Date: March 3, 2025

Senator Tou Xiong
Senate State and Local Government Committee
3203 Minnesota Senate Building
Saint Paul, MN 55155

Representative Jim Nash
State Government Committee
2nd Floor, Centennial Office Building
Saint Paul, MN 55155

Senator Andrew Lang
Senate State and Local Government Committee
2205 Minnesota State Building
Saint Paul, MN 55155

Representative Ginny Klevorn
State Government Committee
5th Floor, Centennial Office Building
Saint Paul, MN 55155

Subject: Pharmacy Benefit Manager Reverse Auction Report (mandated in M.S. 43A.231 subd. 5)

Members of the Minnesota Legislature:

This is the report on the pharmacy benefit manager (PBM) reverse auction procurement conducted in 2022, under Minnesota Statute 43A.231, to obtain contracted PBM services for Minnesota Management and Budget (MMB).

Background

Under M.S. 43A.231, MMB was required to conduct a PBM reverse auction for the upcoming contract period. That procurement took place in 2022. M.S. 43A.231, subdivision 5, further requires MMB to produce a legislative report on the outcome of that reverse auction. MMB partnered with our contracted actuarial consultant firm, Deloitte Consulting LLP, to assist with the attached report.

Per the statutory requirement, we are submitting this report today to the Legislative Auditor and to the chairs and ranking minority members of the committees in the Senate and House of Representatives with jurisdiction over state government finance and policy. The statute further requires that the Legislative Auditor submit a subsequent report to MMB and to legislative leaders on whether MMB's report (meaning, this attached report) accurately performs the comparison required by subdivision 5a. For ease of reference, Appendix C of this report details all of the statutorily required parameters and MMB's compliance with each of them.

Due to the evaluative parameters required by statute, including the reporting timeline itself, the explanatory power of this report is limited in a number of ways. Our findings are displayed in the Executive Summary and throughout the relevant sections of the report.

To aid the reader, we are providing this cover letter with important summary context around pharmacy benefit procurement, contracting, and spending, as well as with explanations on which conclusions are possible to draw

from our recent experience and what is not possible to reasonably conclude. From the data examined over the course of producing this report, we can conclude with certainty that there is value in a regular competitive bid process for contracts such as with a pharmacy benefits vendor. It is not possible, however, to reasonably conclude specific findings about the reverse auction methodology in particular relative to other procurement methodologies.

Key takeaways from the report

1. ***The comparison required in this evaluation is not between actual costs and what MMB pharmacy costs would have been under a different competitive bid process. Rather, it is between actual costs and what MMB pharmacy costs would have been absent any competitive bid process entirely.***

    - The statute requires that the evaluation compare actual 2023-2024 costs under the new PBM contract versus hypothetical 2023-2024 costs under the 2022 PBM contract (prior to procurement).
    - The only way that the 2022 contract would ever carry forward unchanged is if MMB did not go through a competitive bid process at all as required under state procurement rules.
    - Under regular competitive bids, which we conduct for all of our contracted insurance-related products and services, MMB is empowered to leverage market competition to negotiate more favorable terms in the first year of a new contract relative to the last year of a prior contract.

2. ***Rebate pass-through obligations on the part of MMB's PBM did not change across the two contract periods.***

    - One of the most important provisions in a contract between a plan sponsor and PBM is the proportion of rebates paid by drug manufacturers to the PBM which are owed to the plan sponsor. This is called rebate pass-through.
    - MMB has had 100% rebate pass-through in our current and past PBM contracts, meaning the proportion of rebates owed to MMB was already maxed out at the highest possible contractual level.
    - Under 100% rebate pass-through, the actual dollar amount of rebates received by the plan sponsor can still vary based on a number of factors that are independent of the plan sponsor-PBM contract and the procurement methodology used in the competitive bid process, such as the following: changes in the PBM's contracts with drug manufacturers; utilization changes in rebate-eligible drugs under the plan sponsor's contracted formulary; and changes made to the formulary offering which may result in changes to rebate value.

3. ***"Minimum rebate guarantees" in MMB's recent PBM contracts have not resulted in actual cost savings, and thus must not be included in an evaluation that requires the inclusion of actual costs.***

    - A "minimum rebate guarantee" is a provision in many plan sponsor-PBM contracts allowing for additional payment to the plan sponsor if the contracted PBM's total amount of rebates passed through to the plan sponsor do not reach a certain threshold. In that way, a minimum rebate guarantee is like a safety net.
    - In each contract year, MMB's contracted PBM has exceeded the specified minimum rebate guarantee threshold, after accounting for all completed rebate payments. Thus, the minimum rebate guarantee contract provision *has never triggered for MMB*.

- The evaluation section of the reverse auction statute requires that this report use "actual" costs. Because minimum rebate guarantees have not triggered in either contract period, they have had no influence on actual costs, and thus they do not represent actual savings for this evaluation.
- Any improvements in minimum rebate guarantees over the years have meant increased *value* to MMB in our PBM contracts (it's nice to have a safety net in case one needs it), but they have never produced actual *savings* (*t*he safety net has never been necessary).

4. ***The actual spending under MMB's current PBM contract is 2-3% lower than spending would have been under the prior contract (meaning if no competitive bid process had occurred).***

- Those percentages translate to approximately $7.2 million in 2023 and $8.9 million in 2024.
- These figures differ from the prospective savings estimates released at the time of the reverse auction because those previous estimates counted improvements in minimum rebate guarantees toward the savings total. As discussed above, however, minimum rebate guarantees have historically not been triggered and have not led to a direct decrease or savings in net costs incurred by MMB; therefore, the methodology utilized in this analysis does not incorporate them.

5. ***At the same time, SEGIP actual net pharmacy spending increased significantly from 2022 to 2023.***

- Looking at actual spending in the last year of the old contract compared to the first year of the new contract (rather than the hypothetical scenario required by statute and used elsewhere in this report), SEGIP's pharmacy spending increased by over 13%.
- Thus, defining savings as the difference between one year's net pharmacy spending relative to the prior year's, our most recent procurement did not actually produce any savings for MMB.
- As described elsewhere in this report, pharmacy spending can increase for reasons that are largely out of the control of a plan sponsor or even a PBM.
- At the same time, following MMB's previous PBM procurement in 2017, using the "best value" RFP method, SEGIP net pharmacy spending actually <u>decreased</u> relative to the year prior – dropping by over 4%.
- Those actual year-over-year savings were not solely attributable to the specific procurement methodology used at the time, but they do demonstrate the value of a regular competitive bid process. Plan sponsors like MMB can use a number of different approaches to achieve value in our procurements.

6. ***Taking all of the above points together, is not possible to conclude that the reverse auction has produced savings for MMB.***

- As stated above, this report compares what SEGIP pharmacy costs have been in the past two years against what they would have been in each of those years absent any competitive bid.
- A more appropriate comparison would have been the result of the same procurement under a "best value" RFP method, used elsewhere by MMB, but there is no way to isolate any unique impact of a reverse auction relative to a different type of procurement without simultaneously running both procurement methodologies side by side.

In all of our vendor contracting, MMB is committed to achieving the best value for SEGIP, its members, and the State of Minnesota in general. No matter the procurement methodology used, we work closely with our

partners to make strategic purchasing choices that thoughtfully balance the many considerations and tradeoffs in the insurance benefits space.

Thank you for the opportunity to share this report with you.

Erin Campbell

Commissioner

Equal Opportunity Employer

Pharmacy Benefit Manager Reverse Auction Report

Minnesota Statutes 43A.231 Subdivision 5

03/03/2025

Section 43A.231, Subdivision 5
Pharmacy Benefit Manager Reverse Auction Report

Minnesota Management and Budget
State Employee Group Insurance Program
400 Centennial Office Building 658 Cedar Street,
St. Paul, MN 55155
Galen.Benshoof@state.mn.us

As requested by Minnesota Statute 3.197: This report cost $284,085 to prepare, including staff time, printing and consulting expenses.

Upon request, this material will be made available in an alternative format such as large print, Braille or audio recording. Printed on recycled paper.

Table of Contents

EXECUTIVE SUMMARY

Background

Pursuant to M.S. 43A.231, the Minnesota Department of Management and Budget (MMB) conducted a PBM contract procurement method known as a "reverse auction" to select a pharmacy benefit manager (PBM) vendor. As a result of the reverse auction, CVS Caremark was selected as the PBM vendor and entered into a new contract with MMB effective January 1st, 2023. Prior to the reverse auction method, MMB used the "best-value" request for proposal (RFP) process for PBM services. Both the reverse auction and best-value RFP method have recently been used in other states, with results of both procurement processes estimated to generate prescription drug cost savings, as identified through publicly available information. However, each of the state-specific savings estimates were projections of future years; as of the date of this report, no other retrospective analyses could be found that use actual claims experience to determine whether savings were achieved, which is the comparison method utilized in this report.

