

San Joaquin Valley Insurance Authority

BOARD OF DIRECTORS

SUSAN B. ANDERSON

JUDITH CASE

MIKE ENNIS

ALLEN ISHIDA

PHIL LARSON

DEBORAH POOCHIGIAN

PETE VANDER POEL

Meeting Location:
Tulare County Employee Retirement
Association Board Chambers
136 N. Akers Street
Visalia, CA 93291
May 6, 2011
9:00 AM

AGENDA DATE: May 6, 2011

ITEM NUMBER: 9

SUBJECT: RFP for Pharmacy Benefit Manager

REQUEST(S): That the Board give authority to staff to explore alternative Pharmacy Benefit Management contracts that could result in the denial of assignment of current contract due to acquisition.

DESCRIPTION:

At the January 14th, 2011 Board Meeting, direction was given to staff and GBS to explore alternatives and strategies for cost control and claims mitigation for the SJVIA. Recent news regarding the status of Walgreens Health Initiatives, Inc, the pharmacy benefit manager (PBM) for the SJVIA, has created an opportunity to explore alternatives that could result in significant savings on pharmacy benefit claims.

The SJVIA currently has a contract in place with Walgreens Health Initiatives, Inc. to manage the self insured pharmacy benefit program for its participants. The contract has a three year term and will be up for renewal at the end of 2012. The County of Tulare is participating in this agreement under the SJVIA, and the County of Fresno has a separate, direct and identical contract with Walgreens.

On March 9, 2011, both Counties and Gallagher Benefit Services received notification that an agreement under which Catalyst Health Solutions will acquire Walgreens Health Initiatives, Inc had been finalized. The transaction is expected to close by the end of June 2011 and transitions to the Catalyst system are set to begin with the January 1 plan year.

Though Walgreens has committed that this will be a smooth transition and that dedicated account management and client services teams will remain intact, there have already been

AGENDA: San Joaquin Valley Insurance Authority

DATE: May 6, 2011

servicing inconsistencies. GBS and Staff have been advised that the pharmacy benefit contract contains a clause allowing a client to terminate the agreement without penalty by denying the assignment of the contract to Catalyst.

Gallagher Benefit Services has a dedicated Pharmacy practice led by Michael Thomas, Pharm D. To gain insight on the change and what to expect during a transition like this, GBS team members had discussions with Mr. Thomas. He explained that the current contract and pricing will be honored by Catalyst, but there will likely be disruptions and many staff changes during the next year. Additionally, the County of Tulare, as well as Fresno, will be migrating to the Catalyst drug formulary as of January 1, which will cause additional disruption to participants. A formulary is a list of preferred and non-preferred drugs that are covered by the pharmacy benefit manager. Every company has a different list built using many factors, such as the level of rebates received from the pharmaceutical company for every prescription written. The change in formulary will likely result in changes to copays for current prescriptions due to tier changes for covered drugs. For instance, a drug that is covered at a \$10 copay this plan year may be to a higher tier at a \$20 copay with the change. This change may not sound significant, but much of the disruption with health plan changes happens at the pharmacy level.

Further discussion with Mr. Thomas revealed that pharmacy pricing has changed significantly in the two years since the inception of original Walgreens contract. In reviewing contracts and proposals and in comparison with the pricing structure of the SJVIA/Walgreens contract, he noted that there is potential for a 5-10% reduction in pharmacy cost assuming a new contract with Catalyst. Potential savings with alternative vendors is likely to be even greater.

In cooperation with the local GBS team, the Gallagher Pharmacy department will request pricing and servicing proposals for the SJVIA with an effective date aligning with the next plan year. Mr. Thomas will analyze the proposals utilizing claims data from the SJVIA for the past 12 months. His extensive comparison of the pricing points allows him to project possible savings with each vendor. He also provides an overview of his financial findings along with details of all aspects of the proposal including reporting, servicing, and customer satisfaction from both current and past clients.

Additionally, given the knowledge that the SJVIA has the option to exercise a clause in the contract to exit early, and that there will likely be disruption similar to a client initiated change in pharmacy benefit manager, it is the recommendation of GBS and SJVIA staff to explore alternatives that would offer more competitive pricing along with consistent service for participants in the SJVIA. The RFP process for a pharmacy vendor takes approximately 6 weeks. Results will be available for presentation to your Board at the July meeting.

AGENDA: San Joaquin Valley Insurance Authority

DATE: May 6, 2011

FISCAL IMPACT/FINANCING:

The PPO plans for the SJVIA are self-insured; therefore the claims for both pharmacy and medical expenses are paid by the SJVIA. In the 2010 plan year the overall PPO claims totaled nearly 6.4 million dollars. Pharmacy claims accounted for approximately 1.8 million of those claims dollars or around 28% of claims for the SJVIA. Assuming pharmacy trend increase at about 11% per year, pharmacy claims in the 2012 plan year could total well over 2 million dollars. This opportunity to secure a new contract would result in a possible savings greater than \$200,000 dollars to the SJVIA claims fund. There is no cost to the SJVIA in having this study conducted.

ADMINISTRATIVE SIGN-OFF:



Paul Nerland
SJVIA Manager



Rhonda Sjostrom
Interim Assistant SJVIA Manager

**BEFORE THE BOARD OF DIRECTORS
SAN JOAQUIN VALLEY INSURANCE
AUTHORITY**

IN THE MATTER OF RFP for Pharmacy Benefit Manager

RESOLUTION NO. _____
AGREEMENT NO. _____

UPON MOTION OF DIRECTOR _____, SECONDED BY DIRECTOR _____
_____, THE FOLLOWING WAS ADOPTED BY THE BOARD OF DIRECTORS, AT AN
OFFICIAL MEETING HELD _____, BY THE FOLLOWING VOTE:

AYES:
NOES:
ABSTAIN:
ABSENT:

ATTEST:

BY: _____

* * * * *

That the Board gave authority to staff to explore alternative Pharmacy Benefit Management contracts that could result in the denial of assignment of current contract due to acquisition.