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CORRESPONDENCE MEMORANDUM

DATE: October 16, 2013
TO: Group Insurance Board
FROM: Jeff Bogardus, Manager, Pharmacy Benefit Programs
Mary Statz, Director, Health Benefits & Insurance Plans Bureau
SUBJECT: Online Marketplace for Prescription Drug Purchases Update

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

At the May 21, 2013 Group Insurance Board (Board) meeting, staff presented information to the Board referencing a memo dated April 25, 2013, which discussed the study of a supplement to the existing pharmacy benefit with an online marketplace option for the State and Wisconsin Public Employers (WPE) group health insurance programs. This memo is to inform the Board that BidRx, the online prescription drug auction model that was analyzed in the April 25, 2013 memo, provided staff with concerns in a written response – a copy of which is attached. As a reminder, the Board did not recommend further analysis of an online market place at the May 21, 2013 Board meeting.

Discussion

The BidRx response focuses on issues that were specific to a report required by the Office of State Employment Relations (OSER) and the Department of Employee Trust Funds (ETF) titled "Wisconsin Act 32 ETF/OSER Health Insurance Options Feasibility Study", dated October 31, 2011. This report to the legislature was shared with the Board at the November 8, 2011 meeting. Excerpts from this report, specific to pharmacy benefits, were included with staff's April 25, 2013 analysis.

BidRx stresses transparency of drug pricing as the major driver in the potential success for a client who utilizes the online auction model. BidRx indicates this affects member behavior and competition among pharmacies. Although this may be true, other factors will also affect the overall impact of the program. Examples include copayments and benefit differentials; the complexity of benefit design and its administration; and the impact on negotiated pharmacy network and rebate contracts the Pharmacy Benefit Manager (PBM) currently maintains.

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

Electronically Signed:
10/29/2013

Board	Mtg Date	Item #
GIB	11.12.13	6C

Online Marketplace for Prescription Drug Purchases Update

October 16, 2013

Page 2

BidRx addressed a number of points that they took issue with regarding staff's initial analysis of the claims re-pricing performed by BidRx that did not result in substantial savings. Staff analysis was based on our current benefit design. Based on all of the information that has been compiled, an online marketplace could positively impact certain types of customers, such as cash customers who either do not have a structured pharmacy benefit plan or are looking to obtain non-covered/non-formulary drugs outside of the current benefit; or customers with high deductible health plans.

The online marketplace analysis suggests members seeking the lowest overall drug cost may have to use a mail-order pharmacy or another retail pharmacy they have not previously used. Our experience with our population has shown that members are more likely to maintain their relationship with the pharmacy they currently use. This is partially demonstrated in the low use of the existing mail order service (less than 2% of members), despite the incentive of a lower copay. In addition, the current pharmacy benefit design does incent the member to use lower cost drugs based on formulary design with a varying copay structure and the generic substitution requirements built into Uniform Benefits. Currently, generic utilization by members of the State and WPE programs is just over 79%. The generic substitution rate is at 99%¹. Moving to a coinsurance arrangement, which would likely be required to maximize any potential savings of an online marketplace model, would have to be carefully weighed for its impact on the member, as well as its impact on current pharmacy benefit structure.

BidRx indicates the desire to provide a supplement to the current pharmacy benefits administered by the Board's contracted PBM, Navitus Health Solutions, LLC (Navitus). This would require considerable coordination with Navitus in order to process claims and ensure uniform benefits provisions are correctly applied.

In addition, at the May 21, 2013 meeting the Board passed a motion to extend the current PBM contract with Navitus for a two-year extension and moved to have staff present the option of issuing a Request for Proposal (RFP) for PBM services in November 2014, for rebidding in 2015. Staff believes that an online marketplace approach, if it were desired by the Board, would be best realized through a competitive, systematic procurement in conjunction with a scheduled rebid of the PBM contract.

Staff will be at the Board meeting to answer questions.

¹ Generic Substitution is a provision of the Uniform Benefits that requires generic equivalent drugs to be dispensed unless the prescriber specifies a brand name drug on the prescription and indicates that no substitution may be made.



