2020

EMPLOYER ROUNDTABLES ON DRUG MANAGEMENT

National Alliance of Healthcare Purchaser Coalitions
Driving Innovation, Health and Value

FINAL REPORT

Contents

Executive Summary

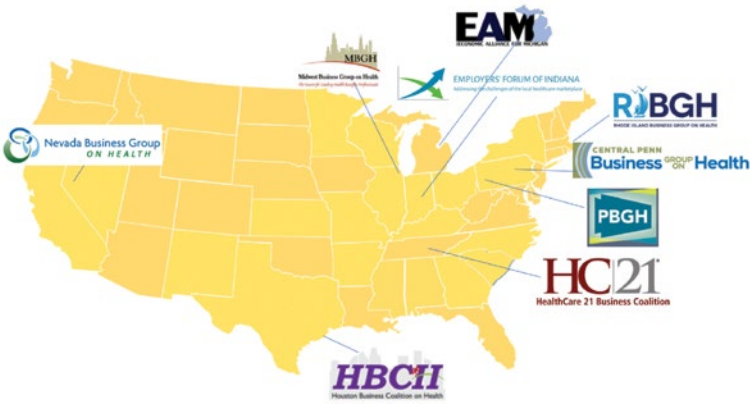
In Spring 2019, the National Alliance of Healthcare Purchaser Coalitions (National Alliance) launched a national project that brought together nine regional coalition members to conduct employer roundtables. The purpose was to open a dialogue about current employer perspectives and attitudes on drug pricing, contracting issues, benefit design, and formulary decisions to define better value for healthcare strategies. The effort led to defining key trends and issues, developing a set of recommendations for employers, and helping coalitions determine where to best provide support for members over the next 2-5 years.

The roundtables included over 80 employers of different sizes and industries and were conducted through Late Fall of 2019. Each session provided drug management education in a variety of areas and robust participant dialogue.

Coalition Awardees

- Central Penn Business Group on Health
- Economic Alliance for Michigan
- Employers' Forum of Indiana
- HealthCare 21 Business Coalition
- Houston Business Coalition on Health
- Midwest Business Group on Health
- Nevada Business Group on Health
- Pittsburgh Business Group on Health
- Rhode Island Business Group on Health

* To learn more about the Coalitions, see "Project Background" on page 20.



Areas of Focus

Addressing High Drug Costs

- High costs associated with specialty drugs
- Effective strategies to manage cost
- Price equity (site-of-care)
- Pricing inequity/affordability (US/other countries)

Strategies to Contract for Value

- Direct-to-pharmacy OR direct-to-manufacturer contacting
- Outcomes-based contracting with pharmaceutical companies
- Value-based contracting
- Biosimilars
- Site-of-care
- Transparent pharmacy benefit manager (PBM), third-party administrators (TPAs), and consultant contracts
- Reference-based pricing per drug class
- Assessing clinical effectiveness/contracting
- Vendor management

Benefit Design & Formulary Management Strategies

- Cost-effectiveness data that informs drug policy making and formulary design
- Strategies to eliminate "unnecessary drugs"
- Developing a value-based drug formulary
- Creating a drug exclusion list
- Value-based insurance design (VBID)
- Copay assistance programs/copay accumulators
- Pros and cons of drug rebates; the future of rebates

Key Takeaways

- Over 60% describe drug and medical spending as costly and unsustainable with exponential increases in the last several years.
- In general, employers define "value" in their drug spend as having "the right drug at the right price," as well as having appropriate utilization controls to reduce waste and fraud and implement strategies that clearly indicate improved health outcomes.
- Employers are no longer interested in having rebates drive healthcare planning discussions. They are interested in learning *how to change the conversation* instead of feeling they are being "held hostage" by PBMs, health plans, or other vendors.
- High or medium challenges in contracting include: Knowing which drugs go through medical benefits (58%); over or misutilization of prescription drugs (61%); various issues with PBM contracts; and understanding what cost savings really are (40%).
- Many employers reported that high deductibles are the most problematic for employees, yet some stated they have no intention of moving away from this model. Instead, these employers want to use a more "paternalistic" approach where *they* define the best quality and cost options. Others who don't want to be in a decision-making position say they don't want to deny coverage for certain drugs.
- There is consensus among most employers that to best address savings and the impact of rebates, employers must focus on effective formulary management. They have been overwhelmed by the number of factors they need to be aware of, but intend to be strategic in identifying and prioritizing areas of focus.
- Employers have little confidence (and low expectations) that legislative efforts will produce the changes they are looking for, especially in the short term. They suspect policies currently under legislation will ultimately fail to protect either consumer or employer interests.

Key Recommendations

1. **Eliminate rebates and encourage full transparency on drug prices from PBMs, specialty pharmacies, and pharmaceutical manufacturers.** A number of employers agree agree that restrictions on the use and availability of rebates will help focus the conversation of high drug spending where it should be—identifying why drug prices are so high and how those prices can be lowered. Depending on how employers' health plans are structured (e.g., low- or high-deductible plan), rebates are either reinvested in the organization, influence premium rate setting for the following year, or passed on to the consumer. In the end, discussing rebates as a savings tool is really a distractor from addressing the real contributors to high drug spending—high drug prices.
2. **Implementing integrated site-of-care solutions for specialty medications to reduce waste and costs.** These solutions integrate a company's medical and pharmacy benefit teams so they can develop cost-reduction strategies (e.g., oncology drugs administered in a hospital outpatient setting can cost twice as much as in a physician's office.)
3. **Hold PBMs accountable for building cost-saving strategies into drug formularies.** Many stakeholders mentioned that because PBMs have become too reliant on rebates as a cost mitigation strategy—rather than evidence-based cost-reduction strategies—they are unsure whether drug spending is being effectively reduced, especially since rebates may be targeted to primarily support the PBM business model, not the employer or patient.
4. **Implement other drug waste reduction strategies.** This involves removing drugs that show little or no value for the patient, placing timing restrictions on patient refills, or making dosage adjustments.

5. **Support collaboration and information sharing across employers and coalitions.** Collaborative information-sharing groups for large and small employers enable them to share best practices and ideas (e.g., publicly sharing formulary information) to support one another in designing evidence-based and clinically driven formularies.
6. **Push for federal regulation of the pharmaceutical industry.** Multiple strategies, including policy legislation, are needed to make diagnosis codes a requirement on all pharmacy claims.
7. **Help employers identify relevant value comparison tools on pharmacy** (e.g., through use of value frameworks and tools). This may involve the use of value frameworks and tools .
8. **Recommend independent third-party audits for both PBM and medical drug management.** By auditing contracts and use of specialty drugs, employers can measure and manage prescription drug spend more precisely.

Addressing the High Costs of Drugs

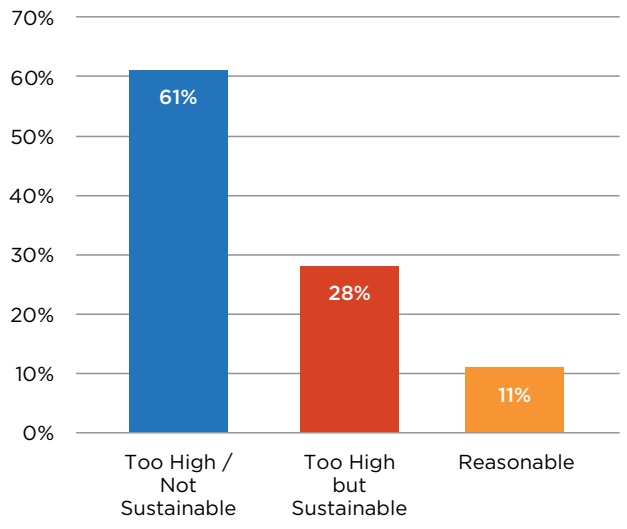
Aggregate Results from the National Employer Survey

Over 60% of employers that participated in the National Alliance 2019 Employer Survey on Drug Management (National Employer Survey) say their prescription drug and medical spend is costly and unsustainable. In addition, they have seen exponential increases in the last several years, especially with some mainstream drug prices. Specialty drugs and emerging gene therapies can be especially expensive, with many employers setting limits because they can no longer afford to pay for every new option. The small number of employers who say their medical spending is sustainable attribute this to safeguards negotiated with PBMs. Even they remain cautious, however, as new and costly drugs enter the market at an unprecedented pace.