The reverse auction statute (subd. 5) also requires that MMB prepare a report that compares 1) the actual drug costs from 2023 to 2024 under the contract with CVS Caremark and 2) a projection of what drug costs would have been for those same two years under the PBM contract in effect from 2018 to 2022. This report summarizes that comparative analysis, which compares the prescription drug costs associated with contracts after the reverse auction (i.e., calendar years 2023 and 2024) against an estimate of what prescription drug costs would have been in those same years under the previous PBM contract (using the calendar year 2022 contract terms).

Approach

To perform this comparative analysis and assess value between contracts, a claim-line level underwriting process utilizing MMB's actual pharmacy claims from 2023 and 2024 was performed, which accounts for differences in definitions and pricing parameters to adjust the experience to appropriately compare across the contracts. This approach utilizes actual claims experience and financial information present on the claim-line level detail and applies the financial provisions of the contracts to this claim-line level separately. Many of the financial provisions within these contracts are applied in aggregate for certain related types of claims (e.g., where dispensed, and drug type such as specialty drugs, brand drugs, or generic drugs) over a duration of time (e.g., one year).

There are a variety of factors which influence how individual transactions are processed, and as a result priced, which are not specifically defined within the PBM contract but can be observed within the claim-line level data and only guaranteed in aggregate across many related claims. This can create differences between actual historical results observed at the claim-line level and the underwriting process utilized to compare contractual value across contracts; however, based on the level of information available to perform analysis and interpretation of the legislation, the underwriting approach utilized is appropriate.

Considering this, the figures represented within this report may not tie specifically to other sources or reports for related information over the same period of time.

To complete the underwriting analysis, both the previous contract and current contract terms were applied against the claims experience and membership data from calendar years 2023 to 2024 to estimate the prescription drug costs under each contract. Financial provisions for drug ingredient cost guarantees, dispensing fees, and administrative fees were considered within the analysis. While there are other financial provisions within the contracts (e.g., ancillary fees), they were not considered for the purposes of this analysis as they were determined to be immaterial in aggregate relative to financial provisions selected; incorporating them would have significantly increased the data elements required and complexity to complete the analysis.

Each contract also contains Minimum Rebate Guarantees (MRGs) which establish the minimum amount of drug rebates that the PBM must pass through to MMB. CVS Caremark is contractually required to pass through 100% of the manufacturer-derived revenue, including drug rebates; therefore, if actual experience exceeds the guarantee, MMB is entitled to receive 100% of the manufacturer-derived revenue. Historically, CVS Caremark has exceeded the Minimum Rebate Guarantees and the actual rebates that MMB has received, relative to actual drug cost, has remained proportionally similar from 2021 to 2023 (note, at the time of the report complete information for 2024 was not available).

Minimum Rebate Guarantees were not used in the cost estimation because they have not recently been triggered in MMB's contracts with CVS Caremark. While utilizing the Minimum Rebate Guarantees allows for comparison across contracts prospectively (i.e., in the procurement process), the intention of this report is to analyze potential savings on a retrospective basis; therefore, the 2023 and 2024 actual rebate paid amounts[1] were used in the cost estimation of both the previous contract and the current contract.

Actual rebates paid to MMB, and changes to the amount paid from one year to the next, are largely dependent on several factors such as:

- changes in CVS Caremark contracts with drug manufacturers,
- utilization changes in rebate-eligible drugs under MMB's formulary (the "Standard Control"), which is the same formulary offering in the current contract period as in the prior contact period, and
- changes made to the formulary offering which may result in changes in rebate value.

While these factors influenced rebate value earned over the time and contract period reviewed, they occurred independently of the reverse auction procurement and the resulting contract. Further, based on the provisions within the prior agreement, these factors are believed to have been likely to play out the exact same way as they did under the current agreement, which supports the approach taken to utilize 2023 and 2024 actuals for both the previous contract and the current contract.

Findings

Table 1: Comparison of Prescription Drug Costs between Previous and Current PBM Contracts

	Estimated 2023 **~165,000 avg. covered lives**		**Estimated 2024*** **~165,000 avg. covered lives**	
Metric	Previous Contract	Current Contract	Previous Contract	Current Contract
Approximate Total Cost**	$240.7M	$233.5M	$332.8M	$323.9M
Cost Difference	-	$7.2M (3.0%)	-	$8.9M (2.7%)

* Rebate Paid amounts as of 12/31/24 (2023 amount is estimated to be ~95% complete, 2024 amount is estimated to be ~77% complete).

**Approximate Total Cost is the sum of Total Ingredient Costs, Dispensing Fees, and Administrative Fees net of Rebates Paid (i.e., Rebates Paid are subtracted from total costs and fees).

Note: minor differences in totals or percentages due to rounding

The information displayed in the table above is based on the assumptions, caveats, and limitations described within this report, which themselves stem in part from the statutorily required parameters. Thus, these financial figures do not represent an estimate of final pharmacy spend in 2023 and 2024. Due to the required timeline, among other factors, there are material differences in the percentage of rebates collected and incorporated into the summary for those two years, which cautions against comparison across years. Rather, the intent of the evaluation is to compare the previous contract and the current contract separately and distinctly, for each 2023 and 2024, using actual information available as of the time of the report.

The findings of this analysis estimate that the current PBM contract resulted in lower prescription drug costs in calendar years 2023 and 2024 compared to what the costs would have been under the previous PBM contract. The current contractual terms represent approximately 3.0% ($7.2M) savings in 2023 and 2.7% ($8.9M) savings in 2024 compared against the previous contract (2022).

These savings estimates differ from estimates released at the time of the reverse auction because those previous savings estimates included improvements in Minimum Rebate Guarantees. As discussed above, Minimum Rebate Guarantees have, historically, not been triggered and have not led to a direct decrease or savings in net costs incurred by MMB; therefore, the methodology utilized in this analysis does not reflect them in the savings estimation.

Caveats and Considerations

The comparative analysis estimates that prescription drug costs for 2023 and 2024 are less under the actual contracts for each respective year than if the 2022 contract were to have been maintained in 2023 and 2024. While it is true that this correlates with the timing of the reverse auction (conducted in 2022 for contracts 2023 onward), it is not possible to determine whether the reverse auction procurement process itself generated the savings, or if other factors contributed to the savings, namely the presence of bidder competition.

The findings of this report are reliant upon the methodology explicitly required to be utilized based on the statute in Subd. 5 (referred to as "caveats" in this report) as well as the data that was available from the PBM for this analysis (referred to as "limitations" in this report).

When completing the exercise of comparing PBM contracts across time periods, as required by the statute, there can be time-specific factors related to each contract year that cannot be fully accounted for when comparing contracts across periods. For example, applying the 2022 PBM contract terms onto 2023 claims may not be appropriate as the 2022 PBM contract was developed based on a certain market environment that may have been different than the actual 2023 experience. Additionally, PBMs regularly negotiate their pricing terms with pharmacies and their rebate terms with manufacturers; these terms with other parties impact the terms they set with plan sponsors, and therefore, assuming changes in contract value from one year to the next is wholly attributable to a procurement method could be misleading.

Further, within a PBM contract, there are often improvements in financial provisions year-over-year even absent a procurement because of market dynamics (including ongoing contract negotiations between pharmacies and manufacturers by PBMs, among other stakeholders within the pharmacy ecosystem). These factors could have existed otherwise and shifts in market dynamics may have occurred between the periods of time reviewed.

It is also important to note additional considerations, which were not explicitly included in the statute, may influence the findings. These include, but are not limited to, other factors outside of direct contract comparisons that may be attributable to analyzing a procurement method as well as key market dynamics that can influence the development of future PBM contract terms (such as shifts in utilization, which was observed recently with spikes in utilization of GLP-1 agonists).

This analysis also does not account for the cost incurred by the State to compensate the procurement vendor to perform the reverse auction nor the internal cost of MMB stakeholders to support the reverse auction. There are other components of PBM contracts that can provide value for the plan sponsor, such as strategic alignment and differentiated operational services. While not exhaustive, a number of these primary considerations are documented within this report.

