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Correspondence Memorandum

Date: August 4, 2017
To: Group Insurance Board
From: Jeff Bogardus, Manager of Pharmacy Benefit Program
Renee Walk, Strategic Health Policy Advisor
Office of Strategic Health Policy
Subject: 2018 Pharmacy Benefit Manager Contract & Program Changes

ETF requests the Group Insurance Board (Board) approve the following pharmacy benefit program modifications to maximize program savings in 2018:

- 1. Mandatory specialty pharmacy benefit**
- 2. Narrower pharmacy network**

Background

At the May 24, 2017, meeting the Board approved the Department of Employee Trust Funds (ETF) Secretary issuing a letter of intent to award a one-year contract with three possible two-year extensions for pharmacy benefit manager (PBM) services to Navitus Health Solutions (Navitus). While Navitus was the highest-scoring vendor in the overall evaluation of the request for proposals (RFP) that generated the contract, Navitus was the second-highest in the cost proposal scoring. The Board directed ETF staff to pursue additional contract savings through the negotiation process.

Contract Negotiation Process and Outcomes

ETF and Navitus negotiation teams met weekly in June. ETF requested that Navitus provide cost reduction options and clarifications to the cost proposal submitted. Negotiations progressed quickly; the contract was executed on July 19, 2017.

Cost Savings

The negotiated cost estimate for 2018 is \$9.6M lower than the original best and final offer, with an additional \$4.1M in savings possible from implementing the two proposed changes in this memo. Estimates are based upon the improved contract guarantees and prior year program performance.

Reviewed and approved by Lisa Ellinger, Director, Office of Strategic Health Policy

Electronically Signed 8/22/17

Board	Mtg Date	Item #
GIB	8.30.17	6B

The 2018 contract includes increases in guaranteed discounts for brand, generic, and specialty drugs, as well as rebate guarantees for brand and specialty medications. The contract also includes reduced administrative costs. The enhanced rates bring the Navitus cost proposal to within 0.4 percentage points of the 2018 year contract proposal from OptumRx, the vendor that scored highest on the cost section of the RFP. Negotiated cost savings are displayed in Table 1 below.

Table 1. Pharmacy Benefit Manager Negotiated Cost Savings.

Improved 2018 Contract Guarantees	\$9.6M
Rebates – Commercial	\$ 2.3M
Rebates – EGWP	\$ 0.3M
Network Discounts – Commercial	\$ 4.1M
Network Discounts – EGWP	\$ 2.1M
Administrative Fee - Commercial	\$ 0.8M
Items Pending Board Approval	\$4.1M
Narrow Pharmacy Network	\$ 2.9M
Mandatory Specialty Program	\$ 1.2M
Additional Savings Opportunities	\$5.5M
Walgreens Enhanced Discounts (2017)	\$ 3.7M
Formulary Changes for OTC Drugs	\$ 0.8M
90-Day At Retail Channel Promotion	\$ 1M
Total Negotiated Cost Savings	\$19.2M

Negotiated Program Changes

The 2018 contract modifies several elements of the current program.

- **Mail order pharmacy services through Serve You:** The mail order pharmacy benefit will remain voluntary, but Serve You will assume the administration of the program as a Navitus-contracted provider. Serve You is a Wisconsin-based mail order pharmacy with a strong track record of customer service, and will provide improved discounts on mail order pharmacy. ETF staff will meet with Navitus and Serve You to develop a transition plan. The resulting savings are reflected in the overall discount and rebate figures above.
- **Pharmacoadherence programs:** Pharmacoadherence programs help members follow their prescription drug regimens, which improves member health and can decrease overall health program costs. Navitus will include three pharmacoadherence programs at no additional cost to the contract. A program for respiratory medication adherence will be added to both the Medicare and non-Medicare population, and ETF staff will work with Navitus to identify two additional disease states for which programming would be appropriate for the ETF commercial population.

