



P. O. Box 1538
Rancho Cordova, CA 95741

916 859-4900
916 859-7167 fax GS
www.keenan.com
License No. 0451271

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SJVIA Board Meeting: Consultant's Report on EmpiRx PBM Performance December 18, 2017 through June 30, 2018

Executive Summary

The SJVIA Board requested that Keenan prepare a report on EmpiRx Health's performance for the six months. Keenan prepared a report which reviews six areas and provides recommendations:

1. Plan Costs – Proposed versus Realized
2. Guaranteed Clinical Management Savings
3. Operational and Service Performance Guarantees
4. Description of the Performance Guarantees
5. Prescription Drug Rebates
6. Top Drugs by Plan Cost
7. Recommendations

EmpiRx Health is performing above projections in clinical savings and 2018 projections but underperforming in plan cost and rebates for the first six months. Some of the factors contributing to the increase:

- Increase in specialty utilization and cost
- New utilizers
- Drug inflation

This report should be treated as a preliminary report. Contractually, the SJVIA will receive an EmpiRx report along with a Keenan Pharmacy division Report within 180 days of the close of the year which will audit the entire 2018 plan year and give much further detail as to plan performance and further recommendations.

1. Plan Costs

SJVIA	EmpiRx Actual Proposal	EmpiRx Adjusted Proposal	Envolve	Envolve	EmpiRx
Aggregate Cost	12 Months	12 Months	2017 First 6 Months	2017 Last 6 Months	2018 First 6 Months
Employee Count	6,736	6,736	7,140	7,174	6,951
Rx Count	136,517	136,517	66,935	64,039	61,635
Gross Cost (1)	\$ 17,352,628	\$ 17,352,628	\$ 9,546,834	\$ 9,838,434	\$ 9,920,291
Member Cost (2)		\$ (1,269,585)	\$ (698,483)	\$ (721,330)	\$ (776,886)
SJVIA Plan Cost		\$ 16,083,043	\$ 8,848,351	\$ 9,117,104	\$ 9,143,405
Administration Fee	\$ 477,831	\$ 477,831	\$ 67,689	\$ 68,011	\$ 215,516
Keenan Pharmacy Fee	\$ 201,006	\$ 201,006	\$ -	\$ -	\$ 94,896
Rebates	\$ (3,116,908)	\$ (3,116,908)	\$ (565,202)	\$ (478,517)	\$ (685,354)
Proposed Clinical Savings	\$ (2,250,000)	\$ (2,250,000)	\$ -	\$ -	\$ -
Total Cost	\$ 12,664,557	\$ 11,394,972	\$ 8,350,837	\$ 8,706,598	\$ 8,768,463
PEPM	12 Months	12 Months Adjusted	2017 First 6 Months	2017 Last 6 Months	2018 First 6 Months
Employee Count	6736	6736	7,140	7,174	6,951
Rx Count	1.69	1.69	1.56	1.49	1.48
Gross Cost	\$ 214.68	\$ 214.68	\$ 222.84	\$ 228.56	\$ 237.87
Member Cost		\$ (15.70)	\$ (16.30)	\$ (16.76)	\$ (18.63)
SJVIA Plan Cost		\$ 198.98	\$ 206.54	\$ 211.80	\$ 219.24
Administration Fee	\$ 5.91	\$ 5.91	\$ 1.58	\$ 1.58	\$ 5.17
Keenan Pharmacy Fee	\$ 2.49	\$ 2.49	\$ -	\$ -	\$ 2.28
Rebates	\$ (38.56)	\$ (38.56)	\$ (13.19)	\$ (11.12)	\$ (16.43)
Proposed Clinical Savings	\$ (27.84)	\$ (27.84)	\$ -	\$ -	\$ -
Total Cost	\$ 156.68	\$ 140.97	\$ 194.93	\$ 202.27	\$ 210.25
2018 Projected Value	\$ 219.89				
EmpiRx Actual Compared to Projections					-4.4%

1. 2018 prescribed gross cost of \$11,998,668 includes clinical savings of \$2,078,377 (\$11,998,668 - \$9,920,291 = \$2,078,377 in clinical savings)

2. Member cost: Estimated member cost calculated at 7.3% member copay cost (\$698,483/\$9,546,834 = 7.3%)

- 2018 Renewal Projection versus 2018 Realized Cost - The comparison of the 2018 renewal to the first six months realized in 2018 shows EmpiRx is performing under projections
 - 2018 per employee per month (pepm) renewal projection: \$219.89 pepm
 - 2018 pepm actual cost: \$210.25 pepm for a favorable difference of \$9.64 pepm from 2018 projection; the plan experienced 4.4% lower pepm cost than projected

- 2017 Actual Cost to 2018 Actual Cost – The comparison of the 2018 cost to the 2017 first 6 months and the 2017 last six months shows an increase with EmpiRx
 - The 2017 first six months pepm actual cost was \$194.93 (for a difference of \$15.32 pepm)
 - The 2017 last six months pepm actual cost was \$202.27 (for a difference of \$7.98 pepm)

2. Guaranteed Clinical Management (CM) Savings have exceeded projections.

- Clinical Savings Guarantee: \$1,850,000 (minimum) - \$2,250,000 (maximum) for Year 1
- Estimated Clinical Savings as of June 30, 2018: \$2,078,376
- Projected CM (first 6 months): \$1,250,000
 - Difference +\$828,376

3. Operation and Service Performance Guarantees for the first and second quarter performance guarantee measurements show that all performance guarantees have been achieved. All the metrics are running at or above the agreed upon performance guarantee. Metrics will be updated quarterly.

