Report: ESI Claims Errors, Renewal Offer

Prepared for

The FELRA and UFCW VEBA Fund

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Background Information

Sequence of Events:

- Jan-Feb 2019: claims processing errors discovered
- April 2019: receipt of ESI's root cause analysis
- April – June 2019: validation/review of ESI's findings
- July 12 & 16, 2019: ESI proposed settlement

- The following pages summarize:
  - Size, magnitude of the errors reported by ESI and Confidio (pg. 3)
  - ESI's settlement offer (pg. 4)
  - Open issues and recommendations – (pgs. 5-6)

Summary of Findings: ESI and Confidio

Error #1	Prior Authorization Claims Processed through Mail Order
ESI 4/12/2019 findings	224 claims; $77,096.81 due back to the Fund.
Confidio Findings	1 additional claim; Total Liability: 225 claims/$77,507.72 owed to the Fund

Error #2	Some Preferred Pharmacies Coded as Non-Preferred
ESI 4/12/2019 findings	$8k due back to the Fund; $36K due back to Participants
Confidio Findings	1644 additional claims Total Liability: 26,468 claims/$19,469.10 owed to the Fund/$37,724.03 owed to Participants

Error #3	Claims Processed, Paid at Excluded Pharmacies
ESI 4/12/2019 Findings	34,958 claims / $2.391M due back to the Fund
Confidio Findings*	2532 disputed claims; est $178,500 owed to the Fund Total Liability (est): 37,490 Claims/$2.57M owed to the Fund

*Estimates only; ESI unwilling to research disputed claims prior to settlement offer.

Summary of ESI's Settlement Offer

- Issue #1 – ESI included Confidio's findings in final settlement; full amount credited to 5/2019 invoice.
- Issue #2 – ESI included Confidio's findings in settlement amount; repayment terms TBD.
- Issue #3 – ESI offered compensation for undisputed amount ($2,395,641.32) in 5 quarterly installments
  - Compensation for disputed amounts applied to 2020-2022 renewal, spread across 3 years
    - ESI projected value of enhancements ~ $299K
    - Exceeds Confidio's estimates

Open Issues and Recommendations

- Agreement on settlement **amounts:**
  - Confidio recommends the Fund agree to the amounts owed, plus interest.
- Agreement on repayment **method(s):**
  - If 'credit to invoices' is the preferred method, confirm these amounts will not accrue toward year-end rebate and discount reconciliations.
- Determine how claims for Limited Distribution Drugs (LDD) sole sourced via CVS specialty will be treated:
  1. Adopt strict coverage rules that PBM must administer, or
  2. Review each case as it presents, granting exceptions/overrides prior to dispensing.

Open Issues and Recommendations, cont.

- Decide the fate of ESI’s renewal offer. If the Fund agrees to consider the renewal:
  - Request that ESI front-load $299K into year 1 of deal
  - Require ESI to put more dollars at risk (additional $5 PMPY) for operational PGs
  - Add new PG requiring ESI to track, measure and report accurate administration of network plan design features
- Prior to accepting renewal, confirm that any/all 2020 **credits** to invoices will be exempt from claw back provisions.

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2020-2022 Renewal Offer

Renewal Summary

- Current ESI contract expires Dec 2019
- Three (3) year renewal offer effective Jan 1, 2020 to Dec 31, 2022

Renewal Savings Summary	
3 Year Renewal	$20.9M[1]
2020	$7.1M
2021	$6.3M
2022	$7.5M

- Pages 9-10 provide additional detail on the renewal offer
- Confidio's recommendations are noted on pages