- **90-Day at retail promotion:** Navitus will provide a promotional campaign to increase the frequency of 90-day prescription fills at retail. Navitus estimates that an 8% increase in the use of 90-day at retail prescriptions alone would result in an additional \$1.7M in savings in addition to the benefits of increased member adherence. These savings would be in addition to the overall contract savings.
- **Discounted drug list:** Navitus will develop a list of drugs that will be made available to members at the discounted costs Navitus negotiates with manufacturers. The member will be required to pay the full cost of the drug, but at the Navitus discounted rate. This results in no cost for the State and Wisconsin Public Employers group health insurance programs. Drugs included on this list will still require a prescription to get the discount, will be considered non-covered drugs, and will not directly compete with covered drugs on the formulary or accrue towards a member's maximum out of pocket. Members will also be able to use employee reimbursement account funds to pay for the drug.
- **Formulary Changes:** At the August 2017 Navitus Pharmacy and Therapeutics (P&T) Committee meeting, the P&T committee approved formulary changes to the nasal steroid and proton pump inhibitor (PPI) drug classes. The formulary changes limit the number of such drugs available on the commercial formulary, since highly-effective drugs are now widely available over the counter. This change will contribute approximately \$800,000 in savings to the program in 2018 and will have minimal financial impact on the member.

The ETF negotiation team also tentatively accepted the following changes, pending Board approval:

1. **Selecting a mandatory specialty pharmacy benefit:** Implementing a mandatory specialty pharmacy benefit for the commercial (non-Medicare) population in state group health insurance program ensures that we get the best possible pricing on specialty drugs, and that our members will have access to clinical programs and integrated care that will support adherence and overall member health. Lumicera Health Services (Lumicera) and UW Health Pharmacy Services (UW) will be the two preferred providers of the mandatory specialty benefit. This change will exclude the use of other retail and specialty pharmacies for specialty medications. Navitus will still maintain contractual relationships with other specialty pharmacies to ensure access to all limited distribution drugs.

Lumicera is owned by Navitus and provides the same transparent and full pass-through business model, which allows for better specialty drug pricing. In addition, Navitus provides various programs and services that support the patient and provide a high level of integrated care with their doctors. Navitus recommended the inclusion of UW specialty pharmacy services based on many factors, which include the UW's own integrated care model, the high volume of group health insurance program members who utilize UW health and specialty

pharmacy services, and the favorable contracting terms Navitus can negotiate with UW. This arrangement also provides a specialty pharmacy benefit program that is completely Wisconsin-based.

The current benefit design includes two Level 4 Specialty Drug benefit tiers: preferred and non-preferred. Members that use specialty drugs are incentivized to utilize the preferred specialty pharmacy (Diplomat Specialty Pharmacy) by allowing a \$50 flat copayment for specialty drugs that are covered on the formulary at Level 4. If a member chooses to use another pharmacy (non-preferred), their cost share is a 40% coinsurance with a maximum of \$200 per 30-day fill.

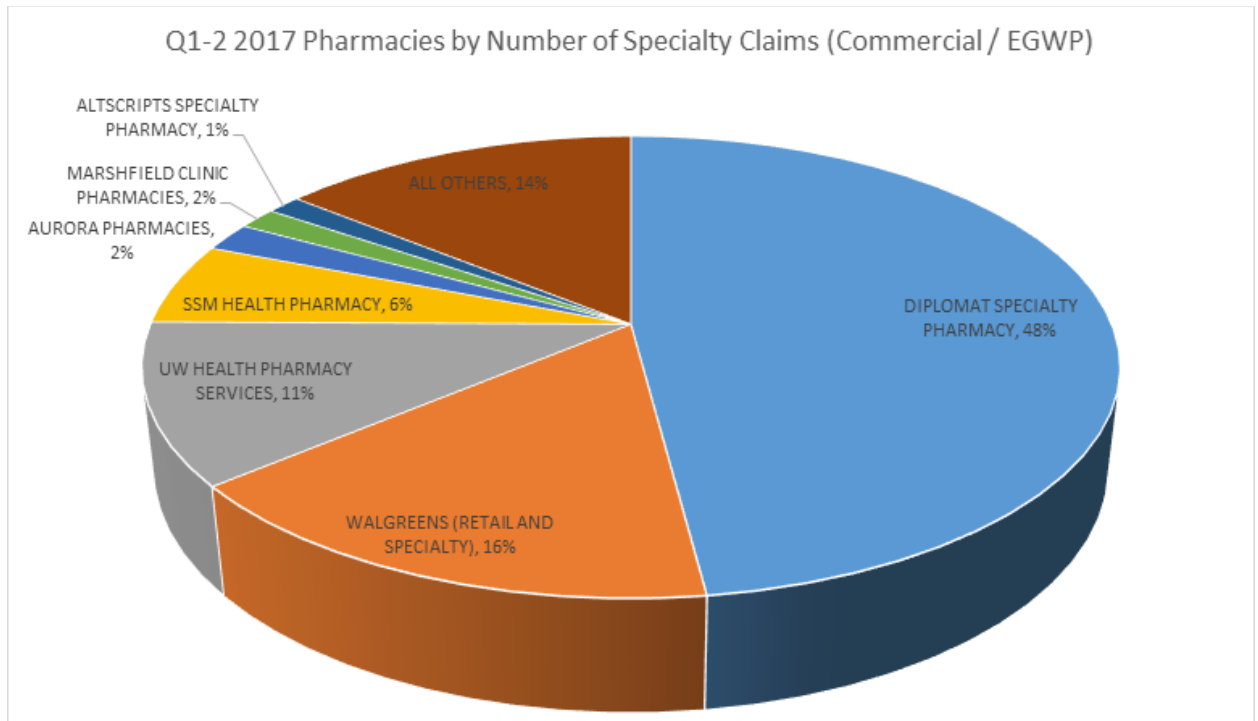
Changing to a mandatory specialty benefit will remove the need for the non-preferred benefit because all specialty drugs will be filled through the mandatory specialty pharmacy and its formulary. In addition to simplifying the benefit, this change will save \$1.2M.

