Presentation for the
FELRA & UFCW VEBA FUND

September 24, 2018

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Contents

I.	2019 Formulary Changes	pages 3-6
II.	Strategic Sourcing - PBM Contract	pages 7-11
III.	Recommendations	page 12

2019 Formulary Changes

Overview of 2019 Formulary Changes

- Consistent with the PBM industry, ESI's 2019 Formulary changes consist of the addition of new drugs and the exclusion of select drugs.

2019 ESI National Preferred Formulary (NPF) Status Changes

- 48 new drug exclusions
- 22 drugs moving from preferred to non-preferred
- 2 drugs moving from non-preferred to preferred
- 2 drugs moving from excluded to preferred

Formulary Disruption Analysis - Fund-Specific[1]

At a glance:

- No changes for 12,066 unique patients
- Positive changes for 7 unique patients
- Exclusions affecting 93 unique patients

Detail

2018 to 2019 Formulary Status Changes	# of Unique Participants Impacted
Preferred to Non-Preferred	88
Non-Preferred to Preferred	7
Covered[2] to Excluded	93

[1] Based on the Fund's 6-1-2018 to 9-14-2018 paid claims data/maintenance medication utilization.

[2] 2018 formulary status = Preferred and/or Non-Preferred

Minimizing Disruption

ESI communication strategy for managing formulary changes.

Source: Express Scripts September 2018

Strategic Sourcing for Contract Term Effective January 2020

Background Information

- The Fund’s current PBM contract expires December 31, 2019:
  - Contract includes option to renew and/or extend the current agreement.
- The Fund’s most recent competitive bid for PBM services was in 2014.
- Market Check completed in 2016:
  - Yielded savings of 9%, conditioned upon extending the contract by 1 year.
  - New pricing applied 3/1/2017 – 12/31/2019.
- Subsequent to these events, the marketplace has shifted considerably:
  - Vertical integration between PBMs and Healthplans will be disruptive.
  - Pricing has become fiercely competitive, with specialty drug pricing and rebates driving the most value.
- Historically, PBM competitive bidding yielded significant improvements to pricing, coupled with material improvements in the underlying contract terms. By comparison, renewals are typically limited to rate relief:
  - 10% to 18% or greater cost savings expected from competitive bidding.
  - 5% or less cost savings expected from a renewal.

Strategic Advantages of Competitive Bidding

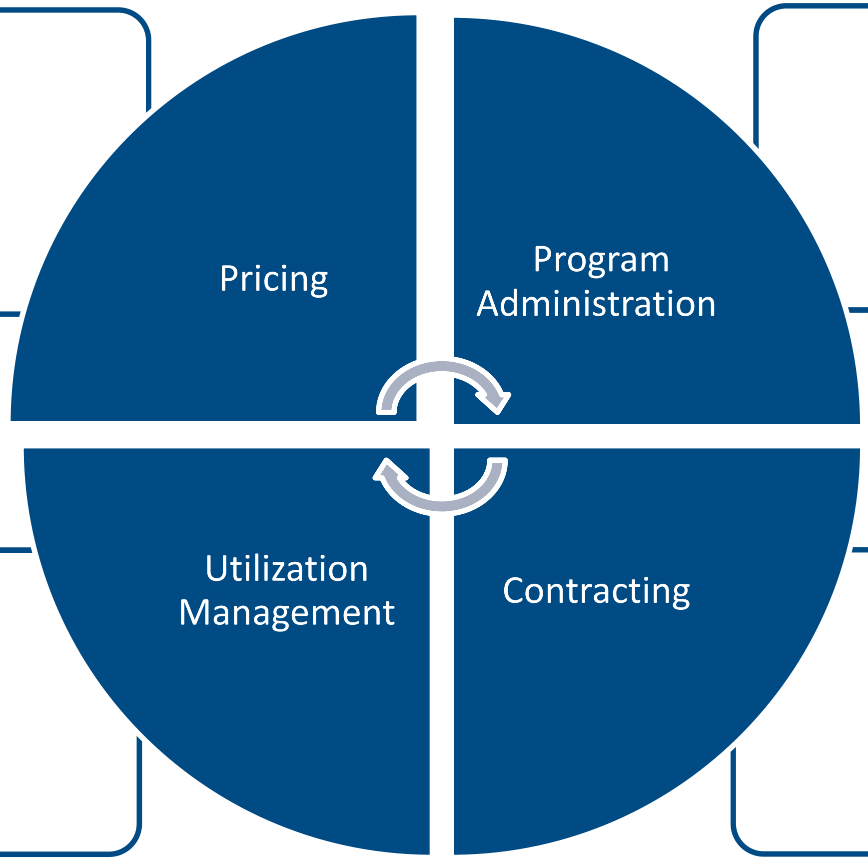
- ✓ Secure best value pricing and contract terms.
- ✓ Optimize alignment between the Fund and the PBM.
- ✓ Negotiate contract based on current and future pharmacy management needs.
- ✓ Leverage best thinking from the marketplace.
- ✓ Expand specialty pharmacy management beyond that offered by PBMs to include management of specialty drugs paid under the medical benefit[1].
- ✓ Identify providers willing to offer flexible options for pricing, formulary management and provider networks.

