HERITAGE RX

Pharmacy Benefit Management
Request for Proposal: Final Results

September 29, 2014

Submitted on behalf of:

FELRA and UFCW Health and Welfare Fund

Agenda

- Request for Best & Final Offers
- Technical Results
- Financial Results
- Recommendations
- Appendix

Requests for Best & Final Offers

- Express Scripts, Envision, Safeway Health, OptumRx and Catamaran received requests for Best & Final Offers (BAFOs)
- BAFO results were modeled for Express Scripts, Envision, & Safeway Health, based on the Bidder's Total Score and relative ranking in the RFP evaluation phase.
- BAFO *requests* were customized to the Bidder, including suggestions for strategic pricing improvements, plus:
  - Express Scripts: remove caveats which erode value of guarantees; establish a guaranteed floor & ceiling on generic pricing; improve specialty discounts; guarantee specialty rebates.
  - Envision: dollar for dollar guarantees on discounts, rebates & fees; annual performance guarantee reconciliation; add an implementation performance guarantee; agree to the market check.
  - Safeway Health: Add an implementation guarantee and annual savings guarantees (backed dollar for dollar); submit contract provisions allowing term without penalty/claw back, program portability and adjusted limits of liability.

Best & Final Offer

Technical & Financial Results

	BAFO Request	Final Disposition
Express Scripts	Remove caveats: Cross subsidization of discount guarantees & rebates; Remove exclusions: Guarantee exclusions; Formulary exclusions	Agreed – discount guarantees; Disagreed – Rebates Removed Formulary exclusions
	Floor & Ceiling on MAC with semi-annual reconciliation	Not Provided
	Model the Fund's annualized gross drug spend using the High Performance Formulary & the National Preferred Formulary, before the effects of rebates.	Not Provided
	Provide a quote for deign of a therapeutic MAC program (alternative to Reference Base Pricing), targeting therapy classes with multiple therapeutic and chemical equivalents approved as treatment options.	Not Provided
Envision Rx	**BAFO Request**	**Final Disposition**
	Discount, rebate guarantees ($ for $) – Annual	Not Provided
	Guarantee annual Retail Pharmacy Fee Negotiations	Not Provided
	Market Check – Mid Term	Not Provided
	Implementation Performance Guarantees	$100,000
	Increase Implementation Credits	Not Provided
Safeway Health	**BAFO Request**	**Final Dispositoin**
	Implementation Performance Guarantee	Percent of Admin Fees at risk – See Appendix
	Annual savings guarantee ($ for $)	100% of Admin Fees at risk 2015 ($302,256); guarantees not provided for 2016-2017
	Term without penalty; Limits of Liability; Program Portability Contract Provisions	Draft Language Provided - See Appendix

Best & Final Offer

Technical Results

PERFORMANCE GUARANTEE REQUEST – SAFEWAY HEALTH		
Request	Implementation Performance Guarantee	One-time guarantee; track and report 5 key measures of Implementation Success 1. Timeliness of Implementation (key milestones met) 2. Accuracy of Program Set Up (include testing to validate program set up accuracy) 3. Timeliness, accuracy of member communication 4. Member satisfaction – Survey Instrument to be mutually developed. 5. Client satisfaction – Survey Instrument to be mutually developed.
Final Disposition	At-risk fees: 15% of Yr 1 Admin Fees, or $45,385	Percent of Total 2% - Timeliness of Key Milestones 2% - Accuracy of Program Set Up 2% - Timeliness, accuracy of Member Communications 4.5% - Member Satisfaction 4.5% - Client Satisfaction
Request	Annual Savings Guarantee	Savings tracked, measured annually; Projected savings are guaranteed dollar for dollar for performance; annual reconciliation 60 days post year end; payment 90 days post year end.
Final disposition	100% of Annual Admin Fees at Risk for 10% of Savings (~305,000)	Year 1 - $305,000 Year 2 – N/A – requires new analysis to adjust for new pricing, market basket of drugs Year 3 – N/A – requires new analysis to adjust for new pricing, market basket of drugs
Request	Contract Provisions – Term without Penalty; Portability; Limits of Liability; Assignment	See Appendix

