Lowering Pharmacy Costs, Improving Healthcare Access, and Improving Outcomes

A discussion about pharmacy management and on-site clinics

Spring VGFOA Conference
May 11, 2017
About your presenters

**Gregory K. Snow**, PAHM  
Senior Vice President

Greg is a Senior Vice President in Wells Fargo Insurance Health and Welfare practice in Richmond, Virginia specializing in health and welfare consulting services for mid to large size clients. He has over 25 years of experience in the insurance and consulting field. Greg has extensive knowledge in the areas of program evaluation, program design, funding, competitive marketing, carrier negotiations, and contribution strategies.

Most recently, Greg has focused on working with clients to evaluate and improve their pharmacy programs. These efforts have lead to lower prescription costs, saving clients millions of dollars, with average savings of $300-$650 per employee per year. Lower costs may also lead to improved patient compliance, better medical outcomes, and lower prescription costs for consumers with Healthcare Savings Accounts.

**Kevin Cowden**  
National Practice Consultant, Health and Productivity

Kevin is a national practice consultant with the health and productivity practice in the employee engagement area. He provides thought leadership in multiple areas including population health and productivity program strategy and development and employee engagement strategies. Kevin has over 18 years of healthcare experience within a variety of fields to include clinical delivery, business intelligence, and data mining. Kevin has extensive knowledge in the development and deployment of wellness, prevention, and disease management strategies within the employer market.

A recent assignment includes implementation of both an on-site medical clinic and pharmacy for a large municipality and school system, where he provided analytic support, conducted the feasibility study, developed the employee engagement strategy and project managed the deployment of services. The project has enabled the local government and school system to improve access to evidence based primary care and acute services to their constituents in conjunction with their culture, goals, and objectives.
Pharmacy benefit management
Prescription drug industry

Pharmacy Benefit Managers ("PBMs") administer our client’s pharmacy benefits.

Examples of PBMs include: CVS/Caremark, ESI/Express Scripts, or a commercial insurance carrier such as Cigna or UnitedHealthcare.

PBMs provide the following services to our clients and plan sponsors:

- PBMs establish pharmacy networks so employees have access to retail pharmacies (CVS, Walgreens, Kroger, Rite Aid, local, etc.)
- PBMs negotiate reimbursement amounts paid to pharmacy for filled prescriptions
- PBMs administer the claims and report claims (aggregate reporting) back to our Clients/Plan Sponsors; some Carriers report the monthly claims to employer
- Pharmacy claims reporting is NOT detailed
Retail pharmacies (i.e., CVS, Walgreens, Kroger, Rite Aid) **DO NOT** charge our clients and plan sponsors for the prescriptions filled for employees and family members, instead:

**PBM**s or **Carriers** **charge employers for the prescriptions** filled for employees and family members

PBMs **may reimburse pharmacies less money than what they charge employers** for prescription drugs. We would call this “profit” or “margin;” **also,** your health insurance carrier may charge an employer more on monthly accounting statements than what the PBM they hired to administer pharmacy claims reports to the Carrier.

**Clients/Plan Sponsors** have no idea how much “profit” or “margin” their healthcare Carrier or PBM is making because there is a **lack of transparency**

“Shh...don’t let anyone know what we are doing”
Generic spread pricing: Too many questions and no transparency

Employer plan sponsor is billed the amount paid to pharmacy by the PBM or Carrier + additional “spread pricing” or margin charged by the Carrier or PBM to the employer, as illustrated below:

- **PBM or Carrier** provides employer a monthly financial statement. PBM or Carrier determines what it charges employer for the script. PBM or Carrier keeps the “profit”

- **Wholesaler** sells to pharmacy at per pill price

- **Drug Manufacturer** sells to wholesaler at per pill price

- **Pharmacy** fills patient’s script and sends claim to PBM; patient pays pharmacy per script price

The PBM or Carrier makes profit/margin between what PBM pays the pharmacy and what the PBM or Carrier bills the Employer/Plan Sponsor.

