Pharmacy Benefit Programs

April 2015

Presented by
- Gary Alton, Managing Partner of TPG
- Robert Lewis, Rx Benefits
Agenda

■ TPG / C2 Overview
■ RX Benefits Partnership
■ Pharmacy Landscape
  - RX Trends
  - Generics
  - Specialty
■ Pharmacy Strategies
  - Formulary
  - Adherence
  - Carve In vs. Carve Out
■ Case Study
■ Wrap Up
Complementary Financial & Insurance Business Units

Employee Benefits

Business Consulting

Retirement & Investment Services

Commercial & Individual Insurance

www.tpggrp.com
ECD Overview…

Employee Benefits & Business Consulting – 500+ Clients

- Health & Wellness
- Vendor Management & Negotiations
- Communication & Education
- Legislation & Compliance
- Reporting & Analytics
- Ongoing Customer Service

TPG Client

Other Services

Risk Management / Commercial Insurance

Private Client Services – 401k, Financial Planning, Life, Disability
C2 RxPartnership: The Power to be Greater

A Dynamic Partnership

With over 30 strategically located offices throughout the country, we’re equivalent to the fifth-largest privately held benefits firm in the nation.

An equity-owned partnership powered by:

- MCGOohanBrabender
- MHBT
- McINSURANCE
- KISTLER Tiffany Benefits
- THE PARTNERS GROUP
- WGA William Gallagher Associates
- The Partners Group
- 150 Years Strong
- SCOTT Employee Owned
Welcome to Change – C2

- **Market Leverage**
  - Powerful, industry-leading solutions tailored to the specific needs of your business

- **Customer Protection and Value**
  - Innovative, forward-thinking partners ahead of emerging trends both locally and nationally

- **Knowledge Transfer**
  - Cutting-edge thought leadership, shared resources, and industry expertise

- **Pricing advantages**
  - Combined book of business leverage (3.3 billion+)
Value of the C2 Rx Partnership
PBM Selection Process

- RFP submitted to 13 PBMs; 8 responded

- PBMs evaluated in the process:
  - CVS/Caremark
  - Catamaran
  - EnvisionRx
  - Express Scripts
  - MaxCare RX
  - Navitus
  - Optum Rx
  - Restat

- Evaluation Criteria (350+ questions):
  - Cost Management
  - Account Services
  - Clinical Programs
  - Specialty Pharmacy
  - Member Services
  - Installation and Reliability

- Final Decision:
  - ESI & CVS/Caremark
Value Proposition

- Dedicated Pharmacy expertise and resources through TPG & RxBenefits
- Due Diligence of formal RFP (annual negotiations)
- Aggregate pricing terms with full transparency
- Pre-negotiated master pharmacy agreement – client-held auditable contract
- National Account service model regardless of size
- All aspects of PBM performance continuously managed (quarterly & annually)
- Best-in-class trend management and clinical strategies
Pharmacy Landscape

RX Trend
Generics
Specialty
Rx Trend
Payor Trend

2014 Trend Drivers

- **Specialty**: New drugs, higher costs, and increased utilization
- 86 new products launched in 2014; 50+ expected in 2015
- No significant new generics
- Price increases for many drugs, including double-digit rise for brand drugs

Source: 2014 Enterprise Analytics as of Q314; excludes compounds due to client-specific strategies; Pipeline Services.
Economy has slowly been improving; consumers are filling more scripts

Proportion of brand to generic is a moderating factor for now

Overall national health expenditures annual growth has averaged 4% since 2010* and is projected to be 6.1%* for 2015.

* Source: CMS’s National Health Expenditure Projections 2012-2022, Forecast Summary
Pharmacy Cost Profile

Generics
Handful of generic medications have experienced significant inflation over the past several years

- Inflation is due to a range of market factors, such as:
  - Fewer manufacturers for those generics and
  - Shortages of active ingredients.

Even with isolated price inflation, generic medications overall continue to deliver significant savings over brand-name alternatives.

