PHARMACY CONTRACT ANALYSIS

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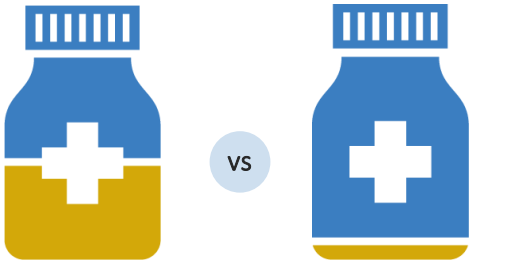
Pharmacy Contract Review

Pharmacy expense is the fastest growing line item for most employer plans. Vertical consolidation of PBMs and medical payers will reduce transparency.

Annual U.S. Prescription Drug Spending

Specialty Prescriptions[3]



2020 Specialty Spending[2]:

$265.3 BILLION

Specialty Rx Treatment[4]:

Average cost	$84,442
Median wage	$65,712

- Pharmacy costs are unique in that the carrier/Pharmacy Benefit Manager (PBM) typically earns profit in the cost of the claim as opposed to the cost of insurance or administration.
- Employers have little to no visibility into the carrier or PBM profit embedded in their plan.
- Cost savings opportunities exist in both drug pricing and drug utilization.
- USI's review of an unmanaged plan can produce savings of 15% to 25% of pharmacy costs or $120,000 for a group of 300 employees.

Sources

Rebates

Rebates paid from the drug manufacturer to the PBM, now account for as much as 33% of total pharmacy expense.

Typical Contract Language that Drives PBM Profit by Retaining Rebates and other Fees

5. Rebate Administration

a. Customer acknowledges that XXXX contracts for its own account with pharmaceutical manufacturers to obtain rebates attributable to the utilization of certain prescription products by individuals who receive benefits from plan sponsors for whom XXXX provides pharmacy benefit management services. XXXX and Customer agree that XXXX shall retain any and all of the Rebates received by XXXX based on the utilization by Plan Participants of rebateable drugs covered under the Plans.

V. Important Information about the Pharmacy Benefit Management Services

A. Customer acknowledges that from time to time, XXXX receives other payments from drug manufacturers that are not rebates and which are paid separately to XXXX or designated third parties (e.g., mailing vendors, printers). These payments are to reimburse XXXX for the cost of various educational programs. These programs are designed to reinforce XXXX's goals of maintaining access to quality, affordable health care for its members and customers. These goals are typically accomplished by educating physicians and Plan Participants about established clinical guidelines, disease management, appropriate and cost-effective therapies, and other information. XXXX may also receive payments from drug manufacturers that are not Rebates as compensation for bona fide services it performs, such as the analysis or provision of aggregated information regarding utilization of health care services.

Because these payments are unrelated to the rebate arrangements, and serve educational and other broad-

- Carrier/PBM states that they are contracting with manufacturers for their "own account" or benefit AND that the customer acknowledges that **Carrier/PBM will retain any and all of the rebates received**.
- Employer acknowledges that Carrier/PBM receives other payments from drug manufacturers that are **not rebates but are additional sources of profit**.
- Typical rebates and fees are up to $500 PEPY

USI Negotiates Contract Language that Drives Employer Savings

Administrative Services and Fees.

Administrative Fee
$2.75 per paid claim

Rebate Sharing
100% to CLIENT

The minimum rebate guarantees are:

2019 3-tier rebates per qualified brand claim

Retail 1-30	*$146.00*	***Mail***	*$358.00*
Retail 31-90	*$329.00*	***Specialty***	*$899.00*

- This contract has 100% sharing of rebates back to employer **in addition to minimum guarantees**.
- Guarantees must be negotiated to offset projected carrier rebate revenue.

Discounts and Fees

PBM contracts provide discounts from Average Wholesale Price (AWP) that must be continuously updated to remain competitive and most importantly offered as a guarantee instead of as illustrative.

PBM Price Comparison

	Current Events *(Negotiated in 2020)*	2022 Benchmark
Retail Brand 30 Discount	AWP minus 17%	AWP minus 19%
Retail Brand 30 Dispensing Fee	$1.00	$0.60
Retail Generic 30 Discount	AWP minus 79%*	AWP minus 82%
Retail Generic 30 Dispensing Fee	$1.00	$0.60
Retail Brand 90 Discount	AWP minus 19%	AWP minus 22%
Retail Brand 90 Dispensing Fee	$0.25	$0.00
Retail Generic 90 Discount	AWP minus 81%	AWP minus 84%
Retail Generic 90 Dispensing Fee	$0.25	$0.00
Mail Brand Discount	AWP minus 20%	AWP minus 22%
Mail Brand Dispensing Fee	$0.00	$0.00
Mail Generic Discount	AWP minus 82%	AWP minus 84%
Mail Generic Dispensing Fee	$0.00	$0.00

* The retail generic effective discount stated is illustrative. Actual customer experience may vary based on customer specific drug utilization.

