

**University of Michigan
Benefits Office**

**2006 Prescription Drug Plan Annual Report
February 6, 2007**

Executive Summary

In CY2006 the University contracted its Prescription Drug Plan administration with SXC Health Solutions (SXC) and a separate mail order service with Walgreens Mail Service. Two major milestones were reached in CY2006: 1) substantial cost savings from improved drug pricing with SXC's transparent financial model and 2) creation of several unique drug therapy projects using SXC's claims processing system that allowed for increased flexibility and drug plan decision-making authority.

The implementation and roll-out with SXC initially required some coding adjustments. The change to Walgreens Mail Service created numerous issues such as new member enrollments and communications. The volume of member and provider disruption was extensive as mail order prescriptions were moved from the prior vendor. SXC's member services and clinical teams exceeded our expectations in the transition and within months the plan was operating effectively and drug plan staff turned their attention to new initiatives.

2006 Cost Savings

Significant savings were experienced due to market entry of many new generic medications and due to increased drug discounts negotiated with SXC Health Solutions. We are now using the SXC Maximum Allowable Cost (MAC) pricing for generic drugs at retail pharmacies and at Walgreens Mail Service. Anticipated financial analysis during the 2005 vendor selection process projected U-M drug and administrative savings under the SXC agreement at approximately \$1.5M. Additional analysis after 2006 plan year revealed the SXC total effective average wholesale price discount from pharmacies to U-M was 13.8% higher. This better discount resulted in as much as \$4.5M less drug plan cost than would have been realized had the University maintained the pricing model contracted with the prior vendor. The above calculations were accomplished by the University having pricing transparency and access to claims data.

The new transparent financial model with SXC provides for full disclosure of all supplier pricing arrangements with network pharmacies and pharmaceutical manufactures and the purchasing of clinical and administrative services on an a-la-cart, fee-for-service basis. This includes claims processing, member services, prior authorizations and rebate administration. Drug plan total administrative fees paid for 2006 were approximately \$820,000. Rebates invoiced for 2006 by SXC are estimated at \$2M in future payments. As generics annually enter the market, allowing for lower plan and member cost, total rebates for branded drugs are expected to decline.

Generic Opportunities for Cost Savings

Looking forward, consumers will have more generics to choose from as older brand drugs lose patent protection. Generics save money for the plan and members, as members selecting generic drugs receive the lowest copays. It is estimated that for each 1% increase in generic drug utilization rate (GDR) the drug plan reduces cost 1%, about \$466,000 in plan savings. GDR increased 4.35% during 2006 which may have resulted in avoiding \$2M in additional drug plan cost. Increasing the GDR will continue to be a priority in 2007.

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U-M drug plan cost (drug claims), member share and average utilization

For 2006, 78% of eligible members used the drug plan and 870,495 total prescriptions were dispensed. Total drug plan cost was \$70.1M. The average member used 10.89 prescriptions per year. Overall, in 2006 the University paid \$730.31 per plan member per year (up 3.6%) while members paid \$147.05 per member per year (a 2.18% increase over 2005). Active employees showed little change in the average number of prescriptions purchased, average 8.62 per member, while retiree drug use grew 3.87% to an average of 27.06 prescriptions per member. Retiree drug patterns will be studied in 2007.

Total drug spending increased 4.5% over 2005, while U-M plan cost (\$58.3M) increased 3.63% per member per year – estimated at less than half the national employer drug plan annual trend rate, according to various surveys. Drug plan members paid \$11.7M in out-of-pocket cost, a 2.10% increase per member per year over 2005. Plan members contributions continued to decline to 16.7% contributed toward the total drug spending in 2006 compared to 17% in 2005. The average member out-of-pocket cost per prescription (\$13.50) rose only 2.9% in 2006.

