



STATE OF WISCONSIN
Department of Employee Trust Funds
Robert J. Conlin
SECRETARY

801 W Badger Road
PO Box 7931
Madison WI 53707-7931
1-877-533-5020 (toll free)
Fax (608) 267-4549
<http://etf.wi.gov>

CORRESPONDENCE MEMORANDUM

DATE: April 25, 2013
TO: Group Insurance Board
FROM: Jeff Bogardus, Manager, Pharmacy Benefit Programs
SUBJECT: Analysis of Implementing an Online Marketplace for Prescription Drug Purchases

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

This memo is to advise the Group Insurance Board (Board) of discussion and further study of the potential to supplement our existing pharmacy benefit with an online offering.

Background

The Board was previously informed of the legislature's interest in this concept through the 2011 Wisconsin Act 32 (Act 32) health insurance study. Specific text from Section 9143 of Act 32, which applies to that study, can be found on Page 6 of this memo. The Department of Employee Trust Funds (ETF) and the Office of State Employment Relations (OSER) were directed to study the feasibility of, *"Implementing a program... to provide an online marketplace for the purchase of prescription drugs as a supplement to the pharmacy benefit management program provided under the group insurance plans offered by the group insurance board."*

On October 31, 2011, ETF and OSER provided a report on the Act 32 study to the Governor and Joint Committee on Finance. Staff presented the report to the Board at the meeting of November 8, 2011. Specific text from Study Topic #3 of the "Act 32 ETF/OSER health Insurance Options Feasibility Study" can be found on Pages 7 through 9 of this memo. The conclusion of that study stated:

"Based on information gathered, it appears that auction-driven online marketplace tools could potentially impact current rebates and negotiated discounts, create a loss of interaction between members and the pharmacist, and lack in transparency. Tools of this nature may be less effective than what a PBM would provide in a pure pass-through arrangement."

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

Electronically Signed 5/4/13

Board	Mtg Date	Item #
GIB	5.21.13	8A

The study offered a number of considerations that staff felt should be investigated if policymakers wanted to further explore options for an online marketplace to purchase prescription drugs. However, no further directive to continue studying this topic was provided to ETF or the Board by the legislature.

BidRx, one such vendor that offers an online auction model, approached ETF earlier in October 2011 in regard to the Act 32 directive. The discussions and study of BidRx's approach to an online marketplace for prescription drugs ensued. Throughout 2012 ETF worked with BidRx to provide claim level data from Navitus that BidRx could process through their system. A total of 639,476 claims were provided to BidRx. This data reflected claims adjudicated by Navitus in the second quarter of 2012. The results from BidRx allowed ETF to analyze and compare the BidRx costs with the costs for the same claim when adjudicated by Navitus.

Discussion

BidRx provided ETF with data in a report that re-priced claims paid by Navitus in the second quarter of 2012. In total, Navitus provided 639,476 claims that could have been re-priced. BidRx re-priced 477,283 of the claims (74.6%).

For an initial analysis of the data, 20 drugs were selected that reflect the top drugs in the highest plan paid amount and highest prescription count categories. This included the following drugs:

Prescription Count	Plan Paid
<ul style="list-style-type: none">• Simvastatin• Levothyroxine Sodium• Omeprazole• Lisinopril• Hydrocodone/Acetaminophen• Hydrochlorothiazide• Atenolol• Amlodipine Besylate• Metformin HCL• Sertraline HCL	<ul style="list-style-type: none">• Advair Diskus• Crestor• Copaxone• Adderall XR• Plavix• Humira Pen• Niaspan• Singulair• Cymbalta• Effexor XR

A summary of the cost comparisons between Navitus and BidRx can be found on Page 5 of this memo. Overall, Navitus' costs for these top 20 drugs are approximately 9% lower than the costs offered by BidRx.

While Navitus' costs are lower overall, it is still difficult to conduct an "apples-to-apples" comparison. In repricing the claims, BidRx selects the overall lowest-cost pharmacy and assumes 100% of the utilization goes to that pharmacy. Tom Kellenberger, who produced the data for the BidRx claims repricing, provided the following information in

response to a question about whether the patient's zip code was taken into account when setting the claim for auction:

"No attempt was undertaken to match the member's location. The result is a "savings opportunity" based on the overall lowest cost for the same drug wherever it can be obtained, but all bid prices are from Wisconsin pharmacies. The results when similar lower cost drugs are available also are based on the lowest cost for the similar drug. This approach is appropriate in our opinion because the expected outcome from access to valuable information is that members change behavior. Also, since any pharmacy can be a mail order pharmacy on BidRx.com, even pharmacies located a few miles away from a member's location may be a mail order pharmacy. In addition, prices from mail order pharmacies include mailing costs via USPS ground mail."