Overall, employers named four primary factors as contributors to high drug spending:

1. **High drug prices.** A consensus of employers say high drug prices are driven primarily by pharmaceutical manufacturers' lack of transparency in setting prices; an overdependence on rebates by PBMs; and the lack of Federal Drug Administration (FDA) regulations on interchangeability of biosimilars for specialty drugs (see the National Alliance *Action Brief*: The Value of Biosimilars). Employers note that the lack of transparency is exacerbated by the fact that PBMs are often highly motivated by rebate revenue. Some employers say their own dependence on PBMs to develop drug formularies has made it difficult to know whether rebates are being used in ways that benefit them, their employees, or the PBMs. For specialty drugs, some employers have been hopeful that biosimilars could help drive down prices, but that has not yet happened.
2. **High rates of drug waste.** Employers agree that high rates of drug waste are due to various factors, including: Patients not adhering to medication instructions (including as this relates to potential medical complications that may require additional treatment or medication); patients refilling prescriptions before 67%–75% of the previous prescription has been used; and new users abandoning their medication completely due to intolerance.
3. **Consumer preference for ineffective or expensive brands.** A number of employers are very concerned about direct-to-consumer prescription drug advertising, suspecting these advertisements influence patient preference for ineffective (low- or no-value) and/or more expensive drugs.
4. **Incentives for overprescribing and manufacturing drugs for nonmedical conditions.** As one employer explained, in other parts of the world, prediabetes is considered a

Employers' Perspective Regarding Drug Spend



premedical condition that should be monitored and managed—not prescribed a medication. In the US, drug manufacturers and doctors are incentivized to treat it as a medical condition. This in turn causes overprescribing of sometimes unnecessary drugs. This is true of other conditions that have the potential to be managed with lifestyle changes and alternative, evidence-based therapies.

How do Employers Define Value in Drug Spend

A key area for employers is how they define "value" in their drug spend. According to the National Employer Survey, employers generally agree that having the right drug at the right price is top of mind and if that drug is cost-efficient for the illness being treated—without pharmacy pipeline influences—then value can be evaluated and measured. In addition, the survey highlights various ways employers define value. Themes that emerged include:

- Having appropriate utilization controls in place and evolving strategies to reduce waste and fraud
- Implementing strategies that clearly indicate improved health outcomes
- Keeping costs more predictable
- Making sure services are high quality so members receive the best care possible
- Having a waste-free formulary
- Ensuring access to condition management drugs at a reasonable cost

Overall Coalition & Employer Perspectives/Insights

Roundtable participants clearly agree that the rise in drug costs is unsustainable and are seeking ways to bend the trend. Many employers experience price increases due to inflation, improperly managed formularies, misaligned rebate programs, and many more factors. Most agree they need to address multiple areas in their healthcare strategies for optimal impact.

For example, some employers say they invest in health navigator programs to support employees with chronic conditions in managing their health and pharmacy and medical claims. These companies are monitoring the effectiveness and cost savings associated with these programs to see how they should be scaled.

Another area of discussion during several roundtables focused on how best to interpret data in meaningful ways. Some employers have asked their health plans, PBMs, TPAs or other vendors to provide more information in reports as well as measures used for making key healthcare strategy decisions. Many admit that, not only are they unsure of what to ask, they also don't know if the information they are receiving is correct or of value, or how it can inform benefit design. This was confirmed in the National Employer Survey that revealed identifying cost savings opportunities as a major or medium challenge. In many roundtables, employers agree that to realize true cost savings they must resolve the rebate discussion and tackle competing challenges.

For specialty drugs, employers discussed the promise of biosimilars in creating more competition to drive

THE OPAQUE NATURE OF REBATES

Rebates are primarily used for high-cost, brand name drugs in competitive therapeutic classes where there are interchangeable products. PBMs and health insurers receive rebates from drug manufacturers to include these products on formulary and receive preferred tier placement. How much of these rebates trickle down to employers and consumers is largely unknown and what employers are interested in addressing.

down prices. Because the FDA has not yet ruled on regulations to allow for biosimilar interchangeability, specialty drug prices remain high. Employers are seeing the cost of many generic drugs decrease on average, while brand name drugs continue to rise. This is particularly problematic since significantly more specialty drugs have being approved since 2010 than traditional drugs.

To round out the discussion in this area, a common and important theme was the topic of PBM price transparency and rebates. Many employers agree that the lack of transparency is complicated by the fact that PBMs are often "highly motivated by rebates." Some employers even admit that their own dependence on drug formularies established by the PBMs makes it difficult to know whether rebates are being used in ways that benefit them and their employees or are focused on the interests of the PBM. A few of the roundtable participants concluded that rebates should be abolished and an opportunity is presenting itself for lawmakers to pass legislation that defines the elements of an employer-friendly contract.

Contracting for Value

Aggregate Results from the National Employer Survey

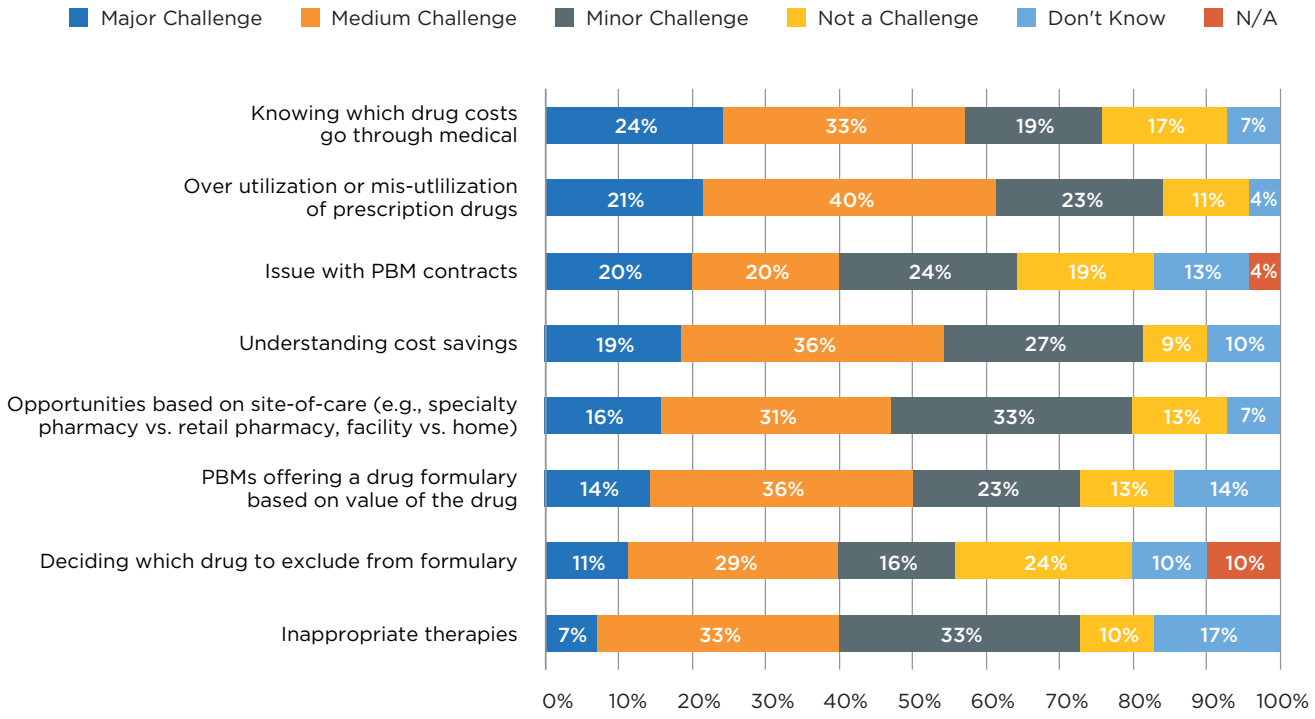
Some experts argue that employers are at a crucial point in their relationship with PBMs. For years, PBMs have acted as middlemen between employers, pharmacies and drug manufacturers. Though the primary focus has been to keep pharmacy benefit costs down, employers are realizing that costs aren't the only thing of importance. According to the National Employer Survey, the top major or medium challenges in contracting are:

