



News from:

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LEMBO ANNOUNCES FIRST-OF-ITS-KIND PHARMACY CONTRACT THAT ESTABLISHES NEW ERA OF DRUG PRICING AND TRANSPARENCY

State Comptroller Kevin Lembo today announced that his office has reached a contract agreement with CVS Caremark, the state's pharmacy benefit manager (PBM), that changes the paradigm of how pharmacy benefits are managed and establishes one of the most innovative and transparent pharmacy benefits contracts in the nation.

This new contract will not only provide a new era of drug pricing transparency, but will also significantly reduce the state's pharmaceutical costs by approximately 10 percent. These savings will go a long way to help achieve the state's required budget savings targets.

"This new contract is the first-of-its kind in the nation between an employer and a major pharmacy benefit manager that gives the state a full line of sight into pharmaceutical costs," Lembo said. "Even more importantly, it extends this unprecedented transparency to providers who will have a complete view of the true net costs of medications that they prescribe – and that of any therapeutic equivalents – so that doctors and all prescribing providers can make fully informed decisions to help drive down pharmacy costs and improve outcomes for all."

Lembo administers health care and prescription benefits on behalf of more than 200,000 public employees, retirees and their dependents, including employees from over 100 municipal groups that should benefit from the savings of this new contract.

"Connecticut is calling the shots on prescription drug costs and quality," Lembo said. "Taxpayers and patients are ready for a new way of doing business. This contract sets an example for other large employers across the nation to demand what is right beginning with

details about who is paying who – and requiring that pharmacy benefit managers and drug corporations pass on all cost savings to taxpayers and consumers.”

“We are grateful for CVS Caremark's willingness to be a continued partner to Connecticut to ensure our state workforce and their families have access to quality and affordable healthcare,” said Connecticut Governor Ned Lamont. “This new contract is a major accomplishment towards achieving the structural healthcare savings in the adopted budget. As one of our state's largest employers, we value the leadership CVS has demonstrated in helping to reduce drug costs that will further assist Connecticut families at a time when they need help the most.”

“Connecticut has long been a model of achieving win/win savings in health care through the collective bargaining process,” said Carl Chisem, President of the Connecticut Employees Union Independent and member of the joint Healthcare Cost Containment Committee. “With the leadership of the Comptroller and his staff, we continue to move forward by keeping workers healthier and costs down for everyone.”

“We’re always listening to our customers and evolving to meet their needs, and our renewed contract with the State of Connecticut demonstrates our commitment to greater transparency, flexibility and cost predictability,” said Derica Rice, president, CVS Caremark, the PBM business of CVS Health. “We are privileged to be able to continue our key role on the State’s behalf to ensure their employees have access to affordable medicines and innovative programs that make starting and staying on therapies simpler and easier.”

The state is altering the dynamic of how it pays PBMs with a more transparent system of administrative costs and by requiring the state’s PBM to disclose all revenue sources, with the benefit entirely passed on to the state. We have a broken national model for pharmaceutical pricing where employers and patients know little to nothing about where their money is going, Lembo said.

“The State of Connecticut is seeking a new paradigm in pharmacy benefit management contracting by requiring true transparency and the alignment of incentives between the state employee health plan, patients and the PBM,” Lembo said. “We are grateful to CVS Caremark for embracing a new way of doing business that will likely compel others in the market to do the same.”

Lembo said major features of the new contract include:

Transparency: The entirety of all drug manufacturer payments to the PBM related to the state will be passed on to the state, and the state will fully know and only pay the amount that the PBM paid each pharmacy for the cost of filling prescriptions with no added so-called “spread pricing,” the practice of PBMs charging plans more than what they paid. And

the amount paid for drugs will be based on best-in-class discounts with the state receiving the full value of the PBM's negotiated network pharmacy rates. Under the new contract, CVS Caremark will also provide frequent data feeds to disclose all net costs, post manufacturer rebate, so that the state has full information as to actual costs of medication, and these requirements will be subject to audits to verify compliance.