In 2006, 34 members reached the annual out-of-pocket (OOP) maximum; of those, four would not have reached the annual maximum if they had used lower-cost generics. With the implementation of several member cost savings initiatives, the profile of those member who reached the \$2,500 OOP maximum has changed from predominately 20% co-insurance members with a high cost injectable or a diabetic member to 20% co-insurance members with a high cost oral cancer medication. With the elimination of the 20% co-insurance plan we anticipate a dramatic decrease in 2007 in the number of members reaching the OOP.

Large supplies, up to 90 days, were used by 16.67% of members, about equal at mail and retail pharmacies. Walgreens Mail Service pharmacy processed 8.79% of prescriptions in 2006. The top three drug classes by cost in 2006 were: cholesterol-lowering medications (statins), anti-acid (proton pump inhibitor) medications, and anti-depressant medications. Statin medication use is growing steadily each year, anti-depressant medication is one of the highest used drug classes, and anti-acid medications will see drug class changes in 2007.

The most significant change was seen in the Tier 1 generic dispensing rate (GDR). By year-end, the U-M drug plan had a GDR of nearly 60%; a 4.3% increase over the 2005 average. U-M GDR exceeds the rate reported by the book-of-business for the three top pharmacy benefit management companies by 3 to 5%. Tier 3 non-preferred brand medication use continues at about 11% of all prescriptions.

While the U-M drug plan experienced proportional savings in 2006, pharmaceutical companies continue to raise the cost of medications. Average prescription cost rose 4.09% in 2006 to \$80.56. Average ingredient cost for single-source brand medications rose by 15.4% to an average of \$156.40 per prescription. In contrast, the average U-M drug plan generic prescription price dropped nearly 11% to \$24.08, which is attributable to the SXC MAC generic pricing list. The percentage of claims paid under SXC's MAC price was 10.4% better than the previous vendor, which contributed significant savings to the total U-M plan cost. In January 2006 the U-M plan saw an immediate drop in average prescription ingredient cost paid for a 30-day supply, from \$68 under the prior vendor to \$62 under SXC.

Additional savings with the SXC contract included eliminating duplicate ID card cost seen with the previous vendor, and about \$50,000 less in appeal cost due to improved clinical interventions by the SXC staff.

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Unique Drug Therapy Projects Realize Cost Savings for U-M and Members

Pill-splitting: Effective January 1, 2006 drug plan participants were offered a voluntary pill-splitting program. The program was supported by 2005 research conducted at the College of Pharmacy showing that plan participants who split “statin” (cholesterol-lowering) medication pills did so in a safe manner and that pill-splitting did not have an adverse effect on the person’s health or medical status.

In 2006, the drug plan had 622 members prescribed to begin pill-splitting for a total cost savings of \$195,681 to the University and \$25,455 savings to member copays. U-M paid \$633 in 2006 to provide pill splitters free to members. The number of active and retiree members who pill split were about equal. Of all plan members taking a ‘statin’ medication, 19.8% of active employees are pill-splitting and 31.4% of retirees are pill-splitting. More pill-splitting prescriptions were written by non-UM physicians, with average of \$93.46 in plan savings per pill-splitting prescription.

340B Pricing: A cost sharing arrangement was made with UMHHC Department of Pharmacy to capitalize on their qualification for lower pricing under the federal guidelines for public health service (also known as 340B). The U-M program began in 2005 to target high-cost and low volume specialty injectable medications. For 2006, \$512,080 in total University savings occurred under the 340B pricing, approximately \$668 per prescription. 98 members benefited from eliminating copays on these medications. The program will be expanded in 2007 to include additional specialty medications.

DAW1 Generic Incentive Penalty: The drug plan sent letters to 147 members alerting them that as of May 1, 2007, future use of their brand medication would result in a generic penalty, as an equivalent generic was available and preferred. The letter indicated the member would pay the copay plus the cost difference between the brand and generic drugs. Within six weeks, 93 members switched to a generic medication and 17 members were provided penalty relief based on submitted medical evidence. Total plan savings were \$15,000 for the six-week period, or a projected annual \$130,000 had the members maintained their brand drug preference. Savings from this program will continue to increase as brand patents expire and approved generic drugs compete with older brand medications for market share.

