PERFORMANCE PHARMACY SOLUTIONS

Pharmacy Trends and Strategies to Preserve Affordability

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Key Takeaways

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Unsustainable Trend

How 20% of plan cost will likely be 50% by 2020

Key Trend Drivers

Inflation & new specialty products to market

Required

Creative plan management solutions that meet plan sponsors needs without sacrificing patient health

Pharmacy Expertise

Rx Carve Out, smart formulary management, channel optimization, clinical specialization, aggressive drug pricing & contracts

Pharmacy Trend & Important Metrics

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2016 Trend

ESI – 3.8%
CMX – 3.2%
MI – 2.9%
IMS – 14.0

Cost Drivers

Inflation & New Rx's Introduced

Specialty

18%-25% Year over Year Trend until 2025

GDP

$597B by 2025 or 20% of Gross Domestic Product (GDP)

Generic Utilization 2015

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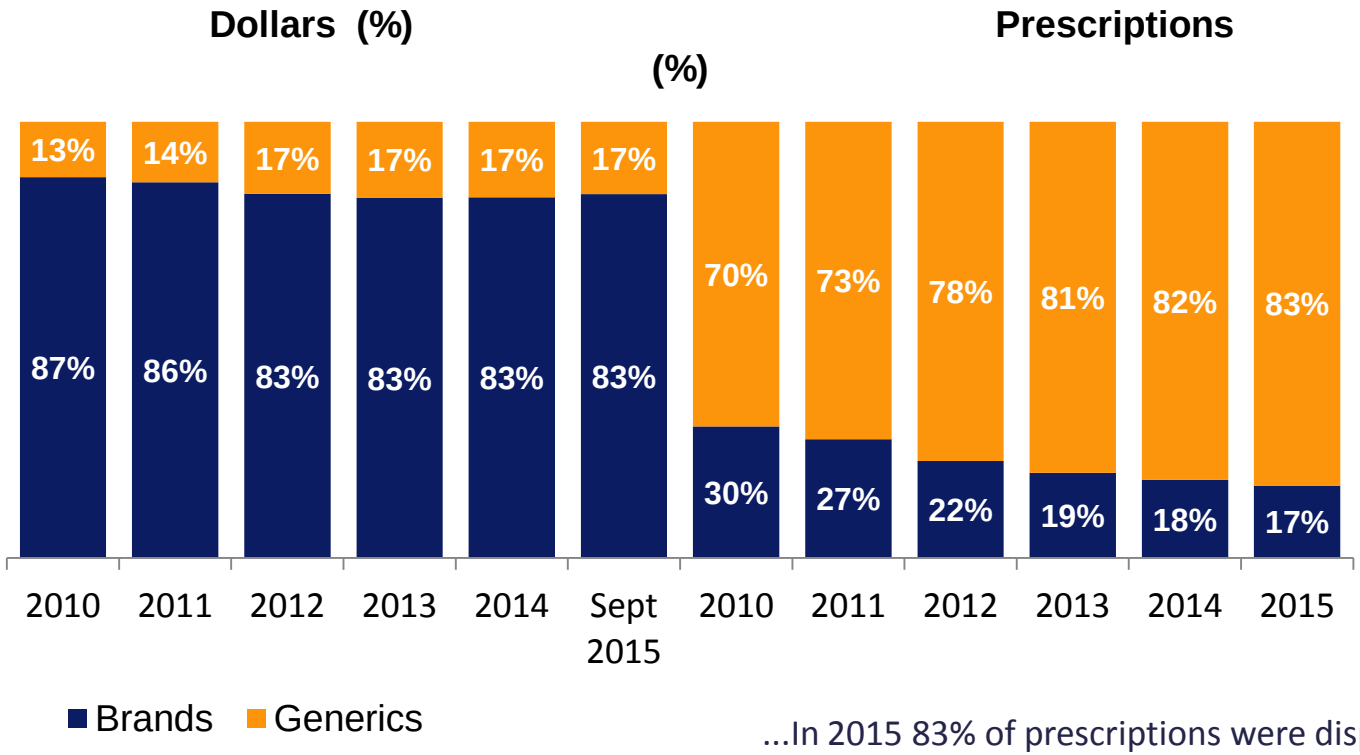

...In 2015 83% of prescriptions were dispensed as Generics

But...Generics account for only 17% of spending….

Source: IMS Health, National Sales Perspectives, Sept 2015, National Prescription Audit, Dec 2015

Generic Utilization Today 2017

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Generic Fill Rate: 84.3%
Generic Dollars: 15.3%
Clinical Generic Maximum: 89%

- ✓ 641 Generics approved in 2016
- ✓ New generic introductions down to 14.8 months in 2016 from 24 months in 2015; down from 50 months in 2014!
- ✓ Lots of competition from China, India and Korea.

