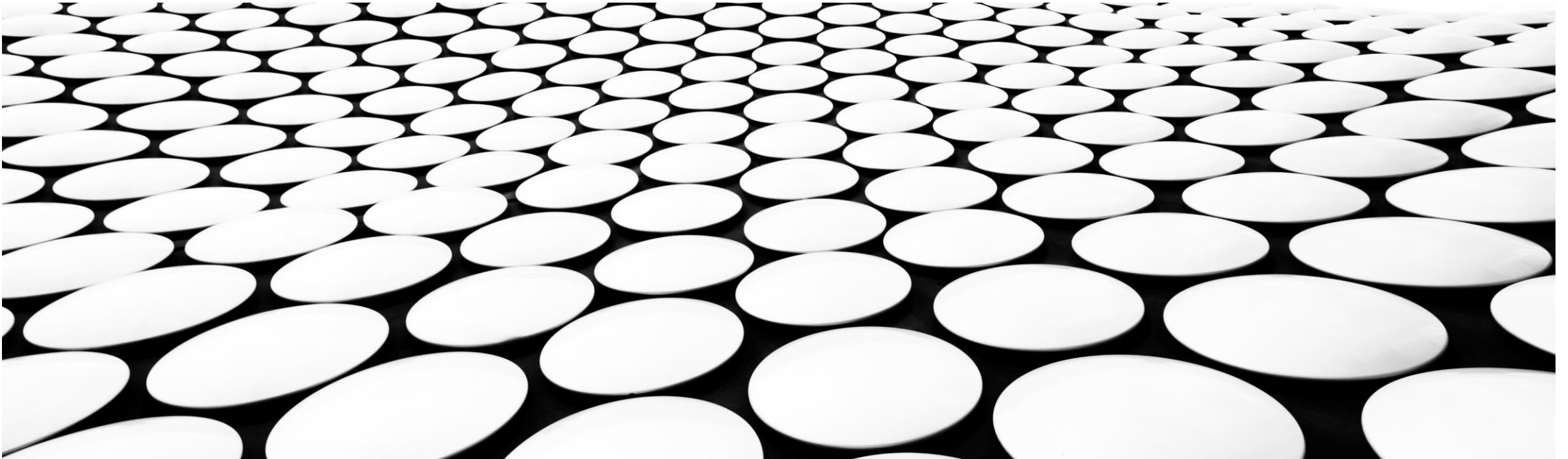

PBM BASICS

PAUL ALBRECHT – EMPLOYER SALES DIRECTOR – PRIME THERAPEUTICS



THE LANDSCAPE: THE IMPACT OF CHRONIC DISEASE ON EMPLOYERS

Americans and chronic conditions

60%

have one chronic condition

40%

Have two or more conditions

90%

Of annual \$3.5 trillion in healthcare spending is used to treat chronic and mental health conditions



HEART DISEASE



CANCER



CHRONIC LUNG DISEASE



STROKE



ALZHEIMER'S DISEASE



DIABETES



CHRONIC KIDNEY DISEASE

SPOTLIGHT ON PHARMACY

27%

of total health care spend by plan sponsors is due to prescription drugs¹

91%

of all prescriptions filled are for patients with chronic conditions. Nearly half of all Americans are expected to have at least one chronic condition by 2025²

2%

of all prescriptions filled are for specialty medications, but account for nearly half of all prescription costs³

THE ROLE PBMS PLAY: REDUCING DRUG COSTS



Encourage use of generics

.....



Negotiate rebates and discounts

.....



Manage high-cost specialty medications

.....



