comparison requires in-depth knowledge of the claims adjudication and financial reporting systems used by PBM and revenue sources leveraged by PBMs using pricing optics.

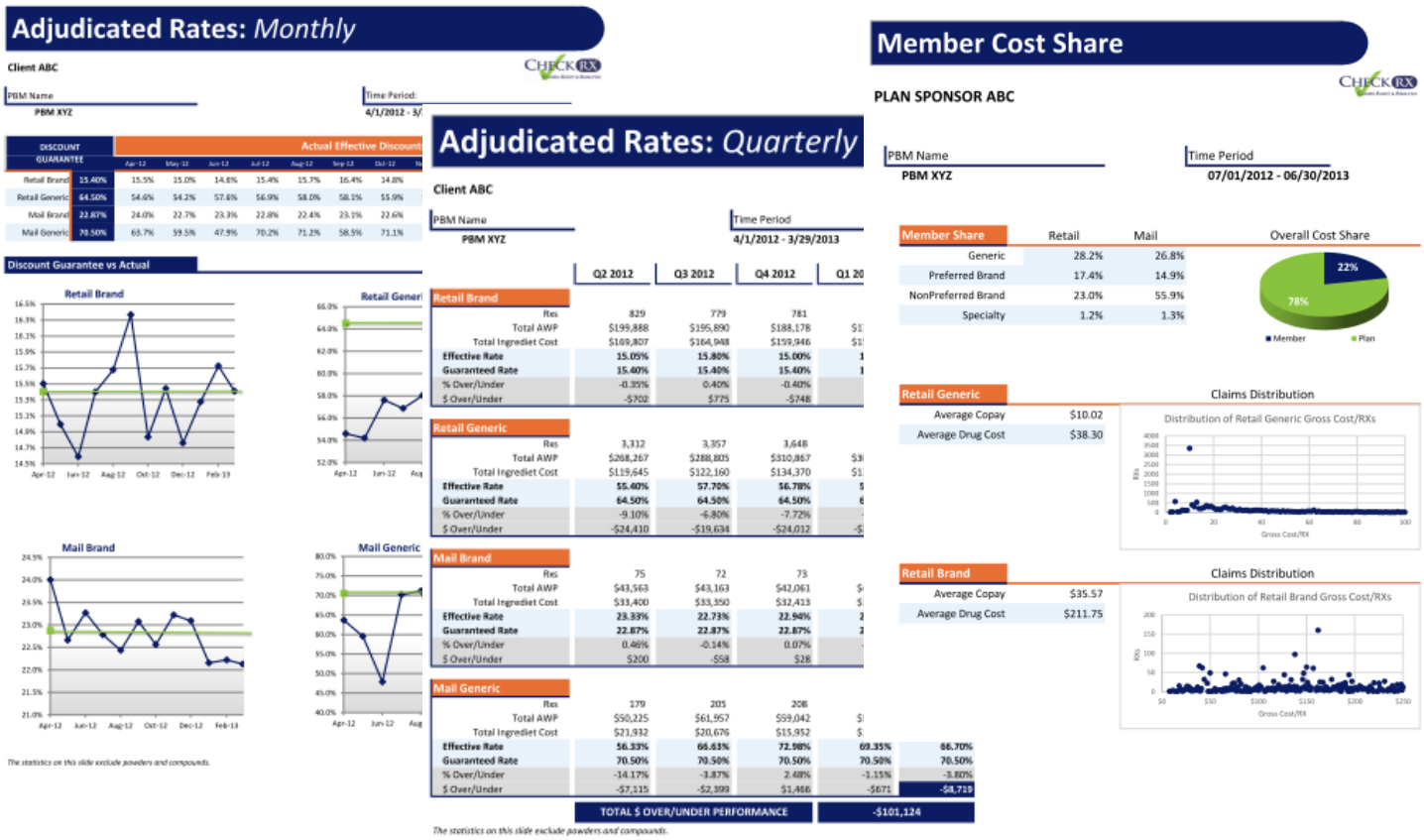


As an example, after a review of the two AWP discount scenarios above, one could assume that Scenario B (AWP-17% & AWP-65% for Brands and Generics, respectively) is much more aggressive than Scenario A (AWP-15% and AWP-60%). If taken at face value, Scenario B appears to save $81 PEPY over Scenario A. That is equivalent to $404,000 in purported savings per 5,000 employees. Unfortunately, that $404,000 in savings is only on paper—it would never materialize into real, tangible dollars. In fact, these two pricing scenarios (A&B) result in the exact same net cost to a Plan Sponsor.

Deliverables

Heritage Rx has designed a claims check and automated audit process, CheckRx, which tracks and reports financial performance of the PBM guarantee against actual utilization. Using raw paid claims data, showing undiscounted and discounted AWP on the claims file, our financial algorithms re-price the claim using Medi-Span to calculate brand and generic costs on the date the claim was processed, validating the accuracy or delta in the guaranteed vs. paid amount. Based on our experience using this tool, the quarterly variances in actual vs guaranteed amounts paid at the point of sale are substantial, but do not accrue to the benefit of the Plan Sponsor. Immediate action is taken with the PBM to adjust discounts, including reprocessing errant claims online and crediting the plan sponsor in the next invoicing process.