Generic Pharmaceutical Association even changed its name to the

Association for Accessible Medicines

The Generic Wave has crested…

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2015	2016	2017	2018	2019
(Annual Sales)				
$26.7 Billion	***$23.9 Billion***	**$6.6 Billion**	**$6.5 Billion**	**$9.3 Billion**
• *Abilify* • *Aggrenox* • *Aloxi* • *Androgel* • *Copaxone* • *Namenda* • *Nexium* • *Ortho Tri-Cyclen Lo* • *Welchol* • *Zyvox*	• *Azilect* • *Azor* • *Benicar* • *Crestor* • *Cubicin* • *Epzicom* • *Nuvigil* • *ProAir HFA* • *Seroquel XR* • *Tamifu* • *Zetia*	• Butrans • Fanapt • Ivanz • Relpax • Reyataz • Strattera • Sustiva 600mg • Treximet • Viagra • Viread 300mg • Vytorin	• Adcirca • Cialis • Elidel • Levitra • Lexiva • Rapaflo • Sensipar • Solodyn (addl. strengths) • Viread	• Emend • Exelon Patch • Exjade • Fentora • Gilenya • Lyrica • Ranexa • Solodyn (addl. strengths) • Symlin • Vesicare

Drug Price Inflation

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Hyperinflation is in the headlines but does not significantly contribute to overall trend

CNNMoney

Sticker shock: Drugs with price hikes of up to 1,200%

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Understanding Specialty Pharmacy

Specialty Pharmacy

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Traditional Medications

- Easily produced and duplicated
- Generics **available**

Average Monthly Cost
$62
3-9% trend

Specialty Medications

- Treat rare conditions
- Significant side effects
- Require therapy management
- Few generics or biosimilars

Average Monthly Cost
$3,000
20-35% trend

IMS Health Definition of Specialty Products

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Medicines that treat specific, complex chronic diseases with the minimum 4 of the 7 following attributes:

- Initiated *only* by a specialist
- High expense: ~$600+
- Requires reimbursement assistance
- Generally not oral
- Warrants intensive patient counseling
- Require special handling
- Unique distribution

- ➢ Few prescribers/ centers
- ➢ Low inventory important
- ➢ Processing of pre-approval essential and competitive skill
- ➢ Requires patient training to administer
- ➢ Support to achieve adherence needed
- ➢ Cold chain when needed
- ➢ No need for supplying all pharmacies through all warehouses

Market Projection: Specialty Spend Growth in Pharmacy

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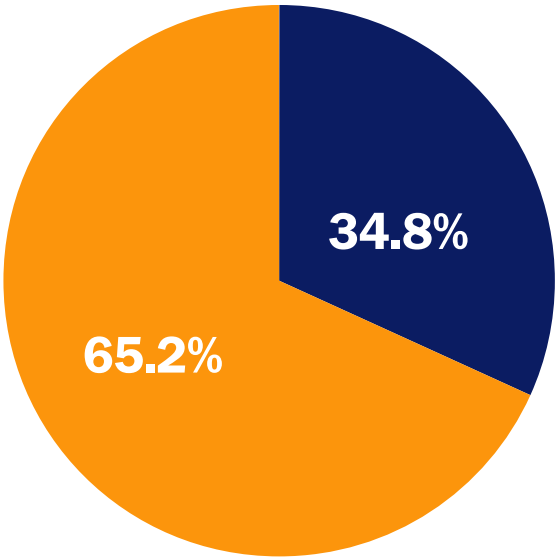
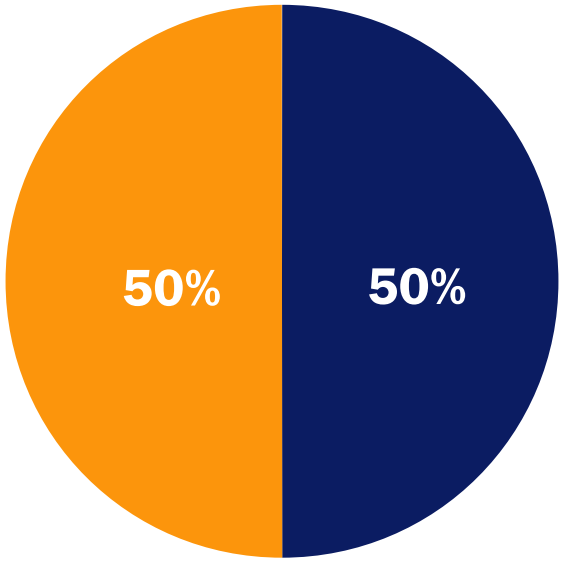
2017 Actual



2018 Projected



Specialty Pharmacy Benefit

Traditional and Specialty Medical Benefit

Sources: Express Scripts Book of Business; Express Scripts analysis of Thomson Reuters MarketScan® Commercial Database.

