

Testimony of Dudley Burdge
HB1150 - Support
Maryland House Health and Government Operations Committee
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Chairwoman Pendergrass and Members of the Committee:

My name is Dudley Burdge. I serve as a Commissioner of the New Jersey State Health Benefits Commission, where I represent the New Jersey AFL-CIO on behalf of our state's public worker unions. I have served as a commissioner for over a decade. In this capacity, I have participated directly in New Jersey's effort to manage the rising costs of our over \$1 billion yearly purchase of prescription drugs for our State and local government workers, dependents, and retirees before and after the landmark year of 2017, the year we replaced our traditional RFP process for selecting a pharmacy benefit manager or "PBM" with a dynamically competitive PBM reverse auction selection process.

Last year, I served, also, as a member of the State Health Benefits Plan PBM Evaluation Committee, which evaluated PBM prescription drug benefit pricing proposals through each bidding round in New Jersey's PBM reverse auction. Our committee selected the PBM winner of the reverse auction for award of the State pharmacy benefits contract.

It is an honor to appear before your committee, today, to discuss the PBM reverse auction process in which I've been involved firsthand, both in my capacity as a State Health Benefits Plan Commissioner and as a member of our PBM Evaluation Committee during our reverse auction of 2019. In New Jersey, we were desperate to end annual 7, 8 and over 10% prescription drug price increases. In 2016 we began to here about and investigate a method of prescription drug purchase that was becoming popular with large private sector employers – the online, reverse auction

It is a privilege to share with this Committee the results of two successive PBM reverse auction processes that we conducted in 2017 and 2019. The first reverse auction produced unprecedented reductions in cost of prescription drugs for New Jersey public employees, retirees, and dependents. The second reverse auction deepened and extended those savings over a second, successor PBM contract. Total savings to our State for the total 5-year period under PBM contracts awarded through our two reverse auction processes are projected at **\$2.5 billion** – an average annual reduction in prescription drug spending of **\$500 million per year**. As we enter the third plan year (on January 1, 2020) since adopting the PBM reverse auction process, I am pleased to report that we are on track to meeting our 5-year \$2.5 billion drug savings projection.

The prescription drug savings realized by New Jersey in our first two years of experience actually exceeded our initial projections. The combination of historic reductions in prescription drug pricing achieved through our first PBM reverse

auction in 2017 and our conduct of ongoing, automated review of PBM invoices reduced our overall State public employee prescription drug spending by **\$822 million** in 2018. In 2019, the second plan year following our 2017 PBM reverse auction, state prescription drug spending was reduced by an additional **\$578 million**.

Prescription drug savings of this magnitude, achieved *without* reliance on cuts to public employee health benefits, are without precedent in our state. Although the level of State fiscal savings produced by adoption of the PBM reverse auction is remarkable in real dollar terms, I'd also like to provide this committee a measure of the rate or percentage of prescription drug spending reductions that we've achieved, so you may, if you choose, apply our experience to calculating potential prescription drug savings for the State of Maryland:

In New Jersey, the State Health Benefits Commission on which I serve sets pharmacy benefits premiums based on the prescription drug cost experience of the previous year. Therefore, the rate of change in our pharmacy benefit plan premiums is a direct measure of the change of in our State Health Benefits Plan prescription drug spending during the previous year. For example, the reduction in prescription drug spending we achieved in 2018, the first plan year after we conducted our first PBM reverse auction, is reflected in the following pharmacy plan premium reductions for 2019:

- Premium decrease of **-25.4%** for active State employees
- Premium decrease of **-17.9%** for our early retirees
- Premium decrease **-18%** for our Medicare retirees

In 2019, after a second year of under the PBM contract resulting from our 2017 reverse auction, our State Health Benefits Plan prescription drug spending fell even further. These spending reductions are reflected in further reductions to our pharmacy benefits premiums in 2020.

- Further premium decrease **-4.5%** for active State employees
- Premium increase of **+0.2%** for early retirees
- Further premium decrease of **-13.7%** for Medicare retirees

Savings of this magnitude have benefitted both taxpayers and public employees, retirees, and their families who pay a share of our State Health Benefits Plan premiums.

The initial PBM reverse auction we conducted in 2017 engaged the nations "big three" PBMs -- Express Scripts International or "ESI" (our incumbent PBM in 2017), CVS Caremark, and OptumRx – in an unprecedented State process of competitive bidding to win the New Jersey public employee account. OptumRx won the competition, underbidding Express Scripts and CVS Caremark in the course of two rounds of bidding. As we entered the second year under the new OptumRx contract, State leaders became confident that an early reopening of the PBM contract to a second reverse auction would capture even deeper savings for State

taxpayers and public employees. In 2019, we conducted a second PBM reverse auction.