What an employee/patient sees on his/her receipt, which is stapled to the script bag at a pharmacy, may have **NO** relationship to what the employer is billed by the PBM or Carrier.
Fiscal components of prescription claims

- **Contract negotiation results**
  - Eliminating administration fee saves approximately 1%
  - Cutting dispensing fee in half may save 0.5%
  - Improving brand pricing by 2% on average saves 1%
  - Improving rebates by 25% can save 1%
  - Improving generic pricing by 30% can reduce overall drug spend 10% and reduce employer overall costs by 3%!!

Pharmacy - areas for savings opportunity

Components of Prescription Drug Programs

Although the general public thinks generics are “low cost” drugs, they are actually the largest opportunity for plan and consumer savings.

Brands and Specialty
Generics
Dispensing fee
Administration fee
Rebates

Savings potential in each of the areas shown above
Wells Fargo Pharmacy Consulting

Generic pricing comparison

- The table below illustrates actual PBM pricing for a large employer for some top generic drugs versus Wells Fargo Pharmacy Consulting Group’s pricing that has been negotiated and has the ability to duplicate. Additional cost reduction is very likely as WFPC further reduces negotiated costs for clients.

- “Exhibit A”- Company’s actual prescription charges (prior to Wells Fargo engagement), which were billed by PBM to client, for top utilized generic drugs versus Wells Fargo negotiated pricing with another large national PBM:

<table>
<thead>
<tr>
<th>Label Name</th>
<th>Therapeutic Class</th>
<th>Cost per script</th>
<th>Wells Fargo Negotiated Cost per script</th>
<th>Savings %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duloxetine Cap 60MG</td>
<td>Neurologic</td>
<td>$228.75</td>
<td>$33.74</td>
<td>85.3%</td>
</tr>
<tr>
<td>Duloxetine Cap 30MG</td>
<td>Neurologic</td>
<td>$262.11</td>
<td>$33.75</td>
<td>87.1%</td>
</tr>
<tr>
<td>Lansoprazole CAP 30MG</td>
<td>Gastric</td>
<td>$72.90</td>
<td>$14.82</td>
<td>79.7%</td>
</tr>
<tr>
<td>Bupropn HCL TAB 300 MG XL</td>
<td>Neurologic</td>
<td>$82.48</td>
<td>$18.87</td>
<td>77.1%</td>
</tr>
<tr>
<td>Atorvastatin TAB 80MG</td>
<td>Cholesterol</td>
<td>$54.86</td>
<td>$9.27</td>
<td>83.1%</td>
</tr>
<tr>
<td>Gabapetin Cap 300 MG</td>
<td>Neurologic</td>
<td>$61.60</td>
<td>$14.83</td>
<td>75.9%</td>
</tr>
</tbody>
</table>

This column represents actual prescription pricing with a major PBM on scripts filled by members covered under client’s plan.

This column represents actual prescription pricing Wells Fargo has negotiated and can be duplicated.

** Proprietary and Confidential **
# Pharmacy consulting case study

## Combined healthcare plan for large county and schools

### The situation

- Self-funded client with ≈ 10,900 enrolled employees
- Pharmacy claims up significantly over four-year period
- Contract did not have ability to address pricing issues or monitor program
- Wells Fargo analyzed prescription pricing, administration, dispensing fees, and manufacturer rebates and identified opportunity for savings

### The outcome

- Discussed opportunity with Finance Director and Human Resources
- Conducted formal RFP and requested all PBMs to adhere to strict contractual provisions
- Received 5 PBM proposals and reviewed all for consideration
- Client “carved-out” prescription drug program to a large PBM
- Actual 1st year savings will exceed $3.7 million; in addition, saved $1.1 million on reinsurance premiums
- **No** change in plan design, **no** change in drug formulary, and **no** change in access to pharmacies
Pharmacy consulting case study
State-funded Medicaid health plan

The situation

- State-funded Medicaid health plan with over 270,000 lives
- Pharmacy claims up significantly, PBM service less than optimal
- Conducted analysis of pharmacy contract and pricing; projected we could save client $8 million per year
- Contract did not have ability to price Rx claims in an objective manner, open to inflation

The outcome

- Conducted formal RFP and requested all PBMs to adhere to strict contractual provisions
- Received four PBM proposals, modeled fiscal impact, and reviewed all for consideration
- Retained current PBM with greatly improved terms in the contract
- Claims cost reduction (verified by CFO) exceeded $50 million over three years
- No change in plan design, no change in drug formulary, and no change in access to pharmacies
Data is a Plan asset and is very valuable to Plan Sponsors