New Specialty Drug Pipeline

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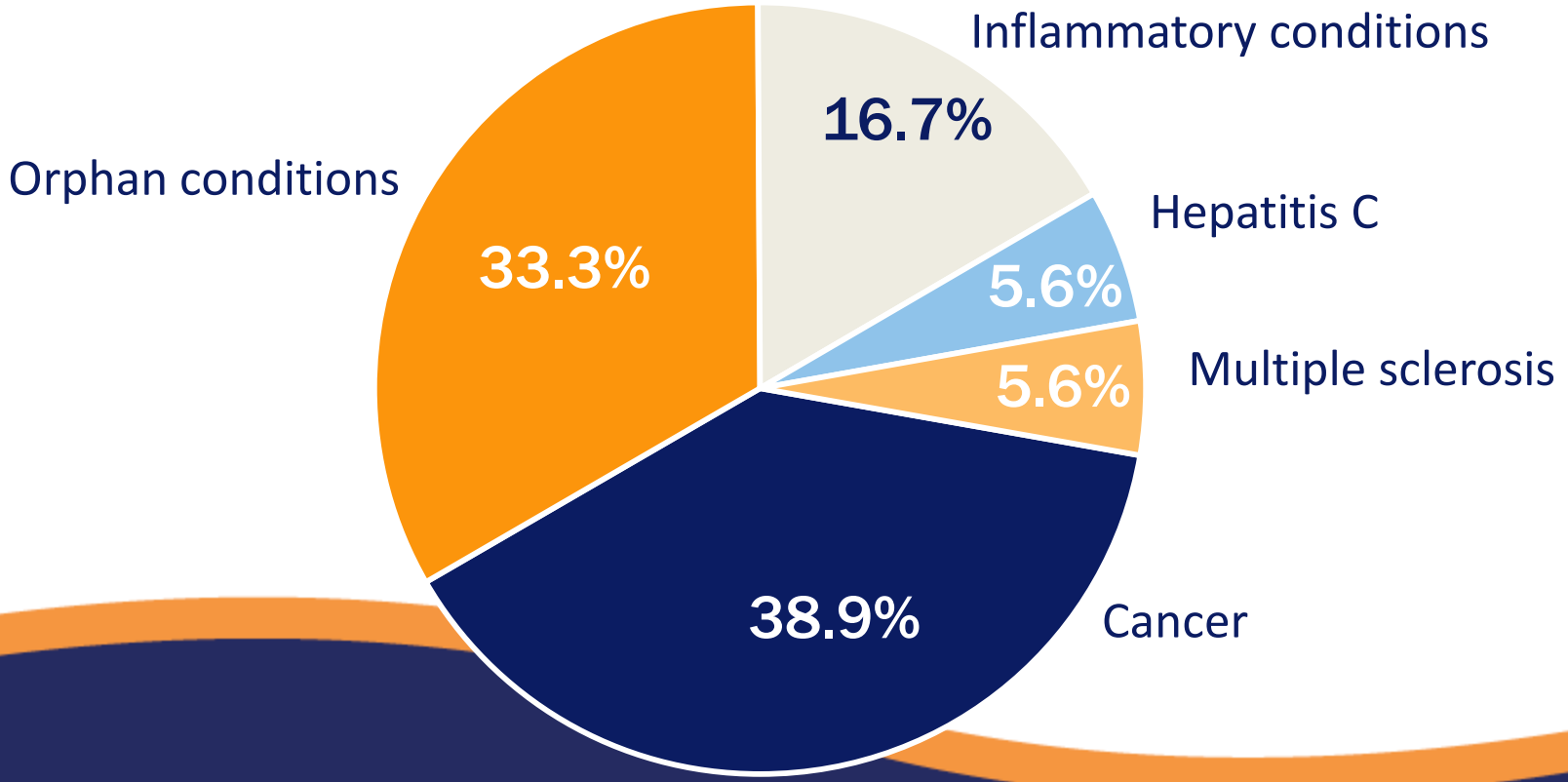
Proportion of Near-term Specialty Pipeline Drugs by Indication



Biosimilars

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A biosimilar is defined as “a biological medicinal product that contains **a version of the active substance** of an already authorized original biological medicinal product.

A biosimilar **demonstrates similarity** to the referenced medicinal product in terms of quality characteristics, biological activity, safety and efficacy based on a comprehensive comparability exercise.”

IMS Health, 2014

Biosimilars

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Biosimilar Opportunities on the Horizon