New Auditing Authority: The state will have expanded audit authority to ensure CVS Caremark is complying with new transparency and price guarantee models.

New Rebate Policy, Prescription Amounts and Incentives for Low-Cost Generics: Drug rebates, where applicable, will be immediately provided to consumers at the pharmacy counter. The state has also worked with CVS Caremark to offer consumers a reduced generic copay if a lower-cost therapeutically equivalent alternative is available. Lembo said this requirement will prevent the troubling practice of some PBMs offering lower copays for more expensive drugs over cheaper generics.

The state will also put an end to prescription drug waste by limiting first-time prescriptions to 30-day fills, because analysis has found that 30 percent of 90-day first-time fills were never refilled, indicating medication waste.

New Data Sharing with Doctors, Nurses and Other Prescribers: The state will partner with CVS Caremark to enhance and expand their existing real-time benefits technology, currently embedded into prescribers' electronic medical records systems. These improved capabilities will allow prescribers to see the actual cost of the medications they are prescribing alongside therapeutically equivalent alternatives so the prescriber will have the information they need to make an informed choice when otherwise interchangeable drugs are available, thus reducing the cost of care. Once established the comptroller's office will advocate expansion to other health plans including Medicaid and other private payers, creating a powerful new tool to drive down net pharmacy drug costs.

"The State of Connecticut has chosen to disrupt the traditional pharmacy benefit management contracting practices with an arrangement based upon transparency, partnership and collaboration in which the incentives of the PBM align with the interests of the health plan and patients," Lembo said.

Transparent and Controlled Acquisition Cost Pricing: In most instances the state will reimburse CVS Caremark the amount it pays the pharmacy, however, for mail order and specialty drugs dispensed directly from CVS Caremark's own pharmacy, this arrangement is not possible. Instead the state will receive acquisition cost pricing, which calculates the actual cost for CVS Caremark to acquire and dispense drugs to state plan participants, which is then charged to the state as "acquisition cost" for such drugs. The fees that CVS Caremark charges above the acquisition cost are fixed and transparent so that the state has a clear line of sight into the revenue of its partner PBM, ensuring that reimbursements for their services are fair and transparent. The contract includes detailed definitions and descriptions relative

to the calculation of acquisition cost, which the state will audit annually through an independent audit firm.

New State Oversight on Financial Terms and Drug Classification Changes: The contract includes specific limitations and notification requirements on how and when the PBM can make adjustments to the financial terms and their ability to redefine drugs in different classes (brand, generic, specialty etc.). Typical contracts give almost carte blanche to the PBM in making such adjustments, which could have a material impact on total costs. This contract is different.

Win-Win Continuous Access to PBM's Discounts: The Contract also includes multiple provisions to ensure that the state's pricing improves as the PBM improves its pricing with network pharmacies. Annually, the state's guaranteed discounts will improve to reflect improvement in the contract rates the PBM has with the network pharmacies utilized by state plan participants. This adjustment is in conjunction with annual market checks in which the state's health care consultants will review the terms provided to other large groups by the PBM to ensure the state's pricing guarantees are at least as good as those offered to other large clients. This will ensure the state retains market-leading discounts throughout the term of the contract.

All Revenue the PBM Receives from Pharma Manufacturers on Behalf of the State Goes to the State: All revenues from pharmaceutical manufacturers that have any relation to the utilization of state plan participants will be passed through to the state. The PBM will not retain any revenues generated from manufacturers as a result of state plan drug utilization. The contract places similar limits on revenue recovered from network pharmacies. Any such revenues, with the exception of a small administrative charge for electronic prescriptions charged by the PBM, must be credited back to the state.

Finally, the PBM has committed to an annual limit on administrative fees that can be charged, providing the state an additional layer of protection against rising pharmacy costs.

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