1 Includes value of $1.8M Credit

Savings Projections without $1.8M

	CURRENT CONTRACT PROJECTED for COMPARE				RENEWAL PROJECTED		
	2019	2020	2021	2022	2020	2021	2022
Retail Brand	$18,430,323	$19,812,598	$21,298,543	$22,895,933	$19,316,391	$20,721,213	$22,228,104
Retail Generic	$7,255,889	$7,316,113	$7,316,215	$7,316,215	$6,898,131	$6,793,731	$6,689,234
Retail Specialty	$617,179	$663,468	$713,228	$766,720	$636,068	$683,773	$735,056
Exclusive Specialty	$14,836,294	$15,949,016	$17,145,192	$18,431,081	$15,611,725	$16,782,605	$18,041,300
Dispense Fees	$202,162	$203,611	$203,613	$203,613	$153,200	$153,202	$153,202
Non-Specialty Rebates	$5,175,500	$5,175,500	$5,175,500	$5,175,500	$8,414,700	$9,082,450	$9,750,200
Specialty Rebates	$2,632,550	$2,632,550	$2,632,550	$2,632,550	$3,264,825	$3,519,025	$3,773,225
ANNUAL TOTAL	**$33,533,797**	**$36,136,754**	**$38,868,740**	**$41,805,513**	**$30,935,990**	**$32,533,048**	**$34,323,470**
			ANNUAL $ SAVINGS		**$5,200,765**	**$6,335,693**	**$7,482,042**
			ANNUAL % SAVINGS		**14.4%**	**16.3%**	**17.9%**
			CONTRACT $ / % SAVINGS		**$19,018,500**	**16.3%**	

Analysis is not intended to be used for budgeting purposes; reflects best estimates of the renewal offer value.

Results are not a guarantee of actual performance, due to a number of factors outside the control of Confidio Consulting Services.

Assumptions used in this analysis are noted on pages 13-14

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Features of Renewal Offer

- Three (3) year renewal offer, effective January 1, 2020 – December 31, 2022
- $1.8M applied to January 1, 2020 invoices only
  - Will not count toward 2019 and 2020 reconciliations
- No changes to underlying contract terms
  - Preserved termination rights
  - Mid-contract Market Check – Q'4 2020
- PMF Fund for new term: $10.00 per member, not to exceed $215,000, subject to claw back

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Recommendations

- Renew with ESI for 3-year term
  - With additional ‘asks’, e.g. dollars at risk for PGs
  - Require quarterly tracking, reporting on claims processing/administrative accuracy with semi-annual payout for failure to perform
- Issue an RFP to the marketplace post-Market Check
  - Q’1 or Q’2 of 2021
  - Use interim period to evaluate pro’s and con’s of using a full service PBM vs pharmacy benefits administrator
  - Leverage clinical talent, buying power of Pharmacies to provide DM services

Next Steps, Other Considerations

- Render a decision to renew or replace ESI
- Reconsider EGWP strategy for 2021
- Evaluate cost-benefit of leveraging Pharmacists to provide additional clinical services, using successes of other retail pharmacies as prototype
- Implement a medical-specialty mgt strategy, beginning with a diagnostic
  - Fund spends as much, if not more, in medical outpatient setting for specialty drugs
  - Goal: Better coordination, control over medical spend without imposing limits on patient access.

Financial Methodology Continued

Key methodologies and assumptions:

- Financial analysis is based on FELRA's unaudited paid claims experience for CY2018 reported and provided to Confidio by Express Scripts, Inc.
- Analyzed drug mix was developed utilizing the following databases and/or cross references:
  - Channel source was determined in part based upon a channel indicator contained within the claims experience as well as additional validation of the filling pharmacy's reported Pharmacy Name.
  - Brand/Generic determination was based upon Medi-Span's Multisource indicator
  - Preferred and Non-Preferred pharmacy status was determined via an NPI listing provided to Confidio by Express Scripts, Inc.
  - Traditional and Specialty drug classification was derived by an NDC level Specialty list, for which FELRA is subject to
- Midpoint to midpoint trend methodology was utilized for 2019, 2020, 2021, and 2022 respectively:
  - Brand Cost 7% / 7.5% / 7.5% /7.5% and Generic Utilization 1.14% / 0.83% / 0.0014% / 0%

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Financial Methodology Continued

Key methodologies and assumptions continued:

- The “Current Contract” scenario reflects current contractual discounts, rebates, and dispensing fees
- The “Current Contract” scenarios reflects rebates based on minimum guarantees
- The “Renewal and Benchmark” scenarios reflects proposed discounts and dispensing fees
- The “Renewal and Benchmark” scenarios reflects rebates based on minimum guarantees
- Analysis assumes non-stat drug specialty drugs filled at Accredo
- Analysis does not reflect member cost share
- Analysis does not reflect Express Scripts’ $1.8M invoice credit