INTRODUCTION

Background and Purpose

In 2021, the legislature enacted into law M.S. 43A.231[2], "procurement of a pharmacy benefit manager and a platform technology vendor", which required MMB to conduct a reverse auction procurement process to select a PBM for services beginning on January 1, 2023 (Subd. 3) associated with the pharmacy benefits provided to state employees through the State Employees Group Insurance Program (SEGIP), which is sponsored and self-insured by the State of Minnesota.

As a result of the reverse auction procurement that was conducted in 2022, MMB and CVS Caremark entered into a five-year contract (made up of a two-year initial contract with three additional option years) starting January 1, 2023. Prior to 2023 and since 2008, MMB utilized a best-value request for proposal (RFP) procurement process to select the PBM vendor, with the last RFP procurement occurring in 2017. As a result of the 2017 RFP process, MMB and CVS Caremark previously entered into a five-year contract in effect from 2018 to 2022.

The statute (Subd. 5) also requires that MMB, with the assistance of an actuarial consultant, prepare a report that compares 1) the actual drug costs from 2023 to 2024 under the contract with CVS Caremark and 2) a projection of what drug costs would have been for those same two years under the PBM contract in effect from 2018 to 2022, with appropriate adjustment for any adopted formulary or beneficiary utilization changes. The purpose of this report is to provide the results of this comparison.

The subsequent sections of this document are organized as such to communicate the findings of this comparison with the appropriate supporting information:

- Approach
- Findings
- Caveats and Limitations
- Considerations

Summary of Procurement Process under Reverse Auction

To perform the reverse auction, MMB engaged a platform vendor with experience in conducting reverse auction procurements for other public employers. The reverse auction process includes evaluation of vendors' quantitative and qualitative submissions to issue results for the State's consideration. A typical PBM procurement process – including the best-value RFP processes utilized by MMB between 2008 and 2022 – allows proposals with pricing and terms unique to each bidder, which requires adjustment within the evaluation process to compare across bidders to inform the best value determination; the reverse auction requests bidders to offer the same terms so that the vendors are competing on price only.

The best-value RFP process has recently been used in other states, with results of the procurement

processes estimated to generate prescription drug cost savings (based on publicly available information). Each of the reviewed state-specific savings estimates were projections of future years; as of the date of this report, no other retrospective analyses could be found that use actual claims experience to determine whether savings were achieved. This report uses actual claims experience to determine/estimate savings on a retrospective basis.

As a result of MMB's 2022 reverse auction process, CVS Caremark was the selected pharmacy benefit manager. After completing contract negotiations, the new five-year contract took effect January 1, 2023, with the first agreement including terms for calendar years 2023 – 2024.

Data Sources

To conduct the comparison of actual 2023 and 2024 claims data against the PBM contracts before and after the reverse auction procurement, a combination of claim-level pharmacy claims and membership, PBM contracts for the periods 2018 through 2024, and other information (such as performance reconciliations) were used, each described in greater detail below.

Claims Data

Pharmacy claims data was sourced from the MMB data warehouse, which is populated using monthly claims files provided by CVS Caremark. Claims data was summarized at the claim line level with the necessary data fields to appropriately identify claims subject to the contract guarantees, with the exception of 340B claims (see the "Limitations" section of this report). The data was reviewed for completeness against both CVS Caremark monthly script counts and contract performance reconciliations (see the "Underwriting Model Validation" section of this report) and was determined to be complete. The statute allowed for MMB to seek electronically adjudicated prescription drug data from the technology platform vendor if necessary; however, all of the necessary data elements were available from alternative sources (the MMB data warehouse).

The universe of claims data relied upon for the analysis includes pharmacy claims data for Public Employees Insurance Program (PEIP) and SEGIP with dates of service (i.e., the date prescription was filled) from January 1st, 2023, to December 31st, 2024, and dates of payment through December 31, 2024). PEIP and SEGIP claims data for January 1st, 2022, through December 31st, 2022, was also analyzed for model validation purposes.

While M.S. 43A.231 required the reverse auction procurement process to be used for SEGIP, both SEGIP and PEIP were included in the scope of this analysis because the reverse auction was used to procure the PBM contracts for both the SEGIP and PEIP programs.

Membership Data

PEIP and SEGIP membership data was sourced from the MMB data warehouse for the period of January 2023 to December 2024. Membership data is provided by SEGIP and PEIP health plan administrators through monthly membership feeds that are imported and tracked in the MMB data warehouse (similar to the pharmacy claims data described above). The membership data includes membership identification measures to connect member information with claim line information.

PBM Contracts

The PBM contracts between CVS Caremark and MMB for contract years 2018 – 2024 were utilized in the analysis. The PBM contracts stipulate the pricing terms and guarantees, administrative fees, rebate guarantees, and potential guarantee exclusions for each contract year.

Supplemental Information

Additional information and data utilized to complete the analysis are listed in the “Notes and References” section of the report. This includes lists of new-to-market drugs, lists of 340B claims, formulary changes from 2022 to 2024, drug type override lists, and other information to support the analysis.

APPROACH

To compare prescription drug costs for calendar years 2023 and 2024 between the current PBM contract against an estimation of what costs would have been under the previous contract, the financial values of the current and previous contracts were estimated using the actual claim experience from years 2023 to 2024. The financial values are based upon the PBM contractual provisions included within each contract and are further described below.

PBM Contractual Provisions

The financial value of a PBM contract is largely driven by four sets of financial terms, which serve as the basis of the comparative analysis:

- Ingredient Cost Discount Rate Guarantees
- Dispensing Fee Guarantees
- Administrative Fee Rates
- Minimum Rebate Guarantees

Drug costs for prescriptions are influenced by ingredient cost discount rates and dispensing fees.

- The ingredient cost discount rates are the percentage discount taken off Average Wholesale Price (AWP), which is a measure of the average price that pharmaceutical wholesalers charge pharmacies for prescription drugs. **Ingredient Cost Discount Rate Guarantees** establish the minimum average discount rates off AWP that the PBM ensures.
- Dispensing fee rates are the dollar amount paid to pharmacies per paid claim for dispensing the prescription medication. **Dispensing Fee Guarantees** establish the maximum average dispensing fee amount that can be paid per claim.

Both types of guarantees depend on the drug type (specialty vs. non-specialty, brand vs. generic), distribution channel (retail 30, retail 90, or mail order), and pharmacy network type (when applicable). At the end of each contract year, the PBM will perform pricing reconciliations to compare the actual drug costs against the guarantees established in the PBM contract. For each Discount Rate Guarantee, if the actual average discount achieved is less than the guarantee, the PBM reimburses the plan sponsor the difference needed to achieve the guaranteed discount. For each Dispensing Fee Guarantee, if the actual average dispensing fee is higher than the guarantee, the PBM reimburses the plan sponsor the difference needed to achieve the guaranteed rate per claim.

Administrative ("Admin") Fees are paid to PBMs by plan sponsors to compensate them for performing pharmacy benefit management services, such as customer service, account management, member communication, and reporting. The full list of services included in the Administrative Fee can be found in the PBM contract. Administrative Fee Rates are often expressed on a per-paid-claim or a per-member-

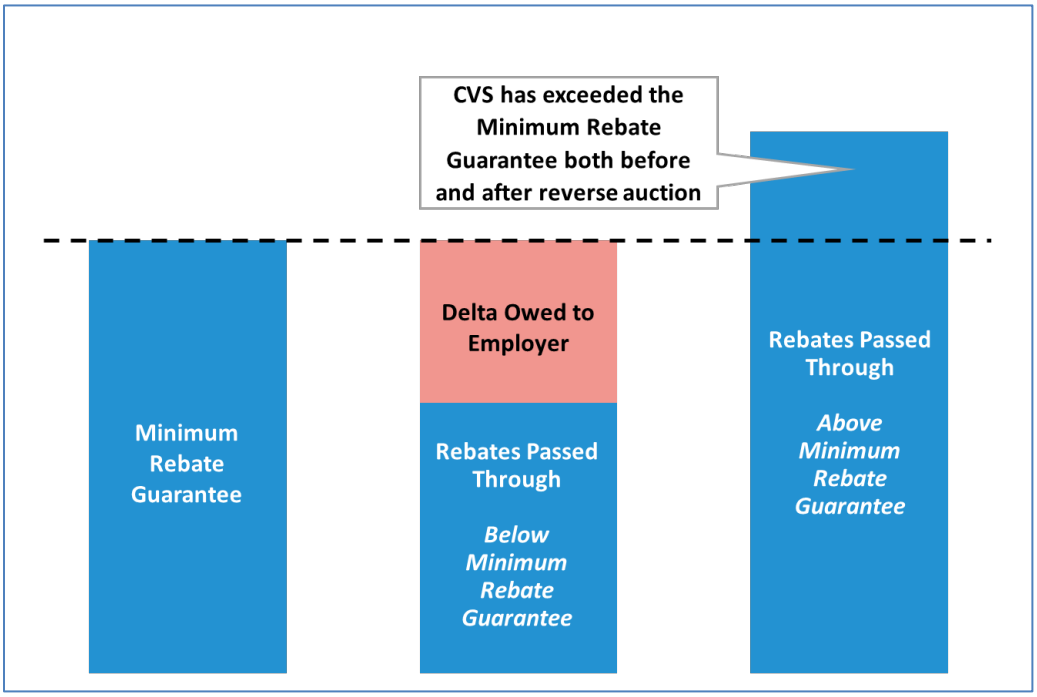
per-month (PMPM) basis. MMB's contract with CVS Caremark utilizes a PMPM Admin Fee. Beyond the services covered in the Admin Fee, there are select additional services which generate fees required to be paid by the plan sponsor to the PBM. Such ancillary program fees are included within the PBM contract, but were not contemplated within this analysis given the basis for which they are evaluated are drastically different than the claims data collected and are not material relative to the other items included within the scope of the analysis.

