Pharmacy Cost Management Options

For

The FELRA and UFCW VEBA Fund

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HERITAGE Rx

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Executive Summary

At the request of the FELRA Fund, Heritage has identified three (3) cost management program options for consideration:

	Program Options	Est. Annual Savings*
1	ESI Advanced Utilization Management (AUM) Program	$2,167,919/7.2%
2	Prescription Care Management (PCM), an independent UM company	$2,115,840 /7.0%
3	ESI specialty copay card program (SaveonSP)	$998,000 /3.3%

- **Option 1** relies on therapeutic interchange/utilization management programs administered by current PBM to achieve savings.
- **Option 2** relies on therapeutic interchange/utilization management to achieve savings; program administered by independent UM company, Prescription Care Management (PCM)**.
- **Option 3** is a Specialty copay card program administered by current PBM, designed to maximize the value of manufacturer copay assistance programs.

A description of each program, along with Heritage's recommendations, are summarized in the following pages.

*Savings estimates provided by ESI & PCM, based on the Fund's 2017 annualized claims cost, net of rebates.
**PCM works successfully with most major PBMs, including ESI.

Option 1: Implement ESI AUM Programs

- The Fund can achieve total annualized savings of $2,167,919, or a 7% reduction from current*, through implementation of these four (4) clinical management programs, administered by ESI.
  - Savings projections are net of program costs, rebate impact
  - Savings estimates submitted by ESI, based on recent 12 months of paid claims data
- A high level description of each program, including member communications and implementation, are included in the Appendix.

Clinical/UM Program	Member Impact	Annual Savings	
		PMPM	Cost
Prior Auth: Humira, Enbrel	476	$1.83	$495,990
Prior Auth: Hep C	42	$2.61	707,611
Drug Qty Mgt: Hep C, Inflam Cond; Pain Narc	248	$2.02	549,327
Step Therapy: Specialty Pref Drug, Biosimilars	128	$1.60	$414991
Total	766	$8.06	$2,167,919

*Based on the Fund's 2017 annual drug costs, net of rebates

Option 2: Contract with PCM

- Who is PCM?
  - Prescription Care Management (PCM) is a 3rd party, independent UM review company
    - Business model is agnostic to any PBM and/or drug manufacturer
  - Flexible, portable UM program that works with most major PBMs
  - Significant experience working with labor groups
- How is PCM different than UM programs offered by PBMs?
  - Prescribers and Participants make the decisions; therapeutic switch is completely voluntary
  - Therapeutic interchange occurs outside of the pharmacy setting, so no disruption at point of sale to pharmacy or Participant
  - Program requires no plan design, formulary changes
  - Therapeutic interchange targets are determined without influence by pharma manufacturers

Option 2: PCM Savings Estimate

Using FELRA's summary level utilization benchmarks, PCM estimated the Fund savings for a 12 month period as follows:

Savings Analysis:

Date Range of Analysis:	**8/1/2016 - 9/30/2017**	**Months: 12**	
Total Claims Processed:	-		
Identified Alternatives:	-	UFCW Employees	22,090
Current Cost:	**$0**		
Proposed Drug Cost:	**$0**		
Maximum Savings for 12 Months:	**$5,880,000**		
Projected Savings (50% to 60%):	**$2,940,000 - $3,528,000**		

Member Participation %	20%	40%	50%	60%	70%	100%
Estimated 12 Month Savings	$1,176,000	$2,352,000	$2,940,000	$3,528,000	$4,116,000	$5,880,000
Estimated Net Savings (Net of fee, rebates, generic launches)	$528,240	$1,586,640	$2,115,840	$2,645,040	$3,174,240	$4,761,840
Return on Investment	100%	299%	399%	499%	599%	898%

Conservative gross cost savings estimates for program Yr 1;

