Segal Consulting

101 North Wacker Drive Suite 500 Chicago, IL 60606-1724
T 312.984.8500 www.segalco.com

**DIRECT DIAL NUMBER**
(312) 984-8652

**E-MAIL ADDRESS**
mbramstaedt@segalco.com

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***VIA E-MAIL***

Board of Trustees
UFCW Unions and Participating Employers
Health and Welfare Fund
Landover, MD

Re: **Proposed Renewal from Catamaran**

Dear Trustees:

## Introduction

Segal was recently hired, and the Trustees requested Segal to review the vendor contracts. This letter pertains to the PBM contract for the *non Kroger plans*, administered by Catamaran. Segal began discussions with Catamaran to obtain better pricing for the Fund and its participants. Below is a summary of the current contract and the proposed options from Catamaran, to date, and we will continue to work to validate their pricing and proposal.

Catamaran's estimated first year savings with the new contract would be $809,000 to $999,000, depending on the option chosen.

Finally, an important change Catamaran proposes is to remove CVS from its pharmacy network. We seek the Trustees guidance to determine if it is desirable to exclude CVS. We are confident that appropriate terms can be negotiated if CVS is to be included in the provider network. However, it is possible that the overall pricing will be slightly less attractive.

## Background

The UFCW Unions and Participating Employers Health and Welfare Fund (the Fund) currently contracts with Catamaran, formerly National Medical Health Card Systems, Inc. as its pharmacy benefit manager (PBM). The Fund's pricing arrangement with Catamaran is on a "transparent", or pass-through, basis. Generally, transparent/pass-through pricing terms are minimum guarantees, meaning that any pharmacy discount or manufacturer rebate negotiated and achieved by the PBM above the minimum guarantees, are passed through to the plan sponsor. The only revenue generated by a PBM should be an administrative fee, fees charged for clinical programs, and revenue derived from prescriptions dispensed by the PBM-owned pharmacies. However, in the current transparent arrangement, the Fund shares a portion of rebates with Catamaran (92% with minimum guarantees to the Fund and 8% retained by Catamaran).

Catamaran provided transparent and "traditional" pricing renewal proposals to the Fund. Generally, traditional pricing arrangements have fixed pricing terms, meaning that the PBM will retain any spread on the discount or rebates negotiated with network pharmacies and manufacturers in exchange for nominal or no administrative fees to the plan sponsor. Both proposals appear to consist of fixed rebate guarantees, without a percentage share amount to the Fund. The rebate percentage share is being confirmed with Catamaran.

The remainder of this letter summarizes Catamaran's proposed pricing terms, conditions, and compares them to the Fund's current arrangement as well as highlights items requiring clarification.

## Pricing Term Comparison

The following table compares the Fund's current pricing terms and terms from Catamaran's proposals. The proposed pricing terms are guaranteed for three years.

| 30-Day Retail | Catamaran Current Pricing Transparent (2006) | Catamaran Renewal Proposal Transparent (2015) | Catamaran Renewal Proposal Traditional (2015) |
|---|---|---|---|
| **Network** | National Network | National Network excluding CVS | National Network excluding CVS |
| Brand Discount | AWP – 15.5% to 16.0% (Pre AWP Rollback) / AWP – 12.09% - 12.61% (Post AWP Rollback) | AWP – 16.0% | AWP – 16.0% |
| Brand Dispensing Fee | $2.00 | $1.30 | $1.20 |
| Generic Discount | AWP - 58.00% | Year 1: AWP - 76.0%<br>Year 2: AWP – 76.5%<br>Year 3: AWP – 77.0% | Year 1: AWP - 78.0%<br>Year 2: AWP – 78.5%<br>Year 3: AWP – 79.0% |
| Generic Dispensing Fee | $2.00 | $1.30 | $1.20 |
| Administrative Fee (per Rx) | $0.80 | $0.80 | $0.00 |
| Rebate Share | 92% | N/A | N/A |
| 2-Tier Plan Design Rebate Guarantee | $1.74 per Rx | $16.00 per Brand Rx | $16.00 per Brand Rx |
| **90-Day Retail** | **Catamaran Current Pricing Transparent (2006)** | **Catamaran Renewal Proposal Transparent (2015)** | **Catamaran Renewal Proposal Traditional (2015)** |
| Brand Discount | N/A | AWP – 18.0% | AWP – 18.5% |
| Brand Dispensing Fee | | $0.00 | $0.00 |
| Generic Discount | | Year 1: AWP - 77.0%<br>Year 2: AWP – 77.5%<br>Year 3: AWP – 78.0% | Year 1: AWP – 79.0%<br>Year 2: AWP – 79.5%<br>Year 3: AWP – 80.0% |
| Generic Dispensing Fee | | $0.00 | $0.00 |
| Administrative Fee (per Rx) | | $0.80 | $0.00 |
| Rebate Share | | Fixed | Fixed |
| 2-Tier Plan Design Rebate Guarantee | | $16.00 per Brand Rx | $16.00 per Brand Rx |
| **Mail Order (Optional)** | **Catamaran Current Pricing Transparent (2006)** | **Catamaran Renewal Proposal Transparent (2015)** | **Catamaran Renewal Proposal Traditional (2015)** |
| Brand Discount | AWP – 21.0% (Pre AWP Rollback) / AWP – 18.34% (Post AWP Rollback) | AWP – 22.5% | AWP – 22.5% |
| Brand Dispensing Fee | $0.00 | $0.00 | $0.00 |
| Generic Discount | MAC | Year 1: AWP – 80.0%<br>Year 2: AWP – 80.5%<br>Year 3: AWP – 81.0% | Year 1: AWP – 80.0%<br>Year 2: AWP – 80.5%<br>Year 3: AWP – 81.0% |
| Generic Dispensing Fee | $1.75 | $0.00 | $0.00 |
| Administrative Fee (per Rx) | $0.80 | $0.80 | $0.00 |
| Rebate Share | 92% | N/A | N/A |
| 2-Tier Plan Design Rebate Guarantee | $1.74 per Rx | $43.00 per Brand Rx | $43.00 per Brand Rx |