- Knowing which drugs run through their medical benefit (58%)
- Overuse or misuse of prescription drugs (61%)
- Various issues with PBM contracts (40%)

Other challenges include understanding what cost savings really are, the value in drug formularies, and how to best manage site-of-care issues. In addition, the survey highlighted that the top element of an employer's contract is focused on PBM fees and rebates (75%). About 40% of employers have custom formularies and about 37% indicate they have outcomes-based metrics in contracts. Over half of employers are considering reference-based pricing or outcomes-based contracts in the future as a strategy to address high drug costs.

As specialty drugs have become a rapidly increasing percentage of total drug spend in recent years, employers have been forced to allow for this trend in benefit design strategies. This has caused them to

Key Challenges with Managing Drug Trend (Besides Cost)



rethink their relationships with PBMs and considering ways to better negotiate with supply chain vendors.

Some employers are starting to request their health plans, PBMs, TPAs or other vendors provide more information about their data and assistance with asking the right questions. Other employers expressed frustration about not having access to their data, or assistance in understanding whether drugs are being billed under the medical or pharmacy benefit. Again, it's of utmost importance to move beyond the rebate discussion.

Overall Coalition & Employer Perspectives/Insights

In general, employers across the roundtables say they would like more education in developing effective contracts with health plans and PBMs. This includes understanding how to make contract definitions clear and definitive. Without this, fees are arbitrary and an apples-to-apples comparison cannot be made. When an employee benefit consultant has a vested interest in a pharmacy benefits coalition or a PBM is providing consulting guidance, employers are not getting unbiased advice. This is when a totally independent *request for pricing* (another type of RFP) from an agnostic firm is most effective. Employers agree they are leaving money on the table and want to learn how to better address this in the future.

Employers are **no longer interested** in having rebates drive the discussion.

In many of the roundtables, it was clear that employers are no longer interested in having rebates drive the discussion. In fact, they are interested in learning *how to change the conversation,* instead of feeling PBMs, health plans, others in the supply chain hold all the power. When PBMs negotiate with pharmaceutical manufacturers for price discounts (rebates), these rebates are typically based on sales volume which is driven by formulary placement. Rebates are normally negotiated to keep administrative fees low, which allows PBMs to keep a portion of the negotiated rebates and other fees. Another reason costs can go up, is when a contract contains rebate guarantees. This perpetuates the demand for high-rebate drugs by encouraging PBMs to maximize rebate revenue, giving preference to some drugs over others on formularies based on rebate revenue rather than their value and final cost to the patient or plan sponsor.

(Source: *Commonwealth Fund, Issue Brief Aug 2019*)

At the roundtables, employers shared stories of RFP experiences and meetings with PBMs and health plans that showed they are weary of the reports they receive or what is being recommended. One employer said that negotiating with health plans required a compromise with respect to receiving prescription drug rebates in exchange for free-flowing data. This further leads to distrust and suspicion that vendor interests are not aligned with the interests and expectations of employers . Employers report "smoke and mirrors" tactics and cite the importance of networking through local and regional healthcare coalitions to learn what is and isn't working for other employers.

Another area of discussion was drug management services that are paid through the medical benefit. Typically, specialty drugs are administered at a variety of sites like an infusion center or a hospital or doctor's office. Employers are not sure about how to determine which site-of-care can deliver the best care at the best savings. As more specialty drugs become available, employer concern is growing, especially among those offering high-deductible health plans (HDHPs). Employers and employees are not assured of receiving the right drug, at the right price, in the right place, using the right data, and with the right support (see the National Alliance Future Vision for the Specialty Drug Marketplace).

In one of the roundtables, employers reported that HDHPs are the most problematic for their employees,

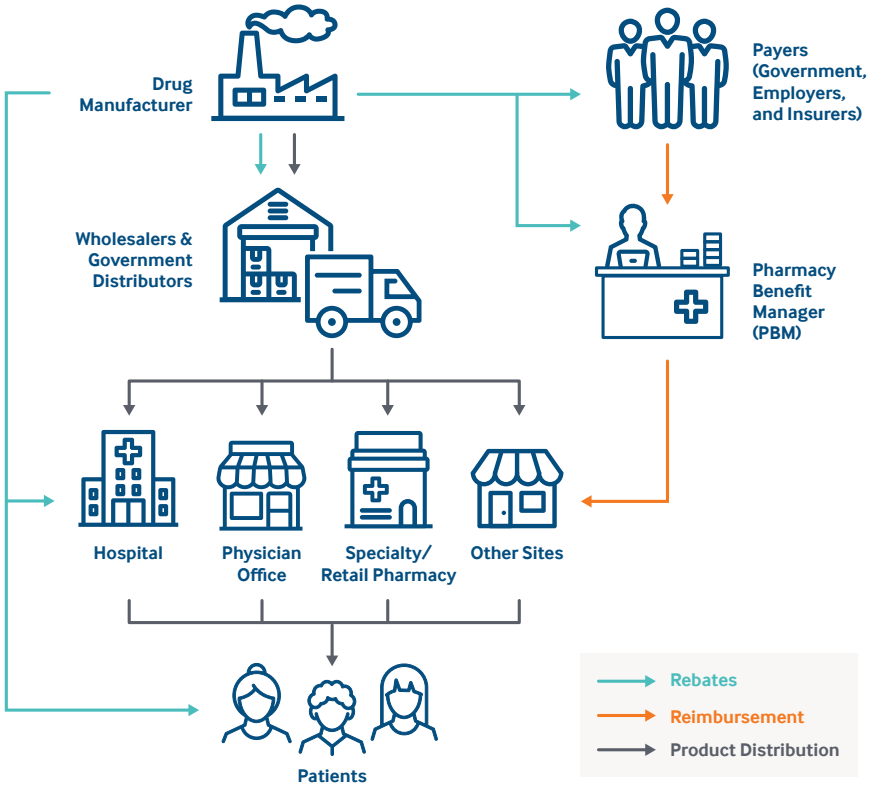
yet most do not intend to move away from this model. Instead, they will adopt a more "paternalistic" approach where they will define the best quality and cost options. Employers currently do not have information on the quality of pharmacy services or comparative costs, and it is unclear whether PBMs will move to greater transparency, since many own retail and specialty pharmacies.