The outcome confirmed our hypothesis.

Competition did, indeed, deepen and extend the historic prescription drug savings achieved two year earlier in our first reverse auction. OptumRx (our new PBM incumbent) Express Scripts, CVS Caremark, and Prime Therapeutics competed in the second PBM reverse auction of 2019. Over three intensively competitive rounds of bidding the historic savings achieved in the 2017 reverse auction was deepened by an additional 8% over the three years of a successor PBM contract.

Prior to 2017, the New Jersey's State Employees Health Benefits Plan and the School Employees Health Benefits Plan selected our PBM through a traditional RFP process still used commonly by most state health benefits plans. The difference between that process and the dynamically competitive PBM reverse auction could not be more fundamental. The traditional RFP process for selecting a PBM had compelled our public employee health plans to choose between diverse and highly complex PBM prescription drug pricing proposals, each one requiring adoption of a PBM-specific formulary. Contracts proposed by PBMs each contained PBM drug classifications, definitions, and other terms prescribed by PBMs. As a purchaser, the State Health Benefits Plan was unable to make "apples to apples" comparisons based on value or cost comparisons between diverse PBM proposals. In fact, we had to rely ultimately on PBMs' own projections of the savings they would deliver to us. The savings were rarely realized. Year after year, prescription drug costs rose more rapidly than any other component of our health care spend.

The PBM reverse auction process we adopted in 2017 changed the dynamic fundamentally in the favor of our State Health Benefits Plan as purchaser of pharmacy benefits:

- It created a technology-enabled pharmacy benefits marketplace in which competition between PBMs drove value in the form of better pricing to our State Health Benefits Plan. As a member of the reverse auction PBM Selection Committee, I observed as PBMs submitted detailed online bids conforming to the required terms of our contract, rather than to terms of their contracts, as in the past.
- Within a few hours, our pharmacy data analytics platform translated the competing bids into reliable projections of the expected costs of each bid. We had never before been able to make such "apple-to-apple" comparisons based on value of PBM proposals.
- The lowest projected costs in each PBM bidding round were shown to all the PBM competitors, in addition to the projected costs of their own bids. That was meaningful transparency of cost that was without precedent in my own experience.
- After each round of bidding, our data analytics platform produced an automated analysis of each PBM's bid. We observed as the projected bid

costs fell over three rounds of bidding. We were witnessing dynamic competition driving value to the State purchaser – a process that simply does not occur in the traditional, relatively static RFP process.

Our Evaluation Committee reviewed the final PBM bids after the final round of bidding. We ranked the bids based on both the financial costs of each and weighted qualitative factors that were also important to our State employee health plans. As the complex PBM bids were submitted digitally, they populated the PBM contract and the final contract terms were generated almost instantaneously. There was, in fact, very little left to negotiate. The entire PBM reverse auction process from initial posting to award of contract was completed within approximately 12 weeks...with average State prescription drug savings amounting to approximately a half billion dollars per year.

In conclusion, I'd like to say a brief word about the multiple use of the pharmaceutical pricing data analytics technology platform we used to conduct our PBM reverse auction. Following the reverse auction, we redeployed the same technology to review PBM invoices that are submitted by the PBM every two weeks and must be paid within 48 hours. The technology platform enables us to adjudicate 100% of claims to confirm compliance with the specific terms of our PBM contract and flag deviations from those terms within a matter of a few hours. This automated, ongoing PBM bill review has enabled our State health plans to quickly reconcile overcharges. As a matter of fact, using the technology to conduct automated, ongoing, and real time bill review enabled us over the past two years to identify and recover an *additional \$46 million* in prescription claims overcharges by the incumbent PBM who won award of contract through the reverse auction. By holding our PBM's "feet to the fire" in complying with the terms of our "best-in-class" PBM contract, we have captured tens of millions of additional dollars that would likely have been lost to the New Jersey State Treasury. For us, this is real money!

Thank you for the opportunity to share our experience in deploying 21st century technology to transform the State of New Jersey into a modern, disciplined, high-value pharmacy benefits purchaser. Our PBM reverse auction solution was adopted with overwhelming bipartisan support. Our success in harnessing dynamic market competition to drive prescription drug savings back to New Jersey taxpayers and public employees has had a profoundly positive impact on the fiscal wellbeing of our State, and it has helped secure a level of health benefits at affordable cost that our public employees, retirees, and their families deserve. I hope, above all, that our experience in New Jersey can inform the important decisions you will make on behalf of the good people of Maryland.

Respectfully,

Dudley Burdge
Commissioner
NJ State Health Benefits Commission