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CORRESPONDENCE MEMORANDUM

DATE: January 5, 2011
TO: State of Wisconsin Group Insurance Board
FROM: Jeff Bogardus, Manager, Pharmacy Benefit Programs, Health Benefits and Insurance Plans Bureau, Division of Insurance Services
SUBJECT: Pharmacy Benefit Manager Administrative Services Only Contract Update

This memo is for informational purposes only. No Board action is required.

On April 13, 2010, the Group Insurance Board (Board) awarded the contract for administration of the Pharmacy Benefits Manager (PBM) services to Navitus Health Solutions, LLC (Navitus), subject to the successful negotiation of the contract. The contract negotiated between Navitus, and the Department (on behalf of the Board) was signed by all parties and executed effective January 1, 2011.

As indicated in the Request for Proposal (RFP) # ETJ0007, the basis of this new contract was the existing contract with Navitus. The initial term of the contract will run through December 31, 2013. The contract can be extended for up to two (2) successive two-year periods, or one (1) four-year period, which is the same as the current contract.

The following are the significant changes that have been made to the existing contract as a result of the negotiations between Navitus and the Department:

- A. Part 1, Section 1.12 – Turnover Plan.
RFP # ETJ0007 required Navitus to provide specific detail for a turnover plan for transition to a new vendor, should that occur at the end of the contract term. Subsection (b) provides the specific detail required in the turnover plan.
- B. Part 2, Section 2.01 – Definitions.
The following terms were defined to clarify language in Part 6, Section 6.01 (d) – Incentive Payment:
- “Drug Spend”
 - “Ingredient Cost”
 - “Drug Trend”
 - “Projected Drug Spend”
- C. Part 4, Section 4.04 – Customer Service.
Contract reflects the availability of Navitus representatives 24 hours a day, seven days a week (excluding some holidays), to assist and respond to members, pharmacies, and prescribers.

Reviewed and approved by Lisa Ellinger, Division of Insurance Services.

Lisa Ellinger
Signature

4/19/11
Date

| Board | Mtg Date | Item # |
|-------|----------|--------|
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D. Part 4, Section 4.10 – Cost Management Services.

While the following additional cost management services have been provided in the past, they have now been included in the contract:

- “Lower Rx Alternatives”
- “Generic Alternatives”
- “Dose Consolidation”

E. Part 6, Section 6.01 – Payment for Contractor Services.

a. Subsection (a) through (c) – Administrative Fee

The calculation of the administrative fee has been changed to reflect payment for the number of active members in the claims processing system on the 15th of the month. The administrative fee was previously based on an average number of contracts and the average contract size. This change eliminates the need for a quarterly “true-up” of the numbers and reflects actual numbers of members that the “per member per month” applies to.

b. Subsection (d) – Incentive Payment

The incentive payment language was changed to accurately reflect practices and more clearly define the annual calculation of any incentive payments. This language ensures that any windfalls are appropriately adjusted for, and that Navitus will provide an annual reconciliation of the incentive payments that includes, “... a description of how cost containment services provided by the Contractor are attributable to the overall savings...” used to calculate the incentive payment. Incentive payment language was included as an addendum to the current contract.

c. Subsection (e) – Retiree Drug Subsidy (RDS) Program

RDS services provided by Navitus have been included in the contract. This was previously provided under a separate agreement as an addendum to the current contract.

F. Part 6, Section 6.02 – Contractor Payments.

Section 6.03 – Failure to Make Funds Available.

Section 6.06 – Payment of Rebates.

The Department’s Controller recommended numerous changes, which were made to the language in Sections 6.02, 6.03, and 6.06, concerning the timing and methods used to process invoices from Navitus, and making payments to Navitus. The change to Section 6.02 (b) highlighted below was made during subsequent negotiations.

G. Part 6, Section 6.02 – Claims Account, Subsection (b) (claims reserves).

In the previous contract, Navitus was provided with funds that amounted to at least three-fourths of one month’s prescriptions claims and administrative fees. This subsection now includes provisions for Navitus to reimburse this reserve over five years, which reflects the initial three-year term and one (1) two-year extension period the contract is expected to be in place. If the contract terminates prior to the five years, the provisions require Navitus to pay any remaining balance in full within 14 days of contract termination.

H. Part 7, Section 7.03 – Miscellaneous. Changes to Pricing Methodology.

This section was added to the contract to account for situations where changes to the methodology used for drug pricing could be accounted for and to ensure that whatever change is made is economically equivalent to the methodology currently being used. This was the result of the 2008 McKesson/First DataBank class action lawsuit that required Navitus, as well as the PBM industry, to make changes in pricing methodology.

I. Part 8 - Medicare Prescription Drug Program (PDP) Support.

This Part was added to the contract to account for support services the Board may need if a decision was made to change how prescription drug coverage is provided for Medicare eligible retirees.

J. Part 10 - Performance Standards For Contractor (references Exhibit 6).

The following performance standards were added to the existing standards of the current contract:

| Standard | Definition of Standard | Goal | Penalty |
|--------------------------------|--|---|---|
| Eligibility – Update Frequency | The time it takes for clean eligibility files, received in the mutually agreed upon format, to be accurately uploaded and available within the system. | 90% of the time clean eligibility files are uploaded and available within the system within two business days of receipt. | 88-89.9% = non-compliant* <88% = \$7500 penalty |
| Mail Order Program | Percentage of prescriptions dispensed accurately with no errors. | 99.98% of prescriptions are dispensed accurately with no errors. | 98-99.9% = non-compliant * <98% = \$7500 penalty |
| Member Satisfaction Survey | Navitus will conduct an annual member satisfaction survey. | 90% of responses are satisfied or very satisfied. | 88-89.9% = non-compliant* <88% = \$7500 penalty |

* If performance remains at this level for two consecutive quarters, then penalty shown for the standard will be enforced unless parties mutually agreed to waive the penalty due to extenuating or other "special cause" circumstances.

Staff will be available at the Board meeting to answer any questions.