For employers that are confident in their contracting abilities, they credit their processes. From having niche consultants (including former industry operatives); to receiving input from objective sources, such as internal pharmacists; to extensive auditing, managing pharmacy benefits is complex. Most employers agree that confidence in current contracts needs to be validated through data analytics generated by objective third parties such as data warehouses. Smaller employers identified a significant challenge in gaining access to their data through a trustworthy analytics firm.

This presents a good opportunity for coalitions across the country to educate members about how to develop effective contracts and to send a joint message about expectations to the marketplace .

Employers say it is important to better understand the flow of the money—where the money goes, from manufacturer to dispensing; how this affects the patient; and the cost to employers. This led to a conversation about Average Wholesale Price (AWP), Wholesale Acquisition Cost (WAC), generic and specialty drugs, and various types of pricing, discounts, rebates, and rate guarantees. Some employers say they do not have a solid understanding of the supply chain and are working toward better formulary management to reduce waste.

From pharmacies, to hospitals, to insurance companies, to distributors, many entities are involved in getting a medicine from the pharmaceutical company to the patient. Together, they make up the pharmaceutical supply chain. This chart depicts a typical route a medicine takes from drug manufacturer to patient, including the roles of multiple players that make up the process.



s, LLC, *2018 Janssen U.S. Transparency Report* (Janssen, Mar. 2019), 21.

Although this report does not take a deep dive on the flow of money, it was a prominent roundtable discussion topic. Employers agree that either the use of **spread pricing** (allowing the PBM to retain the differences between the amount charged by the PBM to the employer and the amount the PBM pays to the dispensing pharmacy) or **pass-through pricing** (PBM passes through the price they pay for the medications and earns a negotiated administrative fee) were not ways to guarantee savings for them or the patient. The concern is that it instead encourages the use of unwarranted higher-priced drugs.

A few employers expressed interest in niche carve-out services such as pass-through models for specialty pharmacy as well as developing value-based outcome contracts with pharmaceutical companies. This would require pharmaceutical companies to reimburse employers and employees for ineffective medications. Although this is not expected to happen soon for most employers, some pharmaceutical companies are moving in this direction. It will be important for employers to determine measures in their contracts to ensure that value is being addressed and costs aren't raised arbitrarily or inappropriately. Roundtable participants said they are willing to pay a higher price for an effectiveness guarantee. In fact, a few of the employers indicated they are already employing this strategy within the medical benefit.

Benefit Design & Formulary Management

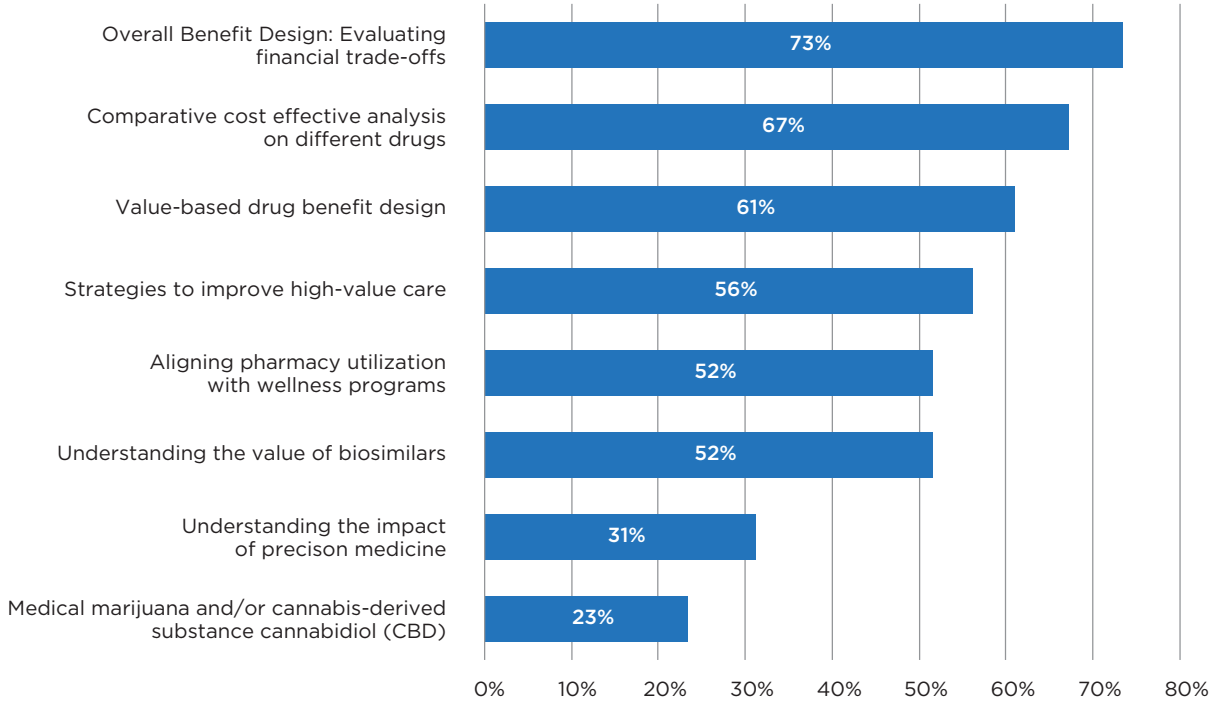
Aggregate Results from the National Employer Survey

Recent studies show that the move to HDHPs is not the positive approach employers had anticipated. Instead there have been negative consequences, especially for employees who are not financially fit. The National Employer Survey revealed that over 60% of employees are dissatisfied with HDHPs, while almost half are dissatisfied with the increase in premium costs.

Despite this, employers are exploring best practice strategies to address the impact of HDHPs rather than discontinuing them. As discussed, some employers want to move to a more "paternalistic" approach where *they* will define the best quality and cost options. This is confirmed in the survey, where 73% of employers says they are interested in learning more about evaluating financial trade-offs in overall benefit design.

As employers need to make decisions about everything from coverage parameters to plan incentives, there is a growing need to learn some best practice strategies and approaches. According to a recent *Health Affairs* article, "Activating Employees in Discussions of Health Care Trade-offs," trade-offs are needed in healthcare decision-making to compensate for shortcomings in the US market-based healthcare system. As employers make decisions about which products and services should be covered (e.g., if a new, high-cost therapy is to be covered, which existing products or services will no longer be covered?), a valuable strategy may be to involve employees in plan design decision-making.

Topics Employers are Interested in Learning About



Employers are also looking for more education about comparative cost-effective analysis on drugs (67%) so they can make more informed decisions about drugs that provide the most value and best outcomes for employees. As employers look for value in benefit design approaches, they also want to improve high-value care (54%), understand the value of biosimilars (52%), and learn more about the impact of precision medicine (31%) and cannabis products (17%).

Overall Coalition and Employer Perspectives & Insights

A key takeaway from the roundtables is that most employers agree the best way address savings and the impact of rebates is to focus on effective formulary management. Employers have been overwhelmed by the complexities of pharmacy benefit management. They have to be aware of and want to be deliberate and systematic in addressing issues and using data and objective data analytics to be strategic in identifying and prioritizing where to focus their efforts (e.g., programs, vendors, and innovations).

Some employers are not able to get any guidance about the formulary decisions they need to make.

"We just can't get the information," reported one employer.

In general, employers have little confidence (and low expectations) that political efforts will produce change. In fact, they believe that the policies currently being discussed will ultimately fail to protect either consumer or employer interests. During one roundtable, participants learned that some manufacturers and PBMs are so closely aligned with Wall Street that their incentives to manage drug utilization (and the correlation with drug spend) is greatly compromised. This has encouraged the proliferation of high-cost, low-value drugs. Opaque arrangements with PBMs further complicate establishing transparency.

