

The Council of State Governments
2003 Innovations Awards Program

Application Form

1. Program Name

Multi-State Pharmacy Benefit Management Services

Pharmacy Benefit Management Services Request for Proposal (RFP) Issuing States (RxIS) included: West Virginia, Louisiana, Mississippi, Missouri, New Mexico and South Carolina. These states were a subset of a larger Pharmacy Work Group, involving as many as twenty states that has and continues to meet to examine pharmacy cost-containment topics.

Of these six states, West Virginia, Missouri and New Mexico negotiated contracts with the successful Pharmacy Benefit Manager (PBM), Express Scripts, Inc. However, the remaining three states (Louisiana, Mississippi, and South Carolina) subsequently negotiated better contracts with their respective PBMs. Additionally, through a provision in the original request for proposal other states and lesser political subdivisions are able to join in this process; recently the State of Delaware finalized a contract with the PBM.

2. Administering Agency

West Virginia Public Employees Insurance Agency (WVPEIA).
Each participating state has negotiated a contact with the PBM independently.

3. Contact Person (Name & Title)

Tom Susman, Director, WV Public Employees Insurance Agency
Felice Joseph, Pharmacy Benefits Administrator

4. Address

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8. Please provide a two-sentence description of the program.

Aggregate drug purchasing powers for a single pharmacy benefit manager (PBM) to lower the unit costs for services provided, and enter into a cost-plus relationship with each participating state in the RxIS. Basically, the participating RxIS members contracted with the PBM on an "administrative services only" (ASO) basis.

9. How long has this program been operational (month and year)?

The Pharmacy Work Group initially met in April of 2001, a year later Express Scripts, Inc. was selected as the pharmacy benefits manager (PBM), and three months later West Virginia's program became operational (July 1, 2002) when a three-year contract was executed with the successful PBM.

10. Why was the program created? (What problem(s) or issue(s) was it designed to address?)

Prescription costs have increased dramatically in recent years. They are expected to continue rising an estimated 20% or more every year for the next several years. WVPEIA, who provides healthcare and prescription drug services for more than 200,000 members, dependents and retirees, has seen its pharmaceutical expenditures rise \$40.0 million in the past three years alone.

A portion of the increase is attributable to the introduction of new kinds of drug therapy that can actually help reduce more costly hospital stays and medical expenses. Much of this increase, however, is the result of the introduction of new, very costly drugs, an aging population, and aggressive promotion by drug manufacturers that has resulted in substantial increases in utilization throughout the country.

Benefit managers everywhere have struggled with the economic burden of continuing to provide appropriate benefits while staying within budget guidelines. States are particularly challenged in continuing to provide benefits to their employees and their dependents since states have rigid budgeting rules and little capacity for absorbing large cost increases.

Many if not all states are aware as well that the problem is larger than anything they can solve independently, but certainly they can act in the role of “change agents”. The states participating in RxIS realized that individually their efforts would have little impact simply because they did not possess sufficient membership base. Acting collectively they substantially increased their negotiating power.

11. Describe the specific activities and operations of the program in chronological order.

West Virginia’s Governor Bob Wise, shortly after his election in November 2000, instructed his Transition Team to explore the possibility of working with other states. The underlying premise was West Virginia like many other states did not have sufficient market share to affect meaningful change, but working together change was possible.

Following his appointment as PEIA Director in January of 2001, Governor Wise instructed Tom Susman to pursue all available options. Director Susman began networking with other states, process that was ongoing for nearly fifteen months. The culmination of this effort was the formation of the Pharmacy Work Group in the spring of 2001.

During the fall of 2000 it was determined that West Virginia should develop enabling legislation that clearly provided authority to affect multi-state pharmaceutical purchasing arrangements. The purpose was two-fold: again, to spell out West Virginia’s ability to enter into these purchasing arrangements and, equally important, to make the West Virginia Legislature a full partner in the overall effort.

The newly established Pharmacy Work Group continued its work in earnest, having engaged a consultant to facilitate the process. Their background investigations revealed the PBMs were being paid on a percentage of the actual drug spend, they were charging states an administrative fee and keeping a large portion of the rebates as well. Basically, as drug costs increased so did the profits of the PBMs.