If Navitus were to also re-price these claims using the same logic -- reallocate claims to the single lowest cost pharmacy -- their drug costs would be significantly lower. The Navitus average cost shown in the summary is an average of all the pharmacies currently serving our members. This reflects the broad network Navitus has in place today. Aside from cost, there are other considerations that would need to be addressed such as customer service, grievances, convenience, as well as the lack of current incentives to use such a service.

According to Navitus, any pricing provided by a pharmacy to BidRx is, by contract available to Navitus. The contracts that Navitus manages with their network pharmacies require that the pharmacies charge the State and WPE programs the lower of the negotiated network rate or the pharmacy's usual and customary (U&C) pricing. The Navitus contract with the Board requires that this savings always be passed back to the State and WPE health insurance programs. So if a pharmacy is "bidding" for a claim, that bidding action would likely change the U&C pricing cost, which should be passed on to Navitus as well. Because of this contracting provision, it is unlikely that there would be scenarios when the BidRx price would be lower than Navitus at a given pharmacy.

Furthermore, Navitus indicates that the "auction" concept only works if the member's contribution towards the cost will change as a result. With the State and WPE programs' flat dollar copays at the current levels, members would have no incentive to search for a lower price. Including BidRx with the intent to make our members better informed purchasers, would require a plan design change to either adopt higher copays with Navitus and incent members with lower copays via BidRx, or implement a coinsurance approach for the member contribution in order to incent the member to start comparison shopping. If the Board were to adopt a coinsurance approach, Navitus has indicated that they have tools available that would allow the member to shop for the lowest cost drug.

Finally, staff anticipates that numerous customer service issues with online prescription and mail delivery may result. Since 2004 Navitus has offered mail order service at a reduced copayment (two copayments for a three-month supply). For our members, the take-up rate for the mail order program has been very low (less than 2%). Staff does not believe that uptake by State employees in an online marketplace would be significant unless there is a substantial incentive in the amount they would pay as their contribution.

Conclusion

The integration of this type of program with the current pharmacy benefit programs in place does not appear to offer significant cost advantages for either members or the group health insurance programs. It also has the potential to create customer service issues and disruption if required benefit plan design changes were implemented. Staff would like guidance from the Board as to whether there is Board interest in additional study and analysis of this concept.

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

Summary of Analysis: BidRx Costs vs. Navitus Cost
 Highest Cost and Most Utilized Drugs

Total Claims	Product Name	BidRx ¹	Navitus ²	Difference ³
		Avg Cost Per Claim	Avg Cost Per Claim	
17,057	Simvastatin	\$ 5.17	\$ 5.79	10.77%
14,968	Levothyroxine	\$ 6.62	\$ 10.77	38.56%
15,266	Omeprazole	\$ 8.88	\$ 18.97	53.20%
12,195	Lisinopril	\$ 4.92	\$ 3.83	-28.27%
10,688	Hydrocodone/Acetaminophen	\$ 7.82	\$ 8.28	5.55%
9,072	Hydrochlorothiazide	\$ 4.66	\$ 3.63	-28.54%
3,767	Lisinopril/Hydrochlorothiazide	\$ 6.94	\$ 5.09	-36.18%
6,561	Atenolol	\$ 4.92	\$ 3.05	-61.40%
5,731	Amlodipine Besylate	\$ 4.30	\$ 3.08	-39.43%
2,522	Metformin Hcl Er	\$ 9.22	\$ 12.57	26.67%
6,533	Metformin Hcl	\$ 5.78	\$ 6.78	14.77%
8,136	Sertraline Hcl	\$ 5.58	\$ 7.65	27.02%
4,203	Advair Diskus	\$ 271.99	\$ 255.75	-6.35%
5,887	Crestor	\$ 176.40	\$ 148.11	-19.10%
265	Copaxone	\$ 3,887.17	\$ 3,931.32	1.12%
4,117	Adderall Xr	\$ 258.06	\$ 155.31	-66.16%
1,099	Plavix	\$ 242.59	\$ 275.04	11.80%
58	Humira Pen	\$ 3,987.56	\$ 3,966.66	-0.53%
2,360	Niaspan	\$ 238.46	\$ 203.77	-17.03%
4,492	Singulair	\$ 208.30	\$ 200.20	-4.05%
3,587	Cymbalta	\$ 258.56	\$ 215.19	-20.15%
171	Effexor Xr	\$ 295.68	\$ 288.24	-2.58%
138,735				-9.24%