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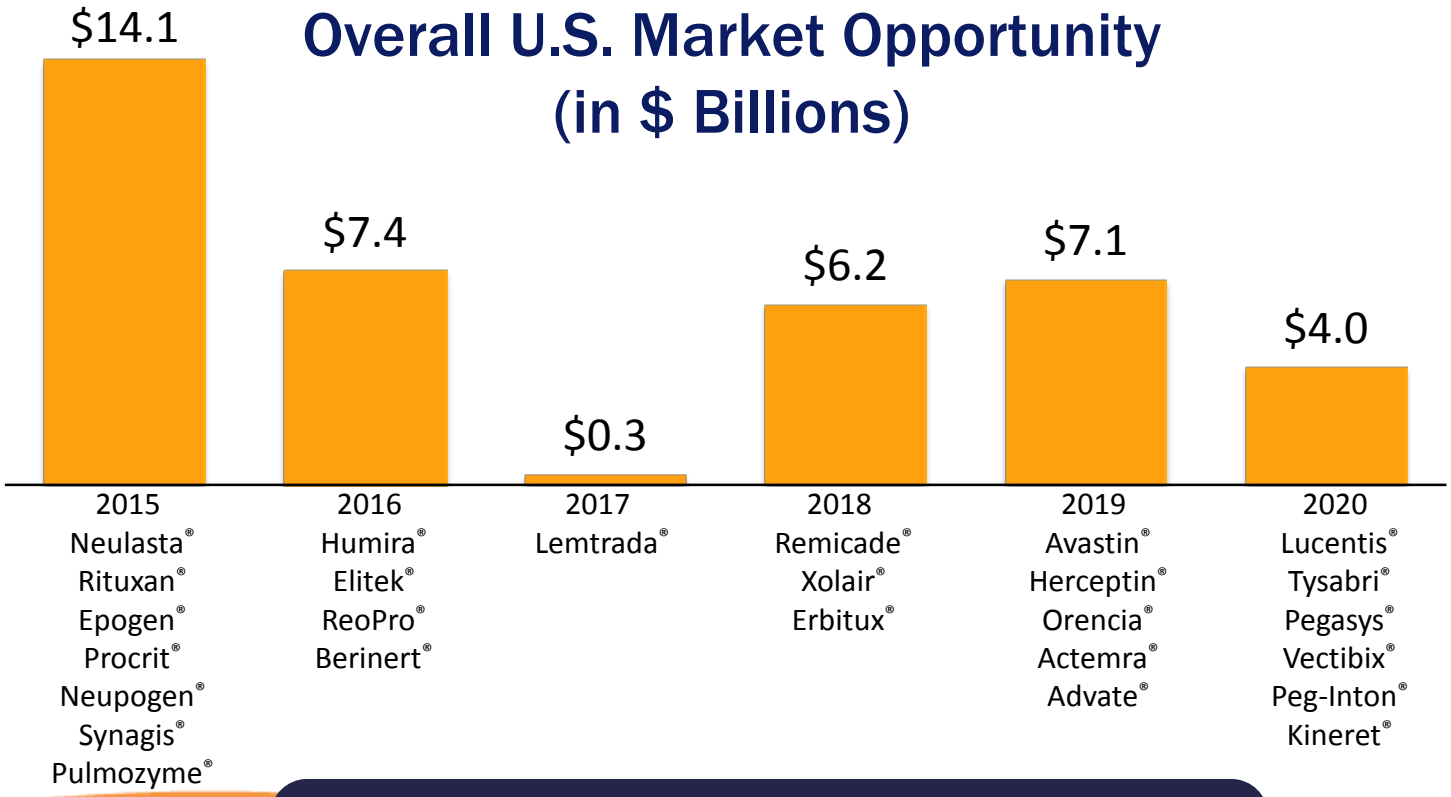
Overall U.S. Market Opportunity (in $ Billions)



$39.1B in patent expirations through 2020

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Strategies for Managing Pharmacy Spend

Carve In v. Carve Out

What Keeps Plan Sponsors Awake at Night

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1. 1-2% of the claims are driving >30% of total Rx spend; >10% trend year over year

2. It is predicted that specialty medications will represent 50% of total spend within 1-2 years

3. Adherence and controlling appropriate use of specialty drugs are the greatest challenges, as is the rate of discontinuation of therapy