The Pharmacy Work Group’s efforts solidified in the fall of 2001, and the RxIS (the Issuing States) agreed to release an RFP for pharmacy benefit management services underscoring the multi-state approach to secure lower unit costs, enabling the states to

enter into cost-plus contract relationships and requiring quotations for each module of work.

The RFP was issued October 17, 2001, with proposals due December 14, 2001. A Proposers' Conference was held November 9, 2001. There were seven PBMs that submitted proposals which were evaluated over a three-month period culminating with the selection of Express Scripts, Inc. as the successful PBM.

Because West Virginia's PEIA operates its program on a fiscal year basis they were first to negotiate their contract. It took effect July 1, 2002. Express Scripts, Inc. functions in the role of a third party administrator. WVPEIA maintains oversight of the program through an established relationship with their agency's pharmacy benefits administrator, fiscal officer and membership services administrator. Additionally, there are quarterly "in-house" meetings with the PBM and affected staff to work out current issues.

At the onset of the contract period, West Virginia estimated it's savings over the ensuing three years to be \$25.0 million. These estimates appear to be on target.

12. Why is the program a new and creative approach or method?

West Virginia like many other states did not have sufficient market share to affect meaningful change, but working together change was possible. Collectively, RxIS created market share.

Additionally, however, there is another very notable feature. The Pharmacy Work Group examined pharmacy benefit managers (PBMs) practices. PBMs are paid a percentage of the plan's drug spend. Generally, PBMs charge a small administrative fee to the client and, in turn, keep the majority of the rebate dollars. In private industry clients usually pay a larger administrative fee and get a larger portion of the rebates. The Pharmacy Work Group realized that as plan members spent more on pharmaceuticals, the PBMs profits grew through rebates.

By moving to the administrative services only, model, the client, in this case the WVPEIA and the other participants, pays a more equitable fee for each of the services provided by the PBM; however, the client receives all of the rebate dollars generated due to drug spend and market share, as well as the rebate administrative fee.

13. What were the program's start-up costs? (Provide detail about specific purchases for this program, staffing needs and other financial expenditures, as well as existing materials, technology and staff already in place.)

\$231,000 in preliminary expenses was incurred bringing the program to fruition. Actuarial and healthcare consultant expenses totaled \$178,100, another \$27,000 was expended on travel and meeting accommodations, \$24,000 was required to purchase membership data from the former PBM and the balance represents miscellaneous expenditures such as mailing and printing. It is important to note that Express Scripts, Inc., through a Pharmacy Management Account (PMA) it established, paid for the actual costs associated with the Request for Proposal (RFP) costs as well as the actual costs associated with the implementation of the executed contract, namely the transition costs to Express Scripts, Inc.

WVPEIA has had an association with a pharmacy benefit manager for more than ten years. A trained and licensed pharmacist is a fulltime staff member with the responsibility of providing the necessary and appropriate oversight and coordination to allow efficient operation of the agency's pharmacy program.

Similarly, the needed technology was already in place. Express Scripts, Inc., the new PBM, did provide a nominal amount of initial capital to the agency allow for system interface activities. There was no requirement for any new hardware or software within WVPEIA.

14. What are the program's annual operational costs?

For the year ending June 30, 2002, WVPEIA's total claims amounted to \$379.3 million. Pharmaceutical claims represented \$106.6 million or 28.0% of this total. WVPEIA's administrative expenses as well as the expenses for all third party administrators totaled \$16.5 million during the same period, 4.4% of total claims. Although WVPEIA's administrative costs will increase substantially, perhaps as much as \$2.5 million due to increased administrative fees associated with the new PBM, the agency will recoup this amount and more from rebate monies which were not a part of the former PBM contract.

15. How is the program funded?

The WV Public Employees Insurance Agency funds the Pharmacy Benefit Management Services program with a portion of the premiums paid by the employers and employees.

16. Did this program require the passage of legislation, executive order or regulations? If YES, please indicate the citation number.