| Specialty | Catamaran Current Pricing Transparent (2006) | Catamaran Renewal Proposal Transparent (2015) | Catamaran Renewal Proposal Traditional (2015) |
|---|---|---|---|
| Pricing List | N/A | Pricing List by Drug | Pricing List by Drug |
| Default Discount | AWP – 17.0% (Pre AWP Rollback) / AWP – 13.66% (Post AWP Rollback) | N/A | N/A |
| Dispensing Fee | $5.00 | $2.00 | $2.00 |
| 2-Tier Plan Design Rebate Guarantee | N/A | $16.00 per Brand Rx | $16.00 per Brand Rx |

*All values are on a Post-AWP rollback basis, unless otherwise noted.*
*N/A = not applicable or not listed.*
*MAC = maximum allowable cost.*
*Yellow highlighted item = the term's basis has been modified*
*Green highlighted item = improvement from the original renewal*
*Dark Green highlighted item = most competitive proposal term*
*Orange highlighted item = the term's basis has been modified and the value is improved*

- As you are aware, the Average Wholesale Price (AWP) values in First Databank (FDB) and Medi-span files effective September 26, 2009, were reduced. The AWP unit prices of many brand name prescription drugs decreased in order to comply with the settlement of a lawsuit claiming that FDB and the McKesson Corporation had conspired to increase the mark-ups on more than 400 brand name drugs from 20% to 25% beginning in 2002. Following the rollback in 2009, PBM agreement terms were adjusted, designed to produce neutral drug costs after the settlement's reduction in AWP values. As the Fund's current agreement dates to 2006, the terms are outdated and on an inflated Pre-AWP rollback basis. Segal provided the estimated post-AWP rollback equivalents for comparison purposes, based on Segal benchmarks.

- The current rebate guarantees are transparent with the greater of 92% or the minimum per claim guarantee retained by the Fund. Both the transparent and traditional renewal offers do not list a percentage share of rebates and the rebate guarantees for each proposal are the same. Therefore, it appears that the proposed rebates are "fixed" and any rebate above the guarantees are retained by Catamaran. Segal is confirming if the rebates are fixed or if there is a percentage share for the proposals.

- The current agreement does not distinguish 30-day retail or 90-day retail channel pricing. Segal requested Catamaran confirm the applicable pricing terms and the current day supply thresholds for qualifying 90-day retail pricing. Catamaran responded that the Fund does not have a separate 90-day retail benefit. Segal noticed that the SBCs indicate that select maintenance medications may be filled up to a 100-day supply.

- The proposals indicate that CVS pharmacies are excluded from the retail (30-day and 90-day retail) channels. The 4Q2013 Catamaran Quarterly Review and Highlights report shows that CVS is second top ranked pharmacy chain by prescriptions during calendar year 2013 with 9,218 prescriptions for 873 utilizers at 285 CVS pharmacies. Segal confirmed CVS is currently not an excluded provider. This represents a significant change from the current network. All CVS claims would reject based on the renewal offers, resulting in member disruption based on the current utilization.

- Mail-order terms are the same for both proposals. The current agreement lists the mail order as an optional program. From the 4Q2013 Catamaran Quarterly Review and Highlights report, mail utilization is not observed; therefore, it is assumed the mail-order benefit is not currently applicable. Catamaran confirmed there is no mail benefit.