Drug rebates are negotiated by PBMs with prescription drug manufacturers for brand drugs based on a variety of factors including formulary placement and utilization. The PBM then shares a portion, or all, of the negotiated rebates back to the plan sponsor depending on the terms of the PBM contract. Both the State's current PBM contract and contract prior to the reverse auction are "pass-through" arrangements, which means that the PBM must pay the State 100% of all associated manufacturer-derived revenue, including rebates.

Minimum Rebate Guarantees differ by distribution channel and establish the "floor" of total rebate payments that the PBM will share with the plan sponsor. Similar to the pricing reconciliations, total actual rebate payments are compared to the guaranteed amounts at the end of each contract year. In the case where actual rebate payments are lower than the amount guaranteed by the contract, the PBM will reimburse the difference to the plan sponsor.

On a prospective basis, there is limited available information beyond Minimum Rebate Guarantees to assess the contractual value within PBM contracts as part of a procurement method. However, historically, CVS Caremark has exceeded the Minimum Rebate Guarantees so, ultimately, the net prescription drug costs incurred by MMB have been agnostic of the Minimum Rebate Guarantees established in the PBM contract. See an exhibit below illustrating this concept. Therefore, consideration should be given to whether Minimum Rebate Guarantees should be attributed as savings to the procurement method or not. In this report, actual rebates paid were used in the cost comparison analysis given CVS has historically exceeded Minimum Rebate Guarantees, including contract year 2023.

Figure 1: Minimum Rebate Guarantees Visual



For Discount Rate Guarantees, Dispensing Fee Guarantees, and Minimum Rebate Guarantees, each PBM contract defines the claims that are excluded from these guarantees, such as coordination of benefit claims where the plan sponsor is the secondary payer or claims from 340B pharmacies. Claims that fit any of the exclusion criteria are excluded from the calculations performed in the annual reconciliation of the pricing and rebate guarantees.

Beyond these four provisions, there are a number of contractual terms that are not explicitly modeled, but rather are implicitly reflected in the analysis because of their implicit impact on and correlation with one or multiple of the four provisions noted above. For example, network design can impact the Discount Rate Guarantees. These impacts are reflected because the Discount Rate Guarantees are explicitly modeled. Additionally, the impact of other provisions (such as formulary design and network design) on drug utilization are captured in the underlying 2023 and 2024 data and are therefore embedded within the 2023 and 2024 contract underwriting results.

Analysis Methodology

Overview of Approach

To perform this comparative analysis and assess value between contracts, a claim-line level underwriting process, utilizing MMB's actual pharmacy claims from 2023 and 2024 was performed, which accounts for differences in definitions and pricing parameters to adjust the experience to appropriately compare across the contracts. This approach utilizes actual claims experience and financial information present on

the claim-line level detail and applies the financial provisions of the contracts to this claim-line level separately. Many of the financial provisions within these contracts are applied in aggregate for certain related types of claims (e.g., where dispensed, and drug type such as specialty drugs, brand drugs, or generic drugs) over a duration of time (e.g., one year).

There are a variety of factors which influence how individual transactions are processed, and as a result priced, which are not specifically defined within the PBM contract but can be observed within the claim-line level data and only guaranteed in aggregate across many related claims. There are differences between actual historical results observed at the claim-line level and the underwriting process utilized to compare contractual value across contracts, however, based on the level of information available to perform analysis and interpretation of the legislation, the underwriting approach utilized is appropriate. Considering this, the figures represented within this report may not tie specifically to other sources or reports for related information over the same period of time.

As mentioned above, the financial values of the current and previous PBM contracts were used as the basis for comparing the costs associated with each contract and estimated using the actual claims experience from years 2023 to 2024. When estimating the value of PBM contracts, it is standard practice to use the contractual guarantees and administrative fee rates. If there is underperformance against the guarantees, the PBM reimburses the plan sponsor to reconcile to the guarantees. If there is overperformance, that value is realized by the plan sponsor, but such performance levels are not guaranteed nor reasonably assumed to perform at such levels from one period of time to another. For the purposes of this analysis, the focus is on comparing contractual value – therefore using the guarantees is most appropriate. Using only the actual prescription drug costs (e.g., ingredient cost, dispensing fees) from the claims data itself would not account for the potential reimbursement paid by the PBM after a pricing reconciliation is performed. For contract year 2023, there was underperformance against the Discount Rate Guarantees so it is reasonable to use the Discount Rate Guarantees to estimate costs given there was reimbursement from the PBM to MMB.

For both 2023 and 2024, the contract's terms, pricing guarantees, and rates were applied against claims experience and membership data from each respective year to calculate the current contract's financial value. Then, the prior contract's 2022 terms, pricing guarantees, and rates were applied against the same sets of claims experience and membership data to estimate what the previous contract's financial value would have been over the same two years. The 2022 terms were used because they were the most recent contract terms in the previous contract. Because it was the final year of the contract, the 2022 contract did have an option for contract year 2023 and those option year rates were the same as the 2022 rates (i.e., using the 2023 option year rates from the previous contract would yield the same findings). By using the same sets of claim experience and membership data, the value of the contracts can be appropriately compared against each other as utilization and market drug prices are normalized across the comparison.

Each contract also contains Minimum Rebate Guarantees (MRGs) which establish the minimum amount of drug rebates that CVS must pass through to MMB. CVS Caremark is contractually required to pass through 100% of the manufacturer-derived revenue, including drug rebates; therefore, if actual experience exceeds the guarantee, MMB is entitled to receive 100% of the manufacturer-derived revenue. Historically, CVS Caremark has exceeded the Minimum Rebate Guarantees and the actual rebates that MMB has received, relative to actual drug cost, has remained proportionally similar from 2021 to 2023 (note, at the time of the report complete information for 2024 was not available).

Minimum Rebate Guarantees were not used in the cost estimation because they haven't recently been triggered in MMB's contracts with CVS Caremark. While utilizing the Minimum Rebate Guarantees allows for comparison across contracts prospectively (i.e., in the procurement process), the intention of this report is to analyze potential savings on a retrospective basis; therefore, the 2023 and 2024 actual rebate paid amounts were used in the cost estimation of both the previous contract and the current contract.

