



HOUSE BILL 1150 State Health and Welfare Benefits Program – Maryland Competitive Pharmacy Benefits Manager Marketplace Act

STATEMENT OF INFORMATION

DATE: February 27, 2020

COMMITTEE: Health and Government Operations and Appropriations

SUMMARY OF BILL: HB 1150 seeks to require the Department of Budget and Management (DBM) to hire a technology platform company through a bid process to conduct a reverse auction for Pharmacy Benefit Manager (PBM) services and provide associated consulting services. The “reverse auction” is a process whereby bidders provide pricing proposals online on a specified date and time. Bidders are ranked based on their cost bid and are given the opportunity to improve their cost bid in subsequent rounds of bidding.

EXPLANATION: The Secretary of the Department of Budget and Management (DBM) has broad authority for administration of the State Employee and Retiree Health and Welfare Benefits Program and responsibility for ensuring the Program complies with all federal and State laws governing employee benefit plans, under State Personnel & Pensions Article, Section 2-502, 2-503. DBM’s Office of Personnel Services and Benefits, Employee Benefits Division, administers the prescription drug benefits coverage for State employees, retirees, and their dependents, and a purchasing pool for pharmacy benefits for eligible local government entities. It is the intent of DBM to optimize prescription drug savings for State employees, retirees and their dependents.

Current Prescription Drug and Pharmacy Benefits Management Contract. DBM has a contract with CaremarkPCS Health, LLC to provide pharmacy benefits management and prescription drug coverage for State of Maryland employees, retirees, satellite organization employees, direct pay enrollees and their respective eligible dependents. The term of the base contract is January 1, 2018 through December 31, 2020, with 2, two-year renewal options. More than 220,000 individuals are covered by this contract.

Contract Features. Features of the contract include: transparency provisions requiring the PBM to fully disclose all revenue streams and pass them through to the State; drug utilization review to improve delivery quality and control costs; and provision of a broad network of pharmacies to serve State employees and retirees.

Features new to the Caremark contract include:

1. an Annual Market Check to ensure the contractor's pricing remains competitive throughout the duration of the contract;
2. defined terminology for drug categories (brand, generic, and specialty drugs) that form the basis for pricing discounts and guarantees, which provide the State greater control and auditing of pricing methods; and
3. competitive pricing for the State's Employer Group Waiver Plan (EGWP) that provides coverage for retirees.

Cost Savings. DBM has developed and continues to develop a well-managed prescription drug program. **If the contract is utilized for its maximum seven year term, approximately \$1.1 billion in savings is expected; an amount comparable to the savings reported in the media by other states utilizing a reverse auction process.**

- Significant savings on pharmacy and PBM costs have been realized -- **a net reduction in costs of 12.7% over the first two years of the contract.**
- Realized savings will increase in each subsequent year of the contract.
- The first annual market check resulted in additional discounts to generic and specialty brand drugs. Those savings, coupled with pricing accelerators to discounts and rebates, are expected to produce an additional \$20.5 million in savings that are over and above the \$1.1 billion projected.
- State employees who pay 20% of plan premiums and retirees who pay 25% of their plan premiums have benefited from these savings by **keeping premiums 10% lower than those charged to employees in 2017 and reducing employees' out-of-pocket costs by 15%.**

Reverse Auction Procurements.

- **Technology Platform Vendor.** The legislation requires the State to procure an outside vendor to operate a technology platform that will evaluate the qualifications of prospective PBMs and automatically adjudicate prescription drug claims.
 - **The specifications for the technology platform vendor to be procured are very specific, which may limit the number of firms that meet the narrow criteria outlined in the bill.** Neither the New Jersey nor Connecticut law contains the level of specificity contained in HB 1150.
 - It is in the State's interest for DBM to maintain flexibility to choose a PBM based not only on cost, as required by the bill, but also on other qualitative criteria, including Member Services that provide live support through call centers, real-time apps, on-site representation, ongoing support for DBM's management of the prescription drug program, and the ability to incorporate drug management programs based on chronic condition needs.
 - To pay the cost of the technology platform vendor and staffing, DBM may require the PBM to pay directly to the vendor a per-prescription fee for its services.
 - The lack of transparency in this fee structure and higher compensation for the vendor, if drug utilization increases appears to conflict with the goal of cost reduction.

- DBM will pay ongoing PBM invoices based on a validation process provided by the technology platform vendor.
 - It is unclear whether any national PBM will agree to be paid based on the validation process prescribed by the legislation by allowing the State to deduct amounts from an invoice based on input from a third party.

Reverse auctions for the purposes of procuring PBM services have been used by other states, but have not experienced widespread use. Both the State of New Jersey and the State of Connecticut recently utilized a reverse auction process as part of their PBM RFP. To date, there is no compelling evidence that the reverse auction process for PBM procurements is more effective than traditional PBM RFP processes when the contract is competitively negotiated and actively managed.

Procurement Timelines. The procurement timelines established in the legislation are unattainable. Employee Benefits Contracts require vendors to already be under contract and participate in more than 100 Open Enrollment events (for State employees), beginning mid-October prior to the January 1 plan year.

The bill requires two procurements: (1) a technology platform vendor and, subsequently, (2) a PBM procurement (utilizing a reverse auction) to be bid, approved by the Board of Public Works, and in place by mid-October for a January 1, 2021 start date – all of this would have to occur between June 1, 2020 and September 30, 2020.

DBM is realizing significant savings in its Prescription Drug Plan. We do so with the technical support of our health care consultant and actuaries, which provide ongoing claim data analysis, marketplace trends, and national best practices.

DBM specifically requests that a reverse auction process for the State's Plan, if passed by the General Assembly, should afford DBM the flexibility to continue to procure PBM services that guarantee vendor accountability and a high quality of service delivery. We further recommend that procurement specifications for the technology platform vendor be deleted from the bill, as those specifications are best determined by DBM.

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