BAFO – Financial Results

Financial Modeling Notes

- AWP and Brand/Generic classification solely provided by MediSpan
- Specialty drug lists differed by PBMs; ESI's specialty list is significantly more broad compared to Envision. Medications not available through Envision Specialty assumed to be dispensed at retail and through subcontracted specialty pharmacy partners.
- Financial models were updated using annualized January-April 2014 data[1]. ESI's 2013 and 2014 unaudited paid claims detail, compared to FELRA's KPI Report, published by ESI and covering the same time periods, shows anomalies in 2013 paid claims data.
- A weighted average was used to model participating/nonparticipating pharmacy rates.
- No changes in plan design, enrollment during the measurement period.
- 'Current' pricing reflects 2014 contracted rates.
  - Current rebates are 90% share of total rebates; Future State - Bidders provided flat dollar rebates.
  - Current rebates were modeled using ESI unaudited reports of 2013 performance, trended to 2015-2017 using 15%, 10%, 10% respectively. Future rebates using current contract terms (90% of total rebates) were estimated based on changes from current to future contract definitions.
- Reference Base Pricing – Safeway Health
  - ESI Assumptions: $2.00/Rx incremental claim administration fee and 30% rebate reduction
  - Envision Assumptions: Rebate reduction commensurate with quote; $1.50 PEPM Admin Fee
  - Safeway Administration Fee: $1.50 PEPM; expected annual savings estimated at 10% of then-current drug costs (net of rebate and PBM administration fees).

[1]Source: ESI Unaudited Paid Claims Data 1/1/2013 – 3/31/2014

- Cost (savings) projections for 2015-2017 are based on unaudited claims data provided by ESI. Program costs projected by vendor(s) are subject to unforeseen events or changes that may impact future savings.

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Financial Review

Illustrative 3-Year Savings (2015-2017)

	Current	ESI BAFO	ESI BAFO with Safeway	Envision BAFO	Envision BAFO with Safeway
Retail	$58,676,230	$52,468,531	$52,468,531	$61,448,168	$61,448,168
Retail 90	$40,895,325	$35,498,384	$35,498,384	$34,971,146	$34,971,146
Specialty	$32,870,050	$32,288,279	$32,288,279	$22,536,435	$22,536,435
Administrative Fees	$0	$0	$3,142,156	$2,058,552	$2,987,460
Rebates	-$9,460,021	-$15,971,347	-$11,675,341	-$7,548,023	-$5,609,633
Reference Based Pricing Savings	$0	$0	-$11,172,200.97	$0	-$11,633,358
Early Renewal Savings	$0	-$1,343,342	-$1,343,342	$0	$0
Total	$122,981,584	$102,940,505	$99,206,467	$113,466,278	$104,700,218
Total Savings ($)		**$20,041,079**	**$23,775,117**	**$9,515,306**	**$18,281,366**
Total Savings (%)		**16.30%**	**19.3%**	**7.7%**	**14.9%**

Financial Review

Illustrative Year 1 Savings (2015)

	Current	ESI BAFO	ESI BAFO with Safeway	Envision BAFO	Envision BAFO with Safeway
Retail	$18,796,091	$16,885,419	$16,885,419	$19,782,064	$19,782,064
Retail 90	$12,862,710	$11,210,531	$11,210,531	$11,052,748	$11,052,748
Specialty	$9,323,017	$9,158,008	$9,158,008	$6,420,952	$6,420,952
Administrative Fees	$0	$0	$1,039,112	$669,029	$978,665
Rebates	-$2,941,425	-$4,827,667	-$3,518,268	-$2,287,624	-$1,757,946
Reference Based Pricing Savings	$0	$0	-$3,477,480.09	$0	-$3,647,648
Early Renewal Savings	$0	-$1,343,342	-$1,343,342	$0	$0
Total	$38,040,392	$31,082,948	$29,953,979	$35,637,169	$32,828,835
Total Savings ($)	**-**	**$6,957,444**	**$8,086,413**	**$2,403,223**	**$5,211,557**
Total Savings (%)	**-**	**18.3%**	**21.3%**	**6.3%**	**13.7%**

Financial Review

Illustrative Year 2 Savings (2016)

	Current	ESI BAFO	ESI BAFO with Safeway	Envision BAFO	Envision BAFO with Safeway
Retail	$19,575,238	$17,510,095	$17,510,095	$20,511,056	$20,511,056
Retail 90	$13,620,441	$11,824,406	$11,824,406	$11,645,983	$11,645,983
Specialty	$10,871,736	$10,679,316	$10,679,316	$7,478,726	$7,478,726
Administrative Fees	$0	$0	$1,047,512	$686,184	$995,820
Rebates	-$3,158,228	-$5,407,123	-$3,951,365	-$2,654,909	-$1,848,567
Reference Based Pricing Savings	$0	$0	-$3,710,996.33	$0	-$3,878,302
Early Renewal Savings	$0	$0	$0	$0	$0
Total	$40,909,187	$34,606,694	$33,398,967	$37,667,041	$34,904,716
Total Savings ($)	**-**	**$6,302,493**	**$7,510,220**	**$3,242,147**	**$6,004,471**
Total Savings (%)	**-**	**15.41%**	**18.36%**	**7.93%**	**14.68%**