Notes:

- 1 BidRx Pricing reflects the cost of the same prescription paid by Navitus, based on the auction price available at the time the prescription is filled.
- 2 The Navitus pricing reflects the sum of the ingredient cost, pharmacy dispensing fee, and rebates, based on the negotiated rates at the time the prescription is filled.
- 3 Negative values reflect NVT pricing being lower than BidRx pricing

More detailed information about the analysis can be provided by staff upon request.

Excerpt from 2011 Wisconsin Act 32
Enacted: June 26, 2011; Published: June 30, 2011

2011 Wisconsin Act 32

– 516 –

2011 Assembly Bill 40

tion, remain in effect and are transferred to the department of administration. The department of administration shall carry out any obligations under such a contract until the contract is modified or rescinded by the department of administration to the extent allowed under the contract.

(d) *Rules and orders.* All rules promulgated by the office of the secretary of state in effect on the effective date of this paragraph that are primarily related to administrative services, as determined by the secretary of administration, remain in effect until their specified expiration date or until amended or repealed by the department of administration. All orders issued by the office of the secretary of state in effect on the effective date of this paragraph that are primarily related to administrative services, as determined by the secretary of administration, remain in effect until their specified expiration date or until modified or rescinded by the department of administration.

(e) *Pending matters.* Any matter pending with the office of the secretary of state on the effective date of this paragraph that is primarily related to administrative services, as determined by the secretary of administration, is transferred to the department of administration and all materials submitted to or actions taken by the office of the secretary of state with respect to the pending matter are considered as having been submitted to or taken by the department of administration.

SECTION 9143. Nonstatutory provisions; State Employment Relations, Office of.

(2q) HEALTH INSURANCE OPTIONS.

(a) The director of the office of state employment relations and the secretary of employee trust funds shall study the feasibility of all of the following:

1. Offering to employees eligible to receive health care coverage under subchapter IV of chapter 40 of the statutes, beginning on January 1, 2013, the options of receiving health care coverage through either a low-cost health care coverage plan or through a high-deductible health plan and the establishment of a health savings account, as described in **26 USC 223**.

2. Implementing a 3-level health insurance premium cost structure that would establish separate premium levels for single individuals, married couples with no dependents, and families with dependents.

**Vetoed
In Part** 3. Implementing a program, **beginning on January 1, 2012**, to provide an online marketplace for the purchase of prescription drugs as a supplement to the pharmacy benefit management program provided under the group insurance plans offered by the group insurance board.

4. Requiring state employees to receive health care coverage through a health benefits exchange established pursuant to the Federal Patient Protection and Affordable Care Act of 2010.

5. Creating a health care insurance purchasing pool for all state and local government employees and individ-

uals receiving health care coverage under the Medical Assistance program.

(b) No later than October 31, 2011, the director and secretary shall report their findings and recommendations to the governor and the joint committee on finance.

SECTION 9148. Nonstatutory provisions; Transportation.

(1) **CERTIFICATES OF TITLE.** Notwithstanding chapter 342 of the statutes, as affected by this act, beginning on the effective date of this subsection, the department of transportation may, for 6 months after the effective date of this subsection, issue and deliver certificates of title under applicable provisions of chapter 342 of the statutes that are in effect on the day before the effective date of this subsection.

(3u) DISSOLUTION AND WINDING DOWN OF TRANSIT AUTHORITIES.

(a) Any authority created under section 66.1039, 2009 stats., is dissolved on the effective date of this paragraph.

(b) The authority under section 59.58 (7), 2009 stats., is dissolved on the effective date of this paragraph.