4. Drug pipeline is full of specialty medications; how do we forecast what the budget impact will be?

…A CFO's Nightmare

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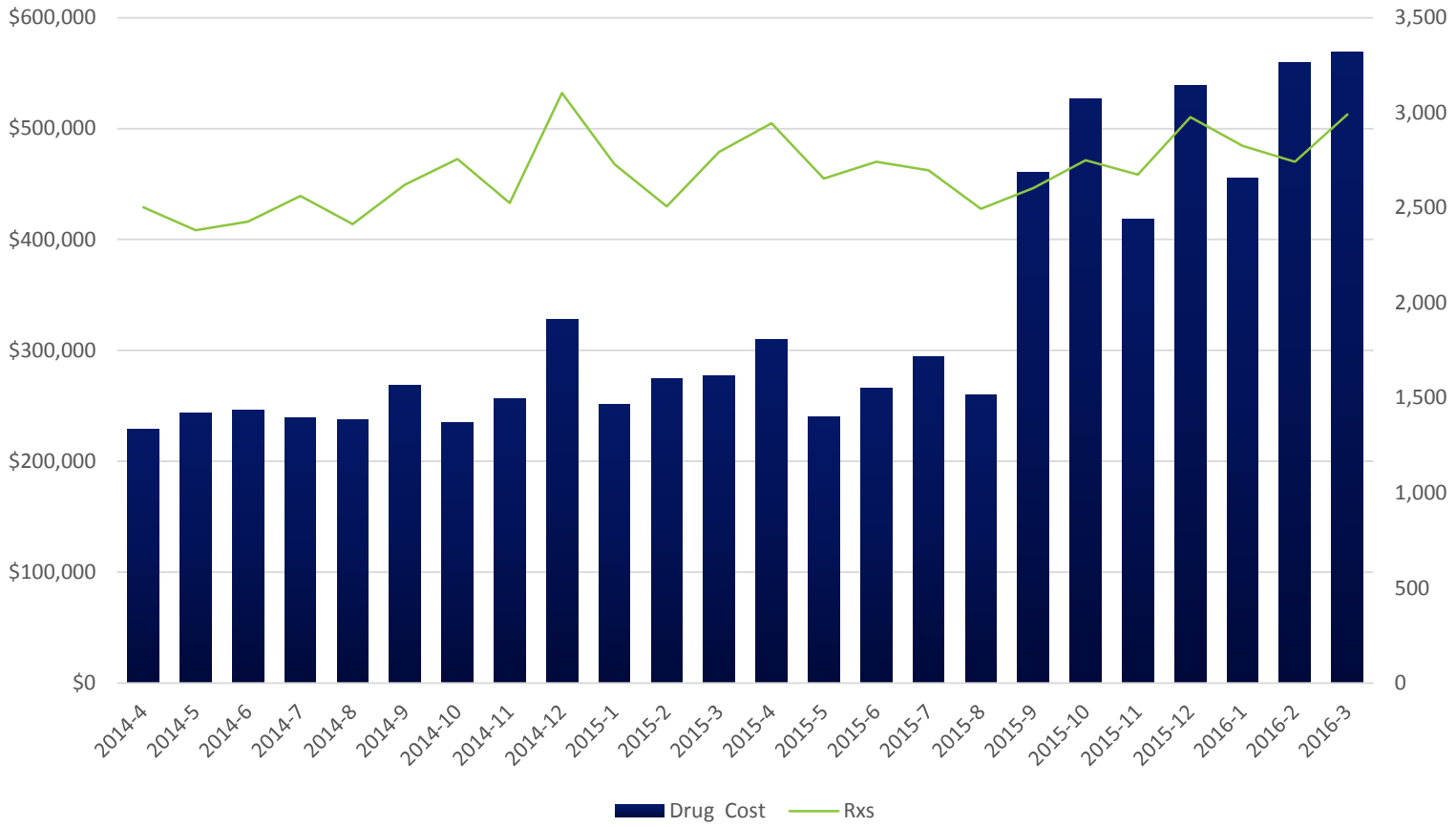
September New Employee	Cinryze: $800,000 per Year
Hereditary angioedema	+2 dependents with Hereditary angioedema

3 Patients, $2.4M Annually, 55% of Total Cost



Stand Alone PBMs

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Express Scripts

ESI, Medco, NPA

CVS/ Caremark

CVS, Caremark, Pharmacare

Optum Rx

Catamaran, Catalyst, Innoviant, Prescription Solutions. Owned by UHC

Prime Therapeutics

Owned by 13 BCBS Plans

Envision Rx, MedImpact, MagellanRx, PerformRx, WellDyneRx, Argus…

Carve-In vs Carve-Out

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Carve-In

HEALTH PLAN

Medical Pharmacy

Dental Vision

Plan Sponsor

Employer has a single bundled contract for all services

Carve-Out

HEALTH PLAN

Medical
Dental
Vision

PBM

Pharmacy

Plan Sponsor

Employer maintains two separate contracts/vendors each with specific and unique expertise

A Validated Best in Class Strategy

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"Unbundling – or 'carving out' – the pharmacy benefits presents substantial savings opportunities for plan sponsors… It is not uncommon for a carved-out health care plan to ***yield savings of 12% to 15%*** *in total annual pharmacy spend."*

CFO

TODAY'S KEYS FOR LOWERING DRUG COSTS

The top tip for keeping active-employee costs in check: separate your medical and pharmacy benefits into different plans.

BY BARRY EYRE

Pharmacy benefits for active employees and Medicare-eligible retirees present an excellent opportunity to drive out unnecessary costs and improve risk management, driven by market dynamics as well as regulatory and tax changes.

Right now, drug costs are in flux. Over the next three years, brand-name drugs expected to drive $133 billion in revenue for drug makers during that time period will lose patent protection. That will generate downward pressure on prescription drug costs.

Unfortunately for the bottom lines of corporate health-plan sponsors, the savings will be at least partially offset by the increasing use of specialty pharmaceuticals. These new-age drugs frequently cost tens to hundreds of thousands of dollars per year, and they also spur cost inflation for brand drugs prior to their patent expiration.

By optimizing retiree health benefits and pharmacy benefits for active employees, companies can both improve their financial performance and achieve superior clinical outcomes for employees and their dependents. The strategies and tactics outlined below will help plan sponsors toward both objectives.

ACTIVE EMPLOYEE PHARMACY BENEFITS

Many employers unwittingly leave significant amounts of money on the table in the provision of pharmacy benefits for active employees as well as pre-Medicare retirees on "active" plans. In many cases, active employee pharmacy benefits are accessed through an employer's contracted health plan. But unbundling – or "carving out" – the pharmacy benefits presents substantial savings opportunities for plan sponsors.

