

Memorandum

To: Celestena Glover, Executive Officer

From: Richard Ward, FSA, FCA, MAAA
Senior Vice President

Date: March 14, 2024

Re: State of Nevada PEBP – PBM Market Check for Plan Year 2025 – Express Scripts - Update

This memo is an update to the January 31, 2024 memo for the State of Nevada PEBP – 2024 PBM Market Check.

Segal conducted an analysis of the State of Nevada Public Employees' Benefits Program's (PEBP's) Pharmacy Benefit Manager (PBM) pricing contract. PEBP is currently in the second year of a five-year contract with their PBM, Express Scripts, Inc. (ESI). PEBP retained Segal to assess the competitiveness of their pricing contract through a PBM market check.

Segal reviewed PEBP's pharmacy claims data and PBM pricing contracts and compared to several other PBM pricing contracts that Segal has negotiated on behalf of other clients. These comparative clients represent other large public sector clients who have renegotiated their contract with their PBM in the past 12 months. We reviewed pricing offers from ESI clients as well as clients with other competitive PBMs.

In order to preserve the confidentiality of the comparative client pricing contract rates, we have taken the overall average for each pricing component across each comparative client.

After our initial review of PEBP's current pricing contracts we determined that the pricing is less competitive than what the market can currently offer. We presented our original results to PEBP on February 9, 2024 and thereafter communicated with ESI that the market check results were showing that the pricing was noncompetitive.

This memo provides an update to the January 31, 2024 letter based on our conversations with PEBP and ESI. This memo also contains a summary of the PEBP current pricing contracts, the market competitive benchmarks, the ESI renewal offer, Segal observations, analysis, and recommendations for PEBP to consider.

This analysis provides benchmark expectations for available pricing improvements along with the actual pricing improvements. These negotiated improvements are the true indication of the opportunity available to PEBP in the absence of issuing an RFP. Any difference between the negotiated pricing the terms and the market available benchmarks can be attributed to the RFP and bidding process.

Summary

The table below shows the estimated costs to PEBP under the current contract terms compared to the average market competitive benchmarks and ESI renewal offer. Segal reviewed PEBP pharmacy claims data from the period October 1, 2022 through September 30, 2023 and projected forward to the next Contract Year of July 1, 2024 through June 30, 2025. Based on our review of the current contracts and the updated data, we estimate that the ESI renewal offer could yield pricing improvements as outlined below:

- July 1, 2024 through June 30, 2025 - Estimated pricing improvements of up to roughly 3.9% or \$2.2M.

PEBP could realize these pricing improvements by obtaining a pricing contract similar to the market competitive benchmark in a competitive bid scenario.

Table 1 below shows the July 1, 2024 through June 30, 2025 estimated costs under the PEBP current contract and those under the market competitive benchmark, which we consider representative of terms that could be obtained in a new contract under a competitive bid scenario.

Table 1 - July 1, 2024 - June 30, 2025

PEBP	Incumbent	ESI Renewal	Market Benchmark Average
Gross Prescription Drug Spend	\$105,589,500	\$105,589,500	\$109,505,233
(+) Admin Fees	\$1,701,000	\$1,701,000	\$543,633
(-) Member Cost Share	\$18,626,400	\$18,626,400	\$18,626,400
(-) Rebates	\$31,491,400	\$33,696,400	\$38,064,400
Total Net Cost	\$57,172,700	\$54,967,700	\$53,358,067
% Difference from Baseline		-3.9%	-6.7%
\$ Difference from Baseline		(\$2,205,000)	(\$3,814,633)

Vaccines

Vaccines continue to be an evolving coverage category and ESI has proposed an increase the maximum pharmacy administrative fee that will be passed back to PEBP. Currently, PEBP pays the full administrative fee charged by a participating pharmacy to a maximum. Due to changes in Federal subsidies for COVID, and other vaccines, retail pharmacies have increased their administrative fee and the proposed increase in the cap (\$5.00 per vaccine) is intended to keep pace.

No other aspects of vaccine pricing will be affected. Table 2 shows the impacted elements of the vaccine program's pricing.

Table 2 – Changes in Vaccine Administrative Fee Cap

	Participating Pharmacy INFLUENZA	Participating Pharmacy COVID19	Participating Pharmacy ALL OTHER VACCINES	Member Submitted Vaccine Claims (excluding foreign claims)
Pharmacy Vaccine Administration Fee¹	Capped at \$20 per Vaccine claim (currently \$15)	Capped at \$40 per Vaccine claim (currently \$35)	Capped at \$25 per Vaccine Claim (currently \$20)	Submitted amount

¹Vaccine Administration Fee subject to change based on market conditions upon ninety (90) days advanced notice.

The estimated impact of this change is a \$65,000 increase to Plan Year 2025 expenses.

Observations and Next Steps

As seen in Table 1, the market competitive benchmarks that are comparable to PEBP's design could yield about 6.7% in pricing improvements.

ESI provided a renewal offer which Segal evaluated and estimated it could provide PEBP 3.9% (or \$2.2M) in pricing improvements over the current contract for the next Contract Year. These pricing improvements came in the form of improved rebate minimum guarantees, which is in-line with how we have seen recent pricing renewals in the market. The ESI renewal offer is stronger than the current contract terms but not as strong as our market check average benchmarks. However, we feel that this offer is competitive, reasonable, and foregoes the need to perform a PBM RFP since the possible residual pricing improvements from the market benchmarks is minimal.