[1] 50% to 60% of a plan's *total specialty drug spend* is incurred under the medical benefit.

Alternatives to Current PBM Model

- Cost plus between Participating Pharmacies and PBM
- Reference Base Pricing
- Risk sharing with PBM

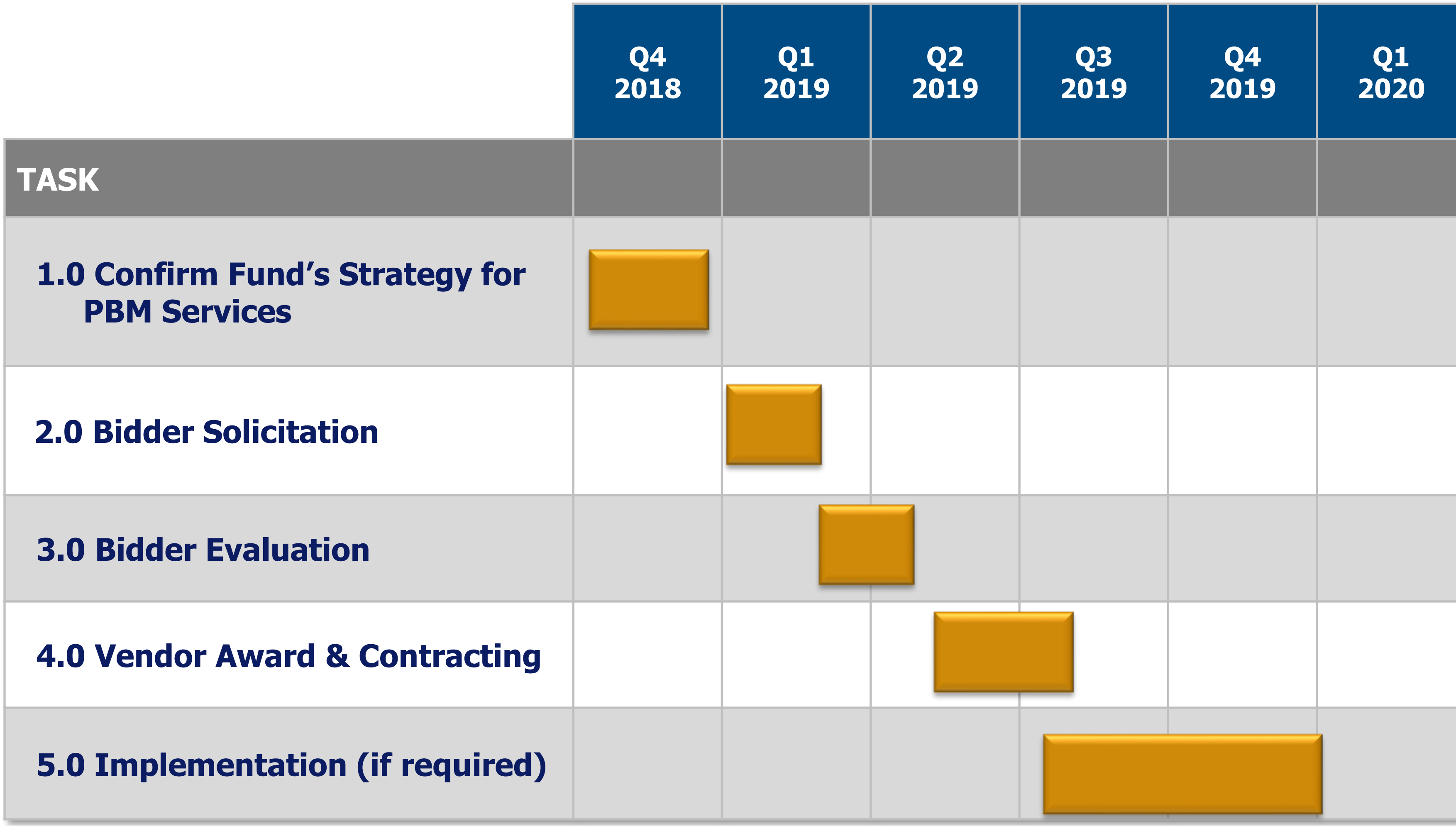
- Carve-out specialty providers
- Integrated medical/Rx providers
- Exclusive retail network contracts that reduce/eliminate spread earned by PBM.



- Formularies less reliant on rebates
- Generics, low cost brands selected as first line option in Step Therapy, Prior Auth.

- Collective purchasing.
- Value-based Contracts.
- Leverage class of trade unique to Retail Pharmacies.

Illustrative Timeline



Recommendations

- Accept 2019 Formulary changes without modification, and require ESI to administer a targeted communications strategy.
- Issue an RFP for PBM services effective January 2020.

  Alternatively, request ESI renewal with a July 2019 effective date and the flexibility to negotiate contract improvements consistent with the competitive marketplace.
- Evaluate alternative provider and pricing models e.g. collective purchasing, specialty carve-out, integrated medical/pharmacy management, for future contracts.

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