“Smart PA” Prior Authorization: In 2006, the drug plan added prior authorization (PA) to several new drug classes and revised criteria to several existing drug classes. 211 medications have PA criteria. Over 4,706 PA requests were completed by SXC in 2006, a 12.85% increase over 2005 requests. The overall PA approval rate was 93.03%, an increase from the 2005 rate of 83.91%. Drug plan staff collaborated with SXC, leveraging SXC’s claim processing technology to design a Smart Prior Authorization program. The “Smart PA” employs a real-time contingent therapy module which reviews a member’s prescription claim history and applies clinically-appropriate protocols at the point-of-sale. When the member’s claim history fulfills the clinical protocols, a Smart PA allows the member to receive their medication without the disruption of the doctor having to provide PA information. As a result of the “Smart PA”, drug classes with contingent therapy saw a 17.04% reduction in the volume of PA requests in 2006 (total 1080 in 2005 versus 896 in 2006) resulting in administrative cost savings to the drug plan.

Special Strategic and Planning Initiatives

In 2006 the Benefits Office and the University drug plan committees identified strategic goals in the areas of quality improvements and opportunities for cost savings. These resulted in new initiatives where University faculty and staff expertise was utilized and supported through additional administrative funding.

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CMUPE White Papers: The Center for Medication Use, Policy and Economics (CMUPE) was funded to study three plan priorities: 1) Prescription Drug Co-Pays 2) Specialty Drugs, and 3) Prescribing Practices on Non-University Physicians. Each will provide national benchmarking and recommendation on strategic directions.

MHCI “Focus on Diabetes”: The Michigan Healthy Communities Initiatives (MHCI) coordinated a benefit-based copay study with 2,000 U-M diabetics enrolled in the U-M drug plan. The study will evaluate the impact of reduced patient financial liability on patient drug adherence and compliance. Diabetic members receive reduced or eliminated copays for several different drug classes. SXC supported the significant computer system coding required to provide the evaluation data. The Focus on Diabetes program added approximately \$197,785 in additional plan cost in 2006 directly due to member copay relief, with 2042 members using the benefits for an average savings per member of \$96.86 for 6 months.

Customer Satisfaction Survey: The College of Pharmacy conducted the annual customer satisfaction survey to assess member views and satisfaction levels on the drug plan in terms of plan vendors, pharmacies (retail and mail) and potential plan changes. The results are due spring 2007 and will assist with future planning and service improvements.

Rebate Audit: An audit of the rebates provided through the prior vendor, Caremark, was conducted. The variance on error was minor. No recovery occurred as the over and underpayment balance was minimal. Caremark was unable to explain its rebate invoicing discrepancies to the auditors.

Medicare Part-D Employer Subsidy: 2006 U-M began the process to receive the employer subsidy for eligible retiree and Medicare eligible drug claims from the Center for Medicare Services (CMS). An extensive data analysis, subject to audit, was developed by Benefits Office system personnel and drug plan staff, supported by claims data provided by SXC. CMS paid U-M \$1.7 M for the period January 1, 2006 through June 20, 2006. Subsidy funds will be used to help mitigate future plan cost increases.

Future Initiatives

Major projects planned by the drug plan for 2007 include:

- 1) Implementing SXC’s multi-ingredient compounded medication claims processing with a goal of obtaining improved information and more accurate claim payment.
- 2) Implementing the Drug Optimization Therapy Program, “MHealthy: Focus on Medicines,” in conjunction with the College of Pharmacy.
- 3) Preparing to transfer student GradCare members from M-CARE drug plan administration to the U-M/SXC prescription drug plan in 2008.
- 4) Exploring additional cost savings options with our health system and electronic “e-prescribing” opportunities with UMHHC.
- 5) Exploring service adjustments based on 2006 customer satisfaction survey results.

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