PBM inertia has led to employers taking more control of formulary and utilization management. Some are considering niche consultants and third-party carve-outs. Some employers say they would be more comfortable if PBMs operated as TPAs for pharmacy benefits, adjudicating claims, and stepping aside when they cannot manage utilization and cost containment.

Another area of great concern to employers is the high level of prescription drug waste. Roundtable participants say that high rates of drug waste (e.g., patient non-adherence, refill issues) keep patients from getting to the right drug from the start. Proposed strategies to solve this pervasive problem include: Limiting initial fills, restricting large quantity fills for high-cost specialty drugs, discontinuing auto-refills, targeting drugs prone to excessive dosing, and customizing formularies to address waste.

TYPES OF WASTEFUL OR LOW-VALUE DRUGS

Me-too drugs: Immaterial tweaking of a particular ingredient, resulting in a "new" drug that adds no clinical value, increases costs, and extends patent protection.

Combination drugs: Drugs that combine two active ingredients into one dose, resulting in costs substantially higher than the cost of the individual ingredients.

Prescription drugs offered when over-the-counter alternatives are available and equally effective.

Brand-name or higher-priced generic drugs offered when lower-cost generics are available.

Source: Reducing Wasteful Spending in Employers' Pharmacy Benefit Plans

Perspectives on Biosimilar Use

While biosimilars have enormous potential for altering the trend on specialty drugs, it's a confusing and murky marketplace because they are so new. According to FDA Commissioner, Scott Gottlieb, MD, "The public health benefits of a robust, competitive market for biosimilars are impossible for us to ignore. Strong market incentives are critical to future biosimilar development in the same way these incentives are key for the development of innovator drugs and biologics. In a few of the Roundtables, employers discussed the topic of biosimilars. A number of employers say they support using biosimilars to reduce drug spending; however, they face challenges. First, the FDA has not yet issued its final rules on biosimilar interchangeability, which would allow pharmacists to automatically substitute a biosimilar, if appropriate. Until that happens, employers may only use these medications if a physician issues a prior authorization and if the health plan approves it. Second, employers find it challenging to integrate biosimilars into their formulary contracts with PBMs because there is little rebate incentive for them to recommend these medications. Despite increasing employer interest in biosimilars, there is a high need for education about the best way to incorporate them into prescription drug benefits. In fact, at one roundtable, ***no*** employer knew whether their plans covered biosimilars.

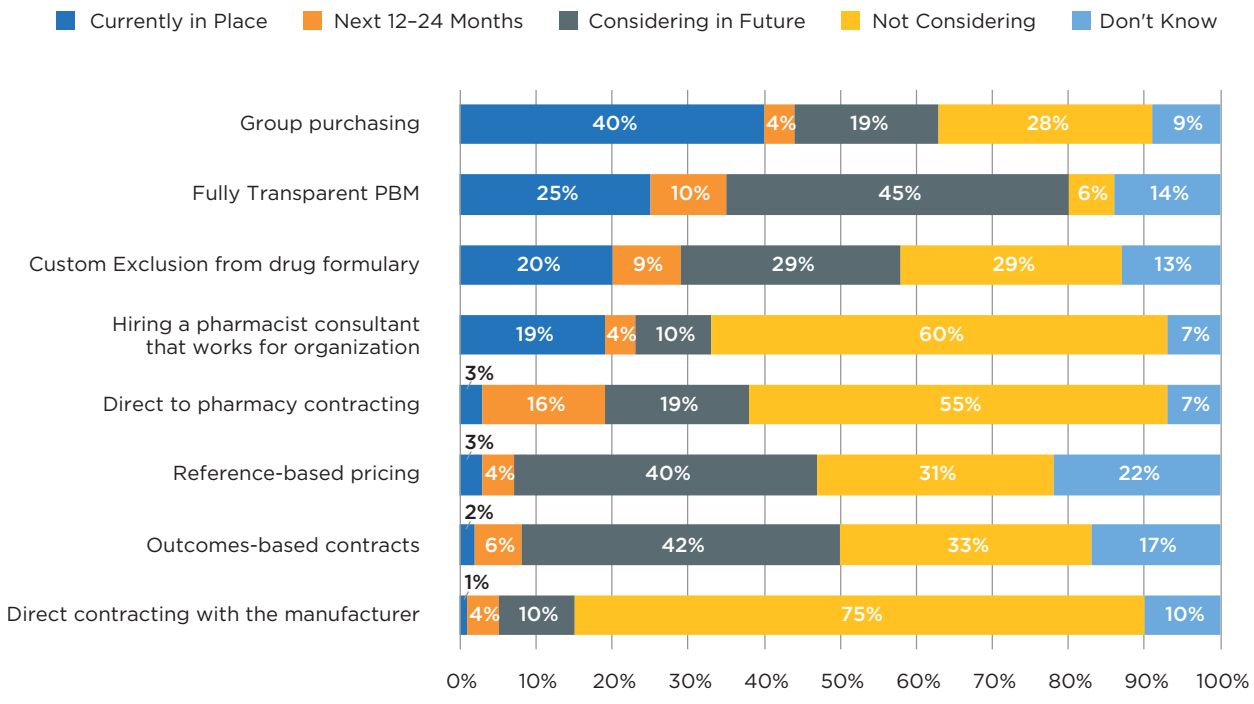
Understanding what biosimilars are and their potential benefits should be an important consideration especially due to the additional cost savings. To learn more about the value of biosimilars and determine ways to improve value, the National Alliance recently launched an Action Brief on this topic.

Recommendations & Action Steps for Employers

Addressing High Costs Drugs, Benefit Design & Formulary Management

- **Determine how to eliminate rebates and encourage price transparency from PBMs and pharmaceutical manufacturers.** Employers are seeking strict restrictions on the use and availability of rebates to focus the conversation of high drug spending where it should be—identifying ways to better manage drug prices based on tranparent pricing .
- **Restrict direct-to-consumer advertising.** A majority of employers believe the influence of advertising leads to consumers wanting expensive, and often less effective, brands. Employers need comparative effectiveness information so they can educate employees about drug value.
- **Invest in employee preventive care and chronic condition management programs.** Employers expect health plans to have ***effective*** preventive care and chronic condition management programs to improve outcomes and better manage costs. For example, health navigator programs help employees with chronic conditions manage their health and monitor pharmacy and medical claims. They can also reduce waste and use of medications for non- or premedical issues.
- **Implement integrated site-of-care solutions for specialty medications.** These solutions integrate a company's medical and pharmacy benefits to reduce waste—and costs. Ensuring patients receive

Strategies to Address High Cost Drugs



care in the most appropriate setting lowers costs dramatically without compromising quality or satisfaction. It's common for costs to at least *double* if drugs are administered in a hospital instead of at a physician's office, infusion center, or patient home.*

* Source: PwC Health Research Institute Analysis based on 2012 Truven Claims data