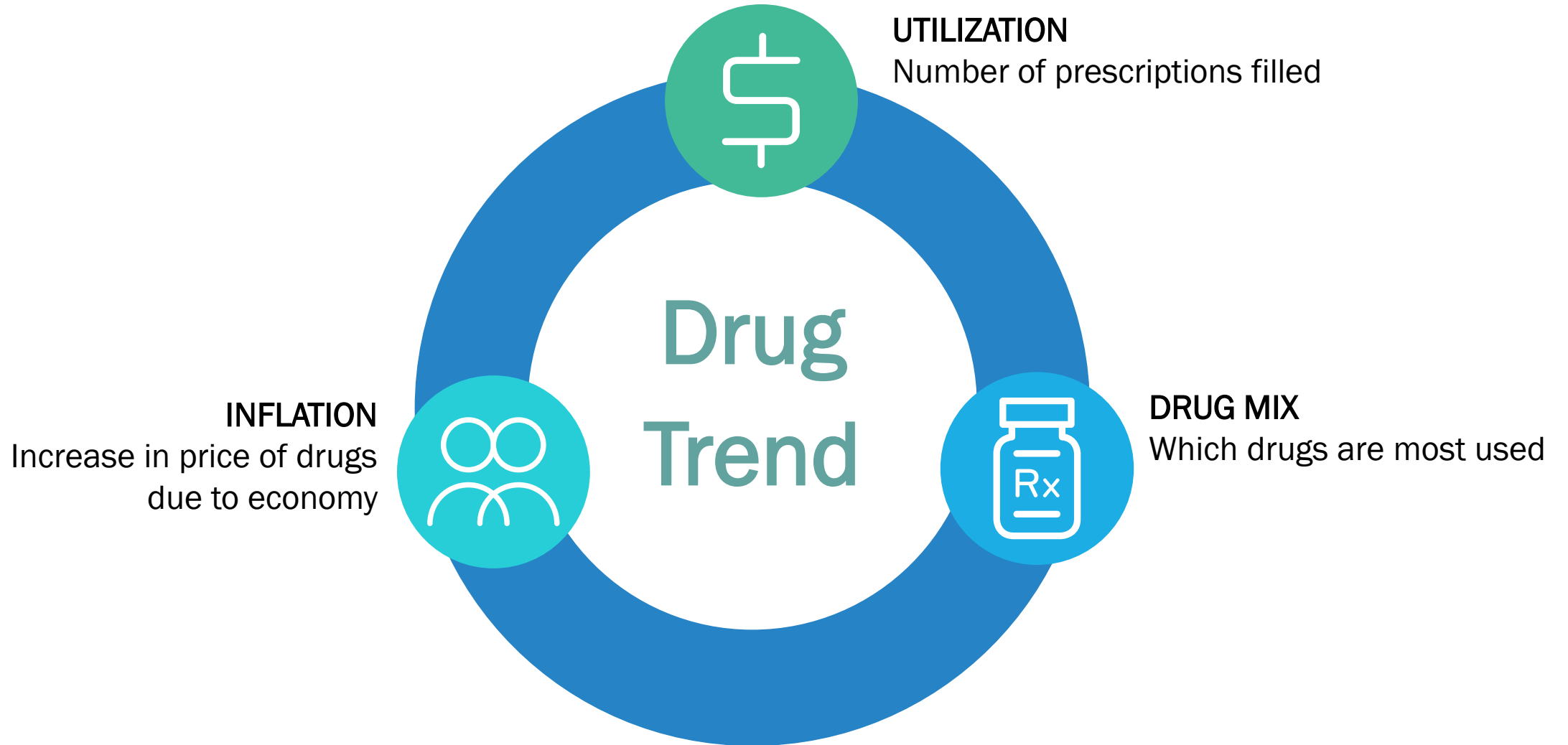
Reduce waste, improve adherence



savings

Up to 30% over the next decade

DRUG COST DRIVERS



COMPARING THE MAIN PLAYERS

National PBM's

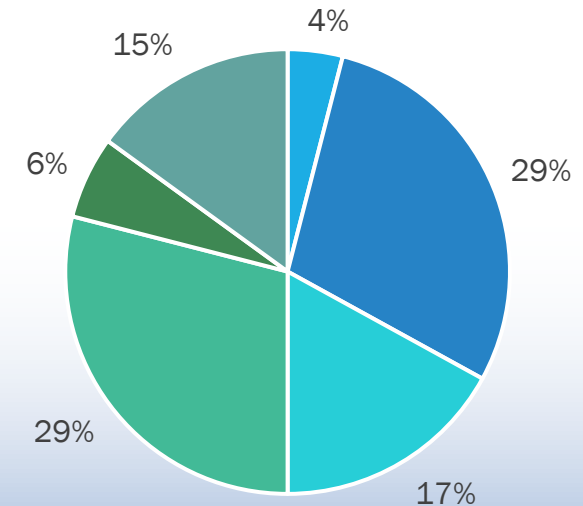