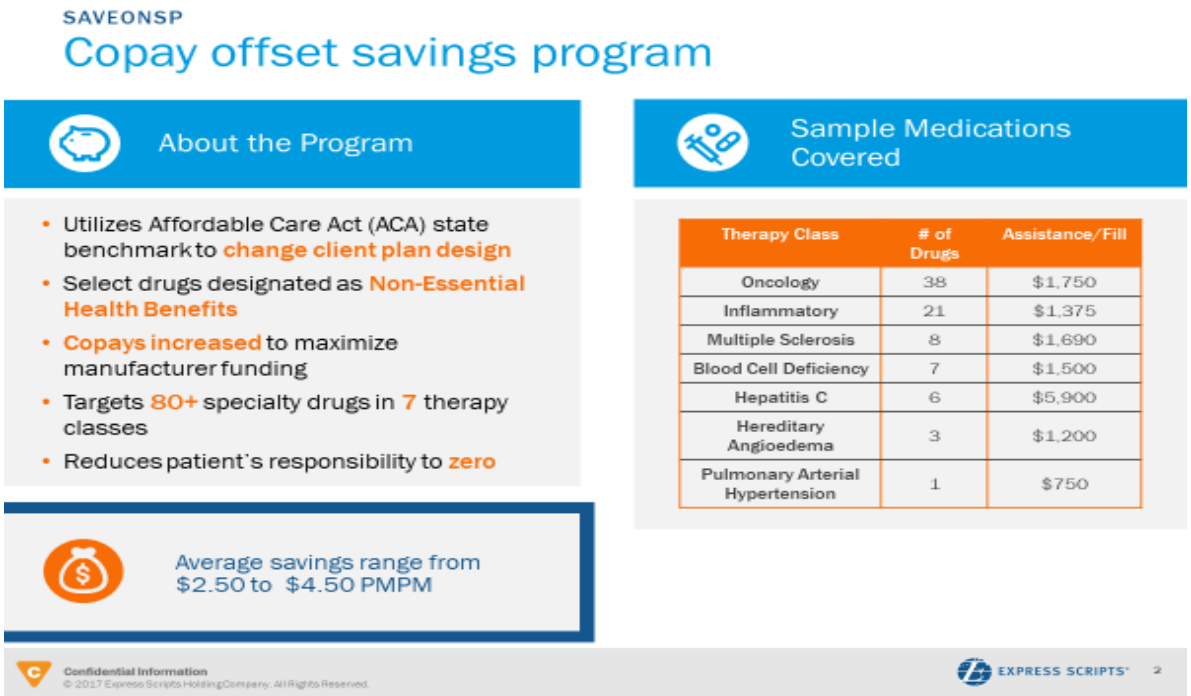
Savings net of estimated rebate loss and admin fees

Estimates are based on summary level client utilization benchmarks.

Source: PCM September 2017 Preliminary Savings Analysis

Option 3: Implement SaveonSP

- SaveonSP is a specialty copay card program, administered by ESI in partnership with SaveonSP, a healthcare marketplace organization
- The program utilizes Affordable Care Act state benchmarks to maximize the value of manufacturer copay assistance programs



SAVEONSP

Copay offset savings program

About the Program

- Utilizes Affordable Care Act (ACA) state benchmark to change client plan design
- Select drugs designated as Non-Essential Health Benefits
- Copays increased to maximize manufacturer funding
- Targets 80+ specialty drugs in 7 therapy classes
- Reduces patient's responsibility to zero