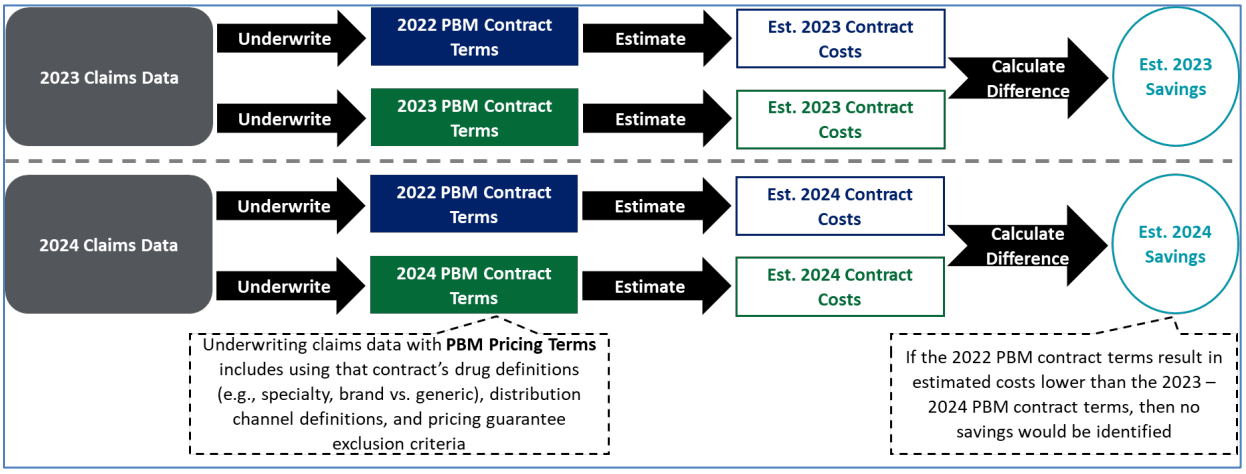
Actual rebates paid to MMB, and changes to the amount paid from one year to the next, are largely dependent on several factors such as:

- changes in CVS Caremark contracts with drug manufacturers,
- utilization changes in rebate-eligible drugs under MMB's formulary (the "Standard Control"), which is the same formulary offering in the current contract period as in the prior contact period, and
- changes made to the formulary offering which may result in changes in rebate value.

While these factors influenced rebate value earned over the time and contract period reviewed, they occurred independently of the reverse auction procurement and its resulting contract. Further, based on the provisions within the prior agreement, these factors are believed to have been likely to play out the exact same way as they did under the current agreement, which supports the approach taken to utilize 2023 and 2024 actuals for both the previous contract and the current contract.

Finally, for each year, the financial value of the current contract is compared against the financial value of the previous contract to determine whether savings were achieved. Please see Figure 2 below for a visual representation of this evaluation process and Appendix A for an illustrative example of how contractual terms are applied against claims.

Figure 2: Overview of Approach Visual



Step 1: Claims Data Preparation

To appropriately underwrite (i.e., estimate the financial value of) a PBM contract with claims data, the claims data must be appended with fields that categorize the claims by the applicable pricing guarantees. These categories are dictated by non-specialty vs. specialty, distribution channel (i.e., retail 30, retail 90, mail order, and specialty pharmacy), and/or drug type (i.e., brand vs. generic). The definitions of these categories can differ across contracts, so when estimating the financial value of a contract, the contract-specific definitions were used to categorize the claims. For example, the definition of generic and brand drugs can differ between PBM contracts, based on the claims dispense-as-written (DAW) code and Medispan multi-source indicator (MONY) code. The definition of generic drugs changed between MMB's previous contract and the current contract. As such, claims were labelled with both the previous definition and the current definition so that the appropriate guarantees can be applied to the claims.

The claims data was also appended with fields for the pricing guarantee exclusion criteria[3]. Exclusion criteria can impact the financial value of a PBM contract because it determines which claims are reconciled against the guarantees found in the contract.

Step 2: Underwriting Model Preparation

MMB's actuarial consultant used a proprietary PBM contract underwriting model to perform the comparative analysis. The model's main inputs are contractual guarantees and rates, pharmacy claims data, and membership data. For both the previous contract and current contract, underwriting models were customized to the contract's guarantees, rates, and other contract-specific information.

Step 3: Underwriting Model Validation

After the underwriting models were customized, an exercise was performed to validate the claims data

and underwriting model preparation to review that the model's calculations were appropriately applying the contract terms to the underlying data. For both 2022 and 2023, claims data was summarized and used as inputs for the respective contract's underwriting model. Specifically, the underwriting model with the 2022 contractual rates was run with 2022 claims data (with the applicable definitions and exclusion criteria). The calculated over/underperformance was compared against the 2022 pricing reconciliations[4] to validate that the claims data is being appropriately categorized and that the underwriting model is appropriately applying the contractual guarantees. This same exercise was repeated for contract year 2023 (i.e., using 2023 data and the model with 2023 contractual rates).

For both 2022 and 2023, the total estimated over/underperformance for pricing guarantees in the underwriting model was within 0.33% and 0.09% respectively of the actual PBM pricing reconciliations (difference expressed as a percentage of ingredient cost). Based on the scale and complexity (among other factors) of this analysis, it is not expected that the reconciliation would tie out exactly. Therefore, this variance was determined to be within a reasonable range.

For a quantitative summary that further documents the model validation exercise, please see Appendix B within this report. By comparing against CVS Caremark's pricing reconciliations, the underwriting approach and methodology was validated for reasonableness for contracts both before and after the reverse auction procurement.

Step 4: Comparative Cost Analysis

To compare costs for 2023, the 2022 contract (including its rates, definitions, and exclusion criteria) was applied against the 2023 claims data to estimate what drug costs would have been under that contract in 2023. This total estimated cost under the previous contract was compared against the total estimated cost for 2023 under the new contract to determine whether savings were achieved in 2023. The same process was used for 2024: the 2022 contract was applied against the 2024 claims data to estimate what drug costs would have been under that contract in 2024, and the 2024 contractual rates (from the 2023 to 2024 contract) were applied against the 2024 claims data. These two estimates were compared against each other to determine whether savings were achieved in 2024.

Assumptions

The following primary assumptions were made during the analysis:

- Given actual calendar years 2023 and 2024 claims experience was available, no utilization, unit cost, or mix change trends were applied to the underlying data itself. No adjustments were made for incurred but not reported (IBNR) claims expected to be paid after December 31, 2024 on claims with January 1, 2023 through December 31, 2024 dates of service.
- As indicated in MMB's PBM contracts, CVS Caremark may "override" the Medispan multi-source indicator to designate a brand drug as generic. This list of drugs can change over time. CVS

Caremark provided lists of National Drug Codes (NDCs) that were subject to overrides and these lists were used when defining claims as brand or generic. For 2022 and 2023, the January list of each respective year was used for claims incurred in the first half of the year (i.e., January through June) and the December list was used for claims incurred the second half of the year (i.e., July through December). CVS Caremark indicated that the 2024 lists were not available at the time of the report, so the December 2023 list was used for 2024 incurred claims.

- When assessing the value of the previous PBM contract, the 2022 contractual terms and rates were used given they are the most recent and competitive rates amongst the 2018 to 2022 PBM contract years.
- When pricing Specialty drugs, PBM contracts typically have both drug-level discount rates and an Overall Effective Discount (OED) guarantee. When comparing estimated costs between the drug-level rates and the OED rate, the OED rate was determined to be more favorable (i.e., resulted in lower ingredient costs). Given the OED rate is more favorable, and the OED rate is what was used in the Specialty guarantee reconciliations, the OED rate was used in this analysis to price Specialty drugs. This approach was confirmed with CVS Caremark.
- For claims that are excluded from the Ingredient Cost Discount Guarantees, the actual Ingredient Cost amount from the data is used. For claims that are excluded from the Dispensing Fee Guarantees, the actual dispensing fee amount from the data is used.

FINDINGS

Cost Comparison

The tables below summarize the cost comparison between the previous PBM contract and the current PBM contract using actual claims experience from 2023 and 2024. In the table, the "Previous Contract" columns indicate the estimated financial value of the 2022 PBM contract using actual claims experience in 2023 and 2024 and the 2022 contractual rates (e.g., the 2022 discount rate guarantees). The "Current Contract" columns indicate the estimated financial value of the 2023 to 2024 PBM contract using actual claims experience in 2023 and 2024 and the 2023 and 2024 contractual rates for each respective year.

Table 2: Cost Comparison of Previous and Current PBM Contracts

Metric		Estimated 2023 ~165,000 avg. covered lives		Estimated 2024* ~165,000 avg. covered lives	
		Previous Contract	**Current Contract**	**Previous Contract**	**Current Contract**
Ingredient Costs	Brand	$162.0M	$161.2M	$194.3M	$192.8M
	Generic	$38.2M	$34.3M	$41.8M	$37.1M
	Specialty	$171.3M	$168.5M	$178.5M	$175.5M
	Total	$371.5M	$363.9M	$414.5M	$405.3M
Dispensing Fees		$0.3M	$0.3M	$0.3M	$0.2M
Administrative Fees		$1.4M	$1.7M	$1.4M	$1.8M
Rebates Paid*		$132.3M	$132.3M	$83.4M	$83.4M
Approx. Total Costs**		$240.7M	$233.5M	$332.8M	$323.9M
Cost Difference ($)		-	($7.2M)	-	($8.9M)
Cost Difference (%)		-	(3.0%)	-	(2.7%)

*Rebate Paid amounts as of 12/31/24 (2023 amount is estimated to be ~95% complete, 2024 amount is estimated to be ~77% complete)

**Approx. Total Costs is the sum of Total Ingredient Costs, Dispensing Fees, and Administrative Fees net of Rebates Paid (i.e., Rebates Paid are subtracted from total costs and fees)

Note: minor differences in totals or percentages due to rounding

The information displayed in the table above is based on the assumptions, caveats, and limitations described within the report, which themselves stem in part from the statutorily required parameters. Thus, these financial figures do not represent an estimate of final pharmacy spend in 2023 and 2024. Due to the required timeline, among other factors, there are material differences in the percentage of rebates collected and incorporated into the summary for those two years, which cautions against comparison across years. Rather, the intent of the evaluation is to compare the previous contract and the current contract separately and distinctly, for each 2023 and 2024, using actual information available as of the time of the report.