- **Require PBMs to implement drug waste reduction strategies.** Strategies include timing restrictions on patient refills or making dosage adjustments and restricting how soon prescriptions can be refilled. Restrictions prevent patients from refilling their prescriptions before 67%–75% of the prescription has been used and can lead to removing wasteful drugs from the formulary . Employers should work with health plans, PBMs, and consultants to develop customized strategies to ensure savings and quality for employers and employees.
- **Hold PBMs accountable for building cost-saving strategies into drug formularies.** Many employers believe PBMs have become too reliant on rebates as a cost mitigation strategy—rather than evidence-based cost-reduction strategies .
- **Address overall impact (direct and indirect costs).** Conversations about the unsustainability of high drug costs shouldn't just be about the cost of the drug itself. Other factors include the cost to the employee (e.g., unaffordable costs that lead to stress, anxiety, medical debt, and even bankruptcy), the cost to the employer (e.g., employee performance and presenteeism), impact on other healthcare costs and other important factors.
- **Support collaboration and information sharing across employers and coalitions.** Employers discussed several collaborative ideas to support one another in designing evidence-based formularies such as sharing formulary information if contacts allow and holding meetings for employers of all types and sizes to share best practices. Driving toward an independent national formulary is another idea employers say is worth investigating.
- **Allow drug importation.** Employers have differing opinions about whether US policy should be changed to allow prescription drug importation. Those interested in the idea believe it could help reduce drug prices through increased competition. Those opposed say time would be better spent focusing on strategies to reduce drug prices, citing the onerous infrastructure investment needed to ensure safety and quality standards.
- **Take control of drug coverage decisions.** Employers need to be reestablish control and work with health plans and PBMs to develop customized formularies. Decisions should be data-driven and involve in-depth analysis to determine which drugs should be included—and eliminated. A resource from the Pacific Business Group on Health, Reducing Wasteful Spending in Employer's Pharmacy Benefit Plans, is an excellent resource.
- **Help employers on common source of relevant value comparison on prescription drugs** (e.g., through use of value frameworks and tools).
- **Demand diagnosis codes on all pharmacy claims.** This may include having independent third-party audits for PBMs and medical drug management, including contracts and specialty drugs.
- **Identify niche consultants** to negotiate state-of-the-art contracts that align with employer interests (e.g., better contract incentive alignment, more flexible contracts with fewer loopholes).
- **Choose an objective data warehouse and analytic firm.** Identify opportunities, set priorities, and evaluate effectiveness—ideally with other employers—to establish a community data asset.
- **Advocate for widespread adoption of comparative drug research.** Employers want comparative effectiveness and cost analyses (e.g., PCORI and ICER are early models). Either keep PBMs and health plans accountable to use such research in formulary development or use research independently to develop custom formularies.

- **Define and implement value-based approaches.** Continuously address high cost drugs and eliminate low-value drugs.

Carve-out specialty pharmacy. Negotiate for cost-plus pricing to create price transparency. Determine fees for administering drugs, which will vary based on the need to monitor patient response to certain drugs.

Take advantage of options as appropriate. Examples include specialty drugs via medical channel to run through specialty pharmacy and direct infusions at home or infusion center.

Patient efficacy. Negotiate prices for specialty drugs through health plans based on how well the drug works for specific patients. Best results for this approach may be with extremely high-cost drugs (e.g., orphan drugs) that are coming to market.

Developing a value-based drug formulary—important employer considerations:

- **Use clinical research and evidence to make formulary decisions.** Employers expect drug formularies to be based on the best and most-recent clinical research available by engaging consultants, experts, providers, and employees in helping them design evidence-based formularies to include in RFPs and contracts. This includes research on medication effectiveness, patient adherence, drug safety, return on investment, and health prevention and management.
- **Mitigate employee disruption.** When evidence warrants change to a formulary, employers say they work hard to mitigate employee disruption. This includes providing early notification and education to employees about changes or learning from other companies before making significant changes.
- **Rely on drug safety research to determine drug exclusions.** Employers say they follow the drug safety advice of the FDA, PBMs, and other experts when determining which drugs (both brand and generics) to exclude from formularies.
- **Consider employer-specific economics.** It's important to understand and consider the broader context of employer health and wellbeing including impact on compliance, productivity, co-morbidities, and employer-of-choice values.

Ways Coalitions Can Provide Employers Support in Managing their Prescription Drug Spend

1. **Push for federal regulation of the industry**

- Drive for inclusion of diagnosis codes on all pharmacy claims.
- Help employers on common source of value comparison on pharmacy (use of value frameworks and comparison tools).
- Contact local and federal legislators so they understand employer challenges.
- Find experts who know how drugs are purchased inside and outside the US and educate employers on how they can purchase drugs outside of the US.

2. **Engage local resources such as:**

- Colleges of pharmacy, where available, to assist in formulating value strategies.
- Make formularies known to local prescribers so they understand adherence expectations.

3. **Continue to provide educational programs that:**

- Show how coalition members can approach health plans, PBMs, and other vendors with the same questions, requests for information, etc.
- Highlight pipeline and new drugs that may have a negative impact on plans.
- Describe how to use resources like drug cost comparisons and utilization management.
- Offer "pharmacy-focused" work groups with actionable items to address industry trends.
- Share success stories and insights into what other employers are doing.
- Highlight who the leaders/influencers are in drug cost management (meaning employers?)
- Educate on emerging trends (e.g., precision medicine, gene therapies).
- Share best practices when contracting for PBM services.
- Offer ways to work through the challenges of drug pricing and transparency.
- Benchmark information and share best practice contracting strategies.
- Highlight prior authorization and step therapy opportunities .

4. **Provide solutions, research and understanding to:**

- Partner with healthcare providers to minimize prescribing certain brand and specialty drugs when alternatives are available at a lower cost.
- Examine early experiences of copay accumulator adjustment programs and educate employers about challenges and successes.

5. **Promote group purchasing practices.**

- There is power in numbers, so if employers work together, change can be accelerated.

Recommendations on Health Policy

The Lower Health Care Costs Act

To support employers in delivering better healthcare outcomes and better define value at a lower cost the U.S. Senate Committee on Health, Education, Labor, and Pensions (HELP) released draft legislation on the Lower Health Care Cost Act in May of 2019. It includes the following three key components that address PBM contracting inefficiencies for self-insured employers:

- PBMs would be mandated to report to employers drug-specific and aggregated pricing, utilization and spending details for all drugs they contract for on behalf of employers.
- "Spread pricing" by PBMs—the difference between what PBMs pay pharmacies on behalf of plan sponsors and what PBMs are reimbursed by the plan sponsor—would be prohibited. This also encourages PBMs to prioritize higher-cost drugs to allow for a larger spread.

PBMs would be mandated to pass through all price concessions (including rebates, fees, alternative discounts, and other remunerations received from drug companies) to employers. While the proposal would encourage the utilization of low-cost drugs and thus benefit patients financially, other measures should be considered to contain patients' cost-sharing.

If implemented, the Lower Health Care Costs Act would fundamentally change PBM revenue structure. Large PBMs rely heavily on rebates/fee retention and spread pricing to generate higher revenue. If these revenue sources were prohibited, PBMs would likely increase other fees such as administrative service fees. This legislation provides a promising avenue to help employers overcome major barriers such as misaligned PBM incentives, and the disadvantage employers have faced for a long time—the lack of objective information. This has hindered employers from developing contracts that focus on the needs of the employer, rather than the needs of the PBM. The bill is intended to empower self-insured employers to better understand benefit design options, more effectively evaluate drug utilization, and better understand the performance of their PBMs. The legislation could force PBMs to compete on a different level in the healthcare system and influence PBMs and drug companies to provide high-value services and products at a lower cost. (To learn more about this legislation, view: Policy Options to Help Self-Insured Employers Improve PBM Contracting Efficiency, *Health Affairs*, May 2019.)

