FELRA & UFCW HEALTH AND WELFARE

Prepared by Nancy Eid

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PROJECT STATUS REPORT May – June 2014
SAVINGS ANALYSIS - PRELIMINARY

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SECTION 1: Heritage Rx Updated Project Plan

THE FOLLOWING DOCUMENT INCLUDES THE ORIGINAL SCOPE OF WORK ACCDEPTED BY THE FUND IN MAY, 2014 AND SUBSEQUENT ANALYSES REQUESTED BY THE FUND.

Task	*FELRA FUND PROJECT PLAN 2014*	*Start*	*Est. End*	*% Complete*	*Comments*
I.	INTEGRATED MEDICAL / PHARMACY SPECIALTY STUDY	DEFERRED	12/31/2014		Analysis pended until completion of RBP and market RFP
II.	REQUEST FOR PROPOSAL (RFP) - PBM Services 2015-2017	5/31/14	01/01/15	5%	In Progress
1.0	**Project Strategy**	**05/31/14**	**06/20/14**		
1.1	Scope pharmacy benefits management strategy	06/05/14	06/19/14	80%	
	Mandatory & Minimum PBM Bidder Requirements				
	Confirm evaluation and selection criteria				
	Define pricing models, performance and operational guarantees				
1.2	Develop proposed pharmacy benefits manager (PBM) Bidder list	06/09/14	06/19/14	100%	See Appendix A
1.3	Develop Bidder Scorecard customized to FELRA Fund PBM Selection Criteria	06/09/14	06/19/14	75%	
1.4	Review PBM Strategy, Bid List, Selection Criteria/Scorecard with Trustees	n/a	06/20/14	50%	
1.5	Send 'intent to bid' notice to ESI	n/a	06/20/14	50%	
2.0	**Data Collection**	**6/09/14**	**06/20/14**		
2.1	Data request (ESI): de-identifiable paid claims history - 6/30/2012 - YTD		05/31/14	100%	
2.2	PBM Services Agreements (Initial Term; Addendum)		05/31/14	100%	
2.3	Paid claims data uploaded to secure SFTP site	06/09/14	06/18/14	25%	Secure SFTP site info sent to ESI 6/5/2014
3.0	**Custom RFP Development**	**06/04/14**	**06/20/14**		
3.1	Prepare customized RFP Draft 1.0	06/12/14	06/23/14	25%	
	Utilization Hx, Benefits Grids, Plan Design, Formulary or Reference Pricing			0%	

Task	FELRA FUND PROJECT PLAN 2014	Start	Est. End	% Complete	Comments
	Pricing Exhibits			0%	
3.2	Submit RFP Draft to the Fund for review, approval		06/24/14	0%	
4.0	**Release RFP to Market**	**06/24/14**	**07/18/14**		
4.1	RFP sent to Bidders		06/25/14	0%	
4.2	Intent to Bid and NDA due		06/27/14	0%	
4.3	Bidder questions/answer period	06/25/14	07/03/14	0%	
4.4	Proposals due from Bidders		07/09/14	0%	
5.0	**RFP Analysis**	**07/10/14**	**07/25/14**		
5.1	Initial validation of proposal responses	07/10/14	07/11/14	0%	
5.2	One hour vendor calls to address gaps, ambiguity or incomplete responses	07/11/14	07/14/14	0%	
5.3	Follow up response due from vendors		07/18/14	0%	
5.4	Comprehensive financial, qualitative analysis and Bidder scoring	07/18/14	07/23/14	0%	
5.5	RFP Results Report submitted to the Fund		07/25/14	0%	
5.6	Present RFP Results, Recommendations &Bidder Negotiation Strategy		TBD	0%	
6.0	**Finalist Meetings (2 + incumbent)**	**7/25/14**	**08/08/14**		
6.1	Finalist Meeting Agenda sent to vendors		07/30/14	0%	
6.2	Vendor prep calls (1 hour per vendor)	07/31/14	08/01/14	0%	
6.3	Finalist Meetings (2 + incumbent)	08/07/14	08/08/14	0%	
6.4	Post finalist follow up & BAFO request	08/11/14	08/15/14	0%	
6.5	BAFO Analysis (3 year trended program costs; final Scorecard)	08/18/14	08/22/14	0%	
6.6	PBM Final Report and Recommendations submitted to the Fund		08/25/14	0%	
7.0	**Vendor Selection & Contract Negotiations**	**09/02/14**	**10/10/14**		
7.1	Notice sent to winning Bidder		09/02/14	0%	
7.2	Implementation Project Plan confirmed with winning Bidder (if required)	09/03/14	09/05/14	0%	
7.3	PBM prepares contract Draft 1.0 (RFP responses)	09/02/14	09/08/14	0%	
7.4	Draft 1.0 redline; verify consistency w/RFP terms, pricing, service guarantees	09/08/14	09/11/14	0%	
7.5	Conference call (PBM, Co-Counsel, FELRA) to review Draft 1.0 edits		09/15/14	0%	
7.6	Draft 2.0 prepared, sent to Co-Counsel, FELRA		09/19/14	0%	