As anyone who has analyzed a pharmacy benefit manager (PBM) contract will attest, these contracts are both complex and opaque. To maximize cost savings and risk management opportunities available through "carving out," it is essential to understand and clarify all aspects of the contract while also embedding comprehensive audit rights and the ability to implement appropriate clinical programs.

To maximize their leverage when carving out pharmacy benefits, plan sponsors should structure a request for proposal (RFP) that results in a comprehensive contract with clearly defined terms, competitive discounts and rebates, market price checks before the final contract year, and most importantly, a full range of audit rights to ensure that the agreed-upon contract terms are being delivered.

A well-negotiated PBM contract, followed by comprehensive auditing and clinical program oversight, can help improve outcomes for employees and their dependents, while simultaneously reducing excess costs. It is not uncommon for a carved-out health-care plan to yield savings of 12% to 15% in total annual pharmacy spend.

Many health-care plans argue that carving out the pharmacy benefit will negatively affect disease-management programs. It is more difficult, the argument goes, for doctors to account for all medications being taken by a patient when some drug claims run through the medical plan and some through a separate carved-out drug plan. Disease-management programs ostensibly remove cost from both medical and drug benefit plans.

Those claims are self-serving at best. Plan sponsors can mandate that both providers establish protocol for sharing data to ensure effective disease-management programs, regardless of how prescription drugs are procured.

Now, though, many health plans are actually "carving in" PBM revenue in their contracts. That's because of the Affordable Care Act's minimum-loss ratio – the minimum percentage of premium income insurers must pay out in claims and health-care-quality improvements – slated to take effect in 2014.

In a "carved-in" arrangement, the health plan acts as a middleman between the PBM and the plan sponsor. This structure drives up the price of drugs for the plan sponsor. The health plan contracts with the PBM to supply the drugs at one price and then marks up the drugs as it contracts with individual self-funded plans as a third-party administrator for medical administrative services. This is referred to in the industry as a "spread" or "traditional" pricing arrangement.

When prescription drugs are

RDS vs. EGWP: A Comparison

How the Retiree Drug Subsidy stacks up against the Employer Group Waiver Plan for holding down retiree drug costs

Retiree Drug Subsidy	"800-series" EGWP
Does not provide catastrophic coverage	Catastrophic coverage provided through Federal govt. funded reinsurance covering 80% of large claims
Beginning in 2013, RDS will lose its beneficial tax treatment	From 2011 to 2020 the Federal govt. will provide additional coverage eventually filling 75% of the coverage gap in Part D
Public sector employers not allowed to include RDS subsidy when calculating their Accrued Actuarial Liability (AAL) on their financial statements	Public sector employers are permitted to incorporate EGWP subsidy when calculating AAL
Unpredictable cash flow	Predictable cash flow
Pharmaceutical industry discounts do not apply	Allowed to participate in pharmaceutical manufacturer discounts
Does not access Part D improvements	All requirements including formulary enhancements and beneficiary communications have been approved by CMS
Employer responsible for CMS compliance & reporting and subject to CMS audit	The EGWP plan sponsor (typically the PBM or PDP, not the employer) is responsible for CMS compliance & reporting
No low-income subsidy payments	Receive low-income subsidy payments
Employer must pass gross and net actuarial equivalence test to qualify for subsidy	No actuarial equivalence tests required

Source: Source: KTP Advisors

Without any change in benefit levels or cost sharing, switching from the RDS to the EGWP a wrap will result in plan sponsors lowering their ASC 715-60 (formerly FAS 106) liability by approximately 12% to 14%.

The chart below illustrates how the reinsurance provided by an EGWP can substantially benefit plan sponsors faced with the extremely high costs of specialty drugs.

Under the RDS, plan sponsors receive 28% of the costs incurred between $320 and $6,500 in 2012. In the EGWP plan, sponsors benefit from a base subsidy of approximately $657 (as compared to an average RDS reimbursement of $510), plus federally funded 80% reinsurance for "catastrophic" costs, defined as those expenses an individual retiree generates in excess of a CMS-set threshold ($6,657.50 in 2013) in a given plan year.

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The Importance of Managing Trend