There is the ability to position a Plan Sponsor with the most optimal solutions related to contract terms and pricing to deliver the lowest net cost result along with control of their data:

- Healthcare data
- Prescription drug data
- Clinical data
- Any and all data from all sources:
  - Must be assimilated in a manner that is conducive to measurable, statistical validation
  - Observational/summary data is not typically valid nor to be relied upon for accurate assessment of cost and/or risk analysis
Data is a Plan asset and is very valuable to Plan Sponsors

- Public sector employers (although not subject to ERISA fiduciary rules) still maintain a fiduciary responsibility to operate and maintain the Plan in the best interest of the participants.

- The primary responsibility of fiduciaries is to run the Plan solely in the interest of participants and beneficiaries and for the exclusive purpose of providing benefits and paying Plan expenses.
Can Employers and Plan Sponsors negotiate savings on their own behalf?

- Employers/Plan Sponsors lack the specialty knowledge and data analytics to negotiate the most favorable contract terms to lower costs.

- Does an Employer have expertise and resources to determine how they are saving money or to validate the savings?

- Negotiating on your own behalf leaves the Employer/Plan Sponsor trusting their current Carrier or PBM to serve the Employer’s best interest. Carriers and PBMs represent their own self interest and not necessarily the Employer’s.

- Employers/Plan Sponsor do not have the staff, resources or the data warehouse to continually monitor their prescription program to assure continuous price reductions and identify areas for improvement.
Conclusion: Key takeaways

Improved pricing and cost management with minimal impact to members:

- **READ YOUR CONTRACT** and understand pricing dynamics
- Through improved pricing, *Rx trend can be reduced*
- The cost reduction is in “hard” dollars and immediately recognized as the Employer/Plan Sponsor is buying prescription drugs for a lower cost
- **Lower prescription costs may lead to improved patient compliance and better medical outcomes**
- Decrease what consumers spend from their Healthcare Savings Accounts due to lower cost of prescription drugs
- Ongoing monitoring of prescription plan data to assure continuous price improvements and identify other areas for improvement
Onsite clinics

Solving for the unsustainable cost...
Factors driving the resurgence of onsite care

**Primary care shortage**
- Shortage of 40K by 2020
- Healthcare reform adds 32MM to system
- Medicaid to cover 16MM by 2019

**Affordability**
- We compensate providers based on doing more rather than being efficient
- Hesitancy to seek care due to cost (i.e., HDHP)

**Economics**
- Hospitals / providers are increasingly gaining market share and are better able to demand higher prices

**Technology**
- We want new drugs, technologies, services, and procedures

**Poor health**
- We are growing older, sicker, and more obese
- NEJM puts non-compliance rates at 50%

**System inefficiencies**
- Tax breaks on buying health insurance with minimal transparency
- Medical-legal issues complicate change

Pressure close to home

To maintain current rates of utilization, Virginia will need an additional 1,622 primary care physicians by 2030, a 29% increase compared to the state’s current (as of 2010) 5,471 PCP workforce.

Source: Petterson, Stephen M; Cai, Angela; Moore, Miranda; Bazemore, Andrew. State-level projections of primary care workforce, 2010-2030. September 2013, Robert Graham Center, Washington, D.C.
Virginia compared to the region and nation

**Implications:**

- To maintain the status quo, 1,622 additional PCPs required by 2030.
- Virginia’s current PCP ratio of 1462:1 is marginally lower than the national average of 1463:1 and slightly better than the region.
- Increased need for PCPs is reflective of:
  - Increased utilization due to aging population
  - Population growth
  - Greater population of insured due to the Affordable Care Act (ACA)

Source: Petterson, Stephen M; Cai, Angela; Moore, Miranda; Bazemore, Andrew. State-level projections of primary care workforce, 2010-2030. September 2013, Robert Graham Center, Washington, D.C.
Bottom line...

