

Best Practices in Pharmacy Benefits Management Vendor Selection Using an RFP



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The Customer Perspective — Part One of Two

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Risk Managers may achieve greater control over costs and administration by internally staffing claims, depending on their scale and scope of operations. When it comes to Pharmacy Benefits Management, the cost disadvantage may outweigh the advantage, considering the overhead investment required to negotiate contracts with pharmacies, comply with multiple state regulations, develop a pharmacy network, information systems and an administrative infrastructure, and hire, train and maintain additional staff. This is especially true when you consider that there are many PBM Providers who want to compete for your business. But how can you be sure you will make the wisest PBM choice?

Here you can learn from an organization that decided to outsource PBM, and selected the best vendor by implementing a Request for Proposal (RFP) process. This is the first in a series of two articles that describe how and why that process was successful from both a Customer perspective with input from Robyn Sykes, Executive Director/CEO, Minnesota Counties Insurance Trust (MCIT), and from a PBM Provider perspective, with input from Gary Daly, VP of Sales, ScripNet. The article is intended to be a prescription for others who want to replicate their success with the use of an RFP.

Early in 2007, MCIT decided to outsource Pharmacy Benefits Management for workers’ compensation to a commercial service provider. “We had previous in-house knowledge and experience with claims administration, but had not previously used a Pharmacy Benefits Management service,” said Robyn Sykes. “We also had some experience with RFPs from our consulting practice, where we helped member counties select health insurance vendors. We had never done an RFP for Pharmacy Benefits Management, so it was somewhat of an exploration. Here’s what we did and how it turned out.”

MCIT Steps Systematically Through the RFP Process

We decided from the very beginning that we would engage representation from all affected departments within our organization, including risk management/claims adjusters, senior administrative management, IT, finance and legal, with a total of 8 people on the team.

We made a list of vendors and define our objectives and requirements using our internal knowledge and experience, as well as with input from some of the vendors. We really felt the need for a team effort, so everybody could understand what everybody else needed. We went to IT, for example and asked: What specific issues are important to you, because you are going to help define requirements. We want you to be part of the solution, rather than part of the problem. Later in the vendor evaluation process, when we had to make some hard choices between vendors, or we had to give up a little in one area (IT or Finance) to get more in another (Claims or Customer Service), we would have a basis for making those decisions. After meeting once a week for four weeks, we had gone through three drafts of an RFP and felt we were ready to approach vendors. At the same time we developed the RFP, we also developed vendor screening and evaluation criteria, including objective and subjective measures.

We sent out the RFP and asked for a response in 3 weeks. We sent it out electronically and requested a formatted response, so we could compare apples-to-apples. Some vendors inserted answers into our electronic form, some shoehorned information they submitted to other RFPs that didn’t necessarily hit the target, and others made up their own format. It was kind of a test to see who was going to respond to us appropriately. If this was the dating phase and we had difficulty getting answers from them, it helped us determine whether we wanted to get engaged.

During that time vendors contacted us to ask questions. We provided written answers to everyone who was bidding. We wanted to make sure the playing field was level for all vendors.

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Six vendors formally responded. Each team member reviewed all six vendor proposals. Four of us scrubbed the entire RFP and others were more focused on questions that dealt with their specific disciplines (claims, IT, finance, etc). We looked at the screening criteria and dug out related information from the proposals to discuss how each vendor fared on each criteria. We created a scoring spreadsheet with criteria on the left and the six vendors on top. Then we wrote information in each cell with references back to pages within the vendor proposals.

We individually evaluated each vendor against the scorecard criteria. When we got back together as a group we talked about the vendors and the criteria for each vendor. We thought about scoring each vendor numerically on each criteria and totaling up the scores as a group, but decided against that, because different members had expertise in different areas, and numerical scores at that level might have been misleading. Based on a subsequent discussion of the criteria for each vendor, we were able to eliminate two of the six vendors, resulting in four we wanted to interview. In the process we identified vendor specific issues and questions that we could ask when they came in for a face to face.

Vendors were then scheduled for presentations, demonstrations and discussions with our multi-disciplinary team. The majority of time that we spent in those presentations involved us asking specific questions about their proposal, which we developed from our analysis and internal discussions. We also paid close attention to how they answered questions and how we interacted with them, which contributed to our subjective assessment.

We found that after we went through the interview with the first vendor, the second vendor would say something that didn’t come up with the first vendor. We would ask that of the 3rd and 4th vendors when they came in, and went back to the first vendor to get the answer from them. In the end it was very important for us to have an apples-to-apples comparison. There was a great deal of back and forth to make sure we had all of the material to compare the vendors on the criteria.

After the presentations, our multi-disciplinary team got back together and reviewed the vendors’ answers to our questions, identified outstanding issues, and discussed strengths and weaknesses.

That process allowed us to eliminate two more vendors and get down to the two final, both of which we felt could adequately address our requirements.

PBM Vendor Selection Criteria & Why

Our RFP evaluation process utilized both objective and subjective criteria.