Since 2008, average price of brand drugs has almost doubled; average price of generic drugs has been cut roughly in half.*

*Express Scripts Prescription Price Index
2012 marked the high point of patent cliff with blockbuster drugs coming off patent

Generic pipeline is dwindling; resulting in less trend-moderating influence

Fewer Blockbusters will be going Generic in the Years to Come

Market value of blockbuster brands that are lost or are expected to lose patents
Specialty
The Details on Specialty Drugs

- **Definition:** Specialty drugs are generally defined as high-cost prescription drugs that treat complex conditions, bio-engineered, and require special handling and administration.

- Complex and expensive drugs, average cost up to $3,000 a month (50 times more expensive than traditional brand drugs)\(^1\)

- Accounted for less than 1% of all prescriptions in 2013; about 25% of all prescription drug spending.

- Spending on specialty drugs is projected to increase 63% by 2016\(^2\)

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\(^1\)Source: Prime Therapeutics, 2012 Drug Trend Insights

\(^2\)Source: Express Scripts
Specialty Pharmacy – The Runaway Train

Specialty is Growing in Absolute Dollars and Percent of Drug Spend

Total Industry Specialty Spend

<table>
<thead>
<tr>
<th>Year</th>
<th>Specialty Spend</th>
<th>Medical Spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$92B</td>
<td></td>
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<tr>
<td>2014</td>
<td>$127B</td>
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<td>2016</td>
<td>$179B</td>
<td></td>
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<tr>
<td>2018</td>
<td>$235B</td>
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</table>

Percent of Total Drug Spend

<table>
<thead>
<tr>
<th>Year</th>
<th>Pharmacy Spend</th>
<th>Medical Spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>38%</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>45%</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>50%</td>
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</table>
Pharmacy Strategies

Formulary
Adherence
Carve In vs. Carve Out
Formulary Strategies
Definition: A drug formulary is a list of prescription drugs, both generic and brand that are both clinically appropriate and cost effective. An independent committee of physicians, nurse practitioners, and pharmacists maintain the formulary.

Strategy: Several formulary strategies available to promote cost-effective use of medications, ranging from:
- Tiered copayments,
- Excluding products from coverage, or
- Closed plan design

Goal: Overall goal is to develop a list of the safest, most effective medications that will produce the desired goals of therapy at the most reasonable cost
Utilizing Formulary Strategies to Influence Pharma

- After period of negative or flat growth, Rx utilization began to slowly rise in 2013
- Plan sponsors are increasingly choosing high deductible and consumer-directed health designs to influence member utilization
  - **Short term:** Members in these plans are more cost-conscious
  - **Long term:** Some studies show reduced physician office visits and prescription drug use, but an increase in ER use

In the past 5 years, patient out-of-pocket costs for prescriptions have climbed **250%**
Case Study: Sovaldi

- Sovaldi (used to treat Hepatitis C) costs about $84,000 per 12-week course
- Most expensive drug we’ve ever seen released for such a large population of patients (3 million Americans today with Hepatitis C / 170 million worldwide)
- Cost vs. Value
- PBMs have taken a restrictive approach
  - Express Scripts has chosen Viekira Pak (as their preferred drug) excluding Sovaldi;
  - CVS/caremark has chosen Sovaldi and Harvoni as their exclusive options
  - Express Scripts estimates it will save clients $1 billion in 2015 with this approach
Adherence
Rising Healthcare Costs Can Be Partially Attributed to Low Adherence

50% of population with chronic, complex disease represent
- Asthma
- Cancer
- Chronic Obstructive Pulmonary (COPD)
- Depression
- Diabetes
- Hepatitis
- Hypertension
- Hyperlipidemia
- HIV
- Obesity
- Stroke

96% of an employer’s drug spending and

75% of total healthcare expenditure.

Rising Healthcare Costs Can Be Partial Attributed to Low Adherence

Total US Population

Nearly 50%

Of people taking a chronic medication stop taking it in the first year,¹ with the biggest drop-off occurring in the first month².