- Employee health and well-being are strong determinants of productivity, morale, and retention
- There is a clear impact on business performance and share price as well as on the bottom line\(^1\)
- The health of an organization’s population is inextricably linked to its’ long-term viability
- Investing in employee health and well-being aligns with better business

\(^1\) Fabius, Raymond , et. Al., The Link Between Workforce Health and Safety and the Health of the Bottom Line: Tracking Market Performance of Companies That Nurture a “Culture of Health.” JOEM. Volume 55, Number 9, September 2013
Case example
Background & Objectives

- Health and wellness center has been open for two years
- The health and wellness center is open 54 hours per week
  - 7:00 am – 6:00 pm Monday – Thursday
  - 8:00 am – 1:00 pm Friday & Saturday
- The center provides
  - Acute care
  - Primary care
  - Chronic condition management
  - Health coaching
  - Labs

Engagement
- Improve Access
- Expand Convenience to Care
- Better Quality of Care

Clinical
- Improve Health Outcomes
- Redirect Care from Expensive, Sub-Optimal & Time Consuming Settings

Cost
- Reduce Trend
- Lower Spend
- Mitigate High Cost Claimants

Benefits
- Reduce Lost Time and Absence and Improve Productivity
- Boost Employee Retention, Recruitment & Morale
Executive summary

57.4% engagement of high and chronic risk employees

36% of members using On-site clinic showed clinically measureable improvement

17% Increase in preventive screenings

$1.4MM savings, based on a (rolling 12-months)

98% Patient satisfaction

Source: Marathon Health 2016 Annual Review.
Matched Cohort analysis – key biometrics

Progress on Key Biometric Risk Factors

- **Body Mass Index (< 18.5, > 24.9)**: 744 patients at-risk, 211 patients improving
- **Systolic Blood Pressure (> 120)**: 441 patients at-risk, 206 patients improving
- **Diastolic Blood Pressure (> 80)**: 374 patients at-risk, 191 patients improving
- **Glucose (> 100)**: 120 patients at-risk, 20 patients improving
- **Total Cholesterol (> 200)**: 116 patients at-risk, 14 patients improving
- **LDL Cholesterol (> 129)**: 85 patients at-risk, 11 patients improving
- **HDL Cholesterol (< 40)**: 75 patients at-risk, 11 patients improving
- **Triglycerides (> 150)**: 69 patients at-risk, 8 patients improving

On-site clinic access leads to better engagement, improved outcomes, lower costs and healthier and happier employees.

Source: Marathon Health 2016 Annual Review.
Matched cohort analysis – key biometrics

- BMI > 30
- Total Cholesterol > 200
- Systolic BP > 140
- Diastolic BP > 90

Source: Marathon Health 2016 Annual Review.
Matched cohort analysis

Four Year PMPM

Source: Marathon Health 2016 Annual Review.
Closing remarks
What employees are saying

“I have had nothing but positive visits and outcomes.”

“I feel that they really wanted to help me.”

“Very pleased with my visit and the follow up plan for my care. I am so happy to have this service available to me.”

“Extraordinary medical team. Very thorough in evaluating and determining further treatment A+++; thank you.”

“Our On-site pharmacy saved me over $4,000 per year in prescription costs that I had been getting filled at a retail pharmacy.”

“Best benefit we have.”
Growing consensus

<table>
<thead>
<tr>
<th>Health and Productivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>The health of the workforce is inextricably linked to workforce productivity</td>
</tr>
<tr>
<td>Continuing current health care strategies is not a sustainable option</td>
</tr>
<tr>
<td>Employers can manage the health-related productivity of the workforce</td>
</tr>
<tr>
<td>The impact of a healthier, more productive workforce is quantifiable</td>
</tr>
<tr>
<td>Evidence-based medicine needs to incorporate functional impacts on productivity, as well as, health</td>
</tr>
</tbody>
</table>
What questions do you have?
For more information, contact

Gregory K. Snow, PAHM
Senior Vice President
Wells Fargo Insurance Services USA, Inc.
9020 Stony Point Parkway, Suite 200
Richmond, VA 23235-0735
Tel: (804) 267-3175
Cell: (804) 350-6590
greg.snow@wellsfargo.com
Thank you!

This material is for informational purposes and is not intended to be exhaustive nor should any discussions or opinions be construed as legal advice. Contact your broker for insurance advice, tax professional for tax advice, or legal counsel for legal advice regarding your particular situation.