Task	FELRA FUND PROJECT PLAN 2014	Start	Est. End	% Complete	Comments
7.7	Final contract review, negotiation with PBM, Co-Counsel, FELRA	09/22/14	09/26/14	0%	
7.8	Final executable contract sent to Co-Counsel for Fund signature		10/10/14	0%	
8.0	**Implementation Kickoff Meeting (if required)**	**N/A**	**09/22/14**		
8.1	Implementation Scope, Attendees & Location TBD			0%	
9.0	**Go-Live Date**		**01/01/15**		
III.	**CHECKRx ANALYSIS**	**10/1/14**	**TBD**	**0%**	**Measure ESI Q'3 & Q'4 financial performance vs. guarantee; reconcile in <30 days**
IV.	**PROGRAM EVALUATION | SAVINGS ANALYSIS**	**05/03/14**	**09/14**	**60%**	
10.0	Out of Pocket Maximum		06/02/14	100%	
10.1	Confirm ESI program capabilities, admin charges, OOP tracking of specialty		06/02/14	100%	
11.1	Pharmacy Vaccine Administration		06/16/14	100%	
11.2	Obtain updated vaccine list for 2013		06/16/14	100%	
11.3	Compare medical vs pharmacy cost to administer preventive vaccines		06/16/14	100%	
11.4	Fraud, Waste & Abuse Program		06/16/14	100%	
11.5	Update savings with 2013 data; criteria, administration, costs and ROI		06/16/14	100%	
12.0	Compound Drug Exclusion Program		06/16/14	100%	
12.1	Review program criteria, administration, costs and ROI		6/16/14	100%	
12.2	Confirm program compliance with FELRA Plan Documents (requirement - FDA approved medications)		6/16/14	80%	
13.0	DUR Programs		6/16/14	100%	
13.1	Step Therapy, PA Program Analysis		06/17/14	100%	
13.2	Review bundled, unbundled options		06/17/14	100%	
14.0	Custom Formulary Analysis	6/2/14	6/20/14	90%	
14.1.	Analyze cost/impact/ROI of 2 custom formulary options			80%	Sent request #2 for revised member disruption; initial projections appear significantly overstated, includes acute meds
	High Performance Formulary with disruption			80%	
	National Preferred Formulary with disruption			80%	
15.0	Reference Pricing Analysis	5/31/14	7/11/14	20%	