Cost Comparison Observations

Savings Determination

For both 2023 and 2024, the contract procured through the reverse auction achieved lower estimated costs compared to the previous contract prior to the reverse auction. The current contractual terms represent approximately 3.0% ($7.2M) savings in 2023 and 2.7% ($8.9M) savings in 2024 compared against the previous contract (2022).

Drivers of Savings

The reduction in estimated ingredient costs is largely driven by improved discount rate guarantees for generic non-specialty drugs. Estimated generic ingredient costs decreased by approximately 10.2% ($3.9M) in 2023 and 11.2% ($4.7M) in 2024.

Another contributing factor to the reduction in estimated ingredient costs is the improvement in the Overall Effective Discount (OED) guarantee for specialty drugs. The OED increased between the previous contract and the current contract, which led to a 1.6% ($2.8M) reduction in specialty ingredient costs in 2023 and a 1.7% ($3.0M) reduction in specialty ingredient costs in 2024.

CAVEATS AND LIMITATIONS

When interpreting the findings presented in this report, there are caveats and limitations regarding the exercise of comparing the PBM contracts that should be considered. The "Caveats" section below includes factors that can influence either the contract terms and/or the valuation of a PBM contract, and the "Limitations" section lists specific data items that could not be fully accounted for in this comparison exercise due to data timing and availability.

Caveats

Impact of Procurement Method

The comparative analysis estimates that prescription drug costs for 2023 and 2024 are less under the actual contracts for each respective year than if the 2022 contract were to have been maintained in 2023 and 2024. While it is true that this correlates with the timing of the reverse auction (conducted in 2022 for contracts 2023 onward), it is not possible to determine whether the reverse auction procurement process itself generated the savings, or if other factors contributed to the savings, namely the presence of bidder competition.

Competition exists across a variety of procurement methods, including the previous best-value RFP process utilized by MMB for previous PBM contracts. Because a separate procurement process was not run in parallel to the reverse auction, it is not possible to determine whether a different type of procurement process would have achieved more or less savings than the reverse auction. It is possible that similar savings results could have been achieved through other methods of PBM contract procurement. For reference, the RFP process conducted by MMB in 2017 projected an estimated $70.4M in savings over two years ($23.6M in ingredient cost and dispensing fee savings, $46.8M in rebate improvements). This prior savings estimate was a projection of future years; as of the date of this report, there have not been any retrospective analyses that use actual claims experience to determine whether savings were actually achieved, which is the comparison method utilized in this report.

Additionally, there are a number of factors separate from PBM contracts that influence drug spend for a plan sponsor, such as utilization of high-cost specialty drugs and market-wide increases in drug prices. In this analysis, many of these external influences are controlled for to produce an appropriate comparison between the current contract and previous contract. However, even if the current contract minimized costs compared to the previous contract (as is the case in this analysis), these external factors may have a greater influence resulting in higher total net drug spend PMPM. In the table below, the net drug spend PMPM by calendar year for SEGIP is summarized for years 2012 – 2023.

Table 3: SEGIP Net Spend PMPM by Year[5]

Year	Avg. Monthly Members	Net* Drug Spend PMPM	Net Drug Spend PMPM % Change
2012	122,465	$71.89	N/A
2013	124,126	$72.94	2.8%
2014	125,966	$79.64	10.8%
2015	126,717	$84.20	6.4%
2016	127,444	$85.91	2.6%
2017	128,832	$90.21	6.2%
2018	129,823	$85.91	-4.0%
2019	131,013	$90.42	6.2%
2020	131,910	$96.05	7.0%
2021	129,166	$103.61	5.6%
2022	127,323	$111.69	6.3%
2023	128,711	$125.72	13.8%

*Spend PMPM is net of drug rebates

As shown above, drug spend PMPM has generally been increasing year-over-year even with improvements in PBM contractual terms. As shown in this report, while the current contract did generate savings when compared to what costs would have been under the previous contract, net drug spend PMPM increased 13.8% for SEGIP members.

Exclusion of Minimum Rebate Guarantees in Savings Calculations

As described earlier in the report, MMB has a pass-through contract, which requires CVS Caremark to remit 100% of all manufacturer-derived revenue including drug rebates to MMB, and CVS Caremark has historically exceeded the Minimum Rebate Guarantees (Table 4).

Table 4: Comparison of Minimum Rebate Guarantees and Rebate Paid[6]

Year	Total Minimum Rebate Guarantees	Total Rebate Amount Paid	Minimum Rebate Guarantee Overperformance	
			$	%
2021	$80.8M	$103.6M	$22.8M	28.2%
2022	$99.8M	$115.3M	$15.5M	15.5%
2023	$120.0M	$132.3M	$12.3M	10.2%

Note: minor differences in totals or percentages due to rounding

While the improvement in Minimum Rebates Guarantees in the 2023 contract do reflect an increase in the "floor" of what MMB is guaranteed to receive in rebates, it is not possible to determine whether this increase in the "floor" actually improves the level of rebates that MMB receives and, consequently, whether this increase generates actual savings compared to the previous contract due to the overperformance that historically exists. If the actual rebates realized by MMB were closer to the Minimum Rebate Guarantees, the minimum guarantees could be considered a more appropriate placeholder for rebate expectations, and thus the actual savings that result.

As utilization increases, total rebates paid would naturally increase as more drugs are dispensed. To normalize for this, the total rebates paid were converted to a percentage of total ingredient cost paid for each year (Table 5).

Table 5: Comparison of Rebates Paid against Ingredient Cost Paid[7]

Year	Total Rebate Amount Paid	Total Ingredient Cost Paid	Rebate Paid % of Ingredient Cost Paid
2021	$103.6M	$313.0M	33.1%
2022	$115.3M	$331.6M	34.8%
2023	$132.3M	$369.7M	35.8%

Note: minor differences in totals or percentages due to rounding

As shown above, there is a moderate year-over-year increase in total rebates paid as a percentage of ingredient cost paid. This increase is less than the ~20% increase in total Minimum Rebate Guarantees between the previous contract and the current contract (i.e., from 2022 to 2023), which may suggest the increase in Minimum Rebate Guarantees did not have a material impact on actual rebates paid. Given this, the Minimum Rebate Guarantees were not used in the cost comparison analysis.

Comparison of Contractual Terms Across Different Contract Years

To perform the cost comparison, the 2022 PBM contract (and its rates for the contract year) were used as the "baseline" for comparison against the current contract, as discussed in the "Approach" section. Because it was the final year of the contract, the 2022 contract did have an option for contract year 2023 and those option year rates were the same as the 2022 rates. However, the analysis ultimately compared rates from the previous contract (contract year 2022) against rates from the current contract for contract years 2023 to 2024.

Comparing rates from different contract years is typically not the most appropriate comparison given the rates in a given contract year implicitly reflect a number of time-specific factors, such as the formulary and network. Additionally, PBMs regularly negotiate their pricing terms with pharmacies and their rebate terms with manufacturers; these terms with other parties impact the terms they set with plan sponsors which is another reason comparing contractual terms across contact years is difficult. Also, there is typically improvement in rates year-over-year even without going through a procurement process (prior to the reverse auction, pricing terms improved from 2018 to 2022). Therefore, it is reasonable to assume that the savings documented in this analysis can be attributed to both procurement competition as well as the natural contract pricing improvements that would have existed otherwise.