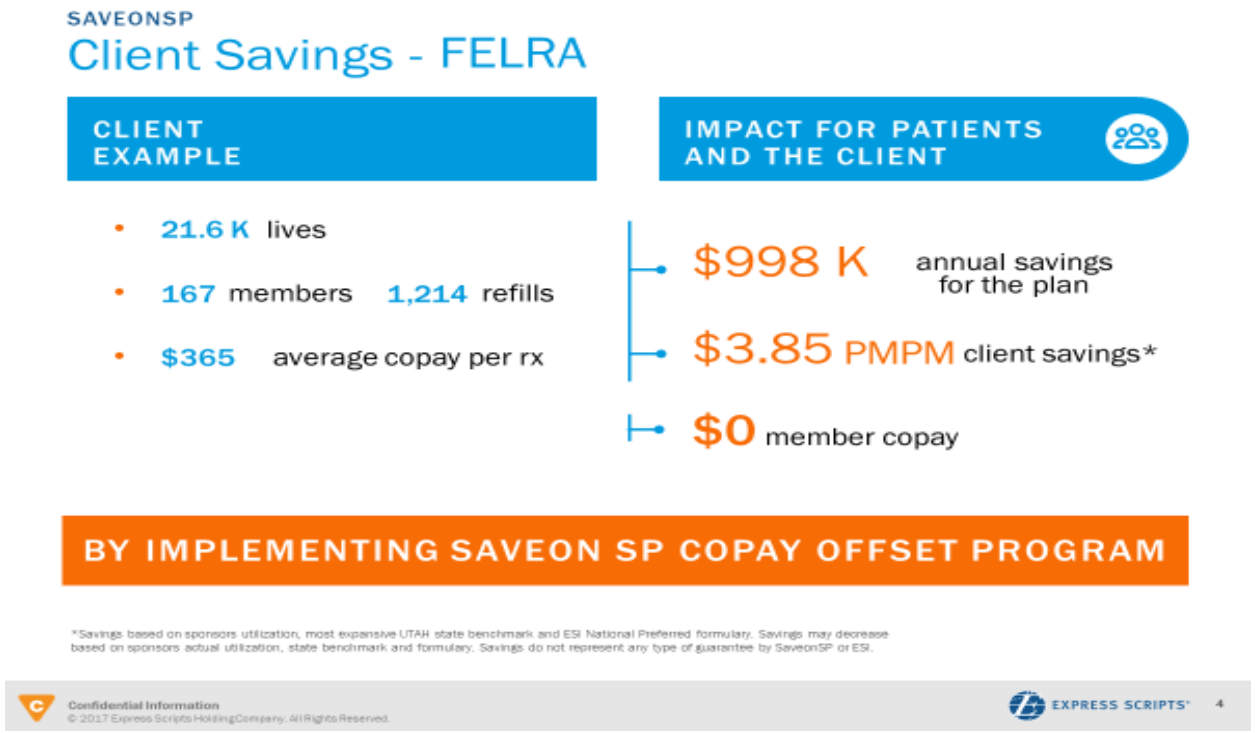
Average savings range from $2.50 to $4.50 PMPM

Sample Medications Covered

Therapy Class	# of Drugs	Assistance/Fill
Oncology	38	$1,750
Inflammatory	21	$1,375
Multiple Sclerosis	8	$1,690
Blood Cell Deficiency	7	$1,500
Hepatitis C	6	$5,900
Hereditary Angioedema	3	$1,200
Pulmonary Arterial Hypertension	1	$750

EXPRESS SCRIPTS 2

Option 3: SaveonSP Savings Estimate



ESI Savings Assumptions

- Savings modeled using Utah requirements; adjustments will be made upon confirmation of FELRA Fund's state filing

High Level Evaluation of Programs

- A comparison of the programs is provided in the table below; ranking assigned by Heritage Rx, based on objective program data and experience.

PROGRAM ATTRIBUTE(S)	ESI AUM PROGRAM	SAVONSP	PCM
Participant Savings	3	4	5
Plan Savings	4	4	5
Transparency	2	4	5
Participant Hassle Factor	2	4	1
Ease of Administration	4	1	4
Return on Investment	3	5	5
Sustainable Savings	3	Unknown*	5

Legend
5=High, Excellent
3= Fair, Moderate
1=Low, Poor

*Programs are funded by individual Pharma Companies ('Manufacturers'); ESI does not guarantee program results or sustainability if Manufacturer(s) discontinue funding.

Recommendations

- Implement Option 1: ESI AUM Package as soon as practicable
- Secure a FELRA–specific savings analysis from PCM
  - Requires recent 12 months of de-identifiable paid claims data
  - PCM will produce a confidential, custom savings report at no charge
  - Report turnaround time is typically 3-5 days following receipt of paid claims data
- Based on Heritage's experience with PCM, we recommend the Fund strongly consider implementing the PCM program, in addition to the ESI AUM Package, based on the following rationale:
  - PCM savings accrue to both the Plan and the Participants
  - Portability of program
  - No plan design changes required
  - Non-invasive approach to facilitating therapeutic interchange
  - **Actual** transparency in methodology used to select medications targeted for intervention
- Additional information regarding the PCM program, including references, available upon request.