25%

Don’t take medications as directed.

### Medical and Productivity Savings (PMPY)

<table>
<thead>
<tr>
<th>Disease</th>
<th>Net Savings</th>
<th>Productivity Savings</th>
<th>Medical Savings</th>
<th>Additional Rx Spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lipid Lowering</td>
<td>$2,710</td>
<td>$1,451</td>
<td>$1,860</td>
<td>$1,451</td>
</tr>
<tr>
<td>Diabetes</td>
<td>$5,227</td>
<td>$1,470</td>
<td>$4,413</td>
<td>$4,413</td>
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<tr>
<td>Hypertension</td>
<td>$5,247</td>
<td>$1,339</td>
<td>$4,337</td>
<td>$4,337</td>
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</tbody>
</table>

### Sources
- Carls GS Roebuck MC, Brennan TA, Slezak JA, Matlin OS, Gibson TB. Impact of medication adherence on worker productivity: an instrumental variables analysis in five chronic diseases. JEOM. In review.
Key Issues Effecting Adherence

Key Issues
- Cost is a big barrier to adherence.
- Convenience
- Remembering to take their medication
- Side effects

Members who achieved full adherence were as much as 30% less likely to have an adverse cardiovascular event

Factors that Support Adherence
- Encourage use of 90-day prescriptions
- Emphasize use of lower-cost drugs/generics
- Make it easier for members to fill scripts – refill reminders
- Consider cost share carefully
- Build in options for high engagement counseling
Carve-In vs. Carve-Out
Carving-Out Remains the Best Option for Self-Insured Plan Sponsors

- A carved-out, direct relationship with a PBM enables plan sponsors to achieve their best cost and care outcomes.
- Carving-out helps plan sponsors avoid “missing out” on better options as the landscape changes.
- Pharmacy is the 100% focus when working directly with a PBM.
- The most sophisticated buyers of healthcare have carved-out the pharmacy benefit because it offers a better cost/care model.
Carve-Out Model has been favored by large employers

- 85% of Fortune 500 carved-out
- 90% of Fortune 250 carved-out
- 94% of Fortune 100 carved-out

Why?

100% focus on pharmacy; resulting in:
- Better cost and trend management – traditional and specialty drugs
- Most innovative solutions pertaining to pharmacy
- More control over the plan
- Ability to customize all aspects
Direct access to pharmacy experts – Account management, clinical, finance, specialty pharmacy, networks, formulary

- Cost management programs
- Clinical solutions
- Communications experts
- Product subject matter experts
- Government programs experts- Healthcare Reform, Medicare Part D, Medicaid

Pharmacy is 100% Center of the Desk
Carve-Out Model Drives Better Overall Cost and Trend Management

“It is not uncommon for a carved-out healthcare plan to yield savings of 12% to 15% in total annual pharmacy spend” - CFO.com, March 14, 2013

Strategies / Conclusion

- Formulary Optimization
- Narrow Network Options
- Specialty Pharmacy Cost and Care Solutions for Patients Who Need it the Most
- Direct PBM relationship
- Appropriate Plan Design and Coverage Rules

Subject Matter Experts To Guide Clients on Pharmacy Matters
Case Study
Case Studies - Considerations

- **Member Disruption**
  - New Cards (pharmacy)
  - Formulary tier changes (+ & -)
  - Exclusions (minor)
  - Prior authorizations

- **Employer Impact (minimal)**

- **Carrier / TPA / PBM Response**
  - Profit center?
  - Multi-year contract?
  - Integration fee?