(c) After the effective date of this paragraph, the counties of Kenosha, Racine, and Milwaukee, and all members of the governing body of the authority under section 59.58 (7) of the statutes, shall begin the process of winding down the authority and shall complete the process by the time the authority is dissolved as provided in paragraph (b). All assets and liabilities of the authority under section 59.58 (7), 2009 stats., including any accumulated moneys received from the fees imposed under subchapter XIII of chapter 77 of the statutes, shall become the assets and liabilities of the counties of Kenosha, Racine, and Milwaukee and shall be divided and distributed as follows:

1. Fifty percent to Milwaukee County.
2. Twenty-five percent to Kenosha County.
3. Twenty-five percent to Racine County.

(4f) **COPPER CULTURE STATE PARK DIRECTIONAL SIGNAGE.** Notwithstanding any eligibility criteria or other criteria or specification under section 86.196 of the statutes, the department of transportation shall erect 2 tourist-oriented directional signs, one for each direction of travel, along STH 41 in Oconto County for Copper Culture State Park in Oconto County. The department may not charge any fee related to any sign erected under this subsection.

(7f) **SOUTHEAST WISCONSIN FREEWAY FUNDING.** **Prior to July 1, 2011**, the department of transportation shall determine all of the following, calculated as of the end of fiscal year 2010-11, based upon the portion of unencumbered funds for the department's southeast Wisconsin freeway rehabilitation program that are associated with projects that will become part of the department's southeast Wisconsin freeway megaproject program:

**Vetoed
In Part**

Excerpt from Act 32 ETF/OSER Health Insurance Options Feasibility Study Dated October 31, 2011

Act 32 ETF/OSER Health Insurance Options Feasibility Study

Study Topic #3

Implementing a program to provide an online marketplace for the purchase of prescription drugs as a supplement to the pharmacy benefit management program.

Background

There are several definitions of an online prescription drug marketplace in the industry today. These definitions can be categorized in three ways:

- a. A Web portal that provides members with drug cost information based on specific pharmacies;
- b. An Internet-based search feature that lists preferred formulary alternatives and the cost differential associated with each; and
- c. An Internet-based electronic marketplace linking buyers (members) and sellers (pharmacies) together.

It is unclear in the statutory language, what is specifically meant by an "online marketplace." However, this study interprets the requirement to encompass the third category (c) above.

There are several companies that provide the services defined in the three categories, and each provides varying levels of integration with a group insurance plan's benefit design. The level of transparency to the plan and the members can also vary greatly.

The following companies are just some among many that offer tools that provide online consumer-based prescription drug pricing and information:

- DestinationRx
- LowestMed

- Bid for Medicine
- RxEOB
- Pill Bid
- GoodRx
- RxBids
- BidRx

These tools provide varying degrees of pricing transparency, consumer engagement, accessibility to therapeutic alternatives and facilitation with prescribing physicians. Some tools permit the legal purchase of prescription drugs online.

The online tools offered by DestinationRx, RxEOB, GoodRx and LowestMed can be categorized as online prescription pricing comparison tools, and fit into categories (a) and (b) above. They are more broadly defined as online tools that enable members to compare prescription benefit out-of-pocket costs. Online prescription drug pricing tools target both insured and uninsured consumers. It should be noted that Navitus Health Solutions (Navitus), the Group Insurance Board's contracted Pharmacy Benefit Manager (PBM), currently provides similar tools to state group health insurance members.

Examples of companies that offer online bidding or an "auction" for prescription drugs include: RxBids, BidRx, Bid for Medicine and Pill Bid. These companies generally define an online marketplace as an Internet-based electronic marketplace linking buyers and sellers and fall into category (c) above. Registration is generally provided at no cost to the consumer and targets both insured and uninsured consumers.

These online bidding tools appear to provide minimal incentives for insured individuals covered by flat co-payment structured

pharmacy benefits. These programs may be most attractive for consumers enrolled in high-deductible and/or coinsurance prescription drug benefit plans or the uninsured.

While these tools may be useful for some consumers, online marketplace options present a myriad of concerns, including limited consumer participation, formulary adherence, network compliance, limited pharmacy participation, and safety issues through poly-pharmacy usage if not coordinated with the current pharmacy benefit manager. Poly-pharmacy is a term used to describe the situation when a patient is prescribed multiple, uncoordinated medications. Poly-pharmacy often occurs because an individual patient may be under the care of multiple physicians and may have prescriptions filled at multiple sources. These prescriptions may interact with each other, causing side effects (sometimes dangerous) or they may work against each other, eliminating the benefit of the medication.