- This fee schedule shows discounts and fees that are no longer market competitive. This enables the PBM to retain significant mark-up in the price of the drugs.
- Indicates that these rates are illustrative and not actually a guarantee of performance. Therefore, the same prescription could double in price from one day to the next without penalty.
- USI negotiates regular market checks and guaranteed discounts to ensure competitiveness.

Formularies

PBM formularies may be designed to drive profit instead of focusing on clinical effectiveness.

> **B.** Customer acknowledges that in evaluating clinically and therapeutically similar drugs for selection for its Formularies, XXXX reviews the costs of drugs and takes into account rebates negotiated between XXXX and drug manufacturers. Consequently, a drug may be included on the Formularies that is more expensive than a non-formulary alternative before any Rebates XXXX may receive from a drug manufacturer are taken into account. In addition, certain drugs may be chosen for the Formularies because of their clinical or therapeutic advantages or level of acceptance among physicians even though they cost more than non-formulary alternatives. The net cost to a self-funded customer for covered prescriptions will vary based on (i) the terms of XXXX's arrangements with Participating Pharmacies; (ii) the amount of the Plan Participant's copayment, coinsurance or deductible obligation under the terms of the plan; and (iii) the percentage, if any, of Rebates to which the Customer is entitled under its agreement with XXXX. As a result, a self-funded customer's actual claim expense per prescription for a particular formulary drug may in some circumstances be higher than for a non-formulary alternative.

High Rebate Drugs

Clinically Optional Drug	Therapeutic Category	Plan Cost	Therapeutic Alternative	Plan Cost
Acuvail	Ophthalmic Agent	$304.05	Diclofenac Solution	$11.38
Auvi-Q	Vasopressor	$4,618.97	EpiPen	$278.10
Emflaza	Corticosteroids	$4,161.77	Presdnison Tablet	$3.08
Veltin	Dermatological	$541.45	Clindamycin Gel	$52.83
Vimovo	Gastointestinal	$3,059.00	Naproxen, Omeprazole	$9.51
Omnaris	Nasal Agent	$246.84	Fluticasonal Nasal	$6.93
Duexis	Arthritis Pain	$3,160.25	Ibuprofen, Famotidine	$9.11
Fluorouracil 0.5% Cream	Dermatological	$1,512.28	Fluorouracil Cream 5%	$152.05
Natesto	Androgens Anabolic	$680.72	Testosterone Cypionate	$63.55

- Carrier/PBM disclose that they may choose drugs for the formulary that are more expensive than non-formulary drugs and that this decision could be driven by rebates paid to Carrier/PBM.
- Examples of high rebate drugs that may be on a formulary, despite low-cost, therapeutic alternatives.
- USI reviews formulary options to reduce inclusion of drugs for the purpose of inflating PBM profit.

Drug Definitions

AWP discount guarantees can be manipulated by changing the definition of generic and brand drugs thereby reducing the discount provided.

Typical Contract Language that Drives PBM Profit

"**Brand Drug**" means a prescription drug or insulin with a proprietary name assigned to it by the manufacturer and distributor and so indicated by Medispan or any other similar publication designated by Company. Brand Name Drug does not include those drugs classified as a Generic Drug hereunder.

"**Generic Drug**" means a prescription drug, whether identified by its chemical, proprietary, or non-proprietary name that (a) is accepted by the U.S. Food and Drug Administration as therapeutically equivalent and interchangeable with drugs having an identical amount of the same active ingredient, or (b) is deemed by XXXX to be pharmaceutically equivalent and interchangeable with drugs having an identical amount of the same active ingredient.