Products and services are offered through Wells Fargo Insurance Services USA, Inc., a non-bank insurance agency affiliate of Wells Fargo & Company, and are underwritten by unaffiliated insurance companies. Some services require additional fees and may be offered directly through third-party providers. Banking and insurance decisions are made independently and do not influence each other.

©2017 Wells Fargo Insurance Services USA, Inc. All rights reserved.
Appendix

Additional Case Studies on Pharmacy Contents

About Wells Fargo Insurance
Pharmacy consulting case study
Virginia public sector client

The situation

- Self-funded client with ≈1,800 enrolled employees
- Pharmacy claims up significantly
- Conducted analysis of pharmacy contract and pricing. Projected we could save client $400,000+
- Contract did not have ability to address pricing issues or monitor program

The outcome

- Conducted formal RFP and requested all PBM’s to adhere to strict contract provisions
- Received 5 PBM proposals and reviewed all for consideration
- Results- client “carved-out” to a large PBM
- Actual 1st year savings exceeded $500,000
- No change in plan design, no change in formulary, and no change in access to pharmacies
- Negotiated savings on generics during 1st year of contract resulted in additional $174,000 savings. Total 1st year savings of $674,000
- Negotiated savings on generics during 2nd year of contract resulted in additional $130,000 savings
Pharmacy consulting case study
Wells Fargo client

The situation

- Self-funded client with ≈4,400 enrolled employees
- Pharmacy claims up significantly over three-year period
- Contract did not have ability to address pricing issues or monitor program
- **Pharmacy program with major PBM through a health benefit broker-based “coalition”**
- Wells Fargo analyzed prescription pricing, dispensing fees and rebates, and identified opportunity for savings

The outcome

- Conducted formal RFP and requested all PBMs to adhere to strict contractual provisions
- Received six PBM proposals and reviewed all for consideration
- Client “carved-out” to a large PBM
- Actual first year savings exceeded **$550,000**
- **No** change in plan design, **no** change in drug formulary, and **no** change in access to pharmacies
Pharmacy consulting case study

Virginia public sector client

The situation

- Self-Funded client with ≈3,500 members
- Prescription costs up significantly over a 4-year period
- Contract did not have ability to address pricing issues or monitor program

The outcome

- Renegotiated pricing with current PBM resulted in $442,000 savings
- Conducted formal RFP and requested all PBMs to adhere to strict contractual provisions
- Received six PBM proposals and reviewed all for consideration. Kept Rx with carrier at reduced pricing
- Negotiation in 1st year resulted in additional savings of $326,000 ($768,000 total)
- No change in plan design, no change in drug formulary, and no change in access to pharmacies
Virginia public sector client

Pharmacy consulting case study

The situation

- Self-funded client
- Approximately 2,000 enrolled employees
- Wells Fargo consulted on pharmacy and decision was made to “carve-out” prescription from Carrier/PBM

The outcome

- Savings 1st year of $517,000
- Generic cost per script reduced from $32.80 to $19.44, with no shift in utilization
- Drug trend 1st year (July 2013-June 2014) reduced to -0.4%
- Trend for two subsequent years averaged under 5%, which compares very favorably to benchmark (Segal Survey Rx Carve-out Trend Report) average of 11%
- Negotiated savings during 2015-2016 of $247,000. Additional negotiated savings in 2017 of $295,000. Total 3-year additional savings of $543,000
### The situation
- Self-funded client with ≈2,500 enrolled employees
- Pharmacy program with major PBM
- Prescription cost up 57% over past four years
- Very poor generic pricing, which resulted in cost per generic script of $40

### The outcome
- Wells Fargo conducted analysis of program and determined there is opportunity to save $1.5 million
- Generic cost per script will be reduced 30%+
- Savings will be obtained in all areas of program: generic; brand; specialty; dispensing fees; and rebates
- **No** change in plan design, **no** change in drug formulary, and **no** change in access to pharmacies
Wells Fargo Pharmacy Consulting

How can we help?

- We offer clients **independent and objective consultation** on Pharmacy decisions, competitively bid their program, and negotiate the best contractual provisions and lowest cost.

