HERITAGE RX

Pharmacy Benefits.
Optimized.

UFCW Unions & Participating Employers Health and Welfare Fund

Pharmacy Renewal Analysis | November 28, 2017

Executive Summary

- OptumRx submitted a Best and Final Renewal Offer (BAFO) to the UFCW Unions & Participating Employers Health and Welfare Fund (the 'Fund') for a three (3) year contract term, effective January 1, 2018 – December 31, 2020.
- HeritageRx modeled the financial impact of Optum's BAFO pricing, then compared the results to the Express Scripts, Inc. (ESI) July 2017 proposal.
  - Optum's BAFO is projected to yield $2,974,563 or 13.6% in annualized gross cost savings over the 3 year term
  - ESI's Proposal is projected to yield $2,008, 567 or 9.2% in annualized gross cost savings over the 3 year term
- *Note: Rx program costs (savings) were modeled using the actual effective date(s) included in each PBM's proposal.*

2018 Rx Cost Projections

	Optum Rx Current Contract		Renewal Cost 11.28 Updated Pricing Optum Rx	Proposed Cost Express Scripts
Projection Period:	2017 Baseline	2018	2018	2018
Retail Brand Ingredient Cost	$3,098,507	$3,278,381	$3,196,980	$3,231,099
Retail Generic Ingredient Cost	$1,464,315	$1,606,512	$1,272,180	$1,389,544
Retail Dispensing Fees	$49,280	$49,719	$20,716	$37,811
Mail Brand Ingredient Cost	$0	$0	$0	$0
Mail Generic Ingredient Cost	$0	$0	$0	$0
Exclusive Specialty Ingredient Cost	$1,787,475	$2,179,132	$2,093,909	$2,167,590
Administrative Fees	$4,803	$5,283	$5,283	$5,283
COMPONENT SUBTOTAL	**$6,404,379**	**$7,119,028**	**$6,589,069**	**$6,831,326**
Non-Specialty Rebates	$394,239	$433,663	$810,314	$791,022
Specialty Rebates			$38,933	$37,107
REBATE SUBTOTAL	$394,239	$433,663	$849,247	$828,129
CURRENT NET ANNUALIZED COST	**$6,010,140**	**$6,685,365**	**$5,739,821**	**$6,003,197**
Trend (relative to Jan-May 2017 Annualized)		**11.2%**	**-4.5%**	**-0.1%**
$ SAVINGS VS CURRENT COST TRENDED			**$945,543**	**$682,168**
% SAVINGS VS CURRENT COST TRENDED			**14.1%**	**10.2%**

2018 – 2020
Rx Cost Projections

	Optum Rx Current Contract			11.28 Updated Renewal Pricing – Optum Rx			Proposed Pricing – Express Scripts		
Projection Period:	2018	2019	2020	2018	2019	2020	2018	2019	2020
Retail Brand Ingredient Cost	$3,278,381	$3,429,771	$3,559,185	$3,196,980	$3,344,611	$3,499,058	$3,231,099	$3,380,305	$3,536,400
Retail Generic Ingredient Cost	$1,606,512	$1,689,952	$1,776,721	$1,272,180	$1,329,890	$1,388,949	$1,389,544	$1,456,038	$1,524,536
Retail Dispensing Fees	$49,719	$50,094	$50,490	$20,716	$20,873	$21,037	$37,811	$38,146	$38,496
Mail Brand Ingredient Cost	$0	$0	$0	$0	$0	$0	$0	$0	$0
Mail Generic Ingredient Cost	$0	$0	$0	$0	$0	$0	$0	$0	$0
Exclusive Specialty Ingredient Cost	$2,179,132	$2,553,398	$2,991,944	$2,093,909	$2,453,538	$2,874,933	$2,167,590	$2,539,873	$2,976,097
Administrative Fees	$5,283	$5,811	$6,392	$5,283	$5,811	$6,392	$5,283	$5,811	$6,392
COMPONENT SUBTOTAL	**$7,119,028**	**$7,729,027**	**$8,384,733**	**$6,589,069**	**$7,154,723**	**$7,790,370**	**$6,831,326**	**$7,420,173**	**$8,081,921**
Non-Specialty Rebates / Specialty Rebates	$433,663	$477,030	$524,732						
Non-Specialty Rebates				$810,314	$860,940	$900,452	$791,022	$806,579	$820,163
Specialty Rebates				$38,933	$46,259	$54,464	$37,107	$42,106	$47,646
REBATE SUBTOTAL	**$433,663**	**$477,030**	**$524,732**	**$849,247**	**$907,199**	**$954,916**	**$828,129**	**$848,685**	**$867,810**
NET COST	**$6,685,365**	**$7,251,997**	**$7,860,001**	**$5,739,821**	**$6,247,524**	**$6,835,454**	**$6,003,197**	**$6,571,488**	**$7,214,111**
NET COST (total)	**$21,797,362**			**$18,822,799**			**$19,788,796**		
$ SAVINGS VS CURRENT COST TRENDED				**$2,974,563**			**$2,008,567**		
% SAVINGS VS CURRENT COST TRENDED				**13.6%**			**9.2%**		