In all probability legislation was not required; an executive order would have sufficed. Nevertheless, legislation was introduced and subsequently enacted (SB127) clearly authorizing the WV Public Employees Insurance Agency (acting through its director) to enter into prescription drug purchasing agreements, to execute pharmacy benefit manager contracts and to explore innovative strategies for managing prescription drug costs. Passed April 14, 2001, the legislation amended Chapter five of the Code of West Virginia by adding a new article designated article 16C. - Prescription Drug Cost Management Act. In addition to providing obvious statutory authority, the legislation made the legislative branch an integral part of the overall process. Each of the other participating RxIS states had to evaluate conditions existing in their respective states and proceed accordingly.

Additionally, to facilitate the overall process, the State of West Virginia, acting in the capacity of the lead state, developed the Request for Proposal document as well as an RFP Policies and Procedures handbook for use, as modified, by the participating states.

17. What equipment, technology and software are used to operate and administer this program?

PEIA uses an internet browser (Microsoft Internet Explorer) and security certificate (via Verisign) on local PC's to traverse the local LAN then onto the internet to access ESI's computer system for member drug claim information maintained by ESI.

18. To the best of your knowledge, did this program originate in your state? If YES, please indicate the innovator's name, present address and telephone number.

West Virginia, under the leadership of Governor Bob Wise, provided the impetus for the development of the multi-state pharmacy benefit management services initiative. His director of the state's Public Employees Insurance Agency, Tom Susman, was selected to head this project. Over an eighteen-month period Director Susman brought together and sustained the Pharmacy Work Group and the RFP Issuing States (RxIS), lead the

development of the RFP and the administrative services, only, model (ASO), and bringing the effort to fruition in West Virginia. This also paved the way for similar contractual arrangements in Missouri and New Mexico along with renegotiated contracts in the other states. Mr. Susman can be reached at the address noted in Item #5, above, and his telephone number is (304)558-6244, Ext. 225.

19. Are you aware of similar programs in other states? If YES, which ones and how does this program differ?

No. This bulk purchasing arrangement established on the administrative services, only, model is unique to the RxIS initiative. We understand there are other states looking into various pharmaceutical initiatives, but none of these initiatives mirror RxIS.

20. Has the program been fully implemented? If NO, what actions remain to be taken?

Yes. West Virginia became fully operational July 1, 2002. During the last half of 2002, Missouri and New Mexico became operational as well.

The original request for proposal (RFP) allows additional states to join the program, and the State of Delaware recently negotiated a contract with Express Scripts, Inc. and is an integral part of the program.

It is also significant to note that the Pharmacy Work Group continues to meet periodically to discuss issues of mutual interest. Currently, there are plans for this group to meet in St. Louis, May 15-16, 2003. The State of Missouri is hosting this meeting.

21. Briefly evaluate (pro and con) the program's effectiveness in addressing the defined problem(s) or Issue(s). Provide tangible examples.

At this juncture there do not appear to be any substantive issues negatively impacting the implementation of RxIS in West Virginia. Similarly, there have been no negative comments from our peers in Missouri, New Mexico and Delaware.

The RxIS initiative is a demonstration of the ability of states to work together to help ameliorate a problem affecting each of them. The states demonstrated an ability and willingness to muster the "political will" to address an issue requiring them to cut through multiple state statutes and regulations; to develop a common

approach that affords their respective constituents savings on their healthcare (pharmaceutical) costs.

The implementation of the administrative services, only, model delineated in the Request for Proposal has enabled West Virginia and the other participating states to become effective partners in the management of their respective pharmacy programs. Furthermore, it has enabled these states to recover monies that had previously simply added to the profits realized by the pharmacy benefit managers (PBMs).

22. How has the program grown and/or changed since its inception?

No, West Virginia's program has not changed since its started July 1, 2002. To the best of our knowledge, this is true for the states of Missouri and New Mexico as well.

It is worthy of note that the overall program has expanded recently to include the State of Delaware.

23. What limitations or obstacles might other states expect to encounter if they attempt to adopt this program?

Basically, there are two major obstacles that are likely to be encountered. First and foremost is there the "political will" to step forward and take a chance (there is no shortage of hard work along the way), including the potential pro drug company environment. Secondly, there is a multiplicity of state regulations along with each states purchasing bureaucracy; furthermore, the lack of appropriate statutory authority can represent an impediment. The legislature can become a real ally, particularly during times of fiscal crisis.