Wells Fargo Insurance has access to all PBMs in the marketplace

1 or 2 Major PBMs

Major PBM 1

Major PBM 2

Major PBM 3

Major Carriers (BCBS, Aetna, Cigna, UHC)

Major PBM 4

Major PBM 5

Major PBM 6

Competitor pharmacy consulting solution

The value we bring to clients

- Reduce the cost of prescription drugs to plan sponsors and consumers
- Increase member affordability – particularly for generics
- Lower cost drugs **may** increase patient compliance of drug therapy, which can potential to improve patient health outcome. Also, may reduce employee expenses, especially under an HSA plan
- Improved patient health outcome may reduce overall healthcare expenses for the employer
- Reduce prescription drug trend (non-specialty trend = 0% or less)
Our services

- Develop a business plan for improvement of PBM pricing and overall PBM relationship
- Re-negotiate pharmacy pricing with client’s current provider/PBM or conduct competitive marketing/RFP on behalf of client
- Use RFP process to re-negotiate pricing with current provider/PBM or “carve-out” pharmacy program to another outside PBM with lowest net pricing, low administrative costs, and service offerings superior to current PBM vendor
- Negotiation and execution of PBM contract which assures the above and serves and protects the client in all manners (optimal pricing with enforcement capabilities, contract terms, etc.)
- Assist in installation of new PBM, contract agreements, copay structure, administrative set-up, eligibility, etc.
- Monitor PBM to assure the interests of client and its members are kept as primary focus of all PBM activities
- Monthly assessment of PBM performance and adherence to contract and discuss pharmacy benefit status, key considerations, and future strategies annually with leadership of client
Wells Fargo Insurance overview

For 2015 and 2014, Wells Fargo Insurance was named Best Insurance Broker in North America by Global Finance as part of the magazine’s annual Best Global Insurers Awards Program.

Winners were selected based on survey responses from more than 1,200 readers around the world and a panel of risk management and financial executives from major global companies.

Facts

- Revenues over $1.2 billion
- One of the Top 10 insurance brokers in the U.S. by Business Insurance; July 2016
- Annual risk premium in excess of $9 billion
- Over 3,400 employees and 46 offices in 26 states, including D.C.
- Headquartered in Chicago, Illinois
- Capital Region Offices (D.C., McLean, Richmond) with over 100 associates

Who We Are

- Actuarial professionals
- Benefit compliance attorneys
- Health and productivity nurses and consultants
- Underwriters
- Pharmacy specialists
- Communications experts
- Employee benefits consultants
- Technology specialists

---

1 2016 Ranking includes Wells Fargo Insurance Services USA, Inc., Wells Fargo Insurance, Inc., and Rural Community Insurance Company.
Employee benefit services

**Core Services**
- Strategy Planning
- Plan Modeling
- Funding Evaluation
- Marketing
- Underwriting
- Benchmarking
- Day to Day Support

Benefits compliance

Pharmacy consulting

Communications

Mergers and acquisitions

Health and productivity

Actuarial services

Benefit administration technology

Affordable Care Act consulting

Voluntary benefits

Affordable Care Act consulting

Consulting

Mergers and acquisitions

Health and productivity

Benefit administration technology

Voluntary benefits

Employee benefit services
What we do

Our proven service delivery model enables client to develop a strategic approach to managing their benefits plan

- Historical trend analysis
- Review contracts/booklets
- Review vendor performance
- Plan financial performance

- Develop enrollment communications
- Web portal interface
- Employee surveys
- Customized benefit statements

- Key decision making criteria
- Client specific RFP development
- Management ready summary report
- Finalist meetings/site visits

Annual strategy planning, health and productivity

- Year-end review

Ongoing Services

- Strategy Planning
- Plan Modeling
- Funding Evaluation
- Marketing
- Underwriting
- Benchmarking
- Day to Day Support
- Claim Tracking and Utilization analysis
- Compliance updates
- Training – webinars

Benefits compliance and review

- Legislative updates and webinars, training
- Benefit/ERISA attorneys on staff
- Affordable Care Act
- Benefit compliance (COBRA, HIPAA, ACA, etc.)

Underwriting and actuarial, carrier negotiation

- Sophisticated actuarial and underwriting skills
- Negotiate renewals
- Plan design, funding alternatives, contribution strategies
- Pharmacy management and negotiations

Vendor analysis/market review

- Key decision making criteria
- Client specific RFP development
- Management ready summary report
- Finalist meetings/site visits