ETF recommends that the \$50 copayment be continued for any specialty drug prescription filled by one of the preferred specialty pharmacies and maintain the \$1,200 individual/\$2,400 out-of-pocket limit (OOPL) for 2018. This flat copayment will provide a single cost sharing level to ease the transition to a mandatory program. Staff will closely monitor the impacts of the flat copayment and provide the Board with information that will allow the Board to consider increasing the member cost share and OOPL at their discretion in the future.

The mandatory specialty pharmacy benefit will be limited to the commercial (non-Medicare) population in the group health insurance programs. The Centers for Medicare & Medicaid Services (CMS) does not allow mandatory benefit programs that restrict Medicare beneficiaries' pharmacy access. As such, members enrolled in the Navitus MedicareRx Medicare Part D prescription drug plan will have the option of choosing what pharmacy fills their specialty drug prescriptions and they will continue to receive specialty drug benefits that are currently in place.

However, the members in the Medicare population will also be required to utilize Lumicera or UW pharmacies for their specialty drug prescriptions to obtain the \$50 copayment cost share.

More than 2,000 members have utilized the specialty pharmacy benefit in 2017. The chart below shows that Diplomat (the current preferred specialty pharmacy) and UW pharmacies currently fill 59% of all specialty drug claims.



The information in Table 2 below identifies the pharmacies that are being utilized by members from both the commercial and Medicare populations. Numbers in red indicate members who must select a new specialty pharmacy in 2018. As stated above, only commercial members would be required to use Lumicera or UW Health.

Table 2. Specialty Pharmacy Utilization.

Specialty Pharmacy	Commercial Members	Medicare Members
UW Health	235	25
Lumicera	13	1
Diplomat	551	350
Walgreens	282	61
SSM Health	109	7
CVS	23	2
All Other	304	84
Total Members Moving Pharmacies	1269	
Percent Population Moving Pharmacies	84%	

The transition to Lumicera and UW will involve many members. ETF staff are working closely with Navitus to create and implement a transition plan that will focus on minimizing member disruption.

- 2. Narrow pharmacy network:** There is additional opportunity for savings in the program if the available retail pharmacy network is narrowed to exclude certain pharmacies, due in part to better available pharmacy contracting rates. The most cost-effective narrow network option with the least amount of member disruption excludes CVS, as well as several pharmacies with little to no presence in Wisconsin. The map on the next page provides a description of the expected disruption within Wisconsin. Darker-shaded counties indicate the number of members who would need to visit a different pharmacy if the narrow network is implemented. The largest number of members are in Dane and Milwaukee counties, due primarily to the size of the program's population in each county.

Pink squares indicate CVS pharmacies that would be removed in the narrow network arrangement. Blue squares indicate pharmacies that would still be available in the narrow network.

For the group of member claims analyzed, the nearest in-network pharmacy was an average of 1.74 miles from the out-of-network pharmacy used. In this analysis, the farthest that a member would have to travel from their listed home address to a narrow network pharmacy would be 31.8 miles; however, in this case, the member traveled 36.5 miles to reach the out-of-network pharmacy currently being used. By contrast, the shortest distance to an in-network pharmacy found in this analysis was 0.0 miles—essentially across the street. This change would result in disruption of about 6% of claims, but would provide an estimated \$2.9M in savings.

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