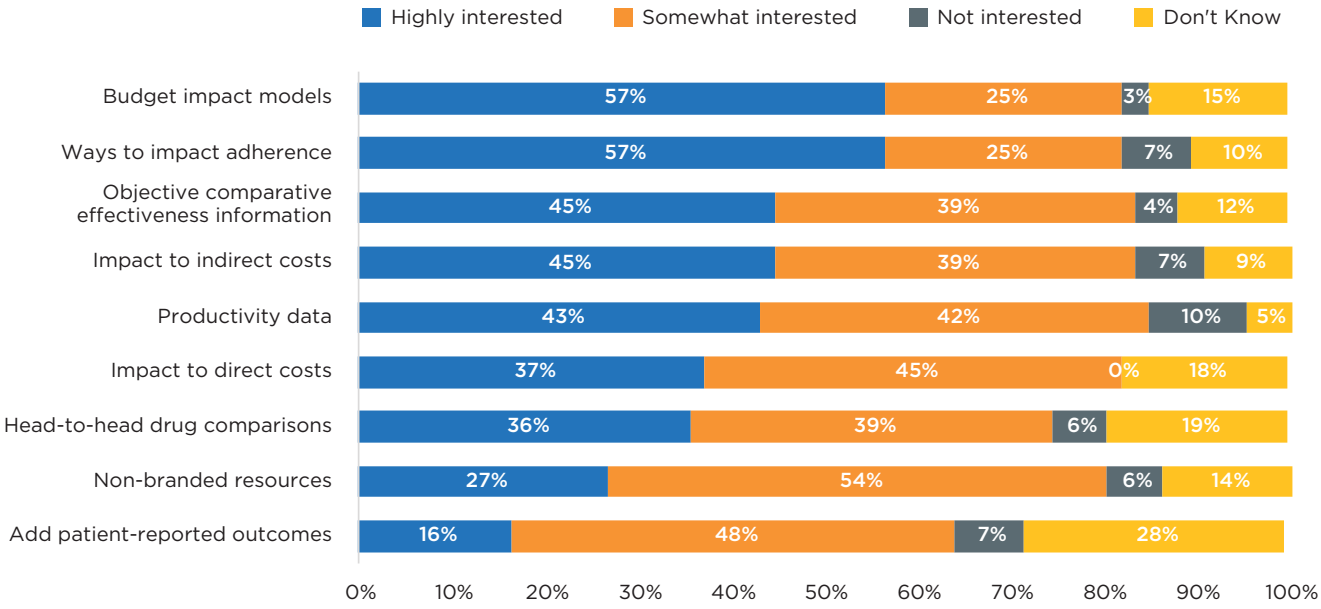
Since the implementation of the roundtables, the National Alliance has joined together with the Pacific Business Group on Health and ERIC to launch Employers Rx—a coalition of employers united to tackle one of the biggest challenges in healthcare—driving down the cost of prescription drugs. We believe the best way to bring down the cost is to work with policymakers and stakeholders to inject more competition, transparency and value into the healthcare system.

Combine the government's role both as legislator and healthcare purchaser through programs such as Medicare and Medicaid with the power of employers who purchase healthcare for over 153 million people, and we have a shot at taking on high drug costs.
https://employersrx.org/about/

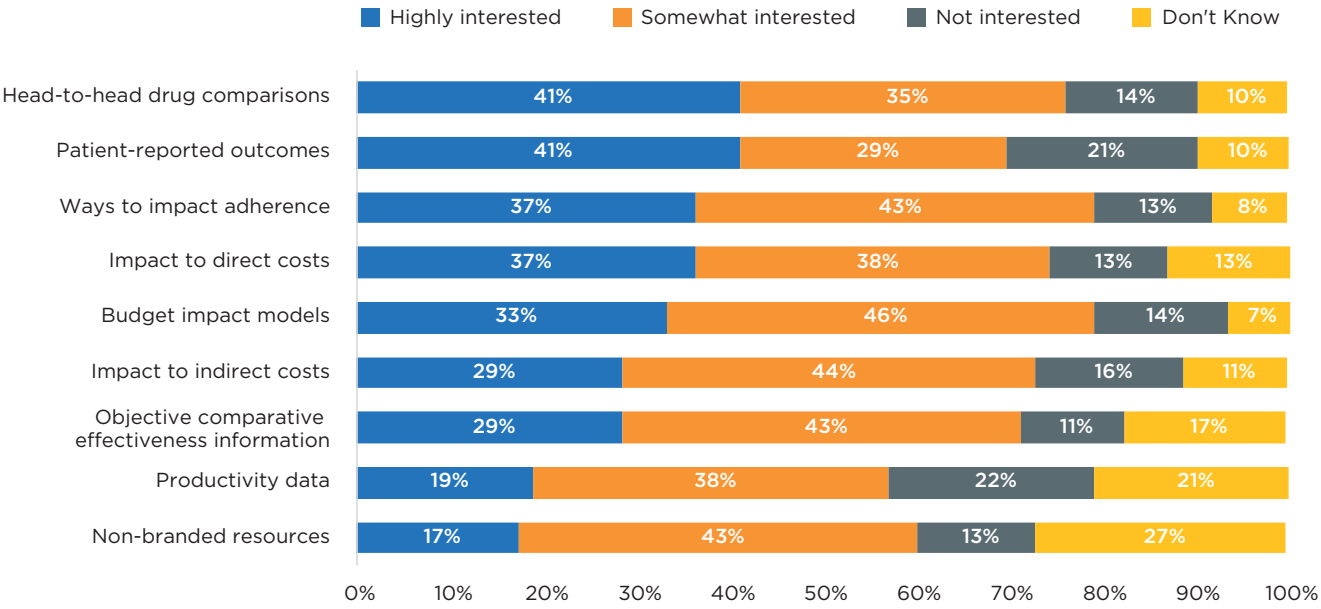
Employers' Prescription for Affordable Drugs

Recommendations for Future Employer-focused Research

Non-funded/Sponsored Research

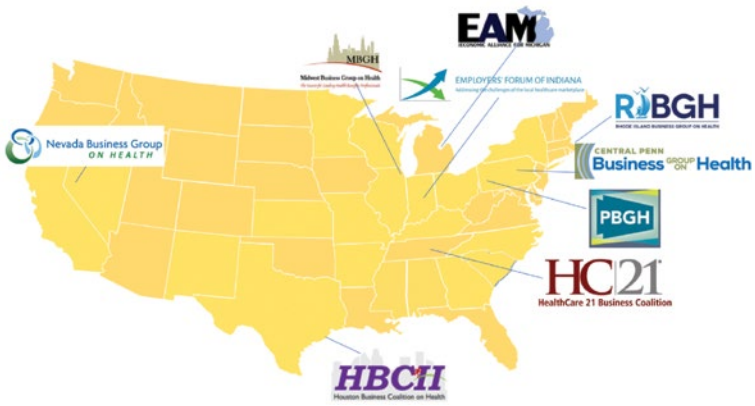


Pharma Sponsored/Funded Research



Project Background

In Spring 2019, the National Alliance of Healthcare Purchaser Coalitions (National Alliance) launched a national project that brought together nine of their regional coalition members from across the country to conduct employer roundtables to open a dialogue about current perspectives and attitudes on drug pricing, contracting issues, benefit design, and formulary decisions, to define better value for healthcare strategies. The effort facilitated the defining of key trends and issues, a set of recommendations for employers, and helped coalitions determine where to best provide support for their members over the next 2–5 years.



The roundtables brought together over 80 employers of different sizes and industries and each session provided a forum for education in different areas of drug management along with robust dialogue among participants.