Sample Reports



Timeline

Quarterly Audit Reports measuring claims costs, discounts, and PMPY trends.

ENGAGEMENT FEES

DELIVERABLE	FEE	EXPECTED RETURN ON INVESTMENT
PHASE 1: Integrated Analysis and Diagnostic Reporting	**$19,500**	**25:1**
PHASE 2: RFP, Vendor Selection & Negotiation	**$49,700**	**45:1**
PHASE 3: CheckRx Contract Compliance	**$16,000**	**7:1**

APPENDIX A

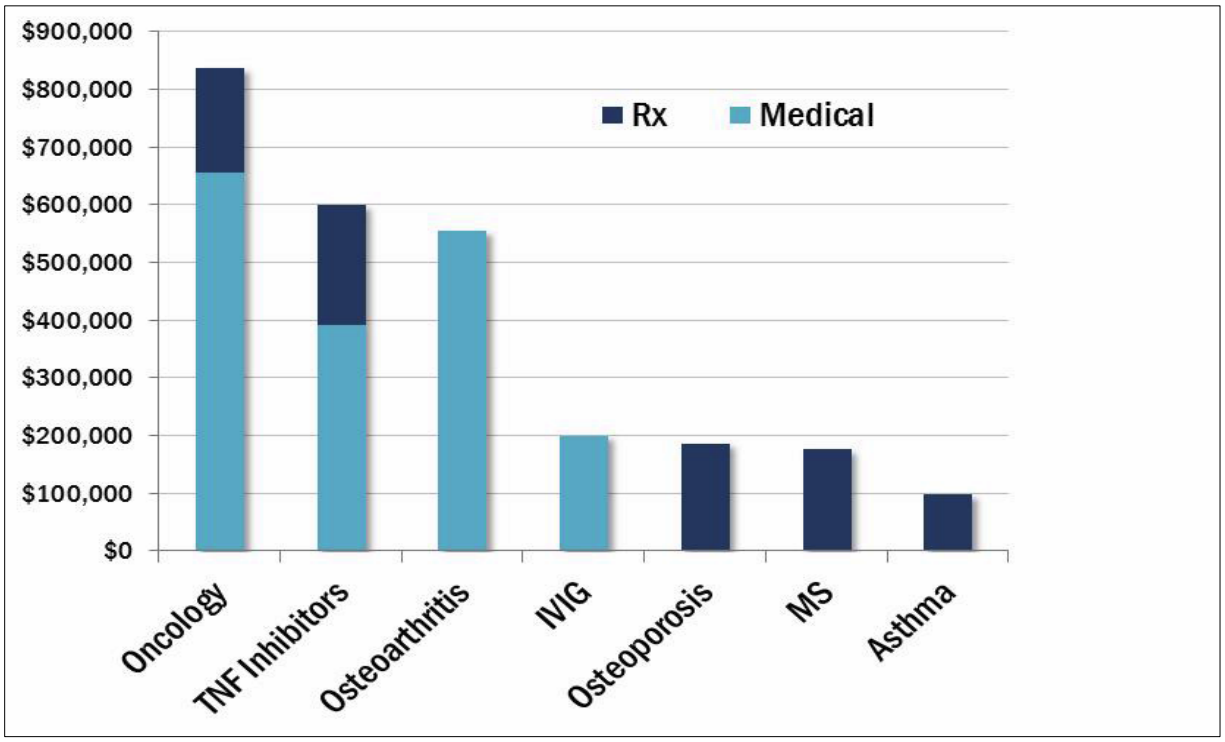
Table 1: Cost Comparison - Highly Utilized Specialty Medications

MEDIAN DRUG COST/UNIT				
DRUG	**PRIMARY USE**	**MD OFFFICE**	**OUTPATIENT HOSPITAL**	**SPECIALTY PHARMACY**
Avastin	Cancer	$6.21	$13.55	$6.05
Neulasta	Cancer Support	$2,703	$6,281	$3,525
Orencia	Arthritis	$2.11	$4.45	$2.33
Remicade	Arthritis	$6.32	$11.31	$7.24
Rituxan	Cancer	$6.22	$11.59	$6.17
Sandostatin	Multiple Uses	$129	$159	$119
Tysabri	Multiple Sclerosis	$3,156	$3,323	$3,533

Table 2: Administrative Charges for Specialty Medications by Channel

ADMINISTRATIVE COSTS BY CHANNEL			
DRUG	**PRIMARY USE**	**MD OFFFICE**	**OUTPATIENT HOSPITAL**
Avastin	Cancer	$562	$2328
Neulasta	Cancer support	$61	$2455
Remicade	Arthritis	$234	$2407
Gammagard	Multiple	$110	$2414
Zometa	Cancer support	$307	$533
Orencia	Arthritis	$186	$395

Table 3: Inappropriate Use of Specialty Drugs



Source: Artemetrx Integrated Specialty Drug Spend Analyses (MultiSponsor) 2012