- **Average savings 10% to 30%**
## Executive Summary

<table>
<thead>
<tr>
<th>ABC Company</th>
<th>INCUMBENT</th>
<th>C2 RxPartnership – PBM 1</th>
<th>C2 RxPartnership – PBM 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contract Type</strong></td>
<td>1 Year Traditional</td>
<td>1 Year Traditional</td>
<td>1 Year Traditional</td>
</tr>
<tr>
<td>Gross Cost (Ingredient cost plus dispensing fees)</td>
<td>$671,967</td>
<td>$506,847</td>
<td>$508,562</td>
</tr>
<tr>
<td>Administrative Fee</td>
<td>$5,250</td>
<td>$21,731</td>
<td>$21,731</td>
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<tr>
<td>Rebates</td>
<td>($32,913)</td>
<td>($47,967)</td>
<td>($48,230)</td>
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<tr>
<td>Copay</td>
<td>($102,060)</td>
<td>($102,060)</td>
<td>($102,060)</td>
</tr>
<tr>
<td><strong>Net Employer Cost (plan cost less credits)</strong></td>
<td>$542,244</td>
<td>$378,551</td>
<td>$380,003</td>
</tr>
<tr>
<td>Expected Cost Per Claim</td>
<td>$68.62</td>
<td>$47.91</td>
<td>$48.09</td>
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<tr>
<td>$ Savings</td>
<td>N/A</td>
<td>$163,693</td>
<td>$162,241</td>
</tr>
<tr>
<td>% Savings</td>
<td>N/A</td>
<td>30.19%</td>
<td>29.92%</td>
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</tbody>
</table>
# Financial Analysis Comparison - Current PBM vs. C2 RxPartnership - CVS Caremark

<table>
<thead>
<tr>
<th>ABC Company</th>
<th>INCUMBENT</th>
<th>Effective Rates</th>
<th>C2 RxPartnership</th>
<th>Effective Rates</th>
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<tbody>
<tr>
<td><strong>Claims Experience Period</strong></td>
<td>06/01/2012-5/31/2013</td>
<td>06/01/2012-5/31/2013</td>
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<td></td>
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<tr>
<td><strong>Overview of Plan Cost</strong></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Gross Claim Amount Paid by Employer</td>
<td>$671,967</td>
<td>$506,847</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Member Copay</td>
<td>-$102,060</td>
<td>-$102,060</td>
<td></td>
<td></td>
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<tr>
<td>Claims Amount Paid by Employer</td>
<td>$569,907</td>
<td>$404,787</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plus Administrative/Transaction Fees*</td>
<td>$5,250</td>
<td>$21,731</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Rebate Credits from PBM</td>
<td>-$32,913</td>
<td>-$47,967</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Amount Paid by Employer</strong></td>
<td>$542,244</td>
<td>$378,551</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| **Amount Paid by Distribution Channel** | | |
| **Retail** | | |
| Brand Name Ingredient Cost | $216,465 | 15.15% | $213,667 | 16.25% |
| Generic Ingredient Cost | $237,084 | 55.64% | $115,804 | 78.33% |
| Specialty Ingredient Cost | $5,831 | 13.50% | $5,662 | 16.00% |
| Dispensing Fees | $8,567 | 1.19% | $6,502 | 0.90% |
| **Total Retail Paid** | $467,946 | $341,634 |
| **Retail 90** | | |
| Brand Name Ingredient Cost | $36 | 15.27% | $34 | 21.00% |
| Generic Ingredient Cost | $1,137 | 55.64% | $589 | 77.00% |
| Specialty Ingredient Cost | $52,074 | 13.50% | $50,569 | 16.00% |
| Dispensing Fees | $24 | 0.88% | $16 | 0.60% |
| **Total Retail 90 Paid** | $53,271 | $51,208 |
| **Mail** | | |
| Brand Name Ingredient Cost | $83,554 | 23.52% | $81,390 | 25.50% |
| Generic Ingredient Cost | $66,293 | 56.16% | $30,242 | 80.00% |
| Specialty Ingredient Cost | $904 | 68.00% | $2,373 | 16.00% |
| Dispensing Fees | $0 | 0.00% | $0 | 0.00% |
| **Total Mail Order Paid** | $150,751 | $114,005 |
| **Total Cost of Retail and Mail** | $671,967 | $506,847 |