Pricing Comparison

	Current	Renewal Pricing			Proposed Pricing		
	Optum Rx	Optum Rx			Express Scripts		
	2018	2018	2019	2020	2018	2019	2020
Annual Discount Guarantees							
Retail 30 Brand	16.00%	18.00%	18.00%	18.00%	17.75%	17.75%	17.75%
Retail 30 Generic	78.00%	82.00%	82.50%	83.00%	81.50%	82.00%	82.50%
Retail 90 Brand	18.50%	21.00%	21.00%	21.00%	18.75%	18.75%	18.75%
Retail 90 Generic	79.00%	84.00%	84.50%	85.00%	81.50%	82.00%	82.50%
Exclusive Specialty	15.70%	19.00%	19.00%	19.00%	17.25%	17.25%	17.25%
Annual Dispensing Fee Guarantees							
Brand	$1.20	$0.50	$0.50	$0.50	$0.70	$0.70	$0.70
Generic	$1.20	$0.50	$0.50	$0.50	$0.70	$0.70	$0.70
Annual Rebate Guarantees							
Min. Guarantees Per Brand*							
Retail 30 Brand	$16.00	$95.00	$105.00	$115.00	$90.00	$95.00	$100.00
Retail 90 Brand	$20.00	$200.00	$215.00	$220.00	$225.00	$237.50	$250.00
Specialty	$16.00	$600.00	$650.00	$675.00	$850.00	$950.00	$1,050.00

*Rebate amounts reflect the minimum guaranteed payments per Brand Rx; OptumRx & ESI guaranteed the Fund will receive 100% of all formulary rebates attributable to the Plan's utilization. Rebate payment terms: quarterly disbursement, with annual reconciliation.

Trend Calculations

Base Period: January 1- May 31, 2017 Annualized

Projection Period: January 1, 2018 – December 31, 2018

- 2018 Projected Trend No Pricing Change: 11.2%
- 2018 Projected Trend With Optum Renewal Rates[1]: -4.5%
- 2018 Projected Trend With Proposed ESI Rates[2]: -0.1%

Note: Trend reflects Gross Drug Cost less Rebates, before member contribution.

[1] Assumes January 1, 2018 effective date

[2] Assumes February 1, 2018 effective date

Other Considerations

- Savings projections did not include the following:
  - ESI's proposed Implementation Credit valued at ~ $33,000
  - Additional savings that may occur in 2020, as a result of the Market Check
    - Based on Heritage's experience, Market Checks generally yield savings of 1% to 3.5% from current annualized costs. The Market Check provision grants the Fund the right to benchmark then-current pricing against pharmacy pricing commercially available in the competitive marketplace; measurable savings resulting from the Market Check are applied in year three (2020).
- OptumRx agreed (in principal) to incorporate all material provisions from the Fund's current PBM contract into the final Services Agreement, governing the 2018-2020 term.
- Both PBMs offer guaranteed discounts, dispensing fees and rebates, which are measured and reconciled annually, backed by dollar for dollar guarantees, for each year of the agreement.