Formulary Changes

A plan's formulary dictates which prescription drugs are covered and can impact members' benefits, such as the level of member cost sharing. When terms are negotiated for a PBM contract, the formulary at the time of negotiation is used to establish and price the provisions addressed in this analysis. When the formulary changes significantly year-over-year (which is common), any changes in contractual guarantees reflect these formulary changes accordingly (i.e., the updated formulary is used in pricing). This is one of the reasons that comparing rates from different contract years is not a fully appropriate comparison. However, there is not a feasible and reasonable way to adjust contractual guarantees from previous years for the subsequent formulary changes due to limitations of information available to MMB (i.e., drug-specific pricing), which is only available to the PBM. Attempting to do so could introduce bias and noise into the analysis methodology; therefore, formulary changes were not directly incorporated into the comparative analysis. Because formulary changes would naturally occur under both contracts, it is determined that the absence of such an adjustment does not have a material impact on the analysis as it would be appropriate to apply the adjustment consistently to both cost basis.

Formulary changes often aim to generate cost savings. For example, a more expensive drug may be removed from the formulary so that the patient uses more cost-effective drugs in the same therapeutic class. Formulary changes provided by CVS Caremark[8] were reviewed, and examples of those with more significant changes and/or impact on cost are described below. Note that the cost reduction estimates below do not account for the potential changes in rebate reimbursement as drug-level rebate data was not available. Since CVS Caremark was the incumbent PBM prior to the 2022 procurement, it is reasonable to assume that the same formulary changes may have been made because they are not specific to MMB and rather may be a part of CVS Caremark's broader commercial strategy. Therefore, the formulary changes may not be attributable to the procurement method used.

- On 4/1/24, Humira was removed from the formulary after biosimilars[9] were introduced to the market in 2023. After that date, the average plan paid amount for Humira's therapeutic class (antirheumatics) decreased by approximately $3,000 per prescription, which would equate to $8.7M in reduced costs (prior to the application of rebates) from 4/1/24 to 12/31/24[10].
- On 1/1/24, there were changes to the formulary for insulin drugs. Basagla and Levemir were removed from the formulary and Lantus was added to the formulary. After that date, the average plan paid amount per prescription for the insulin therapeutic class decreased by approximately $600, which would equate to $7.9M in reduced costs (prior to the application of rebates) from 1/1/24 to 12/31/24[11].
- On 1/1/24, Advair was removed from the formulary. After that date, the average plan paid amount per prescription for Advair's therapeutic class (beta adrenergic agonists) decreased by approximately $100, which would equate to $3.0M in reduced costs (prior to the application of rebates) from 1/1/24 to 12/31/24[12].

- On 1/1/23, Adderall was removed from the formulary. After that date, the average plan paid amount per prescription for Adderall's therapeutic class (amphetamines) decreased by approximately $100, which would equate to $4.4M in reduced costs (prior to the application of rebates) from 1/1/23 to 12/31/24[13].

Limitations

There was sufficient data available to perform the cost comparison analysis, however, there were certain pieces of information not available that are noted below:

- *340B claims* – in both the previous and current PBM contracts, 340B claims are excluded from pricing and rebate guarantees. MMB pharmacy claims data does not have a field indicating 340B claims, so lists of 340B claim IDs were requested on 11/25/24. On 12/5/24, CVS Caremark was able to provide a list of 340B claims for 2022 and 2023. Therefore, this exclusion criterion has been reflected in this analysis for claims from 2022 to 2023. On 12/18/24, CVS Caremark indicated that the 340B list for 2024 would not be available in time for it to be incorporate in the analysis (estimated delivery was end of February 2025), so the current findings do not account for the 340B exclusion criterion for claims in 2024.
- *Subrogation claims* – in the current contract, subrogation claims are excluded from rebate and pricing guarantees. The claims data does not have a field indicating subrogation claims so this exclusion criteria was not reflected in the analysis, but the volume of subrogation claims is assumed to be immaterial.
- *2024 drug type override lists* – drug type override lists from CVS were requested on 9/27/24. On 11/20/24, CVS was able to provide lists for years 2022 and 2023. On 11/21/24, CVS indicated they were not able to provide the 2024 drug type override lists, so the December 2023 list was used for 2024 claims. Any changes in the drug type override list in 2024 are not reflected in this analysis.

CONSIDERATIONS

To better contextualize the comparative analysis associated with this report, it is important to consider broader factors that may influence the future performance, contracting terms, and the overall cost to administer a pharmacy benefit for a population of similar size to SEGIP and PEIP. These considerations are summarized below:

Evaluation Measures for a Procurement Method

As summarized earlier in the report, the PBM contract secured through the reverse auction in 2022 generated savings compared to the previous contract. However, as discussed in the "Caveats" section, this report cannot conclude whether other procurement methods would have achieved more or less savings than the savings achieved by the reverse auction. Additionally, there are other considerations that should be contemplated when evaluating a procurement method, such as the following:

Other Costs of Procurement

The comparative analysis focuses exclusively on comparing prescription drug costs and PBM administrative fees associated with MMB's previous and current PBM contracts. It does not account for the cost incurred by the State to compensate the procurement vendor to perform the reverse auction nor the internal cost of MMB stakeholders to support the reverse auction. Therefore, this report cannot estimate the true "net" savings of the reverse auction (i.e., inclusive of the cost incurred to execute the reverse auction). However, MMB would need to incur some level of costs (both internal costs and the cost to engage a procurement vendor) regardless of the procurement method used.

Procurement Process

When determining which type of PBM contract procurement process to utilize, each method's process can have advantages and disadvantages. For example, the reverse auction method has more structure and standardization which can allow for better comparison of vendors across qualitative and quantitative components. However, the weighting and scoring of these components can be unclear. The more standard best-value request for proposal (RFP) procurement process allows for customization in the vendor responses and potentially more clarity into the scoring of these responses, but the evaluation can be more complicated and time-consuming. While each method is effective, the appropriate method for MMB at any given time may depend on organizational priorities and market dynamics.

Reverse Auction Vendors

As discussed in the "Introduction" section, the reverse auction method is a method that a few state governments have used to select PBM vendors, but the number of firms qualified to execute these types of procurements is limited, and the Minnesota reverse auction statute further narrowed MMB's

procurement options by requiring that the reverse auction platform vendor also be qualified to perform ongoing claims monitoring services. As such, choosing to perform a reverse auction is subject to these firms' availability to support a reverse auction for MMB, and the limited competition between procurement vendors may impact the cost to engage them for their services.

Other Components of PBM Contract Value

While this report focuses on the PBM contractual provisions that provide direct financial value with prescription drug costs, there are other components that can provide value for the plan sponsor:

- Credits and Allowances are amounts of money paid by the PBM for specific purposes outside of direct costs associated with prescription drug. Examples include implementation allowances and information technology credits (potentially applied against the first costs accrued for custom development by the PBM).
- Market checks are benchmarking exercises where the PBM contractual rates are compared against market benchmarks and any areas that are deemed market-lagging can potentially be renegotiated. However, the PBM has to agree to the market check findings and be willing to renegotiate; their willingness is largely driven by how likely the employer would perform a PBM contract procurement process. The PBM contract will stipulate the approach and allowed frequency of these market checks. Market checks were not provided in the contracts from 2018 to 2022, but are allowed in the current contract.
- There can be strategic and operational value in staying with the incumbent PBM because it may avoid the cost, labor, and disruption (both member and administration) associated with transitioning to a new PBM vendor.
- PBM vendors can offer differentiated services that provide strategic and operational value, such as networks, member service, utilization management, and advanced reporting.
- The technical sophistication of the PBM vendor can provide distinct value compared to less advanced vendors (e.g., by providing advanced reporting and effective customer service operations).
- PBM contracts also contain performance guarantees which stipulate operational service levels that must be met or else the PBM reimburses the plan sponsor a defined amount.
- Strategic alignment between the plan sponsor's values and goals and the PBM vendor can also provide value that isn't directly financial or operational (e.g., support of independent pharmacies).

As shown above, there are other factors that may influence the PBM selection process beyond potential cost savings. These factors (such as the ones listed above) were not evaluated as a part of this report.

Market Dynamics

Understanding current PBM market dynamics can provide context around the findings discussed in this

report, as well as factors that may impact future PBM contracting and competition.

PBM Market Consolidation

The PBM market is primarily supported by three PBMs: CVS Caremark, Express Scripts (owned by Cigna), and Optum Rx (owned by UnitedHealth Group). Together, these three PBMs account for approximately 80% of the prescription drug market share[14]. This is partly driven by a number of mergers and acquisitions between PBM entities over the last 15 years. Consolidation has drastically changed the competitiveness of ingredient cost pricing and rebate financial terms. It also has led to vertical integration and market concentration for specialty pharmacies. The three largest PBMs account for two-thirds of prescription revenues from pharmacy-dispensed specialty drugs[15]. Despite consolidation, new entrants continue to emerge, and offer a variety of alternative services and capabilities relative to the larger players. Therefore, it is important for plan sponsors to evaluate their PBM relationships to retain competitive economics and services.

