

To: Mike Worsham From: Lisa Stamm Date: November 8, 2012

Re: 2013 Stop Loss and Pharmacy Requests for Proposals

The following is a summary of the stop loss and pharmacy benefit management Request for Proposals (RFPs) received for the City of Brentwood for the 2013 plan year.

Pharmacy Benefit Management

Pharmacy Benefit Managers Who Responded:

In addition to the RFP being publicized through normal channels, Sherrill Morgan distributed it directly to five pharmacy benefit managers (PBMs). The City received proposals from four companies: Blue Cross Blue Shield of Tennessee (BCBST), HealthSmart, Kroger, and MedBen. By way of background, a pharmacy benefit manager is the entity which processes the City's pharmacy claims and provides a network of pharmacies for members to use. Currently, BCBST performs these services for the City.

Pass-through Pricing:

The City required that all proposals include pass-through pricing of pharmacy claims. PBMs historically have not administered pharmacy programs with this type of pricing. The standard PBM contract allows the PBM to charge the plan more for prescriptions than was actually charged by the pharmacies where the prescriptions were filled. The difference between what the pharmacy price of a drug is and the price that the plan is billed by the PBM is money that is retained by the PBM. The employer has no way of knowing how much this revenue is. On the surface, the PBM appears to be receiving little or no compensation for providing administrative services. Rather than having undisclosed amounts of revenue be retained by the PBM, a pass-through pricing contract prohibits the PBM from being compensated in this manner; rather, they are compensated by the employer on a fixed fee basis, typically either a "per employee per month" fee or a "per prescription" fee.

Complete pass-through pricing also requires the PBM to pass all manufacturer rebates through to the employer. Drug manufacturers provide "rebates" when certain name brand drugs are purchased. Traditionally, PBMs have retained some or all of these rebates as part of their compensation. Again, this is undisclosed revenue. The City's RFP required that all proposals assume complete pass-through of rebates.

We project that moving to a pass-through pharmacy contract will save the City approximately \$25,000 on an annual basis.

Recommendation:

Of the four proposals received, BCBST has provided the lowest fixed fee pricing for administrative services. This fee is estimated to be approximately \$2,652 for 2013. A spreadsheet summarizing the fixed fee proposals is attached to this memo. BCBST will allow Sherrill Morgan to audit the program to ensure that pass-through pricing actually takes place. Keeping the pharmacy and health administration with the same company has clinical advantages and will also be simpler from the employees' perspective. For instance, they will have one card for both health and pharmacy benefits, rather than separate cards for each. For these reasons, we recommend accepting BCBST's pharmacy proposal for 2013.

Stop Loss

Stop Loss Carriers Who Responded:

The City's stop loss renewal for 2013 from HM represented a 9.9% increase in premium and a 6.8% reduction in maximum claims (the level of claims the City is responsible for before the stop loss carrier would pay under the City's aggregate stop loss coverage). The reduction in maximum claims is the result of the City's good claims experience. In addition to the RFP being publicized through normal channels, Sherrill Morgan distributed the Request for Proposals directly to ten stop loss carriers. The City received proposals from five carriers. A summary of the proposals is attached to this memo. HM's proposal was the most competitive. We recommend renewing with HM and adopting the contractual features described below.

<u>Specific Deductible:</u> We recommend that the City maintain its current specific deductible per member of \$60,000.

Aggregating Specific Deductible: The City requested "aggregating specific" options from the carriers. HM submitted a \$50,000 aggregating specific option. This option allows the City to take on an additional amount of liability in return for an equivalent amount of premium reduction. In this case, the City would assume additional liability of \$50,000. Every person on the plan would still have a specific deductible of \$60,000, just as they do now. But the City would not be reimbursed when someone goes over their \$60,000 specific deductible until some combination of people (it could be one person, or three, or ten) go over their specific deductibles by \$50,000 altogether. For example, if one person had claims of \$95,000, ordinarily the City would get \$35,000 in reimbursement from the stop loss carrier. But with an aggregating specific corridor of \$50,000, the City would be responsible for this \$35,000, which would be applied to the \$50,000 corridor, leaving an aggregating specific corridor of \$15,000. If a second person then had \$130,000 in claims, the City would be responsible for \$75,000 (the \$60,000 specific deductible plus the remaining \$15,000 in aggregating specific liability). The aggregating specific corridor would then be satisfied, and the City would receive \$55,000 back from the stop loss carrier. Everyone else from that point on who exceeded their \$60,000 specific deductible would be treated as they are now, with the City receiving any amounts over \$60,000 back from the carrier. Because the City was given an equivalent amount of premium reduction in exchange for liability, the "worst-case" scenario for the City would be that it will pay out no more than it would have without the aggregating specific. The "best-case" scenario would be that the City saves \$50,000 in premium. For this reason, we recommend accepting the \$50,000 aggregating specific option.

No New Laser/Rate Cap: The City's current stop loss contract guarantees that the City will not be given a "laser" (higher specific deductible on one member) at renewal. We consider a "no new laser" stop loss contract to be valuable protection against a laser that might continue year after year. We also strongly recommend that the City continue to purchase a rate cap in conjunction with the no new laser protection. (The City's current stop loss contract guarantees that it could not have greater than a 50% premium increase at renewal.) The combination of these two features provides significant financial protection to the City. For example, under the City's current stop loss contract, if a high claimant would have emerged in the past year with expected claims of \$400,000 in 2013, HM could not have assigned a laser to that individual, nor could they have increased premium at renewal by more than 50% (approximately \$100,000). Please note that purchasing the rate cap does not mean that the City will get a 50% increase at the next renewal; this is only a maximum on the potential rate increase.

Annual Maximum on Specific Coverage: Because federal health care reform has mandated the removal of lifetime maximums, stop loss carriers have responded by also offering to cover an unlimited lifetime maximum in claims for each individual they cover. In order to offset the increased cost of covering an unlimited lifetime maximum, the carriers have also begun offering contracts with limited policy period maximums per member. The carriers offered both unlimited and \$2,000,000 policy period maximums. The premium savings between the unlimited and \$2,000,000 policy period maximum for HM was approximately \$3,600. While the likelihood of an individual exceeding \$2,000,000 in claims in a contract period is small, it is possible. Given the minimal premium savings that would be achieved, we recommend retaining the unlimited policy period maximum in 2013.