LARGEST US PBM AND PHARMACY: CVS CAREMARK



Annual Scripts	2.0B
Covered Lives	105M
PBM Revenue	\$141.5B

CVS 2018 Profit Pool Breakdown



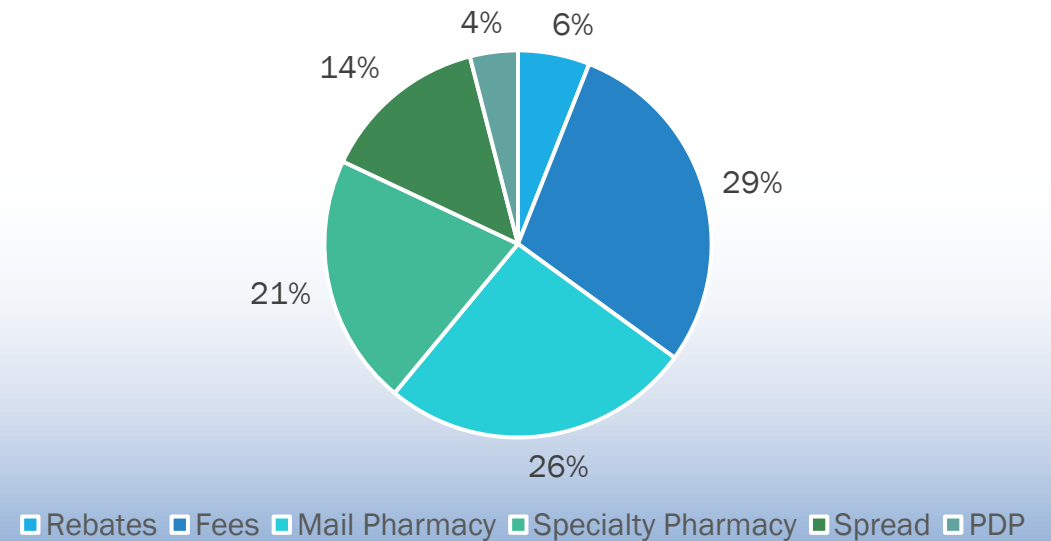
■ Rebates ■ Fees ■ Mail Pharmacy ■ Specialty Pharmacy ■ Spread ■ PDP