Additional Considerations

- Heritage Rx recommends the Fund market its PBM business in anticipation of the 12/31/2019 expiration of the Fund's ESI contract.
- It's prudent for the Fund to issue a Request for Proposal (RFP), leveraging the competitive marketplace to secure the best value in PBM cost and services.
  - Additionally, a pro-active bid solicitation will empower the Fund to make a PBM vendor change prior to 12/31/2019, if deemed necessary or appropriate, in light of pending integration with CIGNA
- Optimally, the Fund's RFP would be sent to the marketplace in Q'4 2018 with the results, including pricing, reported by end of Q'1 2019.
- Expected savings from a competitive bidding process, based on the Fund's current spend and market trends:
  - **annualized savings in the range of $2.5M – $4M**
  - **$7.5M - $12M over the life of a 3-year contract**

APPENDIX

FELRA Fund Key Indicators
2017 Performance

ANNUAL PLAN PERFORMANCE			
Key Indicator	**CY 2017**	**CY 2016**	**Change %**
Gross Cost[1]	$39,174,706	$37,650,293	4.0%
Member Cost	$3,508,851	$3,368,194	4.2%
Plan Cost	$35,665,855	$34,282,099	4.0%
Rebates[2]	$5,583,543	$3,752,840	48.8%
Plan Net Cost[3]	$30,082,312	$30,529,259	-1.5%
Plan Cost PMPM	$136.32	$126.36	7.9%
Plan Net Cost PMPM[3]	$114.98	$112.53	2.2%

2017 FELRA Drug Trend

1 Gross Costs = Ingredient Costs After Discount, Before Member Contribution or Rebates
2 Rebates are an estimate, based on paid and pending amounts for 2017
3 Net Costs = Ingredient Costs Net of Discount, Member Contribution and Rebates

Source: ESI Collaborative Planning Guide, February 2018

Prior Authorization (PA)

- Designed to drive savings and patient safety by monitoring the dispensing of:
  - Targeted, high-cost medications
  - Medications with the highest potential for inappropriate use
  - Offers PA review services 24 hours a day
  - Gives physicians and pharmacists quick, easy access to PA information

The average PA program saves $400 per intervention annually

Source: ESI 2017 Clinical Recommendations Report

Drug Quantity Management (DQM)

- Aligns the dispensed quantity of prescription medication with FDA-approved dosage guidelines
- Ensures that the most cost-effective product strength is dispensed
- Helps reduce waste in the pharmacy benefit

DQM provides a minimum return on investment of 3:1

Source: ESI 2017 Clinical Recommendations Report

Step Therapy

Step therapy reduces waste by promoting the use of generics

Chemical equivalence

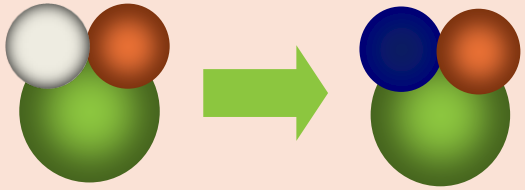
Two drugs with active ingredients that are identical at the molecular level

Ambien® zolpidem

Occurs 95%+ of the time with little intervention

Therapeutic equivalence

Two drugs with active ingredients that are similar at the clinical level



Lunesta® zolpidem

Occurs infrequently without intervention

Source: ESI 2017 Clinical Recommendations Report

Preferred Specialty Management

- PBM strategy for reigning in inflation; drives improved discounts
- Manages specialty in a comparable manner to Traditional (non-specialty)

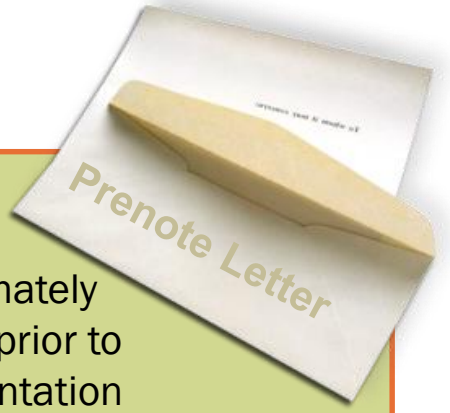
Diabetes (Traditional)	**Multiple Sclerosis** (Specialty)
▪ 1 in 12 members ▪ $13,000 annual cost per treated member ▪ Oral and injectable therapy	▪ 1 in 1,000 members ▪ $34,000 annual cost per treated member ▪ Oral and injectable therapy