Financial Review

Illustrative Year 3 Savings (2017)

	Current	ESI BAFO	ESI BAFO with Safeway	Envision BAFO	Envision BAFO with Safeway
Retail	$20,304,901	$18,073,018	$18,073,018	$21,155,048	$21,155,048
Retail 90	$14,412,174	$12,463,447	$12,463,447	$12,272,415	$12,272,415
Specialty	$12,675,297	$12,450,956	$12,450,956	$8,636,757	$8,636,757
Administrative Fees	$0	$0	$1,055,533	$703,339	$1,012,975
Rebates	-$3,360,368	-$5,736,557	-$4,205,707	-$2,605,490	-$2,003,120
Reference Based Pricing Savings	$0	$0	-$3,983,724.55	$0	-$4,107,407
Early Renewal Savings	$0	$0	$0	$0	$0
Total	$44,032,004	$37,250,863	$35,853,521	$40,162,068	$36,966,667
Total Savings ($)	-	**$6,781,142**	**$8,178,484**	**$3,869,937**	**$7,065,337**
Total Savings (%)	-	**15.4%**	**18.6%**	**8.8%**	**16.0%**

Financial Modeling

Pricing & Rebates

Participating Pharmacies

	Current ESI	ESI Post-BAFO			Envision Post-BAFO		
Channel/Source	Discounts	2015	2016	2017	2015	2016	2017
Retail Brand 30	17.50%	17.50%	17.50%	17.50%	16.60%	16.70%	16.80%
Retail Generic 30	71.00%	79.50%	79.75%	80.00%	76.50%	76.70%	76.90%
Retail Brand 90	17.50%	18.50%	18.50%	18.50%	22.20%	22.30%	22.40%
Retail Generic 90	71.00%	79.50%	79.75%	80.00%	81.00%	81.30%	81.50%
Specialty Pharmacy	15.25%	16.75%	16.75%	16.75%	15.50%	15.60%	15.70%
Dispensing Fee							
Retail Brand 30	$0.75	$0.95	$0.70	$0.70	$0.90	$0.90	$0.85
Retail Generic 30	$0.75	$0.95	$0.70	$0.70	$0.95	$0.95	$0.90
Retail Brand 90	$0.75	$1.10	$0.90	$0.90	$0.00	$0.00	$0.00
Retail Generic 90	$0.75	$1.10	$0.90	$0.90	$0.00	$0.00	$0.00
Specialty Pharmacy	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Administration Fee							
Per Rx Admin Fee	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
PMPM Admin Fee	$0.00	$0.00	$0.00	$0.00	$1.95	$2.00	$2.05
Open Formulary							
Retail Brand 30	$49.34	$55.00	$62.70	$68.20	$26.00	$29.50	$31.00
Retail Brand 90	$49.34	$125.00	$142.50	$155.00	$64.00	$81.50	$77.50
Specialty Pharmacy	$49.34	$125.00	$142.50	$155.00	$82.00	$87.50	$93.00

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Recommendations

Make a provisional award of the 2015-2017 business to Express Scripts, contingent upon the following:

- The 2015-2017 contract must be fully executed on or before November 1, 2014.
- ESI's agreement to submit a proposed Reference Drug Price program or Therapeutic MAC program by September 1, 2015 to achieve targeted savings of 8% or more annually through changes in drug mix. Failure to meet the requirement is cause for termination, without penalty or claw back.
- Agreement to reconcile discount guarantees on a semi-annual basis (penalty paid at year end, unless Brand Discounts fall below AWP-16.25 or Generic Discounts fall below AWP-77% for Retail 30 at mid-year).13

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Appendix

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Contract Terms – Safeway Health

REQUEST: TERMINATION WITHOUT CAUSE, PENALTY OR CLAW BACK, FOLLOWING 1 FULL YEAR OF THE AGREEMENT AND WITH 120 DAYS' NOTICE FROM THE FUND.

RESPONSE: Client may terminate the Agreement for any or no reason upon ninety (90) days prior written notice to Safeway Health.

Termination for Cause. Either party may terminate the Agreement at any time upon thirty (30) days prior written notice to the other party if (i) the other party commits a material breach that remains uncured during the notice period or (ii) following a good faith effort on the part of both parties, the parties fail to reach a mutual written agreement upon an initial set of Agreed Recommendations within one hundred eighty (180) days following the Effective Date.