SECOND LARGEST PBM: EXPRESS SCRIPTS



Annual Scripts 1.22B
Covered Lives 75.0M

Express Scripts 2018 Profit Pool Breakdown



THIRD LARGEST US PHARMACY: OPTUMRX

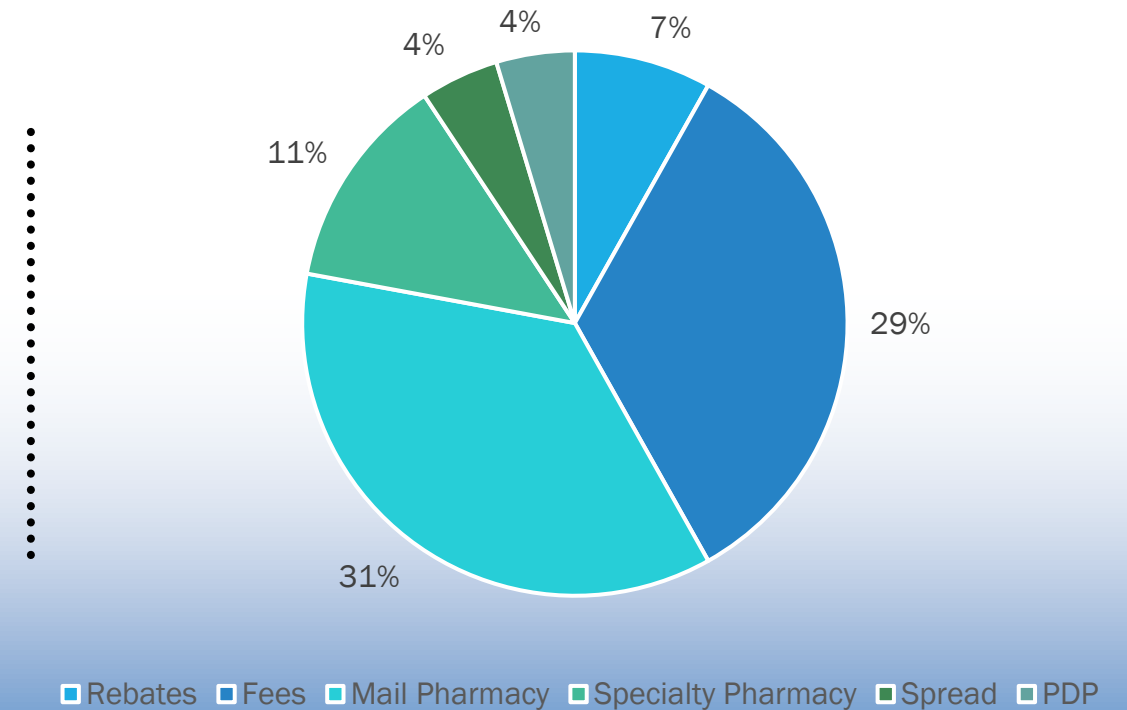


Annual Scripts 1.3B

Covered Lives 56M

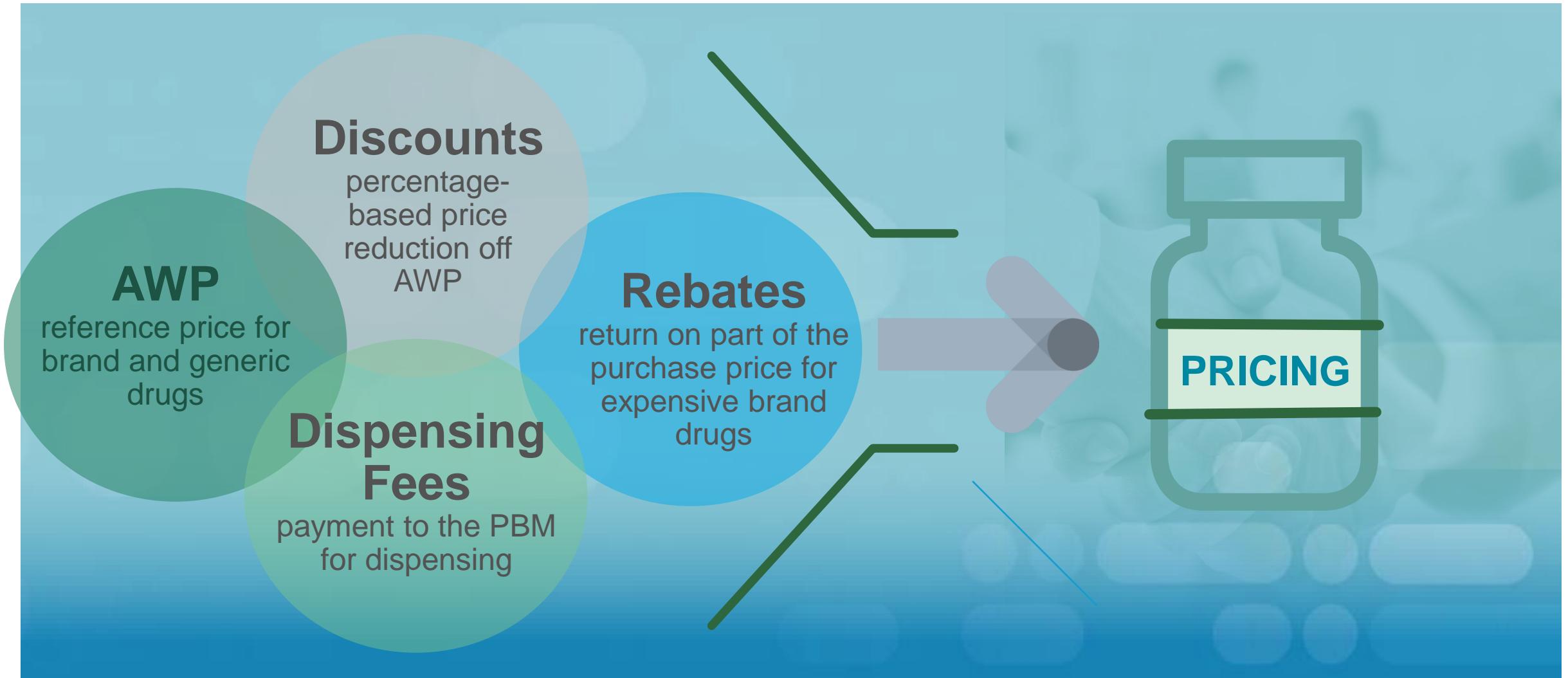
Drug Spend \$96B

OptumRx 2018 Profit Pool Breakdown



PBM Pricing Overview

BASICS OF PRICING: PROGRAM COSTS



TRADITIONAL VS. PASS THRU

	Pass Through	Traditional	Sensitivities	
Retail			Retail	Increment Annual value
Brand Discount	13.50%	15.00%	Brand Discount	0.25% \$18,150
Brand DF	\$1.50	\$1.00	Brand DF	\$0.05 \$1,650
Generic Discount	72.00%	65.00%	Generic Discount	0.50% \$21,507
Generic DF	\$1.50	\$1.00	Generic DF	\$0.05 \$3,350
Mail			Mail	
Brand Discount	21.00%	22.00%	Brand Discount	0.50% \$5,321
Brand DF	\$0.00	\$0.00		
Generic Discount	75.00%	70.00%	Generic Discount	1.00% \$5,489
Generic DF	\$0.00	\$0.00		
Rebates			Rebates	
Per Retail Rx	\$3.00	\$2.70	Per Retail Rx	\$0.10 \$10,000
Per Mail Rx	\$12.00	\$10.80	Per Mail Rx	\$0.25 \$1,250
Other				
Admin Fee	\$1.00	\$0.00		
\$000s				
Retail Drug Spend	\$7,634	\$7,776		
Mail Drug Spend	\$978	\$995		
Rebates	(\$360)	(\$324)		
Client Admin Fees	\$105	\$0		