Source: ESI 2017 Clinical Recommendations Report

ESI AUM Program – How it Works

Pre-Notification Letters

- **Coverage Authorization Pre-Notification**
  (Prior Authorization, Drug Quantity Management)
- **Preferred Step Therapy Pre-Notification**
  (Implementation of step edits without grandfathering)



- ✓ Approximately 30 days prior to implementation
- ✓ Bi-weekly mailing schedule
- ✓ Customization available – *fees may apply*

Step Therapy Rapid Response

- **Letters to members with dropped claim after Step Therapy reject at retail or mail**

- ✓ Program sends both member and physician letters
- ✓ Letters provide Step 1 alternatives and explain the Step Therapy process

Source: ESI 2017 Clinical Recommendations Report

AUM Implementation Timeline

- Approved addendum provided to account team for implementation
- Letters sent to impacted members
- Program edits begin
- Step Therapy Rapid Response letters are sent to members and physicians as needed

Source: ESI 2017 Clinical Recommendations Report

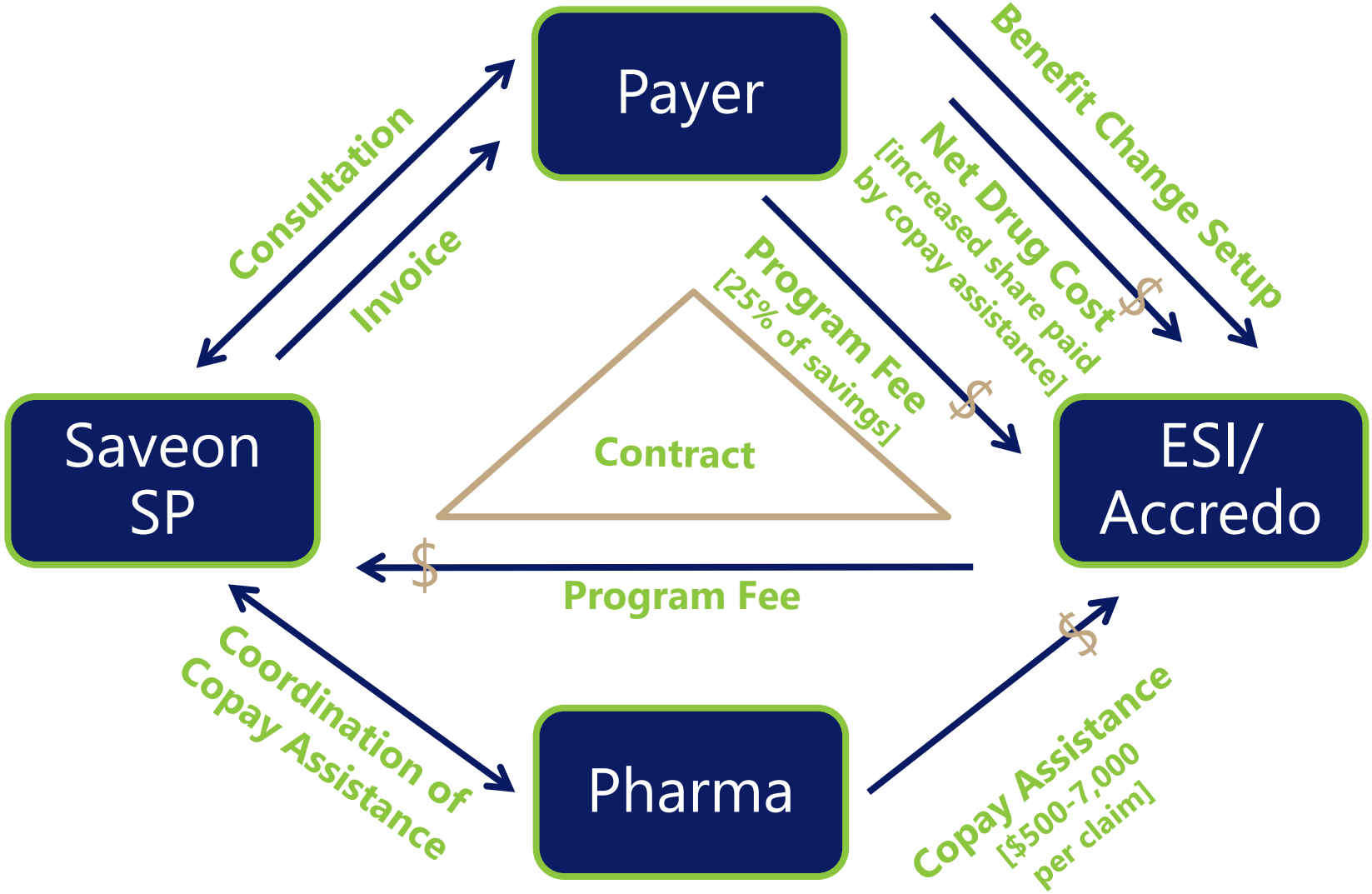
PCM – How it Works

- PCM is an independent claims review company; consequently, the contract is between the Plan and PCM
  - PCM works directly with existing PBM to operationalize the program
  - Monthly paid claims data provided to PCM by PBM
  - PCM serves as Fiduciary, acting in client's best interest
- PCM Revenue stream based on admin fees
  - ROI on all admin fees, backed 100% dollar for dollar
- The program primarily focuses on helping doctors prescribe the most cost-effective medication alternatives, then works with the Participant to facilitate the interchange
- PCM's proprietary 'Alternative Prescription System' identifies cost savings opportunities for the Plan and Participants, with full transparency
- Very limited program/administrative oversight required by the Fund

PCM – How It Works

- No plan design changes required – PCM works with existing benefit plan designs and PBM's formulary
- PCM receives monthly paid claims and eligibility files, typically from the PBM
  - Conducts a retrospective claims review to identify savings opportunities (therapeutic alternatives)
  - PCM contacts physician to facilitate therapeutic interchange to preferred medication; once approved by MD, PCM completes outreach to participant
- Program is completely voluntary; no penalty to participants that decline participation
- Pharmacy techs and licensed pharmacists make outbound calls to prescribers, participants.
- Currently works with most major PBMs (including ESI)