Task	FELRA FUND PROJECT PLAN 2014	Start	Est. End	% Complete	Comments
15.1	Intro call with Safeway Health				
15.2	Program due diligence - pricing, administration, costs, implementation	6/4/14	6/25/14	50%	Forms included in Appendix B
15.3	Execute NDAs and BAA (Fund & Safeway; Heritage & Safeway; Medco 3-way)	6/20/14	6/27/14	10%	NDA included in Appendix B
15.4	Complete data request (manual) for required categories other than claims hx	6/19/14	6/27/14	40%	
15.5	Safeway custom analysis completed; results submitted with drug/dose detail on opportunity, savings, risks and opportunity.	6/27/14	7/11/14		
15.6	Results and recommendations presented to the Fund		7/15/14		
17.0	**Program Implementation (Program Selection TBD by Fund)**	**10/1/14**	**12/31/14**		

SECTION 2: RxTE® Market Priced Drug Program

The Fund expressed interest in Reference Base Pricing as a cost and program management strategy.

Heritage is working directly with Safeway to identify the data requirements and approvals needed to exchange information and jump start the analysis. Heritage also sent an informal Request for Information to Safeway which included a garden variety of operations, contract, service and financial questions specific to their products and services. A copy of this is included in Appendix B.

Additional background information on Safeway's programs, services, fees and administrative approach are included in Appendix B. Safeway's NDA, boilerplate contract and confidential business terms were provided; these will be forwarded under separate cover to the attention of Mr. Bill Jensen.

Call to Action

1. An executed NDA and confidentiality agreement must be completed prior to Safeway receiving claims data and/or proceeding with the analysis. Parties to these agreements include:
    - The Fund; ESI and the Fund's consultant designees.
    - PBM and DestinationRx
    - Obtain Data Sets for Analysis

    [Accountable parties include Fund Co-Counsel; Associated; Safeway; ESI & Heritage]
2. A secure paid claims file containing the most recent 12 months of data is required. Heritage may be able to facilitate an expedited transfer of data with proper authorizations from the Fund and ESI.
    [Heritage, Associated]
3. Obtain ESI's MAC or Pricing File, Formulary File, the Fund's General Plan Information. **ESI will likely resist the request for MAC pricing; Heritage is working with Safeway on alternative sources of MAC pricing applied to the Fund's claims.**
    [Safeway, Heritage]
4. Upload Data and Perform Analysis. Upon receipt of useable data, the analysis will be completed in approximately 2 weeks.
    [Safeway]

RxTE® Implementation Timeline

Phase I – Analysis and Program Recommendation

2 Weeks – PBM Business Requirements – Pharmacy Claim History Procurement & Upload – Data Analysis – Development of Therapeutic Category Recommendations – Finalize Program Structure for Year One

Phase II – Program Planning and Testing

4 Weeks – RXTE Configuration – Exception Process – Medicine Cabinet Web Development – Initialize Communications Plan & Training – Implement & Test Production Files

Phase III – Program Launch

Go Live - Medicine Cabinet Member Support Tool – Open Refill, Prior Authorization and Claims History production file – Implement Exception Process and initiate communications – Hold onsite program training for Human Resource Staff – Open Enrollment Support – Call Center Scripting

Phase IV – Program Launch Support

RXTE management and monitoring – Q & A support – Program implementation assessment – Post implementation audit of claim accuracy

Additional Requirements

Physician Requested Program Exemptions: The treating physician will complete the Market Priced Drug (MPD) Exception Form and submit it to the PBM via fax or mail. The PBM will make a determination to approve or deny the exception.

Clinical Appeals: Appeals are typically handled through the PBM's existing protocols

Interaction with other Clinical Programs: During the pre-implementation discovery process, an assessment of any additional clinical programs will be performed to determine if additional protocols are required.

Ongoing Data Exchange: Daily claims file to update the employee's personal member portal (medicine cabinet).

Network Pricing File (quarterly): Electronic file detailing negotiated rates for retail, mail, and specialty pharmacies to be incorporated into member's personal portal.

Note: In the event the Fund adopts a Reference Pricing module, a vendor change away from ESI will most likely be required.

Section 3: ESI Clinical and DUR Program Analysis and Recommendations

In May 2014 ESI presented a package of clinical and DUR programs to the Trustees, which were analyzed by Heritage, per the Fund's request.

