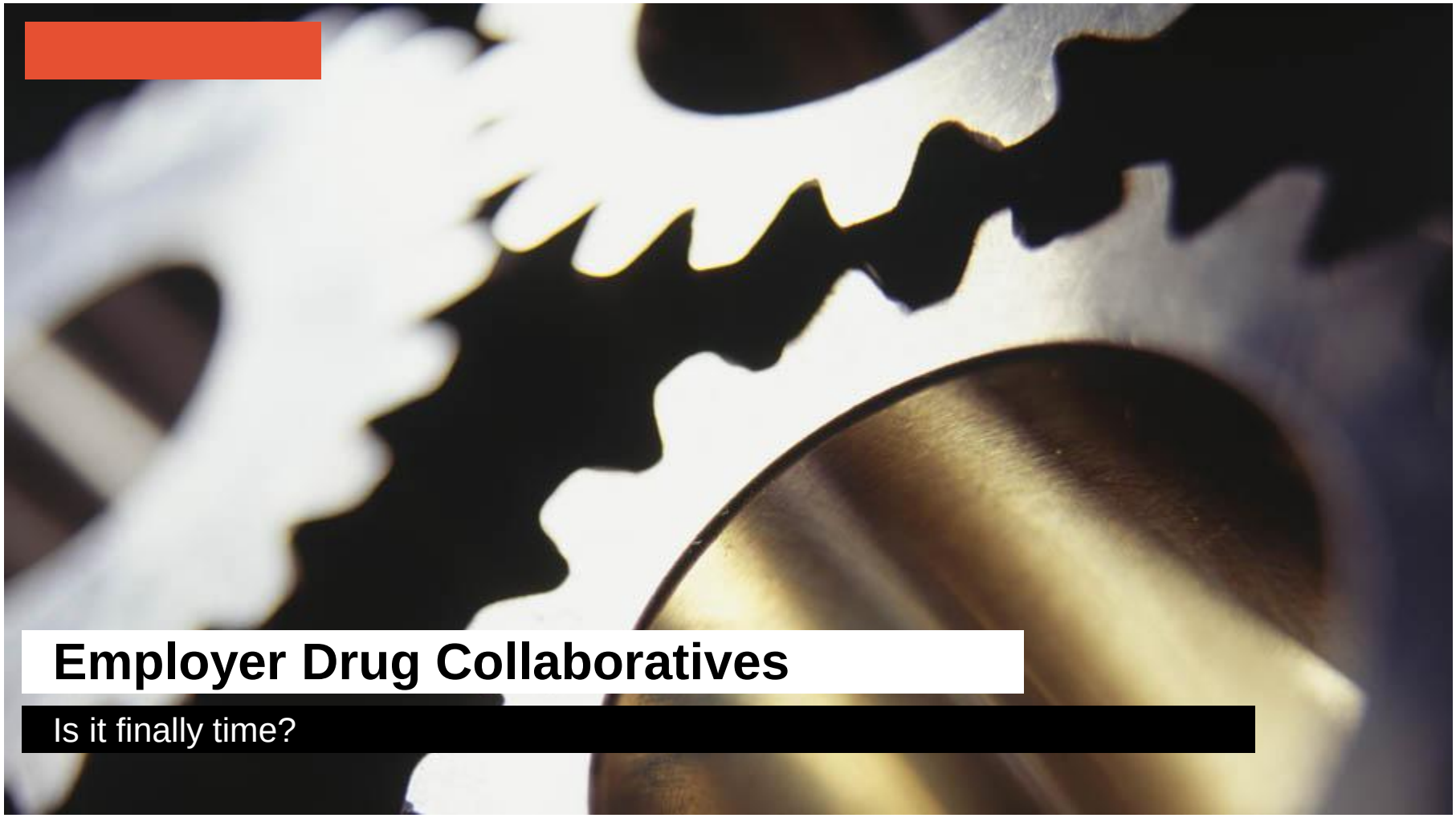

Employer Drug Collaboratives

Is it finally time?

Wendy Poirier

May 2011

TOWERS WATSON

What is an Employer Drug Collaborative?