Coalitions Awardees

Central Penn Business Group on Health

Diane Hess, Executive Director, Lancaster, PA
www.cpbgh.org

Their mission is to promote continuous improvement in the quality and cost of healthcare for member companies, their employees, and covered dependents. To accomplish this, the organization focuses on three core strategies: Collaboration and partnership, education and advocacy, and products and services. CPBGH uses these strategies to bring together all healthcare stakeholders in their region to discuss pressing issues and trends. Their partnership with Innovu, a data analytics company based in Pittsburgh, has allowed them to aggregate healthcare data on over 100,000 covered lives in the Central Penn region. CPBGH shares their findings with members and the community semi-annually, along with periodic topical releases. These findings have affected the way benefits are offered in their region, leading to more visibility for CPBGH and to amplify the employer voice with our provider partners.

Economic Alliance for Michigan

Bret Jackson, President, Novi, MI
www.eamonline.org

The Economic Alliance for Michigan (EAM) is focused on curbing healthcare costs through ways that improve patient safety, reduce waste, and improve quality of care. In 2019, EAM has concentrated on safer maternal and newborn health, deep dives into cellular therapy, prescription drug policies, prescription drug costs, prescription drug supply chain, surprise billing, hospital transparency, and oncology. In addition to their Annual Conference held in May that focused on value purchasing, they held a Pharmacy Roundtable, an Oncology Symposium, and various in-person and webinar-based educational opportunities for members.

Employer's Forum of Indiana

Gloria Sachdev, President and CEO, Indianapolis, IN
www.employersforumindiana.org

The Forum is an employer-led healthcare coalition of employers, physicians, hospitals, health plans, public health officials, and other interested parties in Indiana. Their goal is to improve the value payers and patients receive for healthcare expenditures. In 2018, they developed an employer opioid toolkit and developed a novel value-based payment reform model with Anthem Corporate. In 2019, the Forum hosted a National Hospital Price Transparency Summit in March, and in May released the National Hospital Price Transparency study in conjunction with RAND Corporation with findings from 25 states and almost 1,600 hospitals. Recruitment is underway to expand this study for 2020. The Forum will continue to focus on efforts that address healthcare affordability, value-based payment models and benefit design, and opportunities to lower prescription medication costs.

HealthCare21 Business Coalition

Gaye Fortner, President & CEO, Knoxville, TN
www.hc21.org

HealthCare 21 Business Coalition (HC21) is an employer-led coalition of healthcare leaders and other stakeholders with the mission to create ONE VOICE to build a value-based healthcare market. The organization represents 60+ members with more than 500,000 covered lives in East and Middle Tennessee. In 2017, HC21 celebrated 20 years of service and continues to drive the change needed to improve the value of healthcare in their markets. The Nashville Employer Council was formed in 2018 to convene large employers who take an active role in collectively tackling industry pain points. The HC21 team is committed to building a value-based healthcare market by providing vital education to member organizations and the community; publishing and promoting data on safety, quality, and transparency; helping employers address the opioid crisis; and tackle specialty drugs with actionable results.

Houston Business Coalition on Health

Chris Skisak, Executive Director, Houston, TX
www.houstonbch.org

The nonprofit Houston Business Coalition on Health is the leading resource for Houston employers and their health services providers dedicated to providing health benefits at a sustainable cost while improving the quality and employee experience of their delivery through effective benefits design. With more than 70 members, HBCH represents 800,000 local and more than 2 million national employer-sponsored lives. Key areas of focus for the HBCH in 2019 include: (1) multi-stakeholder collaboration to advance the Triple Aim. (2) Payment reform initiatives and member participation in the RAND Corporation National Hospital Cost Transparency project(s), member participation in an accountable care organization (ACO) value initiative, and the National Alliance/Remedy Partners episodes of care initiative; (3) Quality improvement as a Regional Leader in the Houston market for The Leapfrog Group and participation in eValue8™ quality of health plan assessment, and (4) hosting employer-only roundtables on obesity, mental health, cancer care, pharmaceuticals, eValue8™, and accountable care organizations.

Midwest Business Group on Health

Cheryl Larson, President & CEO, Chicago, IL
www.mbgh.org

The Midwest Business Group on Health (MBGH) is one of the nation's leading business groups of over 120 mid-size and large self-insured public and private employers that provide health benefits to over 4 million people and spend more than $4.5 billion annually on healthcare benefits. MBGH hosts one of the leading employer health benefits conferences in the country, conducts educational programs on relevant healthcare topics, and conducts focused initiatives around key topics such as specialty drugs and diabetes management. In 2019, MBGH has offered topic-specific employer roundtables, continue research projects and related toolkits, and launch a new group purchasing offering.

Nevada Business Group on Health

Chris Syverson, CEO, Reno, NV
www.nvbgh.org

Nevada Business Group on Health (NVBGH) is a partnership between public and private sectors formed to provide quality and cost-effective healthcare for the mutual benefit of employers, employees and families. In the last couple of years, NVBGH provided education and initiated discussions with members and providers on the concept of advanced primary care. The organization renewed three hospital contracts, one dental, and one employee assistance program, with zero rate increase for 2019. Their recent Annual Conference brought Indy Car Racer Charlie Kimball in as a keynote presenter to share challenges of being a top athlete with Type 1 diabetes.

Pittsburgh Business Group on Health

Jessica Brooks, CEO/Executive Director, Pittsburgh, PA
www.pbghpa.org

The Pittsburgh Business Group on Health is a not-for-profit organization that empowers the business community to get the most value, access and quality in healthcare. In 2019, their key focus has been on member engagement to effectively attract and retain mid- and small-market employers with fewer than 1,000 employees. They have also addressed other market issues such as surprise billing, price transparency, prescription drug issues, and direct contracting for medical and prescription drugs.

Rhode Island Business Group on Health

Al Charbonneau, Executive Director, Narragansett, RI
www.ribgh.org

The Rhode Island Business Group on Health (RIBGH) is a member organization representing the voice of business in RI healthcare. In 2018, RIBGH focused on the following initiatives: Statewide roll out of Choosing Wisely®; representing business in all major healthcare reform initiatives in the state; calling for and using cost information to inform the community. RIBGH is the single source of granular cost data that answers the questions—what's deriving premiums and self-insured employers' costs. The organization also continued lobbying at the General Assembly and efforts to educate members on important issues such as hospital consolidation, surprise billing, and payment reform.

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The coalition awardees are all members of the **National Alliance of Healthcare Purchaser Coalitions** (National Alliance), the only nonprofit (501(c)6) purchaser-led organization in the country with a national and regional structure. The National Alliance and its members are a powerful force for change — representing more than 12,000 employers/purchasers and 45 million Americans, spending more than $300 billion annually on healthcare. The National Alliance provides diverse expertise and resources, serving as a leading voice in the employer community and representing its members on the national level. Through education, community collaboration, group purchasing, quality improvement initiatives, data analytics, and direct contracting programs, the National Alliance and its members organize the buying power of purchasers to promote and support safe, efficient, high-quality care.

In this changing environment, purchasers and coalitions can no longer afford to conduct business as usual. They are repositioning and empowering themselves and uniting to change the market. The National Alliance is advancing a thoughtful, collective agenda to help guide members and purchasers down a path that leverages best practices and identifies new opportunities aimed at reducing costs, eliminating inappropriate care and improving health outcomes.

Resources for Employers

- NPC Resource Guide for Healthcare Purchaser Coalitions and Employers
- Employer's Prescription for Affordable Drugs
- Minnesota Healthcare Action Group's Specialty Drug Employer Playbook
- Reducing Wasteful Spending in Employer's Pharmacy Benefit Plans
- Employer Toolkit on Specialty Drugs - Midwest Business Group on Health

The National Alliance acknowledges support by way of funding from Genentech, National Pharmaceutical Council and Pfizer.

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