Mr. Jeff Bogardus
Manager, Pharmacy Benefit Programs
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Dear Mr Bogardus,

Thank you for the opportunity to respond to the **Correspondence Memorandum** dated April 25, 2013 from you to the Group Insurance Board regarding an **Analysis of Implementing an Online Marketplace for Prescription Drug Purchases**

You noted that “this memo is for informational purposes only. No Board action is required.” Furthermore, “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.” The comments below from BidRx also are intended as information that may be advisory for the Board.

1st Quote from Correspondence Memorandum

“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.”

Comment on above 1st Quote

BidRx believes the impact on current rebates, negotiated discounts, member-pharmacist interaction and transparency would result in enhanced results for ETF. The hallmark of our online marketplace is transparent competition. This

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means that members (and doctors) see prices of alternative drugs, member copays, discounts (rebates) from manufacturers when available, and prices from pharmacies that want to fill prescriptions. From every commercial experience, this type of transparent competition drives prices down and increases efficiencies among sellers so they can further lower prices and/or offer services that attract new customers. The above statement is in opposition to results from head to head competition available to consumers who use online marketplaces like eBay, Amazon.com, LendingTree.com, Travelocity.com, etc., to investigate products, services and prices and make purchases. Our experience shows the same results when members use BidRx.com for prescription purchases.

Since the same Wisconsin pharmacies can participate in BidRx and Navitus networks and all purchases can be available for both drug benefit administrators if data is exchanged between them, members, doctors and pharmacists for the first time can have access to the complete list of medications purchased by each member. BidRx believes this improves the opportunity for checking interactions, therapy duplication, and compliance issues.

Interaction between members and pharmacists still exists because every prescription whether ordered through an online marketplace or not is filled by a pharmacist. Licensed pharmacists practicing in a local pharmacy or mail order pharmacy have the same opportunity for interaction with members. The online marketplace does not change any requirements of pharmacists for prescription fulfillment, counseling members and/or protecting members from unsafe medications. Moreover, interaction may improve because members have more information with which to engage pharmacists in discussions.

It is impossible to create a lack in transparency by using an online marketplace. Although PBMs offer little to no transparency into actual claims transactions for members, prescribers, or ETF, the BidRx online marketplace allows all interested parties to input prescriptions, see network pricing, see benefits applied to original and similar prescriptions, see the amounts paid by members and ETF, and see the competitive bids from participating pharmacies. This ability to shop and compare before purchases are made can lower the cost/day of therapy for ETF, perhaps comparable to the savings for one of our customers from \$2.12 for PBM to \$1.47 for BidRx.

The proposal is to augment the existing PBM service with the transparent and competitive information that is available only through an on-line marketplace. As a result, members would have access to costs of same and alternative medications from competing pharmacies – even including those available through the PBM – and could discuss lower cost options with prescribers and choose the pharmacy offering the best value from among all choices. It is unlikely that a traditional, legacy PBM-administered system with limited or no access to competing products and prices is preferred or superior to an open

marketplace where products, services and prices are visible to all. Even in the absence of a benefit design where members' copays are low, it is difficult to believe that educated teachers – if provided access to the pricing information on alternative drugs from competing pharmacies – would ignore the opportunity to be frugal spending the Trust Fund's money.

2nd Quote from Correspondence Memorandum

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. (And footnote from the table on Page 5 says "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.")