- A Collaborative is:
  - A group of employers, working together with pharmacy experts and a pharmacy benefit manager to deliver enhanced quality of care and short and long term savings through:
    - A unique and comprehensive approach to pharmacy management to participating employers
    - Effective pharmaceutical care of the covered employees
    - Management of the financial, clinical and operational platforms of the pharmacy benefit

The U.S. Experience: Snapshot of a Successful Collaborative

- **Founding mission.** Towers Watson formed the Rx Collaborative based on clients' request to
  - Transform the PBM business model and pharmacy benefit management processes
  - Establish employer control over cost, quality and delivery
  - Negotiate contracts that feature transparency, pass through pricing, favorable terms and enhanced PBM services
- **Size and scale**. Beginning with 9 companies and 300,000 covered lives in 2004, the Rx Collaborative has grown to serve more than 140 companies with 2.5M members representing over $2.7B in annual drug spend today
- Member companies save millions of dollars annually on their drug spend through participating in the Collaborative

The Collaborative purchasing approach model is designed to put employers in the driver's seat

- The Collaborative model delivers savings in a number of different ways:
  - Drives "best practice" in pharmacy benefit management
    - Development, disclosure and adherence to reasonable and customary pricing for drugs
    - Greater utilization of generic alternatives
    - Enforcement of dispensing-fee maximum
    - Negotiation directly with pharmacies and/or manufacturers (brand and generic)
    - Pre-authorization of specialty and potentially "mis-used" drugs
    - Utilization/plan compliance audit support
    - Tiered formularies
    - Patient and physician support
  - Opens up opportunities for management of the drug distribution channel
    - Mail order
    - Preferred retail networks
  - Allows for fully customized drug plan management
    - Pharmacist support for design decisions
    - PBM support for implementation

The Canadian Landscape

- Current Canadian model is sub-optimal:
  - No disclosure/transparency
  - Usually paid as a percentage of claims costs
  - Inflexible administrative/adjudication systems
  - Additional management seen as additional cost with no clear additional revenue stream
  - Don't act as true "PBM", more of a "PBA"
  - Don't negotiate preferred pharmacy networks
  - Don't negotiate with manufacturers or pharmacies

The Canadian Landscape: Time for Change

- Despite the high cost of pharmacy benefits and similarity in offerings, Canadian employers do not exert purchasing leverage
- The market is dominated by powerful manufacturer, pharmacy and government stakeholders
- There is a lack of transparency across stakeholder groups that keeps employers in the dark
- Traditional claim processors have not pushed for changing the status quo and many systems cannot support the change necessary to reduce wastage and more optimally manage benefits
- Despite generic drug pricing "reforms", drug trends will increase significantly in the long term
  - Increased mark-ups and dispensing fees (on all drugs)
  - Reduced incentive to stock and substitute lower priced generics
  - Unprecedented rates of specialty drug growth
  - Continuous off-loading by provincial plans
- Utilization management reduces cost and improves outcomes

Employers' opportunity to exert influence and change the status quo will only occur as a group of purchasers

Canadian employers are driving towards change

- Employers are becoming more informed consumers of drug benefits, as the veil of secrecy lifts on:
  - Pharmacy practices
  - Government pricing tactics
  - Insurer/adjudicator capabilities
- With a common goal of accessing all of the management tools available to influence cost and health outcomes, employers recognize the power of forming a purchasing coalition to leverage their buying power with key stakeholders
- The pharmacy system is in a state of flux and employers are willing to seize this opportunity to make a meaningful change in the pharmacy management model

Employer Health Groups

CPBI Forum May 2011

Hugh Paton

Yes, it is time. Why?

- Here's one reason: because nobody else has delivered to health plan sponsors the $600M+ annual savings identified in the Competition Bureau Report 2008 on generic drugs
- Some generic prices have dropped, but that's not enough; you have to get your members to buy them
- Provincial actions are delivering a fraction of the potential.

Opportunities?

- Procurement, management, control
- Reduce costs
- Lower annual cost trends
- Invest in employee family wellness
- Invest in biologics etc
- Sustain your plans into the future
- Don’t cut them, manage them

Health Plan Payers - Atlantic

- Challenges similar to most start ups:
  - Good ideas but no time, money, people
  - Entrenched powerful opposition
  - Partners, but with inertia
  - Lack of product/ solution
    - Able to think, talk, analyze, experiment
    - Not enough data
    - Not enough resources

Health Plan Payers - Atlantic

- Met bi-annually for 3 years
- Invited PBMs, insurers, pharma data number crunchers, pharmacists, US and Canada
  - Eg low generic fill rates: statins 13%, ppi's 25%
- Some piloted generic promotion to Drs
  - Significant challenge:
    - Powerful opposing market forces
  - Results:
    - excellent potential to control cost
    - Drs happy with alternate information channel

Opportunities

- Study the US, bring to Canada
  - Caterpillar US: ignore vendors' drug price lists, negotiate directly with a drug provider / PBM
  - Pitney Bowes: Value Based Benefits Design
  - Negotiate the price you pay for all drugs
  - Engage physicians to prescribe lower cost
  - Change plan design to "nudge" employees toward value
    - eg 100% reimbursement for lower cost, 80% for higher cost
  - Work in a group ("hunt as a pack") to better procure