| **Member Copay** | | |
| Less Member Copay | -$102,060 | -$102,060 |

| **Administrative / Transaction Fee** | | |
| Plus Administrative / Transaction Fees Per Claim | $5,250 | $21,731 |

| **Rebate Credits** | | |
| Less Total Rebate Credits | -$32,913 | -$47,967 |

| **Net Amount Paid by Employer After Rebates** | | |
| Net Amount Paid | $542,244 | $378,551 |

| **Average Amount Paid** | | |
| Average Net Cost Per Claim | $68.621 | $47.906 |

| **Summary** | | |
| Total Cost | $542,244 | $378,551 |
| Savings Compared to Incumbent | $0 | $163,693 |
| Percentage Savings Compared to Incumbent | 0% | 30.19% |
## Reverse Reprice Summary

<table>
<thead>
<tr>
<th>CHANNEL</th>
<th>Current Actual Discount</th>
<th>Previous Effective Rate</th>
<th>Variance</th>
<th>Total AWP</th>
<th>Total Savings over Previous Contract</th>
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</thead>
<tbody>
<tr>
<td><strong>Retail</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail Brand</td>
<td>16.31%</td>
<td>15.15%</td>
<td>1.16%</td>
<td>$331,538</td>
<td>$3,853</td>
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<tr>
<td>Retail Generic</td>
<td>76.64%</td>
<td>55.64%</td>
<td>21.00%</td>
<td>$588,362</td>
<td>$123,577</td>
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<tr>
<td><strong>Total</strong></td>
<td>$127,430</td>
<td>$4,181</td>
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<tr>
<td><strong>Specialty</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specialty</td>
<td>16.34%</td>
<td>13.50%</td>
<td>2.84%</td>
<td>$147,108</td>
<td>$4,181</td>
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<tr>
<td><strong>Total</strong></td>
<td>$4,181</td>
<td></td>
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<td></td>
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<tr>
<td><strong>Mail</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Mail Brand</td>
<td>25.50%</td>
<td>23.52%</td>
<td>1.98%</td>
<td>$127,894</td>
<td>$2,532</td>
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<tr>
<td>Mail Generic</td>
<td>80.18%</td>
<td>56.16%</td>
<td>24.02%</td>
<td>$159,780</td>
<td>$38,382</td>
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<td><strong>Total</strong></td>
<td>$40,914</td>
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<tr>
<td><strong>Dispensing Fees</strong></td>
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<tr>
<td>Retail Dispensing Fees</td>
<td>$0.84</td>
<td>$1.19</td>
<td>$0.35</td>
<td></td>
<td>$2,699</td>
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<td>Mail Dispensing Fees</td>
<td>$0.00</td>
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<td>$0.00</td>
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<td><strong>Dispensing Fee Total Savings</strong></td>
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<td><strong>Administrative Fees</strong></td>
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<tr>
<td>Administrative Fees</td>
<td>$2.50</td>
<td>$1.25 PEPM</td>
<td>N/A</td>
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<td>$-14,908</td>
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<td><strong>Administrative Fees Variance</strong></td>
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<tr>
<td>** Rebates**</td>
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<tr>
<td>Retail Rebates</td>
<td>$23.40</td>
<td>$18.70</td>
<td>$4.70</td>
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<td>$6,035</td>
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<tr>
<td>Specialty Rebates</td>
<td>$74.25</td>
<td>$0.00</td>
<td>$74.25</td>
<td></td>
<td>$3,341</td>
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<td>Mail Rebates</td>
<td>$83.25</td>
<td>$50.20</td>
<td>$33.05</td>
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<td>$5,321</td>
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<tr>
<td><strong>Rebates Additional Credits</strong></td>
<td>$14,697</td>
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<td></td>
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</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td>$175,013</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>% Actual Savings over Previous Effective Rate</td>
<td>31.99%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Savings given in Original Proposal</td>
<td>30.19%</td>
<td></td>
<td></td>
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</table>
## Optional Programs – C2 RxPartnership