Trends in Drug Spend

Pharmacy industry prescription drug revenues continue to rise year-over-year; total revenues have increased 4% – 12% each year[16] from 2019 to 2023. One significant driver of this growth in spend is the increase in utilization of specialty drugs. Specialty drugs are significantly more expensive than their non-specialty counterparts. Total specialty drug spend has increased 8.9% – 13.4% each year[17] from 2019 to 2023. The total specialty drug spend was $243.3B in 2023 and is estimated[18] to reach $800B by 2028. Another driver of the increase in total drug spend is the increased use of anti-obesity GLP-1 agonist drugs, such as Wegovy and Zepbound. This increase in drug spend heightens the importance of plan sponsors monitoring the competitiveness of their PBM contract.

PBM Efforts to Manage Drug Costs

PBMs manage relationships with multiple stakeholders in the pharmacy drug market, including drug manufacturers, wholesalers, pharmacies, and health payers. Each year, PBMs aim to manage drug costs by negotiating rebates, ingredient cost discount rates, and other fees with each of these stakeholders. As such, negotiated terms frequently change year-over-year in response to industry trends, which impacts prescription drug costs for plan sponsors, including MMB. This year-over-year change makes comparing contractual terms from different years difficult, as a contract year's terms are a reflection of the market at a point-in-time and the pharmacy industry is susceptible to change over time.

APPENDICES

Appendix A: Illustrative Underwriting Example

Figure 3: Illustrative Underwriting Example of the underwriting calculation of a 28-day retail supply

Illustrative Claim	*Illustrative Contractual Terms for Retail 30 Brand*	
• Brand Drug filled at Retail pharmacy • Days Supply = 28 • AWP = $100	Discount Rate Guarantee	20%
	Dispensing Fee Guarantee	$0.50
	Rebate Paid	$15

Illustrative Underwriting Calculation	
1. Calculate Ingredient Cost	Ingredient Cost = AWP * (1 – Discount Rate) = $100 * (1 – 0.20) = **$80**
2. Add Dispensing Fee	**+ $0.50**
3. Total Claim Cost	**$80.50**
4. Subtract Rebate	**- $15**
5. Total Claim Cost Net of Rebate	**$65.50**

Notes:

- Claim information and contractual terms are purely illustrative and do not reflect actual data or contractual terms.
- Illustrative calculation assumes that none of the pricing guarantee exclusion criteria apply to claim.
- Illustrative calculation does not include in member cost sharing.

Appendix B: Quantitative Summary of Underwriting Model Review

Table 6: 2022 Comparison of Underwriting Output against CVS Caremark Pricing Reconciliations

Pricing Guarantee	Est. 2022 Ingredient Cost Guarantee*		Difference (%)
	Actuarial Consultant	CVS Caremark	
Retail	$140.0M	$140.9M	-0.63%
Mail Order	$32.0M	$32.1M	-0.23%
Specialty	$153.8M	$154.0M	-0.09%
Total	$325.9M	$327.0M	-0.33%

Table 7: 2023 Comparison of Underwriting Output against CVS Caremark Pricing Reconciliations

Pricing Guarantee	Est. 2023 Ingredient Cost Guarantee*		Difference (%)
	Actuarial Consultant	CVS Caremark	
Retail	$159.4M	$159.9M	-0.28%
Mail Order	$36.0M	$36.1M	-0.39%
Specialty	$168.5M	$168.2M	0.17%
Total	$363.9M	$364.2M	-0.09%

*The Ingredient Cost Guarantee was estimated by applying the Discount Rate Guarantees against the actual claims experience, which represents the estimated amount that ingredient costs paid would be compared against to determine Discount Rate Guarantee over/underperformance. CVS Caremark's

Ingredient Cost Guarantee is calculated by applying CVS's reported Discount Rate Guarantee performance[19] against total ingredient costs paid (i.e., adding reported overperformance and subtracting reported underperformance).

Note: minor differences in totals or percentages due to rounding

Appendix C: Statutory Requirements of Report

Table 8: Summarizes how this report addresses the requirements from M.S. 43A.231 regarding the scope and purpose of the report.

Evaluative parameters required by M.S. 43A.231	How this report addresses each parameter
The commissioner of management and budget, with the assistance of an actuarial consultant	MMB engaged with an actuarial consulting firm to perform a comparative analysis and produce this report.
shall compare the following: (1) actual, electronically adjudicated prescription drug costs under the first two years of the contract that begins on January 1, 2023, with a pharmacy benefit manager that was selected by the reverse auction	The "Current Contract" portion of the analysis and findings estimates the prescription drug costs, using actual adjudicated claims, for years 2023 – 2024 under the contract that was executed with CVS Caremark as a result of the reverse auction.
and (2) a projection of what prescription drug costs would have been for those same two years under the pharmacy benefit manager contract in effect from 2018 to 2022	The "Previous Contract" portion of the analysis and findings estimates what the prescription drug costs for years 2023 – 2024 would have been under the contract that was in effect with CVS Caremark prior to the reverse auction.
with appropriate adjustment for any adopted formulary (changes)	Formulary changes were not directly incorporated, but their effects are implicitly captured through the analysis methodology (see "Caveats" section for more information).
or beneficiary utilization changes	By using actual claims data from 2023 – 2024, any changes in beneficiary utilization are implicitly captured and accounted for in the analysis methodology.

Evaluative parameters required by M.S. 43A.231	How this report addresses each parameter
The projection must use industry-recognized data sources.	Given data specific to MMB (such as claims data and contractual information) was available, they were the primary data used in the report. However, other industry-recognized data sources were used to write the report, such as “The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers” from the Drug Channels Institute.

NOTES AND REFERENCES

[1] Source: MMB rebate data

[2] Source: "43A.231 PROCUREMENT OF A PHARMACY BENEFIT MANAGER AND A PLATFORM TECHNOLOGY VENDOR"

[3] CVS provided supplemental files to appropriately append claims data with certain exclusion criteria (e.g., new-to-market drugs)

[4] Pricing reconciliations source: files [State of Minnesota Specialty Guarantee Performance Report - 2022.xlsx], [State of Minnesota_RXC_PerformanceRpt_Jan22-Dec22_SK_R1.xlsx], [State_of_Minnesota_2023_Specialty Guarantee Report_20240119.xlsx], [State of Minnesota_PerformanceRpt_Jan23-Dec23_SK.xlsx]

[5] Source: MMB claims data

[6] Source: MMB rebate data

[7] Rebates source: MMB rebate data, Ingredient Cost source: MMB claims data

[8] Source: [Formulary id 1500 Change Detail Report Year 2022.xlsx], [Formulary id 1500 Change Detail Report Year 2023.xlsx], [Formulary id 1500 Change Detail Report Year 2024.xlsx]

[9] Biosimilars are biological medicines that are highly similar to another biological medicine that has already been approved by the U.S. Food and Drug Administration ("FDA")

[10] Calculated by multiplying the number of prescriptions in that therapeutic class after the effective date of the formulary change by the change in plan paid amount per prescription.

[11] Calculated by multiplying the number of prescriptions in that therapeutic class after the effective date of the formulary change by the change in plan paid amount per prescription.

[12] Calculated by multiplying the number of prescriptions in that therapeutic class after the effective date of the formulary change by the change in plan paid amount per prescription.

[13] Calculated by multiplying the number of prescriptions in that therapeutic class after the effective date of the formulary change by the change in plan paid amount per prescription.

[14] Source: Drug Channels Institute, "The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers"

[15] Source: Drug Channels Institute, "The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers"

[16] Source: Drug Channels Institute, "The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers"

[17] Source: Drug Channels Institute, "The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers"

[18] Source: Drug Channels Institute, "The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers"

[19] Pricing reconciliations source: files [State of Minnesota Specialty Guarantee Performance Report - 2022.xlsx], [State of Minnesota_RXC_PerformanceRpt_Jan22-Dec22_SK_R1.xlsx], [State_of_Minnesota_2023_Specialty Guarantee Report_20240119.xlsx], [State of Minnesota_PerformanceRpt_Jan23-Dec23_SK.xlsx]