



# Milwaukee County

## Legislation Text

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**File #:** 11-132, **Version:** 1

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From the Interim Director, Employee Benefits Division, requesting authorization to execute a three-year contract extension for administration of Milwaukee County's prescription drug coverage with Medco. **(Referred to the Committees on Finance and Audit and Personnel.)**

### Issue/Background

In July of 2008, the Personnel Committee and the Finance & Audit Committee authorized the Director of the Employee Benefits Division to execute a contract with Medco Health Solutions for Pharmacy Benefits Management (PBM) services. The contract was awarded for January 1, 2009 through December 31, 2011, with the intention to reevaluate the market for 2012.

Since that time, Medco has proven their value as a partner in Milwaukee County's efforts to control healthcare costs. The improvements to pricing have contributed to the overall healthcare savings realized in 2009 and 2010. Medco's support through enhancements to our clinical management initiatives have also helped to ensure appropriate and efficient use of the funds the County invests in providing pharmacy coverage. The Employee Benefits Division is satisfied with the service Medco has provided to employees and administrators.

In December 2010, at the County's request, Cambridge Advisory Group initiated discussions with Medco to explore an extension of the current agreement from 2011 through 2014. The primary objective of the extension was to secure immediate and ongoing price concessions from Medco in exchange for the additional guaranteed contract years.

In addition to the savings, the Employee Benefits Workgroup requested, and Medco has agreed to include the following stipulations:

- Extending the contract term to expire on 12/31/2014 in order to keep the pharmacy contract expiration date consistent with the expiration of the next medical contract.
- A market check provision allowing the County to solicit alternative bids following the 2012 plan year. Medco is required to keep their pricing within 1% of the most favorable alternative bid.
- A provision recognizing the County's right to re-open the contract if the County engages in a cooperative purchasing coalition that increases the total number of covered lives.

### Summary of Financial Impact

Cambridge Advisory Group estimates savings of approximately \$2.6 million for claims processed from 4/1/2011 through 12/31/2011 due to improvements over the current pricing for brand name and generic drugs, guaranteed rebates, and dispensing fees. This figure is based on a reduction to the total cost of generic medications of 6.3%, and a reduction to the total cost of brand name medications of 4.0% applied over the 9-month period. It is also based on 2010 claims experience adjusted for inflationary trend.

An additional \$200,000 credit will be applied to the County in lieu of retroactively applying the improved terms to the first three months of the year. Finally, a renewal credit of up to \$4.00 per covered household (approximately \$44,000) is available to the County to offset administrative costs incurred by the County (e.g.

consulting fees related to the renewal, communications, open enrollment charges, etc.). The total estimated savings for 2011 as a result of the proposed renewal is \$2,844,000.

Further price concessions take effect in 2012 and 2013 to ensure competitive rates throughout the life of the contract. The breakdown of subsequent year savings is provided in the accompanying fiscal note.

### **DBE Commitment**

Medco has consistently met Milwaukee County's requirements for the participation of disadvantaged business enterprises and will be obligated to continue with full compliance in this program throughout the duration of the contract. The Benefits Division will work with the Community Business Development Partners to adjust DBE participation goals to reflect the proposed fee schedule.

### **Additional Considerations**

The Employee Benefits Workgroup noted potential concern regarding the award of a multi-year contract of this significance without soliciting competing bids. Typical process would require an RFP. However, the proposed extension creates a unique opportunity to capture savings in 2011 that can only be attained by extending with Medco. A proposed contract with any other PBM would only be effective beginning in 2012. Further, Medco's unique therapeutic resource centers and clinical management initiatives are key components to the pharmacy savings included in the 2011 adopted budget. As such, the workgroup felt that a sole source contract would be appropriate.

The workgroup also discussed the possibility of attaining greater price concessions in the competitive RFP process. However, both the Employee Benefits Division and Cambridge Advisory Group agree that the proposed pricing is best in class. Given the limited competition among major PBMs, it is unlikely that the competitive RFP process would yield a significant improvement over the terms of the proposed extension. The opportunity cost of forgoing the bidding process is also mitigated by the improvements to pricing in 2012 and 2013, and the County's ability to exercise the market check provision of the contract.

### **Recommendation**

The proposed extension of the Medco PBM contract provides the County with a unique opportunity to achieve an estimated \$2.8 million in pharmacy savings in 2011, while also securing best in class pricing for 2012 through 2014. Financial and contractual terms of the extension are favorable, and we are not likely to see significant improvements by waiting for 2012 and issuing an RFP. The proposed extension includes provisions allowing the County to re-evaluate the market during the life of the contract.

As such, the Employee Benefits Workgroup and Employee Benefits Division concur with the recommendation by Cambridge Advisory Group to pursue the extension of the Medco PBM service contract in lieu of publishing a request for proposal.

Therefore, it is requested that the County Board of Supervisors authorize the Interim Director, Employee Benefits Division, to extend the contract Medco Health Solutions for the administration of Milwaukee County's prescription drug coverage through the conclusion of the 2014 plan year.