Heritage's program evaluation included review of the program objectives, methodology used to calculate savings and report outcomes; cause and effect of the intervention (incremental change directly attributable to program interventions vs a regression to the mean or naturally occurring events); program costs, risks and return on investment; sustainability of program intervention and savings.

Programs Evaluated and Recommended for Implementation

Program	Annual Savings[1] Estimate[2]	Implementation Date
Compound Drug Management	$760,000	30 days or less
Fraud, Waste & Abuse Program	$162,045	30 days or less
Vaccines – Preventive Care Pharmacy Administration	~ 20% less per Vaccine at pharmacy vs medical	January 1, 2015
OOP MAX – Pharmacy	PPACA ComplianceProgram consistent with industry best practices	January 1, 2015
PPI Exclusions w/medical necessity exception criteria	TBD	TBD
Cox II Step Therapy Program	TBD	TBD
Ability Prior Authorization and QLL	TBD	TBD

[1] Red Font indicates savings are indicative of measurable hard dollar resulting from the intervention. All other savings reported herein are inclusive of hard dollar and inferred medical savings.

[2] Savings estimates based on unaudited paid claims data 2013

Heritage analyzed the Advanced Utilization Management modules in an attempt to validate some or all of the $4M savings projections included in ESI's review. Based on the data reviewed, it appears these programs would be in conflict with initiatives such as RBP or a high performance formulary. Heritage is recommending the Fund pend further consideration of the Unlimited DUR Package or the Level System based on the following:

- Programs are bundled, limiting the Fund's ability to opt out of lower value, high disruption components without costly offset in admin fees.
- Step Therapy modules included in Levels 2 and 3 include MSB or Brands as preferred front line agents in lieu of the generics with a value proposition of higher rebates vs. stepping first to best value, low cost medication options. Empirical data suggests that long term, net costs increase for both the Plan and participants as a result of inflation, negative rebate values at generic launch and rigid utilization of MSBs.
- Practically speaking, savings realized from increased rebates are rarely sustainable. The lifespan of rebated products has materially decreased in the past 2 years, primarily as a result of new rebating strategies negotiated between pharma and PBMs designed to yield high rebates in exchange for competitor product exclusion. These high yield rebate contracts seldom retain value after 12-18 months.
- Grandfathering can be used to mitigate member disruption, but will offset and delay actual savings.
- Equal or greater savings can be achieved using Reference Pricing and/or generics based formulary; the latter options historically yield higher net savings sustained over the life of the prescription therapy.

Advanced Utilization Management

Background Information:
These programs use a Building Block approach to cost management that aggregates medications into lists and packages based on therapeutic indications and member impact. Each level contains a combination of Step Therapy, Prior Authorization and Quantity Management Programs designed around a common therapy or condition.

Savings improve commensurate with each level; however, the level of disruption materially increases with each successive level and administrative costs are proportionally higher per program.

The lowest, or limited level, has the least member disruption, lowest administrative charges and lower achievable savings; Level 3 includes the highest per-program fees, generally greater member disruption and yields the greatest estimated savings. Estimated Total Savings from Unlimited DUR (all programs, levels approach $2M annually.

Limited UM Package	Delivers plan savings through medication classes with minimal member utilization and/or impact.
Advantage UM Package	Targets specialty and non-specialty medications used to treat chronic disease states.
Advantage Plus UM Package	Targets medications that historically have been undermanaged. Savings result from use of a more cost effective drug; drug selection and the amount of drug used.

*Savings calculated using the Fund's 2013 unaudited paid claims data

Section 4: Custom Formulary Analysis

Maximum savings are achievable through adoption of a highly managed, closed or custom formulary. Increasingly plan sponsors are implementing these tools as a means to save cost and preserve the value of the benefit. Present day closed formularies share few characteristics with the draconian, inflexible closed formularies used by early adopters in the HMO and managed care environments. Within a recent 3 year period, membership in custom or closed formularies doubled, with commercial employers comprising a large percentage of the increase.