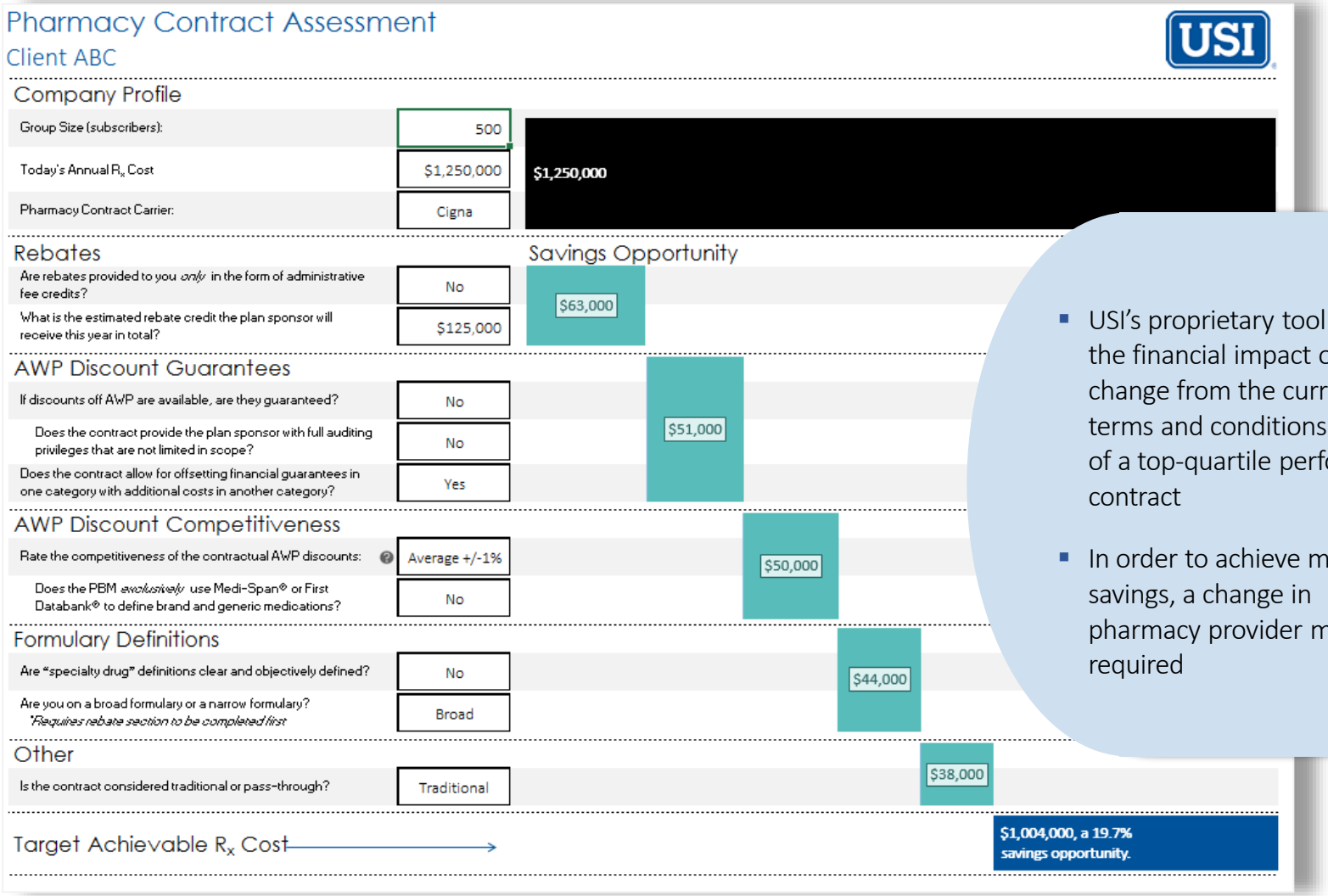
USI Negotiates Contract Language that Drives Employer Savings

Brand Drug - Single or multisource brand drugs which are classified as a brand drugs, based upon indicators provided by Medi-Span's National Drug Data File and denoted in the Multi-source Code field as "M", "N", and "O".

Generic Drug - A multisource prescription drug, which are classified as generic drugs, whether identified by its chemical, proprietary, or nonproprietary name provided by Medi-Span's National Drug Data File and denoted in the Multi-source Code field as "Y".

- Typical discounts are 80% off AWP of generic drugs and 20% AWP of brand drugs.
- When PBMs manipulate definitions of "brand" drugs to include some "generic" drugs, smaller discounts are provided.
- This language is a much clearer definition of brand vs. generic drugs as defined by Medi-span (a nationally recognized independent database).
- This prevents manipulation of drug categorization in order to meet pricing guarantees.

Pharmacy Contract Assessment



- USI's proprietary tool assesses the financial impact of a change from the current terms and conditions to that of a top-quartile performing contract
- In order to achieve maximum savings, a change in pharmacy provider may be required

- Specific analysis information needed to perform a pharmacy contract assessment:
  - Current pharmacy contract
  - Recent pharmacy audit (if it exists)

Sources for Pharmacy Contract Review

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4. *AARP report: Average Specialty Drug Price reached $84,442 in 2020, rising more than three times faster than the prices of other goods and services*. MediaRoom. (n.d.). Retrieved May 23, 2022, from https://press.aarp.org/2021-9-28-Average-Specialty-Drug-Price-Reached-84,442-2020-Rising-Three-Times-Faster-Prices-Other-Goods-Services#:~:text=Had%20they%20been%20included%2C%20the,U.S.%20household%20income%20of%20%2465%2C712.

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