Net Drug Spend	\$8,357	\$8,447		
PBM Revenue	\$105	\$195		

85% increase

FINANCIAL OPTICS

- Rebates
 - ▣ What is the rebate based on?
 - ▣ If Rebate per Rx, make sure it's ALL Claims
 - ▣ Exclusions based on Days Supply
(<10 retail <30 mail)

- MAC
 - ▣ Evaluate in Dollars rather than Percentages
 - ▣ Ask for an Overall Generic Guarantee

- “Average” AWP

FINANCIAL OPTICS (CONT)

- Definition of Brand and Generic
- READ THE CONTRACT
 - Are there “Limits” that Cap the Guarantees or are they Dollar for Dollar?
- Watch for Hidden Fees
 - Clinical
 - Audit

EVALUATING VENDORS

- Are **All** Generics Included in the Guarantee?
- How are Generics and Brands Defined in the Contract?
- Are Any Claims Excluded from the Rebate Calculations?
- Is AWP Coming from One Source Using the Full 11 Digit NDC of the Package Size Dispensed?
- Do **ALL** Mail Claims Get the Same Fixed Price?
- How are zero balance due Claims Calculated?
- How are zero balance due Claims Included in Rebate Calculations?
- Are Rebate Guarantees Predicated on a Target Days Supply?
- Are Savings From DUR Programs Included in the Guarantees?
- What Value are You Giving Me “Beyond” the Spreadsheet for a Low Net Cost Formulary and Ability to Manage Drug Trend?

