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State of Arkansas

Pharmacy Plan Review and Opportunity Analysis ASE and PSE

July 22, 2021

Segal

Industry Review

- The PBM industry continues to grow and now counts more than 30 different companies operating in the market.
- The big 3 PBMs (CVS Health, Express Scripts, OptumRx) manage upwards of 80% of the total market and provide many downstream services to other PBMs such as claims processing, rebate aggregation, formulary support, retail network, mail pharmacy and specialty pharmacy.
- Specialty pharmacy is growing at 5% or more per year and now is responsible for more than 50% of plan sponsor drug cost. Specialty pharmacies are also rapidly growing and the largest specialty pharmacies are owned and operated by PBMs, National Retailers and Health Systems.
- The traditional pharmacy market is a prime target for disruption from specialized pharmacies targeting individual drug categories to different delivery options and packaging. Large national retailers and non-PBM mail pharmacies are expanding pharmacy options and delivery services to gain market share.
- Pharmaceutical Manufacturers compete for market share of their drugs and focus almost exclusively on the largest PBMs to negotiate price, rebates and other price concessions.
- Drug Formularies range from open access to highly managed and are designed to provide comprehensive clinical coverage while limiting cost and disruption to patients.
- Drug Discount Cards continue to expand and offer discounts to cash paying customers through preferred retailers or mail pharmacies.

Review of Rx Plan Vendors

- Segal had one meeting with EBRx and one meeting with Medimpact to understand how each is working to manage the plan. Our understanding of the roles of each is below.
- EBRx: Manages a custom process specific to the state that includes:
  - Creation and ongoing maintenance of a custom formulary
  - Manages rebate contracting through Aggregator, UAMS contracts and some direct manufacturer contracts
  - Creates and manages clinical reviews (prior authorizations) and appeals
  - In conjunction with Medimpact, manages a custom MAC price list
  - Negotiates specialty pharmacy with local specialty pharmacy
  - Manages a Specialty Coupon program
  - Manages a Reference Based Pricing program for multiple therapeutic categories
- Medimpact: works to support EBRx and provides the following:
  - Claims processing
  - Retail network contracting
  - Customer service and Account management include Arkansas based/onsite staff
  - Specialty pharmacy wrap program (Limited Distribution/Exclusive Distribution drugs)
  - Opioid Management program
  - Ongoing reporting of Rx plan results

Rx Plan Performance Review 2020

- The plan uses a highly managed custom formulary created by EBRx that:
  - Eliminates high cost low clinical value drugs.
  - Excludes high cost brand medications when generic alternatives with similar clinical efficacy are available.
  - Excludes brand medications in many categories to optimize rebate opportunity.
  - Uses extensive prior authorization criteria to pre-screen patients for access to drugs to insure right drug, right patient, right condition.
- Overall plan cost for CY2020 before rebates and before administration fees was $158,572,445 or $82.92 per member per month (PMPM). This was up 5.7% over the previous year.
  - We estimate additional administrative cost of ~$4.13 PMPM (Medimpact and EBRx).
  - Manufacturer Rebates are estimated at $22 million for 2020 or $11 PMPM. Rebate information was not available to Segal for October-December 2020 so a monthly estimate based on previous months was used in our review.
- Specialty Drugs account for 53% of plan spend or $83.7 million. Note that specialty copay coupons reduced plan cost by $13.6 million.
- Top Therapy Categories are:
  - Inflammatory Conditions at $20.02 PMPM or 24% of plan cost
  - Diabetes at $13.39 PMPM or 16% of plan cost
- Member cost share is 16.9% of plan cost

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Rx Cost Comparison vs. Segal Benchmarks

PMPM (Calendar Year 2020)			
	Arkansas	**Segal Clients**	**State relative to Segal Sample**
Paid Claims PMPM	$83	$104	-20%
Rebate Credit	13% offset	25% offset	12% under performance
Net Plan Costs	$72	$78	$6 lower than sample
Member Cost Share	16%	6%-10%	6% greater member cost share
Plan Cost Adjusted for Member Share	$77	$78	Adjusting to Average Member Cost Share

- Segal clients using SHAPE 2019 data trended to 2020 plan costs
- Results not adjusted for differences in demographics or clinical programs

Opportunities

Based on our initial review and discussions with Medimpact the following are opportunities to save the Rx plans approximately $9 million annual.

- **Rebates**
  - National average is 25%+ of discounted drug cost versus current of 13%.
  - Two largest drug categories, Inflammatory and Diabetes, are highly rebated drug categories.
  - Medimpact reports approximately $700,000 in additional rebate opportunity through partnership with EBRx.
- **Specialty Pharmacy**
  - Medimpact specialty pharmacy network can drive additional savings ranging from $160,00 to $482,000 through rate changes on the specialty wrap program.
  - Medimpact reports their MIDS specialty pharmacy solution can save approximately $3 million per year.
- **Medicare RDS vs EGWP**
  - Medimpact reports $7.8 million yearly savings by moving to an EGWP plan

Thank You