Comment on above 2nd Quote

Actually, the reader doesn't know if Navitus' costs for these top 20 drugs are lower or higher because factors used in comparing costs are not the same. Although the authors attempt to align pricing methodologies between BidRx and Navitus to arrive at an acceptable comparison of drug costs, they fail in a one major respect. As the footnote on Page 5 states, Navitus' pricing reflects "rebates." BidRx's pricing methodology matches Navitus' pricing methodology in every way except "rebates" which are not included in BidRx prices. If rebates are used on one side of the pricing comparison, they should be used on the other side. Conversely, exclusion from one side should mean exclusion from the other side. Since BidRx does not intend to collect rebate dollars from manufacturers on behalf of the ETF, Navitus can use prescription purchases on BidRx by eligible members and claim rebates at the same contract rate. Removing rebates from the calculation of Navitus' costs for these top drugs would substantially alter the stated results. We can't speculate on the final results because we don't know the value of rebates for these top drugs, but we do know that exclusion of rebates from Navitus price calculations would result in higher costs to ETF. Perhaps the results would then favor BidRx. We don't know because we don't know the value of rebates for the top 20 drugs

3rd Quote from Correspondence Memorandum

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.

Comment on above 3rd Quote

This statement does not seem like a logical exercise because, at the present time, EFT members don't see actual net prices charged by pharmacies until they go to pharmacies, present their drug card and prescription and get quotes. However, on BidRx.com, members get pricing information from competing pharmacies when they enter their prescription. Re-pricing claims based on the lowest cost pharmacy in the Navitus network when members don't have the information and can't be expected to act on it either, is inappropriate. In fact, the current claim price clearly represents members' choices in this "blind" network. The whole purpose of price transparency on BidRx.com is for members to compare and choose the best value, wherever it's found, BidRx, Navitus, or somewhere else. Providing transparent, competitive pricing information so members can buy at the best available price is always the goal at BidRx.

At this time, Navitus' network pharmacies don't really compete on price because they know that members with tiered copayments (\$5 or \$15 or \$35) have the same copayment at every pharmacy no matter what the pharmacy charges EFT for the prescription. However, pharmacies participating on the BidRx marketplace have their prices clearly shown on www.BidRx.com and know that most consumers are concerned about the total cost of prescriptions.

It shouldn't be a matter of "if Navitus were to re-price these claims" – it should be a matter of always giving members access to the information they require to make informed decisions about the best available value. Only with complete price transparency and head to head competition from pharmaceutical manufacturers for choice of product and from pharmacies from fulfillment can members get and act on best prices.

4th Quote from Correspondence Memorandum

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

Comment on above 4th Quote

Navitus believes that BidRx pricing is available to Navitus. However, customary U&C pricing typically does not include prices that are extended to members of a special group like Express Scripts or CVS Caremark or BidRx. Rather, U&C pricing is defined as prices available to cash customers. If pharmacies were required to pass on the best pricing they give to members served by any PBM or special group, there would be no need for PBMs to negotiate individual pharmacy contracts because all billed prices would be the same. And clearly one of the primary points PBMs make to new or repeat customers is pricing supremacy vs.

other PBMs. Prices given to BidRx customers are not U&C prices because customers are required to create individual accounts and become members of a benefit plan and our Competitive Electronic Marketplace (CEM™).

5th Quote from Correspondence Memorandum

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.

Comment on above 5th Quote

The implication from this statement is that EFT members don’t care about total drug costs or the financial stability of the EFT. We maintain that members care about total costs as well as they care about their cost-share. But in order to act responsibly on total cost of prescriptions members need timely, actionable, transparent and competitive information available only on BidRx.com. BidRx is a uniquely capable solution since it is patented in the U.S. It’s a service that brings together buyers (members, prescribers and the EFT) and sellers (pharmaceutical manufacturers and pharmacies) in an interoperable & transparent site where the best value in drug treatment can be determined before prescriptions are written and purchases are made.

BidRx concurs with the statement that member motivation can be improved by enhancements to benefit design. A change where members’ costs rise and fall directly with drug costs from manufacturers and final charges from pharmacies is such an improvement. This change can be accomplished by adopting coinsurance in place of tiered copayments. However, traditional PBMs have historically advised against coinsurance because members with coinsurance require greater transparency so better decisions can be made....and PBMs are not in the transparency business. BidRx is. We welcome the opportunity to immediately provide tools that allow members and the ETF to shop for the best medication value whether or not benefit design changes are made.

6th Quote from Correspondence Memorandum

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.