High Level SaveonSP Program Overview



Source: ESI SaveonSP Report 2018

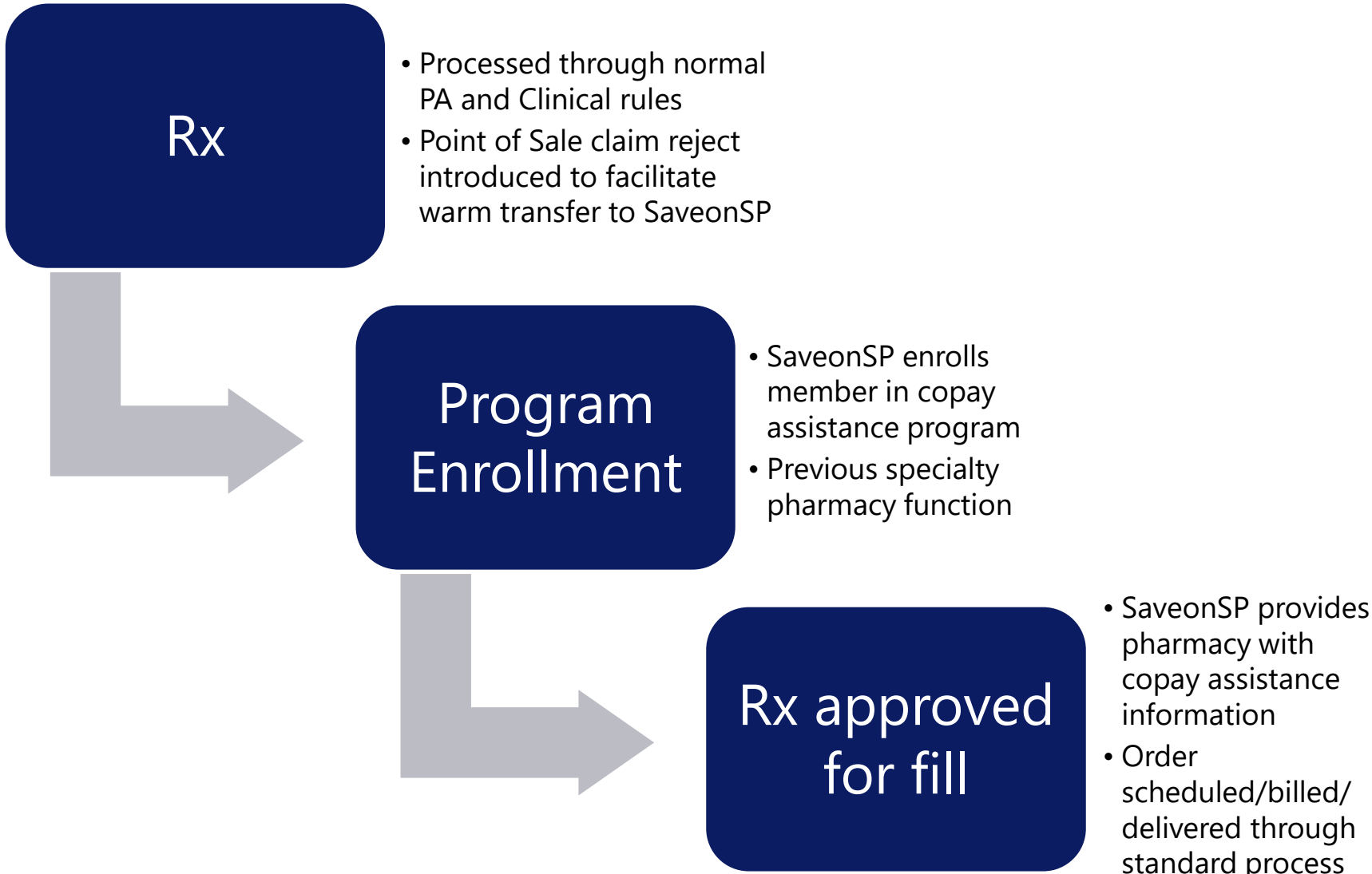
SaveonSP – Program Basis

- SaveonSP uses the definition of "Essential Health Benefits" (EHB) as the basis of the program
  - Plan Sponsors are required to provide a minimum number of drugs in a class as directed by the State Benchmark chosen in 2012
    - SaveonSP reviews the State Benchmark EHB requirements to the ESI formulary to determine the minimum number of "essential" products in each class
      - Other products are then designated "non-essential"
    - "Non-essential" products are not subject to ACA requirements or out-of-pocket benefits
    - This distinction is important as many manufacturers provide copay assistance funding in excess of out-of-pocket maximum limits
- Copays are also increased to the maximum amount funded by the copay assistance programs

SaveonSP – Program Requirements

- The Fund must agree to contract with SaveonSP to change benefits accordingly
  - Includes SaveonSP fee for administering program (25% shared savings)
- The Plan needs to expressly document the benefit design in their Summary Plan Description (SPD)
  - Sample language will be provided by SaveonSP
- Plan must be exclusive Accredo, with no other pharmacies in network and zero grace fills

Patient Experience



Invoicing Process

- SaveonSP contract establishes pre-implementation average copay
- Once implemented, client receives 100% of savings at Point of Sale
- SaveonSP receives claim files from ESI
- SaveonSP analyzes claim files and builds reports every 4 weeks
- Based on SaveonSP reports, ESI invoices client monthly on their administrative fee invoice
  - ESI provides claims-level backup documentation
- Client reviews and pays ESI, as outlined in the contract

Source: ESI SaveonSP Report 2018

Patient Experience at Implementation

Existing Patient

1. Patient identified through claims history prior to go-live
2. SaveonSP Customer Service (CS) reaches out to educate patient
3. SaveonSP CS and patient call manufacturer together to enroll
4. SaveonSP CS notifies pharmacy of secondary billing information
5. Accredo adjudicates claim and patient receives drug at no cost

New Patient *(or one who has not enrolled prior to implementation)*

1. Physician/patient sends Rx to Accredo
2. Accredo processes claim; claim is stopped by indication and member needs to speak with SaveonSP
3. Accredo calls member and warm transfers to SaveonSP CS
4. Go through steps 3-5 above

Source: ESI SaveonSP Report 2018