PRICING OPTICS AND FINE PRINT

The “Average Average” Wholesale Price

	“Average” AWP	NDC 11 AWP
AWP	\$104	\$100
Discounted Cost	\$85	\$85
Claimed “Discount”	18.3%	15.0%

Same Cost

- AWP jokingly referred to as “Ain’t What’s Paid” in the industry
- Above pricing technique uses systematic billing to leverage differences in NDC-9 vs. NDC 11 pricing.
- Used to artificially inflate the AWP / Discount – “Sticker Price”
- Net Cost to Plan is still the same.
- Can easily add 2-3 points to the implied value of a network

PRICING OPTICS AND FINE PRINT

MAC Games

Calculated by taking $70\% \times 45\% + 15\% \times 55\%$

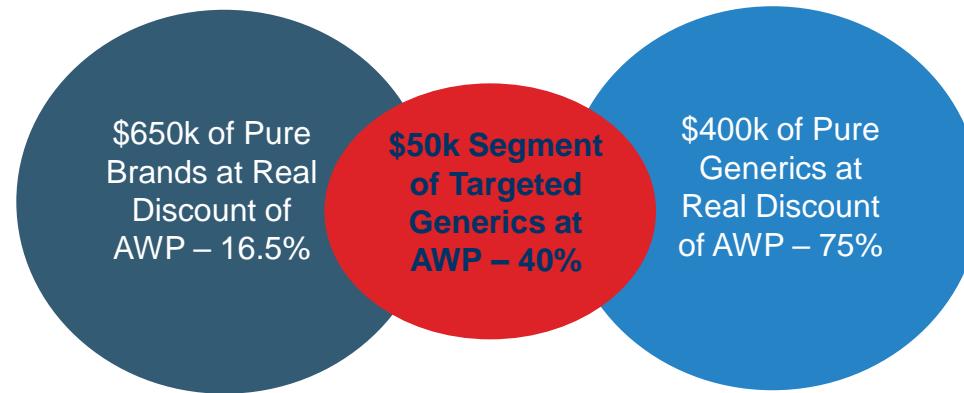
	MAC 1	MAC 2	MAC 3	MAC 4
MAC Performance	70%	65%	60%	55%
Non-MAC Performance	15%	15%	15%	15%
MAC Coverage on \$\$\$	45%	55%	70%	90%
Aggregate Generic Performance	40%	43%	47%	51%

- ❑ “MAC” is one of the oldest and most common acronyms in the PBM industry
- ❑ MAC is NOT standard
- ❑ **Most PBMs manage numerous MACs**
- ❑ Key Question is “What is MAC coverage “based on aggregate plan dollars””

COUNTING GENERICS AS BRANDS

Q: Isn't the difference between a brand drug and generic drug obvious?

A: No – never assume.



If red defined as Brands, network offer is:

Brands: AWP – 18.1%

Generics: AWP – 75.0%

If red allocated to Generics (as it should be), network offer is:

Brands: AWP – 16.5%

Generics: AWP – 71.1%

While client cost would be the same either way the more aggressive numbers were likely used in a consultant evaluation

PRICING OPTICS 101

Generic Guarantees



- Many consultants know to ask for a total Generic Guarantee (MAC and non-MAC combined) to exclude transactions from the guarantee:
 - Single Source Generics
 - “More than two manufacturers”
 - Subject to Patent Action
 - Generics as of the Effective date of the agreement only
- Above language can make generics appear to perform many points better than reality

PRICING OPTICS 101

Formulary Guarantees

Examples of Equivalent Values of Rebate Guarantees

	Mail	Retail
Total Rx's (Brand and Generic)	2,000	15,000
Total Rebate Pool	\$13,200	\$33,000
Total Rebate per Total Rx	\$6.60	\$2.20
Other Example Data		
Total Brand Rx	1,300	8,250
Total Brand Formulary Rx	1,105	7,013
Total Brand Formulary Rebateable Rx	884	5,610
Equivalent Values Per Rx Basis		
Rebate Per Brand Rx	\$10.15	\$4.00
Rebate Per Brand Formulary Rx	\$11.95	\$4.71
Rebate Per Brand Form Rebateable Rx	\$14.93	\$5.88

All of these would be identical guarantees, but wording is key

QUESTIONS??