Comment on above 6th Quote

The real point of transparency and competition is not uptake. The real points are these: first, on-line, real time transparency on prices is necessary for members, EFT and providers to act as informed consumers that make value decisions on purchases, and; second, head-to-head competition between “sellers” (manufacturers vs. manufacturers for choice of drug product and pharmacy vs. pharmacy for fulfillment) is essential so sellers are continually pushed to buy better, improve efficiencies, upgrade services to match customer demands, and/or develop different products and services. These improvements all result from a transparent, competitive marketplace. These improvements empower members. These services are not now offered for the EFT. They can be offered immediately via a partnership with BidRx.

7th Quote from Correspondence Memorandum

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.

Comment on above 7th Quote

Change can be disruptive, but change is always happening. Therefore, plans for managing change are necessary and essential. If the objective of the ETF is to judiciously manage trust funds so they are available for future generations in the face of ever increasing health care costs, changes that empower members to assist in achieving lower costs through prudent purchase are desirable. Disruption is softened by strategic transition from a legacy benefit to a future benefit that is both member-wise and consistent with the Board’s long-term fiduciary responsibility.

With regard to a strategy for the future, education is usually the first step: provide members with knowledge about cost differences of therapeutic alternatives and prices from available pharmacies. Empowerment is the second step: give members the tools needed to lower costs instantly, conveniently and efficiently. Reward is the third step: members that save money for the EFT proportionally save money for themselves. Often characterized as “alignment of interests” between members and sponsors, proportional savings can be as simple as coinsurance. With coinsurance, whatever the portion paid by participants, 10%-90%, 20%-80%, 30%-70% or another split, members quickly realize shared rewards when total costs are reduced.

BidRx, a Wisconsin-based company, is perfectly positioned to deliver these strategic transition steps for EFT and its members.

8th Quote from Correspondence Memorandum

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.

Comment on above 8th Quote

The 8th quote is written totally from the perspective of the status quo. It could have been written by a buggy salesman when confronted by Fords “horseless carriage.” Can it possibly be true that these concerns are real? Are they representative of statements in reaction to any new technology like theaters vs. DVDs, vinyl records vs. CDs, tax accountants vs. TurboTax, desktop computers vs. tablets, chalkboards vs. PowerPoint, film vs. digital, checks vs. credit cards, and so on. We submit they weren’t real concerns 25 years ago when PBMs, formularies, networks, etc., didn’t exist and they aren’t real concerns now. They are a loud cry to maintain the status quo no matter how much improvements are needed and available.

Complete coordination with the current pharmacy benefit manager including using the same formulary is anticipated by BidRx. But it takes two to Tango. As stated earlier, BidRx is used best as a supplement to an existing PBM so our transparent competitive marketplace can educate, empower and reward

members that make wise, value-based decisions whenever and where ever they purchase medications.

9th Quote from Correspondence Memorandum

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

Comment on above 9th Quote

This quote exposes a major problem with excessive health care costs in America in the statement “consumers with prescription drug insurance were less likely to search for prescription prices online.” Although the quote pertains to drugs, it can easily be applied to the broad range of health care products and services. But it is surely out of date and not applicable in 2013 because nearly all insurers and self-funded benefit sponsors offer some types of cost comparison tools for their members. A recent search for “use of online cost comparison tools for healthcare” elicited 85,600,000 results. Use has become widespread. Even the U.S. Government is engaged in the use of cost comparison tools in the current mandate of “Insurance Exchanges” under the Affordable Care Act.

Furthermore, the quote does not conclude that insurance itself is the barrier to use of cost comparison tools. Rather, the implication is that insurance design is the culprit. Admittedly, we all may have participated in creating a generation of consumers that believe copay equals total cost. By offering all generic drugs for \$5, a logical assumption by members might be that all generic drugs cost the same. Similarly, offering all formulary brand drugs for \$15 could lead to the assumption that all formulary brands cost the same. Yet, in the table of “Highest Cost and Most Utilized Drugs” by members of EFT, generic prescriptions ranged in total cost from \$3.83 to \$18.97 and brand drugs ranged in total cost from

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\$148.11 to \$3966.66. For generic drugs, EFT paid from \$0 (\$5 copay covers the entire cost for drugs available for \$3.83) to \$13.97 (\$18.97 - \$5) and for brand drugs, EFT paid from \$133.11 (\$148.11 - \$15) to \$3,951.66 (\$3,966.66 - \$15). It's important to accept from this data that medications vary in price as much or more than TVs, coffee brewers or cars vary in price. Yet we present a very different message by fixing copayments that independent of total cost.