Implementation of a closed or managed formulary can be done prior to installation of a future reference based pricing module.

SAVINGS ANALYSIS - NATIONAL PREFERRED FORMULARY CLOSED			
	Retail	**Specialty**	**Total**
Plan Cost Savings:	$4,104,363	$224,093	$4,328,456
Percent Savings:	13.6%	5.8%	12.7%
Rebate Impact	($2,131,649)	($20,571)	($2,152,220)
Net Savings	$1,972,714	$203,522	$2,176,236
Net Percent Savings:	**6.5%**	**5.3%**	**6.4%**

Assumptions:

- Formulary is as of 05/01/2014
- 12 months of data starting May 2013 through April 2014
- Gross Cost = Discounted AWP + Dispense Fee
- Plan Cost = Ingredient Cost + Dispense Fee - Member Copay
- Does not take into account any deductibles, max out of pocket or plan stop loss expenses
- Switch Rate = Percent of non-preferred prescriptions to be switched to preferred drugs or generics.
- Drop Rate = Percent of non-preferred prescriptions to be dropped or in the case of a closed formulary, filled at 100% copay.
- 30% switch rate to generics, 45% switch rate to formulary brands, and 10% drop rate applied
- The above estimates are projections of potential performance based on information available at the time the document was generated and do not constitute a guarantee of results. Actual results may vary based on a number of factors.2013/2014 Patent Expirations removed from formulary savings

SAVINGS ANALYSIS - HIGH PERFORMANCE FORMULARY CLOSED			
	Retail	Specialty	Total
Plan Cost Savings:	$4,104,363	$224,093	$4,328,456
Percent Savings:	13.6%	5.8%	12.7%
Rebate Impact	($2,131,649)	($20,571)	**($2,152,220)**
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Appendix A – Bidders Recommended for RFP Solicitation

Recommended Bidder List - Prescription Benefit Managers (PBM)					
	CATAMARAN	CVS/CAREMARK	ENVISION Rx OPTIONS	EXPRESS SCRIPTS	NAVITUS
COMPANY PROFILEs					
YEAR FOUNDED	2003	1982	2001	1986	2007
OWNERSHIP	Public - SXC Corporation	Public - CVS Corporation	Private - TPG	Public - Express Scripts Holding Co.	Private - Dean Health Care
HEADQUARTERS	Lisle, Illinois	Woonsocket, Rhode Island	Twinsburg, Ohio	St. Louis, Missouri	Madison, Wisconsin
MEMBERS	30M	60M	13M	100M	2.4M
TARGET MARKETS	State employee plans, FFS Medicaid, Taft-Hartley, Labor, TPAs	MCOs, GPOs, public sector and commercial employer plans, MedD	Taft-Hartley, Labor, city and state government plans	Major presence in all markets	States and municipalities, HMOs, Labor
MARQUEE CLIENTS	CIGNA Health Plan | Target Corporation | Georgia EE Plans | Georgia Medicaid	BCBSA-FEP | IBM | Lilly | Blackstone | Kellogg's | CalPERS | BCBS CareFirst	UFCW Atlanta | State of Alaska | Costco Wholesale Corp | Sheet Metal Workers No. 33	Tri-Care | WellPoint | Anthem | UPS | Boeing | US Postal Workers | BCBS of Michigan	Dean Health | State of Wisconsin | State of Minnesota | Vanderbilt University
STRENGTHS	Nimble IT systems, buying power with manufacturers & retail pharmacies	Retail-based DM, compliance and integrated healthcare programs	Simplified claims admin; Reference Base Pricing experience	Dynamic suite of clinical, DUR, trend management programs; Therapeutic Resource Centers	Retail-friendly management; agnostic distribution channel management

