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UFCW Unions and Participating Employers Health and Welfare Fund

PBM Renewal Results and Updates

September 24, 2020

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Executive Summary

- On behalf of the UFCW Unions and Participating Employers Health and Welfare Fund (the 'Fund') Confidio requested renewal pricing from OptumRx, using the following assumptions:
  - Three (3) year renewal term, effective January 1, 2021 – December 31, 2023
  - No material changes to the underlying agreement.
  - A mid-contract Market Check
- Over the course of 3 years, OptumRx's renewal offer is projected to yield total savings of $513,613 (4.2% reduction from current).
- Savings are attributable to:
  - $351,267 increase in rebates
  - $162,346 reduction in ingredient costs (improved discounts)
- The following pages include 2021-2023 cost projections (current vs renewal), an additional savings opportunity, recommendations, and the methodology used to calculate savings.

Current vs. Renewal Pricing

	Current Trended & Assumed for			Renewal Revised		
	2021	2022	2023	2021	2022	2023
	Broad 30 / Broad 90 / Exclusive Specialty / Open Non-Incentivized Formulary					
INGREDIENT COST						
Traditional Retail 30 Brand	$1,661,281	$1,741,050	$1,802,567	$1,656,201	$1,735,725	$1,797,055
Traditional Retail 30 Generic	$411,215	$425,327	$441,943	$405,078	$412,630	$422,155
Traditional Retail 90 Brand	$803,398	$841,974	$871,724	$800,848	$839,301	$868,957
Traditional Retail 90 Generic	$551,962	$570,903	$593,207	$542,607	$551,551	$563,044
Traditional Mail	$104,694	$109,721	$113,598	$104,694	$109,721	$113,598
Specialty Retail	$79,771	$86,338	$93,121	$79,771	$86,338	$93,121
Specialty Mail	$1,004,497	$1,087,193	$1,172,605	$995,167	$1,073,729	$1,154,453
DISPENSE FEES						
All	$10,960	$11,019	$11,080	$10,960	$11,019	$11,080
REBATES						
Traditional	$650,684	$638,060	$624,597	$700,301	$732,761	$762,373
Specialty	$121,299	$124,594	$128,145	$139,037	$145,848	$158,325
ANNUAL OFFER NET COST	$3,855,795	$4,110,871	$4,347,103	$3,755,986	$3,941,406	$4,102,764
$ SAVINGS/(LOSS) relative to CURRENT				$99,809	$169,465	$244,339
% SAVINGS/-LOSS relative to CURRENT				2.6%	4.1%	5.6%
RENEWAL OFFER NET COST			$12,313,769			$11,800,155
$ SAVINGS/(LOSS) relative to CURRENT						$513,613
% SAVINGS/-LOSS relative to CURRENT						4.2%

Savings Opportunity: Premium Formulary

If the Fund were to adopt the Premium Formulary, the savings would be a total of 15% over the life of the contract. The formulary is described in further detail on page 6.

	Current Trended & Assumed for			Renewal Revised			Renewal Option A		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
	Broad 30 / Broad 90 / Exclusive Specialty / Open Non-Incentivized Formulary						Premium Formulary		
INGREDIENT COST									
Traditional Retail 30 Brand	$1,661,281	$1,741,050	$1,802,567	$1,656,201	$1,735,725	$1,797,055	$1,660,265	$1,739,985	$1,801,465
Traditional Retail 30 Generic	$411,215	$425,327	$441,943	$405,078	$412,630	$422,155	$405,078	$412,630	$422,155
Traditional Retail 90 Brand	$803,398	$841,974	$871,724	$800,848	$839,301	$868,957	$802,888	$841,440	$871,171
Traditional Retail 90 Generic	$551,962	$570,903	$593,207	$542,607	$551,551	$563,044	$542,607	$551,551	$563,044
Traditional Mail	$104,694	$109,721	$113,598	$104,694	$109,721	$113,598	$104,694	$109,721	$113,598
Specialty Retail	$79,771	$86,338	$93,121	$79,771	$86,338	$93,121	$79,771	$86,338	$93,121
Specialty Mail	$1,004,497	$1,087,193	$1,172,605	$995,167	$1,073,729	$1,154,453	$995,167	$1,073,729	$1,154,453
DISPENSE FEES									
All	$10,960	$11,019	$11,080	$10,960	$11,019	$11,080	$10,960	$11,019	$11,080
REBATES									
Traditional	$650,684	$638,060	$624,597	$700,301	$732,761	$762,373	$1,038,689	$1,068,708	$1,095,269
Specialty	$121,299	$124,594	$128,145	$139,037	$145,848	$158,325	$241,837	$263,002	$285,508
ANNUAL OFFER NET COST	$3,855,795	$4,110,871	$4,347,103	$3,755,986	$3,941,406	$4,102,764	$3,320,903	$3,494,703	$3,649,309
$ SAVINGS/(LOSS) relative to CURRENT				$99,809	$169,465	$244,339	$534,893	$616,168	$697,794
% SAVINGS/-LOSS relative to CURRENT				2.6%	4.1%	5.6%	13.9%	15.0%	16.1%
RENEWAL OFFER NET COST			$12,313,769			$11,800,155			$10,464,914
$ SAVINGS/(LOSS) relative to CURRENT						$513,613			$1,848,854
% SAVINGS/-LOSS relative to CURRENT						4.2%			15.0%