4. Aggregate Value Pricing Performance Guarantees - EmpiRx guaranteed the aggregate value of the pricing and will reimburse any shortfall dollar for dollar. EmpiRx Health has fully committed to SJVIA and employed a full-time pharmacist in California to daily manage the clinical program for reduced plan costs and greater savings.

5. Prescription Drug Rebates for the first quarter were \$381,625 and we conservatively estimated 2Q at \$303,729 to come up with the \$685,354 six-month projection.

6. The Top Drugs by Plan Cost represent 30% of the overall plan cost for the SJVIA.

- Of the top 15 drugs:
 - 6 are specialty drugs, which represents \$1,315,994 in plan cost.
 - 7 are used to treat diabetes, which represents \$1,022,704 in plan cost.

7. Summary and Recommendations

- The SJVIA is showing a favorable performance when comparing the 2018 projections to the actual experience.
- Overall the PEPM has increased when compared to 2017.
- Keenan will continue to monitor and track drug trend, utilization, guarantees.
- Provide an audit of the clinical savings and pricing discounts after one year of experience.
- Present the full 12 month 2018 report.

Clinical Savings Detail

- Guaranteed Clinical Management (CM) Savings over the first two quarters (6 months) have exceeded projections.
 - Clinical Savings Guarantee: \$1,850,000 - \$2,250,000 for Year 1
 - Estimated Clinical Savings as of June 30, 2018: \$2,078,376
- Final reconciliation is completed by EmpiRx clinicians 120 days post contract year EmpiRx continues monitoring savings and interventions for future paid claims to identify any changes needed in final savings (e.g. Hep C therapies might get approval post 90 day look forward period and will require removal of clinical savings from original estimate).
- Keenan performs a line by line clinical savings audit and presents the final report to the SJVIA upon completion of the end of the plan year.

Category	1Q Savings	1Q Interventions	2Q Savings	2Q Interventions	1&2Q Savings	1&2Q Interventions
Prior Authorizations	\$365,797	177	\$427,831	157	\$794,628	334
Quantity Limits	\$485,491	1178	\$220,819	117	\$706,310	1295
Step Therapy	\$331,479	543	\$245,959	224	\$577,438	767
Total	\$1,183,767	1,898	\$894,609	498	\$2,078,376	2,396

Performance Guarantee Detail

- EmpiRx has performed at or better on the operational and service performance guarantees (PG's) in outlined in the agreement for the first two quarters. The performance for all PG's are outlined below.

Service Description	Performance Guarantee	Performance Q1	Performance Q2
Plan Design Set Up	98% of Plan specifications and Formulary information will be set up and accurately loaded into the EmpiRx system by the Sponsor implementation date.	100%	N/A
Member Communication Materials	98% of Covered Persons will receive ID Cards and welcome kits within 5 business days of the Sponsor implementation date.	100%	N/A
Electronic Claims Processing Accuracy	98% or more of all point-of-service Claims will be processed and paid with no errors.	100%	100%
Electronic Claims Processing TAT	90% of all Claims submitted by a Network Pharmacies through the EmpiRx system will be received, processed, and messaged back to the pharmacy within 3 seconds.	0.5	0.5
Eligibility Changes	96% of eligibility change and update files will be loaded accurately into the EmpiRx system by 5PM EST each day; within 48 hours of receipt of a clean file.	99.90%	99.83%
Mail Order Pharmacy Prescription Dispensing Accuracy	99% of Covered Drugs mailed by the mail order Network Pharmacy to Covered Persons on an annual basis will be the correct drug, at the correct strength, and the correct dosage (excluding errors by the prescriber).	100%	99.99%
Mail Order Pharmacy Service TAT (Clean Claims)	99% of Covered Drugs mailed by the mail order Network Pharmacy to Covered Persons on an annual basis shall be dispensed and mailed within.	99.51%	99.64%
Standard Report Delivery	98% of all reports due Sponsor will be delivered within 2 business days of their due date.	98%	98%
Average Speed of Answer	Member calls received during each calendar year will be answered on average within 30 seconds with the exception of a failure of a third-party communications system.	0.25	0.16
Abandonment Rate	Less than 5% of Covered Person calls, once a call has entered the queue.	2.00%	2.00%
Plan Design Changes	98% of all Plan specifications and Formulary changes will be made and accurately loaded into the EmpiRx system within 5 business days.	100%	100%
EmpiRx System Availability	98% of each calendar year, the EmpiRx system will be available 24 hours per day, 7 days per week (excluding scheduled system maintenance).	100%	100%