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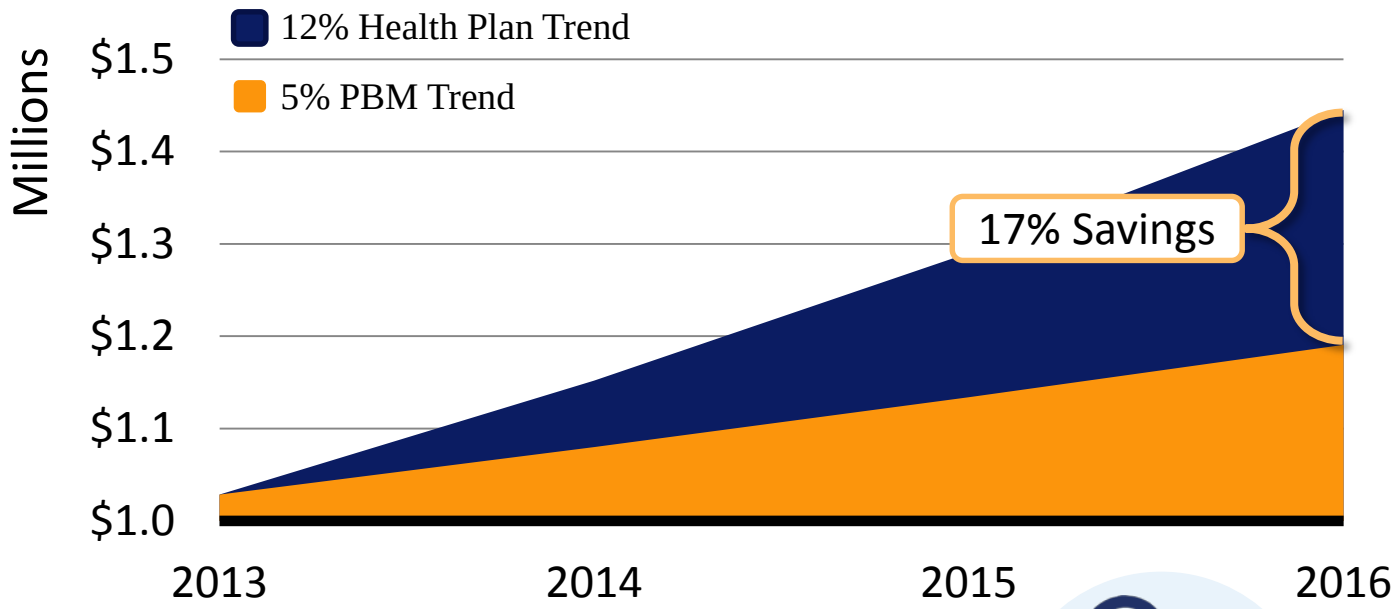
Total Cumulative Difference: $480,000 over three years (500 EEs)



Prescription Administration Options

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Carve-In

Plan Design	Data	Consultative Trend Management	Administration	Integrated Plan
Off the shelf	Limited availability; little insight	Limited via generalist	Value of generalist	Is it really targeted?
• Complete flexibility	• 140+ reports available monthly • Quarterly and annual reporting • Custom ad hoc	• Expert pharmacy team • Data drives plan design decisions	• Quick, expert issue resolution • Consultation	• Connectivity already exists • Will build connectivity free of charge

Carve-Out

Value of Plan Management

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Assumes 500 employees at $75 pmpm base plan cost pmpm.

Tightly managed Plans **saved $633,000** in lower costs over three years compared to unmanaged plans.

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Managing Pharmacy: Today & Tomorrow

Key Takeaways

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8-15% Savings	• Effective PBM contracting
% Savings	• 80%-100% of Rebates
10-30% Savings	• Evaluate the carve out potential
2-10% Savings	• Early adopter of management programs: •Mandatory generic programs •PBMs exclusionary formularies •Step Therapy •Exclusive Specialty Pharmacy •Compound management program
2% Savings; w/channel Management addl 3%+	• Exclusive Specialty Pharmacy and specialty management programs; medical channel management

Save money now so that you can afford the high cost drugs of tomorrow

Savings are estimates only

Basics of Pharmacy Contracting

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- Do you have a contract ***specific*** to your pharmacy benefit?
- Does your contract clearly list out the discounts/fees/rebates that are applied and guaranteed to **your** claims utilization?
- Does your contract clearly define under what circumstances those discounts/fees/rebate guarantees are applied to **your** claims?
- Does your contract clearly state what detailed information you will have access to relative to **your** claims utilization and experience?
- Does your contract contain audit rights allowing you to validate that your carrier or PBM is compliant with their financial & operational obligations under the terms of the contract?