- Catamaran's proposals reference an Open Specialty pricing list; however, it was not provided. Segal requested the list to compare the pricing to the current specialty guarantee. Additionally, the proposals assume an open specialty program, whereby members may receive specialty medications at retail or the Catamaran specialty pharmacy, BriovaRx (formerly known as AscendRx). From the review of the first amendment to the master PBM agreement and the Fund's SBCs, it appears as though the Fund has an exclusive specialty arrangement. Catamaran communicated that the Fund has an open specialty program.

- The proposal lists a $0.30 per claim consultant commission. Segal requested more information from Catamaran regarding the listed commissions and confirmation if they are currently being paid and to whom. Segal did not request commissions for the PBM arrangement. Catamaran confirmed the commission reference is an error there are no commissions involved in this arrangement.

## Catamaran Savings Estimates

Catamaran provided aggregate savings estimates based on the annualized experience period of January 1, 2014 through September 22, 2014. Catamaran's savings estimates are not a guarantee of savings.

The estimated first year savings value for the transparent proposal is $809,000. The estimated savings from the traditional proposal is $999,000 based on the current plan performance or achieved terms. The savings is net savings (plan savings) and inclusive of rebates and specialty drug claims. According to Catamaran, the percentage of plan savings is approximately 11.1% for the transparent proposal or 13.7% for the traditional proposal.

In addition, Catamaran shared that an update to the Fund's utilization management rules (i.e., prior authorizations, quantity limits, and step therapy programs) can yield approximately $194,000 in total additional savings. It is not clear if the savings from the step therapy programs ($32,000) accounts for rebate loss.

Segal requested that Catamaran provide detailed savings analyses, the experience period utilized, trend factors and the assumptions used for the projections. Segal will share the information once received from Catamaran.

Segal also requested data from Catamaran in order to validate the savings estimates, based on the guaranteed and achieved terms, and review the Fund's utilization. The data was received November 4th. The data is currently in review.

## Pricing Conditions and Caveats

The proposals contain conditions and assumptions. Segal requested clarifications and confirmations for best-in-class terms and conditions from Catamaran. The following items were requested:

- Rebates are based on acceptance of the Catamaran formulary.

  As rebate guarantees are conditioned upon the acceptance of Catamaran formulary, Segal requested confirmation that the Catamaran formulary is open, without any PBM drug product exclusions for the term of the agreement.

  Catamaran confirmed that the Catamaran National Formulary is open without drug exclusions.

- Zero balance claims (ZBCs) are excluded in the discount guarantees prior to the application of the member copay and Usual and Customary (U&C) claims are included in the discount guarantees.

  Zero balance claims can inflate the discount guarantees. Segal requested that the reconciliation for all claims be based prior to the application of the member cost share amount. Modification of this assumption may affect the pricing guarantee values.

  Further clarification is required regarding this assumption.

- Guarantees are reconciled at the component level.

  Segal requested confirmation that pricing guarantees are component-based, and each, including rebates, will be reconciled separately, without offsetting of any applicable surpluses.

  Catamaran confirmed Segal's clarifying language.

## Next Steps

Overall, the proposals' pricing terms are improvements and will generate savings over those of the current agreement. Upon receipt of Catamaran's responses, Segal can proceed with substantiation of the savings estimates and negotiation of the renewal terms.

Key decision points include:

- Catamaran as an organization has changed since the Fund entered into an agreement with one of its legacy PBMs, NMHCRx in 2006. The Fund should decide its desired philosophy regarding transparency and the proposed "transparent" and "traditional" pricing proposals.

- If desired, on behalf of the Fund, Segal can request a "hybrid traditional pricing" renewal consisting of: no administrative fee, traditional retail pricing, and 100% of rebates with minimum guarantees to be provided to the Fund. A change in pricing basis may result in modified pricing terms.

- As some of the Fund's plan designs include coinsurance, the change in pricing lists may result in changes to member cost-share amounts. In aggregate, the total amount should be reduced by the improvement in the discounts.

The pricing proposals are valid for a three-year contract term, subject to the terms and conditions of the proposal and in the proposed new agreement. The Fund's current agreement indicates that either party may terminate the agreement without cause by providing the other party with at least 60 days' prior written notice. If the Fund renews with Catamaran, a new PBM agreement will be required and should be reviewed for technical and industry changes. Additionally, Fund Counsel should review the proposed, new agreement.

We look forward to discussing this letter at the approaching meeting.

Sincerely,

Mitch Bramstaedt
Vice President

mwb/pfk:rm

cc: Mr. William Jensen
Barry S. Slevin, Esq.
Harry W. Burton, Esq.
Mr. Josh Timm
Mr. Christopher Heppner

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