	CATAMARAN	CVS/CAREMARK	ENVISION Rx OPTIONS	EXPRESS SCRIPTS	NAVITUS
CHALLENGES	Inconsistent service; steady churn of account management, sales & service leadership	Integrated healthcare programs built around CVS retail channel; MedD service issues	None identified at this time	Unstable corporate culture & service levels; account turnover, large caseloads	Limited suite of trend programs; small scale operations & talent pool

APPENDIX B – Safeway Health Information

Reference Base Pricing (RBP) Analysis Request for Information

1. Data required for analysis (claims, formulary, plan design, confidentiality agreements, etc.)

See the following attachments:

a. RX plan data request_062014.doc

b. RxTE Claims History Request.doc

c. Client NDA 2014.doc

We do not require that the data be in these specific formats, they are provided as a guide. We can typically work with any type of history file, and will let you know if we are missing any variables that are key to our analysis.

2. Turnaround time for analysis

Approximately two weeks.

3. Number of options analyzed

Our program targets chronic medications in 92 therapeutic categories, however, the majority of the plan spend is captured in 62 therapeutic categories or less. Our algorithm identifies lower cost alternatives at the drug/dose level, maximizing savings.

4. How are results reported, e.g. detail; summary level

We provide a detailed report of the savings opportunity under our program. See attachment, MPD reporting example.xls. Data is provided both in aggregate and drug dose level detail.

5. Cost for completing the analysis.

There is no cost for our analysis.

RBP Program Implementation

6. Standard timeline for implementing RBP

See attachment, RxTE Implementation Overview.pdf. Note that implementation time varies by PBM. The process is much quicker and fluid with Envision.

7. Estimated time for PBM to implement changes

The timeline varies by PBM, for example, Optum requires about 6 months, Catamaran about 5 months, Envision 90 days.

8. Challenges, barriers routinely encountered in implementation, including administrative challenges with PBM; member or prescriber issues, etc.

We have implemented the program with CVS Caremark, Catamaran, Optum and Envision. Each PBM, with the exception of Envision, has specific challenges dependent on the underlying adjudication system (SXC). The good news is, that we have identified these challenges and, to the extent we could, operationalized the process.

9. Standard PBM charges for program administration

The only optional service fees that we have encountered were connected to the member mailings. PBM's typically charge $2.00 per letter. However, there is an increase in clinical reviews related to our program (the provider exception process) and these fees vary significantly:

Optum - $40 per review

Catamaran $50 per review

CVS - $50 per review

Envision $8 per review

Safeway Health Business Relationship

10. Please provide a sample Safeway Health/Plan Sponsor contract

See attachments, Safeway Health MPD Services Terms and Conditions Draft_2014.doc. and Safeway Health MPD Agreement Draft_2014.doc.

11. What are the standard pricing terms between Safeway Health and the Plan Sponsor (e.g. Administrative Fee? Percent of savings)?

We provide the program at our cost and waive all implementation fees to any multi-employer trust that includes Safeway as a participating employer. Our fee is $1.50 PEPM. We typically request a three year contract term. We guarantee 10% net savings or will refund the clients first 12 months of fees. We will also discuss a guarantee around specific movement in the GDR.

12. Do the pricing terms (above) include costs for member and provider communications, notifications, etc.?

All member communications, other than the initial program announcement, are facilitated via the Trust's PBM. The cost varies by PBM, but we have found that they typically charge a base mailing fee. Safeway Health has an extensive outreach program to network pharmacies that prepares the pharmacists and technicians to provide an enhanced member experience.

13. What level of engagement does Safeway Health provide with respect to the PBM set up and administration?

Safeway Health is responsible for implementing the program with the PBM as well as ongoing support and any issue resolution. We perform an annual pricing refresh and analysis where we re-evaluate the past years claims history to identify potential new category additions and update the MAC and Formulary consistent with the PBM's annual update. With Envision, pricing refreshes are not required, as their technology adjudicates real-time. We evolve and update our program in conjunction with the dynamic prescription drug market.