Premium Formulary

Features and Requirements

Requires a 3-tier plan design, e.g. Tier 1 (Generic); Tier 2 (Preferred Brand); Tier 3 (Non-Preferred Brand).

Reduces costs by 15% over the 3-year period, primarily from rebates.

Medications may be excluded from coverage when a lower cost clinical equivalent is available, and/or the medications can be purchased OTC.

Excluded drugs will be covered if medically necessary (PA Process).

Formulary changes occur January 1 and July 1 of each year.

Disruption analysis available upon request.

Example of high cost, low-value drug exclusions.

Confidio RED™ List Use Cases

Amounts shown in estimated monthly cost

Rx Kamdoy:	**$4,034**
OTC Lidocaine:	$14.00
Rx Metformin HCL ER (OSM):	**$4,300**
Rx Metformin HCL ER:	$22.84
Rx Duexis:	**$2,314**
Combination of	
OTC Famotidine:	$4.98
OTC Ibuprofen:	$8.00
Rx Chlorzoxazone 250 MG:	**$2,085**
Rx Chlorzoxazone 500 MG:	$64.00

Summary and Recommendations

- OptumRx's renewal offer is competitive and consistent with 2021-2023 pricing commercially available in the marketplace for plans similar in size and demographics to the Fund.
- Confidio recommends the Fund provisionally award the renewal to Optum for programs, services that replicate current state, contingent upon successful negotiation of the renewal amendment by January 1, 2021.
- If the Fund is interested in adopting the Premier Formulary, Optum can complete a disruption analysis within 10-15 business days.

Methodology and Assumptions

- Confidio's financial model is based on the Fund's unaudited paid claims experience from August 1, 2019 through July 31, 2020 as reported by OptumRx.
- All financial projections are estimates, based on information available at a point in time, and are subject to unforeseen and random events.
- Savings models assume no major shifts in utilization across distribution channels.
- Miscellaneous administrative fees are not included in the baseline nor in the cost projections.
- 1,828 claims (5.02% of total unannualized claims) which equate to $672,790 of ingredient cost (12.66% of total ingredient cost) were excluded from financial modeling.
  - Excluded claims consist of financial anomalies, compounds, limited distribution drugs, over the counters, infusion, long term care, tribal pharmacies, vaccines and claims in the following states: PR, GU, MP, VI, HI, MA, AK, GA
- Midpoint to midpoint trend methodology applied for Brand / Generic / Specialty Claims:
  - Cost: 2.51% / 4.15% / 3.00%
  - Utilization: -4.88% / 1.19% / 3.46
- 2021-2023 CURRENT scenario reflects baseline costs under the current services agreement.
- 2021-2023 PROPOSED scenario reflects baseline costs with OptumRx's renewal pricing guarantees applied.
- The financial analysis does not reflect member cost share.

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Audit Update

- Closing the Audit has been a challenge, due to:
  - COVID-19
  - PBM documentation challenges that occurred over the course of multiple acquisitions, beginning with NMHCRx.
  - A recent change with their Rebate Aggregator, challenging Optum to quantify the actual rebates paid through the aggregator in 2017.
- Deadline of September 21, 2020 imposed on Optum.
  - The Audit Report will be sent to Optum, cc to the Fund; Optum has 60 days to respond, per the contract.