Table 3 outlines PEBP's current pricing rates compared to the market competitive benchmark contracts. Cells highlighted in red are pricing metrics in which PEBP's current pricing are below or less competitive than the benchmark range. Cells highlighted in green are pricing metrics in which PEBP's current pricing is above or more competitive than the benchmark range. Cells highlighted in orange are pricing metrics in which PEBP's current pricing is within the benchmark range, but Segal believes there is room for improvement in PEBP's rates. Cells with no highlighting are competitive within the range of the market benchmarks. Please note that because PBM pricing contracts are analyzed and underwritten in the aggregate, having individual pricing metrics within the range of the benchmark average does not imply that the entire pricing contract is competitive.

We feel that the biggest room for improvement in PEBP's contract is through improved rebate minimum guarantees. PEBP has acquisition-like pricing through ESI and the AWP discounts and dispensing fees are competitive in the aggregate. However, the rebates are lagging to what we have seen in recently negotiated PBM contracts.

ESI improved in minimum guaranteed rebates, which are highlighted in blue in the ESI renewal column. We feel that the rebate improvements provided by ESI make the renewal offer competitive.

Table 3 - Current Pricing Terms and Benchmark Ranges

PEBP	Current Contract 7/1/2024 - 6/30/2025	ESI Renewal 7/1/2024 - 6/30/2025	Benchmark Range
Retail 30			
Brand Discount	22.60%	22.60%	19.00% - 20.35%
Generic Discount	85.70%	85.70%	85.45% - 86.60%
Dispensing Fee	\$0.35	\$0.35	\$0.40 - \$0.65
Retail 90			
Brand Discount	27.72%	27.72%	21.90% - 24.10%
Generic Discount	88.25%	88.25%	87.15% - 89.60%
Dispensing Fee	\$0.00	\$0.00	\$0.00 - \$0.50
Mail Order			
Brand Discount	21.30%	21.30%	22.25% - 24.35%
Generic Discount	95.05%	95.05%	87.15% - 90.10%
Dispensing Fee	\$17.88	\$17.88	\$0.00 - \$0.10
Specialty Retail			
Brand Discount	22.60%	22.60%	20.90% - 21.60%
Generic Discount	85.70%	85.70%	20.90% - 21.60%
Dispensing Fee	\$0.35	\$0.35	\$0.00 - \$0.65
Specialty Mail Order			
Brand Discount	21.50%	21.50%	20.90% - 21.60%
Generic Discount	87.00%	87.00%	20.90% - 21.60%
Dispensing Fee	\$180.00	\$180.00	\$0.00 - \$0.10
Limited Distribution Drugs			
Brand Discount	21.50%	21.50%	15.90% - 21.35%
Generic Discount	87.00%	87.00%	15.90% - 21.35%
Dispensing Fee	\$0.35	\$0.35	\$0.00 - \$0.65
Rebates (per Brand)			
Retail 30	\$306.80	\$315.00	\$305.00 - \$390.00
Retail 90	\$920.40	\$945.00	\$755.00 - \$1,059.00
Mail Order	\$920.40	\$945.00	\$910.00 - \$1,059.00
Specialty Retail	\$2,246.00	\$2,900.00	\$2,765.00 - \$4,230.00
Specialty Mail Order	\$2,630.00	\$2,900.00	\$2,765.00 - \$4,230.00
Limited Distribution Drugs	\$2,630.00	\$2,900.00	\$2,765.00 - \$4,230.00

ESI provided updated, and improved, financial guarantees for the remainder of the contract term. While these terms improve the value of the contract for PEBP, it would be premature to compare these terms with other contracts at this point in time. It is anticipated that PEBP will conduct an annual market check and we will review the updated terms for Plan Year 2026 at this time next year. This does position the current ESI contract more competitively for that analysis than would have previously been the case. These improved terms are focused on the rebate guarantees and are shown in Table 4.

Table 4 – Rebate Guarantees Plan Years 2026 - 2028

Rebates (per Brand)	Current	Proposed	Improvement
Plan Year 2026			
Retail 30	\$326.30	\$335.00	\$8.70
Retail 90	\$978.90	\$1,005.00	\$26.10
Mail Order	\$978.90	\$1,005.00	\$26.10
Specialty at Retail	\$2,246.00	\$3,265.00	\$1,019.00
Specialty at Mail	\$2,997.00	\$3,265.00	\$268.00
Plan Year 2027			
Retail 30	\$349.30	\$360.00	\$10.70
Retail 90	\$1,047.90	\$1,080.00	\$32.10
Mail Order	\$1,047.90	\$1,080.00	\$32.10
Specialty at Retail	\$2,246.00	\$3,605.00	\$1,359.00
Specialty at Mail	\$3,335.00	\$3,605.00	\$270.00
Plan Year 2028			
Retail 30	\$359.10	\$370.00	\$10.90
Retail 90	\$1,077.30	\$1,110.00	\$32.70
Mail Order	\$1,077.30	\$1,110.00	\$32.70
Specialty at Retail	\$2,246.00	\$3,925.00	\$1,679.00
Specialty at Mail	\$3,532.00	\$3,925.00	\$393.00

Based on our review of the improved financial guarantees, we would recommend accepting ESI's proposal and execute a contract amendment with the updated pricing for the July 1, 2024 through June 30, 2028 Contract Years, with the continued understanding that PEBP can exercise an annual market check review. Segal can review the draft amendment and pursue further negotiations as needed.

We look forward to discussing these results with you at your convenience. Please feel free to reach out at any time with any questions or concerns you may have.

Richard Ward, FSA, FCA, MAAA
 Senior Vice President

cc: Michelle Weyland, Chief Financial Officer, PEBP
 Amy Cohen, Segal
 Scott McEachern, Segal
 Kautook Vyas, Segal