On the objective side, some criteria that were fundamental, such as whether a PBM owns its own network, or resells someone else’s network. Vendors who resell someone else’s network potentially have higher costs because they have to pay administrative network rental fees or up-charges to the network owner. PBMs that have their own network have negotiated direct contracts with Pharmacy providers. There is a higher level of transparency with a PBM who owns its own network and is willing to share information about pharmacy contracts, prices and payments to pharmacies. Also, if you and the PBM make changes to the formulary, it can be immediately communicated to and actionable by the pharmacies.

Structured programs for Drug Utilization Review (DUR) are also very fundamental. Negotiated pricing for pharmaceuticals and fees for administration are important, but a competent DUR program can have a greater impact in managing costs. It can also have a positive health impact on the injured worker, including a medically-oriented review of Drug Usage Patterns, Abuse Detection/Prevention, Drug-to-Drug Interactions, Generic Substitution Rates, Therapeutic Duplications, Duplicate Prescriptions, Formulary Compliance, Cost Overrides Savings Calculation, and overall program effectiveness.

8 Steps in the RFP Process:

- Create a multi-disciplinary team
- Define requirements
- Prepare the RFP document
- Identify & solicit vendors
- RFP review & initial vendor evaluation & screening
- Vendor presentations & discussion
- Vendor Selection/Notification
- Negotiation/Contract Award

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There are also a number of performance benchmarks that are useful for comparison, including:

- Network Penetration: % of client’s prescriptions that are discounted i.e. In Network
- Percentage of first fills captured In Network
- Percentage of second fills captured In Network
- Percentage of prescription filled last year that were generic

Other programs, administrative functions or information infrastructure that we considered included:

- Network management & electronic transmissions: Online information system access to pharmacies for eligibility verification, and to claims adjusters for electronic adjudication
- Programs to communicate with injured workers, including: first fill, distribution/replacement of cards, pharmacy cards, call ahead programs, mail order programs.
- Formulary determination & management and the willingness to customize a formulary at any level, including employer, claimant and physician levels.
- Customer service/help desk support with multilingual capabilities, available 7 days per week to assist your case manager, adjusters and pharmacists.
- Outcomes management reports – standard and customized reports to determine outcomes, trends, establish customer goals and improve outcomes.
- Percent of pharmacy bills reviewed

With savings, we weren’t quite sure what the answer was going to be, as we had no benchmarks, having never done this before. Answers to savings were all over the board. One would say 20%, another said to refer to the section of the RFP on what it is going to cost. Vendor trust and transparency were very important to us. We wanted a vendor who would help us understand how they priced pharmaceuticals and PBM administrative services, what the best pricing option was for us and how we could both work together to reduce costs and save money. Therefore we looked at things like: discounting of drug prices, maximum allowable cost (MAC), retail agreements, average charge per prescription and average wholesale price/discounts for generics and brand name drugs.

Like the performance benchmarks, we wanted to look at historical costs, but again they may vary by region and by industry or specialization.

Pricing for administrative services and fees can be done in a number of ways, including Cost Plus, percent or multiple of Average Wholesale Price (AWP), and Percent of Savings. One fee structure may work better for one organization than for another. The key is to find a vendor that will work with you to match the pricing structure that fits your needs. We opted for a structure that created a win-win with the vendor, where we are both incented to reduce overall costs and increase administrative efficiency.

There are legal and administrative issues that can be important, including: guaranteed payment on first fill, responsibility for non-authorized prescriptions, and how they deal with pharmacies who have sold prescriptions to rebillers & collection agencies.

Subjective criteria included an understanding of the vendor, their history and future direction. We didn’t want a company who was so small that they were going to get gobbled up or go out of business. We didn’t want a company who was so new that we were the guinea pig. And we didn’t want a company that was so big that we would get lost in the masses.

Although we used objective criteria to identify the final two, the ultimate decision was a bit more subjective, based more on us and the way we like to do business. It came down to a very large company that had a good track record, but the people making the presentation were not the ones with whom we would work on a daily basis. The other company was smaller and sent the actual people that would handle our account. We felt a smaller company would be more flexible and accommodating. Sitting across the table from the people we were going to be working with, made us feel like we were getting a partner who would work with us to succeed on a day to day basis. The history of MCIT, whether by chance or by choice, is that we have an affinity for establishing long term relationships; partnerships where in the end, we all benefit.

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Key Learnings & Considerations for Administering the RFP Process

Executive involvement is one of the most important factors leading to a successful RFP process. If a senior person applies themselves to the process, other participants see how important it is to the organization, and are more engaged and responsive.

Multi-disciplinary engagement is next most important. You want participation from all departments that are dependent upon or have to provide information and/or will work with the vendor and vendor processes. At the very least, that would include a senior manager or executive in risk management/claims adjustment/workers compensation, someone with experience in the field who has dealt with these kinds of issues (nurse or pharmacist), someone from IT but who will be involved in building electronic bridges, someone from finance/accounts payable, and someone from legal. Having a multi-disciplinary team creates a sense of ownership. The team understands that they were going to have to work with the ultimate vendor, so they had a vested interest in selecting the right one.

Spend the time to precisely define your objectives, needs and priorities. Be comprehensive, but concise. Narrow the criteria to the most important and take out redundancy.

In the end, it's all in the vendor relationship. Use the process to not only select a vendor, but to start the relationship off on the right foot. It will help you to work more effectively with your selected vendor in a long term partnership.

