



Date July 14, 2014

Re: Milwaukee County Health Care Consortium (MCHCC)
Prescription Drug RFP – City of Milwaukee

Willis has assisted the MCHCC in performing an RFP for prescription drug services and in analyzing the estimated two year costs of the program. Of the eight prescription benefit management (PBM) vendors that provided proposals, three were chosen, based on proposed costs, to participate in finalist interviews on July 8, 2014.

Included below are the two-year gross cost estimates for the City of Milwaukee based on the FRP proposals from the three finalists. Express Scripts (ESI) and OptumRx both provided proposals for traditional and pass-through pricing and provided pricing for the under-65 population and EGWP rates for Medicare eligible enrollees. Navitus provided only pass-through pricing as that is their business model. The proposal from Navitus provided pricing for all lives and did not provide separate pricing for pre-65 and EGWP lives. A description of the differences between traditional and pass-through pricing is provided at the end of this document.

Table 1

City Of Milwaukee	2-Year Expected Gross costs, net of rebates (\$1,000)				
	Traditional Pricing		Pass Through Pricing*		
	ESI	OptumRx	ESI	OptumRx	Navitus
Pre-65	\$42,991	\$43,074	\$44,008	\$44,006	
EGWP	\$23,213	\$21,340	\$23,864	\$21,340	
Total	\$66,203	\$64,414	\$67,872	\$65,346	\$70,155
Gross costs include ingredient costs, discounts, administration fees, dispensing fees, and the net impact of rebates. The cost of member copays has not been netted out of these values.					

*Pass-through pricing costs shown are based on the guarantees provided. Actual rebates and discounts are expected to improve beyond the guarantees throughout the two year experience period, resulting in gross costs less than those shown above. These improvements could result in final costs equal to or lower than with traditional pricing.

These cost estimates are based on the experience of City of Milwaukee alone. ESI offered additional savings guarantees if all four MCHCC members chose ESI as their PBM vendor, an additional 5% to the rebate guarantees.

OptumRx offered additional rebate and discount guarantees if all four MCHCC members chose OptumRx. OptumRx has subsequently offered to provide group cost guarantees if only three out of the four MCHCC members select OptumRx.

Costs were estimated beginning with the city's 2013 Rx claims. These were then trended forward to 2015 and 2016 based on expected changes in utilization of brand, generics and specialty; and based on expected changes in drug costs. We expect member copays to be \$7.7 million over the two year forecast period if member copay design remains the same. If the City decides to change the member copay design, this value will change and will change the same regardless of the PBM vendor.

Traditional pricing provides a fixed discount, which will apply at all participating retail pharmacies. Thus the cost to the City and to the member will be the same regardless of the pharmacy from which a medication is dispensed.

Pass-through pricing does not provide a fixed discount. Medication prices vary by pharmacy based on the contract pricing that the PBM has negotiated with each specific retail pharmacy. These prices are transferred to the City and future improvements in pricing by the PBM will be passed on to the city. This approach also encourages members to seek pharmacies that provide medications at lower costs, especially if there is a percentage copay or deductible in the prescription benefit portion of the plan design.

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