### Additional Savings from Optional Programs

<table>
<thead>
<tr>
<th>Program</th>
<th>Estimated % Savings</th>
<th>Estimated Annual Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Generic Step Therapy</strong></td>
<td>3.00%</td>
<td>$17,097</td>
</tr>
<tr>
<td>Generic Step Therapy program requires a specific set of criteria be met before a specific brand drug is covered, options include: generic first or use of a brand on high performance formulary list. The estimated savings takes into consideration a reduction in annual rebate credits. Implementing this program will have a reduction in per brand rebate credits.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Mandatory Mail / Maintenance Choice</strong></td>
<td>5.00%</td>
<td>$28,495</td>
</tr>
<tr>
<td>Mandatory Mail requires members to fill their long-term (maintenance) prescriptions by purchasing them exclusively through the C2 RxPartnership mail order channel. Additional savings are estimated based on client’s plan design being structured with a mail copay (at least) 2.5x greater than retail.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintenance Choice program allows member to access 90 days’ supply of their long-term (maintenance) prescriptions exclusively through either the C2 RxPartnership mail channel and/or the C2 RxPartnership retail network. Members are required to pay the appropriate mail copay, and the group receives the benefit of the deeper mail discounts. Additional savings are estimated based on client’s plan design being structured with a mail copay (at least) 2.5x greater than retail.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>FastStart</strong></td>
<td>1.50%</td>
<td>$8,549</td>
</tr>
<tr>
<td>Fast Start program is design for those currently on maintenance medications (being purchased at retail) - offers easy, transition options to make the first-time use of the mail service benefit- fast, simple, and convenient.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Pharmacy Advisors</strong></td>
<td>2.00%</td>
<td>$11,398</td>
</tr>
<tr>
<td>Trusted advisors engage members at mail and retail via face to face counseling at C2 RxPartnership pharmacies. This program has a $0.25 PMPM charge if implemented at C2 RxPartnership stores or $0.60 PMPM if across all pharmacies in the network.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Safety &amp; Monitoring</strong></td>
<td>1.50%</td>
<td>$8,549</td>
</tr>
<tr>
<td>Drug Savings Review is a safety and monitoring program, that offers a both core and enhanced safety monitoring. This includes safety edit reviews on historical claims data, identifying plan members who might be at risk for drug-induced conditions or have opportunities for more cost-effective therapy. Also may identify appropriate opportunities to help reduce unnecessary prescriptions or simplify a member’s therapy. The enhanced safety and monitoring also provides consultative course of actions, intervention and special investigation, and continued monitoring. Additional fees do apply for the enhanced option.</td>
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### Specialty Savings Strategies

- Specialty Guideline Management evaluates the appropriateness of drug therapy of Specialty medications according to evidence based guidelines - before initiation of therapy as well as on an on-going basis. 1.53% $8,720
- Specialty Preferred Drug Strategy is a step therapy program for specific specialty drugs. 0.62% $3,533
- Exclusive Specialty Network allows groups to increase savings and management through an exclusive specialty pharmacy network. Savings were modeled based on historical claims and based on gross spend. 0.41% $2,337

### Prescription Savings Guide

Annual notice sent to members who have the potential of savings $50 or more by changing their purchasing behavior (mail vs. retail / generic vs. brand). Customized plan messaging reinforces desired behavior change, and can help improve generic and adherence initiatives. 1.13% $6,440

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**Potential Savings** 16.69% $95,117
Conclusion
Pharmacy Benefits are one of the most complex aspects of a self-insured medical plan,

Represent on average 20-25% of total health care spend.

With current pharmacy trends and a drastically changing landscape, it’s very important employee benefit consultants stay on top of industry trends and client costs.
Q & A
Thank you for coming!

- Feedback Form
- PBM Audit Request
- Future Seminar Topics