Aggregate Pricing Performance Guarantee Detail

- EmpiRx Health guarantees the aggregate value of the pricing detailed below will be realized by SJVIA and will provide an annual reconciliation within 180 days after the end of each contract year to show its performance versus the aggregate guarantees. EmpiRx Health will reimburse any shortfall dollar for dollar. Pricing is contingent upon acceptance of applicable care management programs and execution of Agreement with a three-year term.
- In the event of any grandfathering applied during implementation of the clinical management programs, the clinical savings guarantee will be equitably adjusted. Any excess clinical savings above the clinical guarantee may be used to offset aggregate financial performance and may be applied to offset any shortfalls in any or all discount, dispensing fee or rebate guarantees.
- The \$2,250,000 care management savings assumes acceptance of all the EmpiRx Health programs; the SJVIA implemented the following changes:
 - Prior Authorization: Implemented 01/01/18 for new utilizers and Grandfathered for 1 year
 - Step Therapy: Implemented 01/01/18 for new utilizers and Grandfathered indefinitely
 - Quantity Level Limit: Implemented 01/01/18 for current and new utilizers EmpiRx Health

SJVIA				
Category	Retail	Retail 90	Mail Order	Specialty Exclusive
Brand Discount	16.75%	22.50%	24.00%	21.00%
Generic Discount	80.00%	83.00%	89.00%	21.00%
Dispense Fee	\$1.00	\$0.50	\$0.00	\$0.00

Clinical Guarantees	
Care Management Savings Guarantee Year 1	\$2,250,000*
Care Management Savings Guarantee Year 2	\$1,350,000*
Care Management Savings Guarantee Year 3	\$900,000*
Care Management Savings Guarantee Year 1 <i>(Low management option)</i>	\$1,850,000**
Care Management Savings Guarantee Year 2 <i>(Low management option)</i>	\$1,110,000**
Care Management Savings Guarantee Year 3 <i>(Low management option)</i>	\$740,000**

*Assumes full adoption of all EmpiRx Health Care Management Programs

**Assumes implementation of all clinical programs Sponsor had in place prior to the commencement of this Agreement

Top 15 Drugs by Plan Cost Detail

- The top 15 drugs represent 30% of the overall plan cost for the SJVIA.
- Of the top 15 drugs:
 - 6 are specialty drugs, which represents \$1,315,994 in plan cost.
 - 7 are used to treat diabetes, which represents \$1,022,704 in plan cost.

SJVIA JAN - JUN 2018 DRUG NAME	USED TO TREAT	CLAIMS	UTILIZERS	PLAN COST	PATIENT COST	GROSS COST	% of TOTAL PLAN COST
HUMIRA PEN*	RHEUMATOID ARTHRITIS	67	17	\$412,704	\$3,900	\$416,604	4.6%
H.P. ACTHAR*	INFANTILE SPASMS	9	1	\$364,538	\$900	\$365,438	4.0%
HUMALOG	DIABETES	182	72	\$212,271	\$5,140	\$217,411	2.4%
LATUDA	SCHIZOPHRENIA/BIOPOLAR	124	38	\$212,154	\$2,720	\$214,874	2.4%
ENBREL SURECLICK*	RHEUMATOID ARTHRITIS	35	9	\$182,264	\$1,740	\$184,004	2.0%
TRULICITY	DIABETES	193	62	\$175,763	\$4,500	\$180,263	2.0%
ORKAMBI*	CYSTIC FIBROSIS	7	1	\$152,185	\$700	\$152,885	1.7%
VICTOZA	DIABETES	150	45	\$146,233	\$3,620	\$149,853	1.6%
JANUVIA	DIABETES	203	76	\$137,426	\$5,420	\$142,846	1.6%
CIALIS	ERECTILE DYSFUNCTION	231	111	\$132,155	\$6,120	\$138,275	1.5%
LANTUS SOLOSTAR	DIABETES	199	78	\$124,218	\$6,020	\$130,238	1.4%
LYRICA	NERVE PAIN (DIABETES)	185	55	\$115,626	\$4,240	\$119,866	1.3%
TECFIDERA*	MULTIPLE SCLEROSIS	15	3	\$114,419	\$940	\$115,359	1.3%
FARXIGA	DIABETES	164	55	\$111,167	\$4,200	\$115,367	1.3%
SPRYCEL*	LEUKEMIA	7	1	\$89,883	\$140	\$90,023	1.0%

*Specialty drugs

Recommendations

- The SJVIA could reduce their plan costs by approximately \$893k by implementing some of the recommended plan design and formulary recommendations.

Category	Fresno	Tulare	Marysville	Total
Exclude Rx's with OTC Equivalents	\$136,727	\$4622	\$0	\$186,349
Exclude Rx PPI Coverage	\$39,000	\$40,000	\$0	\$79,000
Change QL on ED Rx's from 8 to 4 per Month	\$86,000	\$43,000	\$0	\$129,000
Mandatory Generic	\$101,018	\$95,200	\$0	\$196,218
Remove Grandfathered ST	\$189,044	\$113,497	\$0	\$302,541
Total	\$476,242	\$341,319	\$0	\$893,108