Few studies have been published regarding the effectiveness of decreasing prescription drug costs through the utilization of online prescription drug pricing and auction tools. According to the article, "Evaluation of Health Plan Member Use of an Online Prescription Drug Price Comparison Tool," published by the Journal of Managed Care Pharmacy: "Although a number of health plans and PBMs have implemented online cost comparison tools, there is little published quantitative research evaluating the use of these price tools."⁷

According to a study by the Pew Internet & American Life Project, "only 4% of Americans have ever purchased prescription drugs on the Internet."⁸ This study also notes that purchasing drugs on the Internet also presents

publicly perceived safety concerns: "Sixty-two percent of Americans think purchasing prescription drugs online is less safe than purchasing them at a local pharmacy." Not only have few Americans purchased drugs online, insured consumers are less likely to do so. According to a study of prescription drug, hospital, and physician cost comparison tools by the California Health Care Foundation in 2006, consumers with prescription drug insurance were less likely to search for prescription prices online.⁹

The volume of prescriptions purchased in the United States between 1999 to 2009 increased by 39%, which is a significant increase in utilization, considering the population in the United States increased by only 9%.¹⁰ Recent studies reported by Express Scripts illustrate that the demand for prescription drugs is relatively price inelastic, ranging from -0.18 to -0.60, which means that the demand response is somewhat small relative to the increase in price.¹¹ For example, given price elasticity of -0.18, a 40% increase in prescription drugs costs leads only to a 7.2% decrease in utilization. One of the main objectives of an online marketplace is to increase competition and decrease costs to the consumer. Given the general price inelasticity of prescription drugs, an online marketplace may be best suited to the target audiences noted above – those in HDHPs, and the uninsured.

If policymakers would like to further explore an online bidding tool or an "auction" for prescription drugs, there are a number of considerations that should be investigated:

- The online prescription drug marketplace is relatively new concept and there is no time-tested business model for this type of service. There needs to be a clear understanding of the online marketplace

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vendor's business model to ensure that it aligns with the intentions of policymakers, as well as the group health insurance program.

- The potential for savings derived from discounted pricing will be dictated by the design of the services from online marketplace vendors, the availability of drugs and the pharmacies/manufacturers that are contracting with the vendor. If the vendor has a limited network of pharmacies, there may be limited utilization by state employees.
- Regulatory structure, safety issues, and liability issues would all have to be considered carefully. This would also include what protections and recourse members would have in this system.
- How this type of drug purchasing opportunity would benefit our members would have to be clearly identified along with the incentives for our members to utilize this service. Lower drug prices are, of course, an obvious incentive if the member is paying out of their own pocket. Likewise, being able to shop for the lowest price on a drug that is currently excluded from our existing PBM formulary would benefit the member.
- The level of involvement of the major players in the pharmacy benefits industry (e.g., Walmart, Walgreens, etc.) should be evaluated. If the major players will not participate, then investigating the reasons why may offer insight into the validity of the concept.
- Identifying who profits or benefits from

the asserted "savings" is imperative to ensure there is transparency. In addition, an evaluation of the impact on in-state businesses (i.e., local, retail pharmacies) should be performed, as well as the impact on our current pharmacy benefit program (e.g. rebates, negotiated discounts, pharmacy network contracting, clinical program management, etc.).

- While some vendors do have customization provisions for plan sponsors to include benefit plan designs, member eligibility and copayment structuring, there is no clear indication of what this might cost if the state were to sponsor such a benefit. Likewise, the contractual provisions would have to be scrutinized if the Group Insurance Board or the state were to enter into any specific agreements with these vendor types. (Note: it is unclear whether the intent of the statutory language is to have the Group Insurance Board administer, and contract for, these services.)
- While the vendors contract with retail pharmacies in a member's area, as well as mail order pharmacies, there is no clear indication that the vendors are partnered with a PBM or some other entity that would have a claim adjudication link.

Based on the information gathered, it appears that auction-driven online marketplace tools could potentially impact current plan rebates and negotiated discounts, create a loss of interaction between members and the pharmacist, and lack in transparency. Tools of this nature may be less effective than what a PBM would provide in a pure pass-through arrangement.