With convenient and effective tools like BidRx now available for cost comparison – and for getting competitive bids from providers – benefit sponsors are taking necessary steps for changing the mindset of members by designing new benefits. But this is not necessary to get started on a strategy to educate and empower members by offering BidRx as an integral component of their drug program.

10th Quote from Correspondence Memorandum

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.

Comment on above 10th Quote

The author uses price inelasticity of prescriptions as prices rise to support the hypothesis that lower prices available through a competitive online marketplaces (BidRx) wouldn't change behavior all that much (perhaps only 7%). Unfortunately, the author is using a response to increase in price to support a response to decrease in price. But Express Scripts' report doesn't address price

decreases. Therefore, their results may not apply to changes in behavior as prices go down or when members know about alternative drugs and prices.

BidRx, however, has evidence to answer the specific question: "Do price decreases change behavior?" One of our clients with a long-standing copay benefit through a PBM offered BidRx as an option for employees. The copay benefit (\$20 generic - \$40 brand) through the PBM stayed the same as it was previously. However, BidRx copays were ZERO, meaning any drug purchased through BidRx.com from a bidding pharmacy cost employees nothing. We argued against a zero cost for all drugs, but the employer believed in the strategy: educate, empower and reward. The results were revealing:

- 1) 62% of all prescriptions were purchased through BidRx (38% stayed with the traditional PBM card)
- 2) Overall prescription drug costs paid by the benefit sponsor decreased by 8% compared to the previous period.

Clearly, behavior changed: purchases went from none to over 60% through the online competitive marketplace. Even more important, overall costs went down despite zero cost-share for employees who used competitive bidding for drug purchases. When examining the metrics in more detail, we found that cost/day of therapy was reduced from \$2.92 PBM to \$1.77 BidRx. At the same time, the average day's supply rose from 21.4 PBM to 57.1 BidRx. Clearly, members presented an opportunity to shop for the best value quickly changed behavior when offered the BidRx option for lowering drug costs.

11th Quote from Correspondence Memorandum

- **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.**

Comment on above 11th Quote

When PBMs first started, neither major chains nor independents participated in their networks. But time and customers change the business dynamic.

BidRx visited all the major players in the pharmacy community including Walgreens and Wal-Mart. They gave us essentially the same message: “We currently dominate the pharmacy marketplace compared to independent pharmacies. Because BidRx levels the playing field between chains and independents, we won’t participate and help you succeed. However, when you succeed, please let us participate in your marketplace.”

Major chains have succeeded in taking business from independents and business continues to shift to chains every day. Therefore, at this time chains have no interest in supporting an online, competitive marketplace that exposes prices and allows small independent pharmacies to market their prices and services to customers. Interestingly, mail order pharmacies – especially those owned by PBMs – likely have the same reluctance toward BidRx because their prescription prices are shown and can be compared directly with prices available from independent retail pharmacies that BidRx allows to compete as mail order pharmacies. We find it very interesting that the big guys seem to be more afraid of head-to-head competition than the small guys.

Perhaps knowledge of prices by members can reverse the business trend from independents to chains. Perhaps trends won’t change.

We propose that knowledge of prices by members accompanied by power to act accordingly and rewards for making value-based decisions is consistent with a sound strategy for the ETF. BidRx is ready and able to immediately enroll members in an online marketplace that benefits members and the ETF.

Thank you again for this opportunity. If you have additional questions, please contact us at your convenience.

Sincerely,

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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.

(2g) 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

Act 32 ETF/OSER Health Insurance Options Feasibility Study

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.