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Rebate Value Over Time

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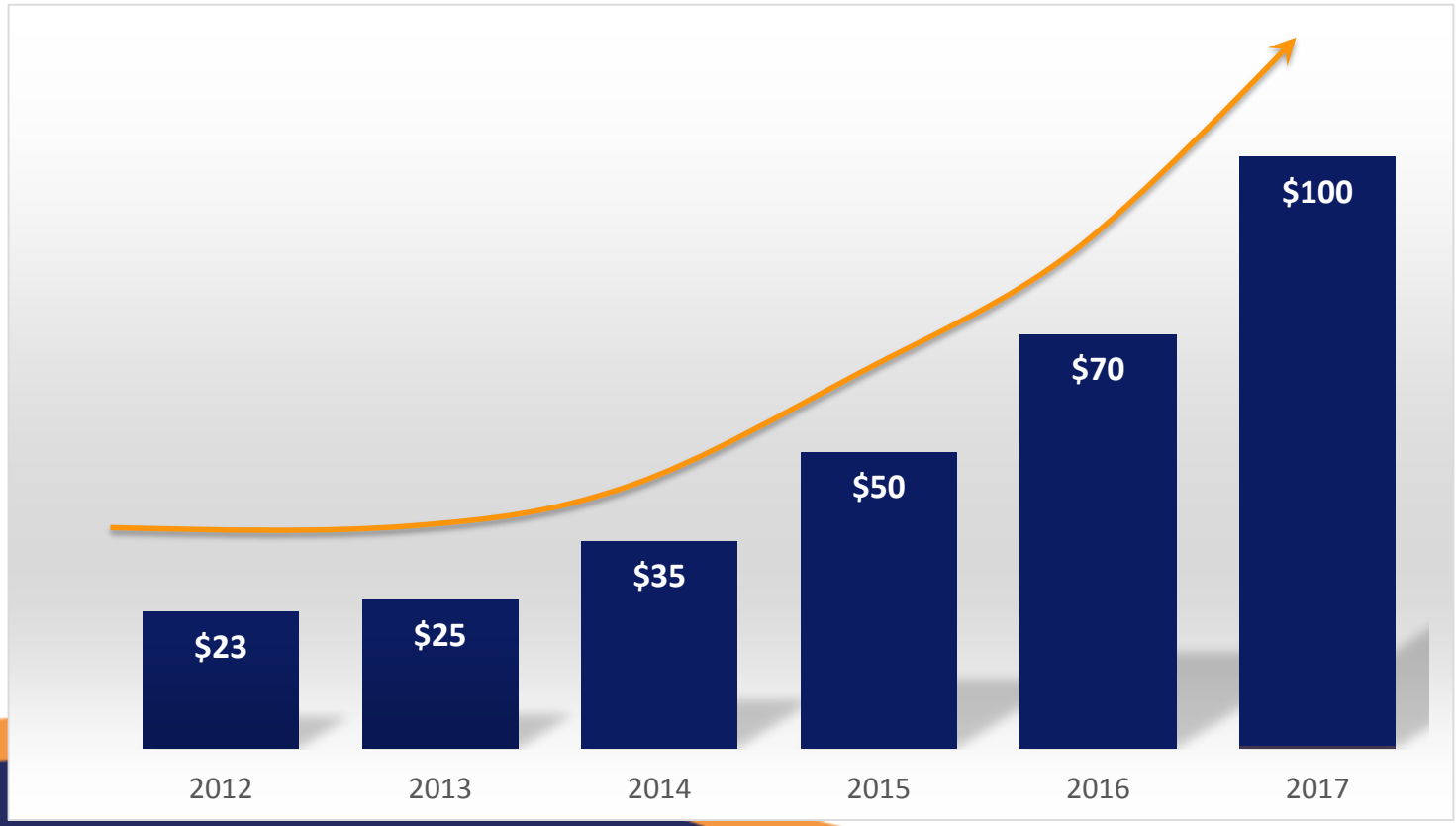
Rebate per Brand Claim (100% of rebates)



Value of 100% of Rebates

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Carve-In	
Employees/ Members	500/1,100
Medical Admin Fee Credit: *In lieu of rebates carrier offers a discount off medical admin fees*	$9 PEPY
Total Value to Client	$54,000
Value of 100% of rebates	$165,000
Retained Rebate Profit for Carrier	**$111,000**

Key Takeaways

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Save money now so that you can afford the high cost drugs of tomorrow

Savings are estimates only

Understand your options & opportunity

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Have you performed an analysis to understand the value of PBM carve out?

250 employees and 500 Members

Incumbent:	Financial Costs
Ingredient Cost	$997,640
Dispensing Fees	$7,245
Member Contribution	-$144,871
Administration Fees	$0
Rebates	-$62,560
Net Plan Cost	**$797,454**

Proposed: PBM Option 1	Financial Costs
Ingredient Cost	$941,304
Dispensing Fees	$4,561
Member Contribution	-$144,871
Administration Fees	$21,930
Rebates	-$85,921
Net Plan Cost	$737,003

Savings
$60,451
7.6%

Proposed: PBM Option 2	Financial Costs
Ingredient Cost	$932,038
Dispensing Fees	$5,293
Member Contribution	-$144,871
Administration Fees	$21,930
Rebates	-$131,127
Net Plan Cost	$683,263

Savings
$114,191
14.3%

Key Takeaways

PERFORMANCE PHARMACY SOLUTIONS

8-15% Savings	• Effective PBM contracting
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Savings are estimates only

Specialty Pharmacy Benefit Management

Spectrum of solutions

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BENEFIT PLAN DESIGN	Reduce waste and encourage adherence through formulary strategy, days' supply design, and member cost share recommendations
NETWORK MANAGEMENT	Savings on unit cost discounts through Exclusive Specialty program
UTILIZATION MANAGEMENT	Significant savings through programs like Prior Authorization, Drug Quantity Management, and Preferred Specialty Management
MEDICAL BENEFIT MANAGEMENT	Savings through management of medical-billed specialty drug spend

Full spectrum of specialty drug management programs to reduce waste for plan sponsors

Now What???

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"The reasonable man adapts himself to the world: the unreasonable one persists in trying to adapt the world to himself. Therefore all progress depends on the unreasonable man."

-George Bernard Shaw

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Thank You

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