Effect of Termination. The following provisions apply if this Agreement is terminated: (a) except as set forth below, any payment amounts owed to Safeway Health for Services rendered in conformance with the terms of this Agreement up to the effective date of termination will be due and payable (with the PEPM fees being prorated based on the effective date of termination); (b) license rights granted to Safeway Health will terminate coincident with the effective date of termination.

REQUEST: TERMINATION RIGHTS OF THE FUND, RELATIVE TO CONTINUITY OF THE THEN-CURRENT REFERENCE PRICING PROGRAM. PLEASE BE SPECIFIC REGARDING THE PROGRAM COMPONENTS WHICH ARE THE PROPERTY OF THE FUND AND AS SUCH, CAN BE MAINTAINED BY THE FUND, AT THEIR DISCRETION, UPON TERMINATION OF THE AGREEMENT.

RESPONSE: Client will retain ownership of all Client Data stored or retrieved in connection with performance of services under this Agreement, which data will be subject to the confidentiality provisions described in this Agreement. Client hereby grants to Safeway Health and Subcontractor a nonexclusive license to copy and store Client Data transmitted to Safeway Health or Subcontractor on their servers or other equipment solely for the purpose of providing services and research and analysis on Client's behalf in accordance with this Agreement. In addition to Safeway Health's obligations under Section 5.5 below, upon the request of Client, Safeway Health shall return to Client (or destroy at Client's option) all Client Data and other confidential Information of Client in the possession of or under the control of Safeway Health and/or Subcontractor. If return or destruction of data is not feasible, then Safeway Health shall continue to treat such retained data as Client's confidential information.
Please Note: This section requires further review from Safeway Health legal Counsel.

Contract Terms – Safeway Health

REQUEST: TERMS AND CONDITIONS PERTAINING TO CHANGE IN OWNERSHIP, ASSIGNMENT OF THE CONTRACT

RESPONSE: All notices required by this Agreement must be in writing and will be deemed given (a) immediately if provided via hand delivery; (b) two (2) days after remittance to Federal Express (or similar express carrier); or (c) five (5) days after deposit in the United States mail, and in the case of (b) and (c) postage prepaid, return receipt requested, addressed to the other party at the address below its signature on this Agreement or at such other address as the party may designate in writing. No assignment, delegation or transfer of the rights and obligations hereunder will be valid without the written consent, not to be unreasonably withheld, of the other party, provided that Safeway Health will have the right to assign this Agreement to an entity that acquires substantially all of the assets of Safeway Health through merger, consolidation or purchase of assets. Except for the Mutual Nondisclosure Agreement, the Business Associate Agreement or any other item referenced herein, this Agreement represents the entire agreement of the parties with respect to the subject hereof and supersedes any previous agreements between the parties relating to the same subject matter. This Agreement may be amended only by a written instrument signed by the parties. Client and its affiliates may have entered into credit, end user and equipment lease agreements with regard to other products and services offered by Safeway Health. Nothing in this Agreement will be construed as modifying, supplementing or offsetting any consideration given by any party in such other agreements.

REQUEST: REVISIONS TO LIMITS OF LIABILITY

RESPONSE: LIMITATION OF LIABILITY. SAFEWAY HEALTH DISCLAIMS LIABILITY FOR ANY IMPROPER OR INCORRECT USE BY CLIENT OF THE INFORMATION AND SERVICES PROVIDED BY SAFEWAY HEALTH. IN NO EVENT WILL EITHER PARTY OR ITS AGENTS BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL OR CONSEQUENTIAL DAMAGES, OR DAMAGES FOR LOSS OF PROFITS OR REVENUE, INCURRED BY THE OTHER PARTY, WHETHER IN AN ACTION UNDER STATUTE, IN CONTRACT OR TORT, EVEN IF SUCH PARTY OR ITS AGENTS HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. THE AGGREGATE LIABILITY OF EITHER PARTY AND ITS AGENTS TO THE OTHER PARTY FOR DAMAGES ARISING FROM OR RELATED TO THIS AGREEMENT WILL IN NO EVENT EXCEED THE AMOUNT OF FEES PAID BY CLIENT UNDER THIS AGREEMENT FOR THE TWELVE (12)-MONTH PERIOD IMMEDIATELY PRECEDING THE INITIAL CLAIM GIVING RISE TO LIABILITY. THE LIABILITY FOR ANY CLAIM ARISING PRIOR TO THE EXPIRATION OF THE INITIAL TWELVE (12)-MONTH PERIOD OF THE TERM OF THIS AGREEMENT SHALL BE CAPPED AT TWELVE (12) TIMES THE AVERAGE FEES PAID BY CLIENT TO SAFEWAY HEALTH PER MONTH IN THE MONTHS PRECEDING THE INITIAL CLAIM.