

2021 Market Check: *A Timeline*

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Success breeds success. Last year's Market Check (the 2020 Market Check) was among the most successful in Employers Health's history in terms of pricing improvements, new business acquisition and client retention. Building off that momentum, Employers Health set out to eclipse last year's results with the 2021 Market Check, and as of the writing of this article, it is on track to do so.



Market Check is a term that exists in many PBM contracts but is usually reserved for larger PBM clients. While this article focuses specifically on the process with CVS Health, we follow a similar process with our other PBM contracts. At its core, a Market Check provision allows the PBM client to renegotiate pricing with the PBM at some level of frequency. For some clients, the frequency is after the second contract year and every other year thereafter. For other clients, the frequency is every year and a half. And still for other clients, the frequency may be annual but subject to a pre-determined cap. Like many other terms in PBM contracts, Market Check provisions can vary significantly from contract to contract.

Employers Health conducts its Market Check annually on a calendar year basis because it best coincides with the decision-making process for our clients and prospective clients. Employers Health's negotiation of the Market Check improvement is based on market dynamics rather than some pre-determined formula. In this way, the Employers Health Market Check ensures Employers Health clients and prospective clients enjoy competitive pricing throughout their participation in an Employers Health PBM program.

The Market Check process typically spans 15 to 18 months before the January 1 effective date of the newly negotiated rates. As an example, Employers Health began working on the 2022 Market Check in September of 2020. The process begins with an evaluation/strategy phase, then moves to a preparation phase, followed by a negotiation phase and finally concludes with a communication phase. During each Market Check, numerous issues are negotiated and the phase for each issue can vary and change over the course of the process. That said, the communication phase is the stage of the process where CVS Health and Employers Health have reached mutual agreement on all issues and executed a restated Pharmacy Benefit Services Agreement.

OCT - DEC

STRATEGY

- Review YTD and projected sales/retention results
- Determine contractual and programmatic structural changes to investigate, if any
- Engage third party national pharmacy practice to review pricing

NOV - JAN

PREPARATION

- Develop contract restatement incorporating structural changes, if any
- Review third party pricing intelligence
- Combine intelligence with analysis to determine negotiation positions

FEB - MAY

NEGOTIATION

- Provide contract restatement to CVS legal for review and negotiation
- Seek agreement with CVS on structural changes, if any
- Provide CVS with proposals/counter-proposals on negotiation positions

JUNE - JULY

COMMUNICATION

- Finalize contract restatement
- Calculate contractual improvements resulting from the market check
- Disburse communication material relative to the market check to each client

The evaluation/strategy phase of the 2021 Market Check began in September of 2019. As we evaluated our efforts for the 2020 Market Check, we determined that the Employers Health PBM contract was evaluated 128 times for new business opportunities, with only one-third of those opportunities coming from established business partners. This highlights the growth of Employers Health's sales efforts and the transparency of the Employers Health contract. Many competitors of Employers Health withhold their PBM contract from evaluation, but Employers Health believes that PBM contract review is an integral part of any PBM selection process. Plus, having our contract reviewed to that extent led to an unprecedented amount of market intelligence to determine our strategy for 2021.

Through our evaluation of the 2020 Market Check we determined that the value of the contract was solid. However, much of our competition presented their PBM arrangements in ways that make them difficult to evaluate on a level playing field. To combat this challenge, Employers Health doubled down on its message of transparency and worked closely with its business partners to help identify and quantify the value of differing terms.

Having determined that no structural or programmatic changes to the PBM contract were necessary, Employers Health prepared for the 2021

Market Check negotiations by developing a proposed restated Pharmacy Benefits Service Agreement that would become effective January 1, 2021. That document was delivered to CVS Health in January of 2020. From there, negotiations ensued. From late January to early April, Employers Health and CVS Health exchanged no less than 12 proposals and counter-offers. Employers Health and CVS Health reached mutual agreement on the 2021 Market Check pricing in early April of 2020, the restated Pharmacy Benefits Service Agreement was fully executed by early May of 2020 and communication of the 2021 Market Check results were disbursed to clients by the end of June.

The newly negotiated pricing for 2021 is 8.3% better for the Employers Health book of business than current pricing for 2020.

This represents a new record for the largest pricing improvement in Employers Health's history. Much of the improvement was derived from increased rebate guarantees to keep brand drug Average Wholesale Price (AWP) increases in check and to maximize the value of formulary choices. And, as always, Employers Health strove to set the rebate guarantees at a level that will equal or exceed CVS Health's ability to collect so that maximum rebate value is passed through to our clients through the guarantees.

2021 IMPROVEMENT 8.3%

- Improved rebate guarantees
- Improved generic guarantees
- Improved out-year price points except Mail/Maintenance Choice Brand

2020 IMPROVEMENT 6.7%

- Improved rebate guarantees
- Improved generic guarantees
- Improvements in all out-year price points except Mail/Maintenance Choice Brand

2019 IMPROVEMENT 5.4%

- Improved rebate guarantees
- Improved generic guarantees
- Improved out-year price points

2018 IMPROVEMENT 6.0%

- Improved rebate guarantees
- Improved generic guarantees
- Improved specialty discounts
- Improved out-year price points

2017 IMPROVEMENT 5.9%

- Improved rebate guarantees
- Improved generic guarantees
- Improved out-year price points

The strength of the 2021 Market Check is attributable to the efforts of many, not the least of which is CVS Health. Beginning in October of 2019 CVS Health leadership was involved in monthly meetings with Employers Health discussing the 2021 Market Check. With backing from CVS Health leadership the Market Check process involved no less work, but issues were resolved much more quickly and decisively, and synergies were created in the vetting of competitive intelligence. Ultimately, the 2021 Market Check process was concluded earlier in the year than any Market Check since 2011, and it derived more value for our clients than any Market Check in Employers Health's history.

Another key to the success of the 2021 Market Check was the efforts of the Employers Health business development team. Over the course of 2019 and 2020, the team worked tirelessly to build its network of business partners and to gather competitive market intelligence. This

expanding network delivered a record number of new business opportunities and information concerning other PBM programs. When this year comes to an end, the number of times the Employers Health PBM contract was evaluated far-exceeds the 128 times it was evaluated in 2019. These evaluations and the data derived from them helped Employers Health negotiate Market Check rates that have led to successive new business acquisition records for Employers Health as well as a record setting client retention rate of 98%.

As mentioned, Employers Health is already planning for the 2022 Market Check and is developing strategies to maintain momentum and its status as one of the fastest growing pharmacy collectives in the country. This growth not only increases our leverage to provide best in class pricing for our clients, but ultimately puts money back in their pockets, enabling them to invest in their organizations, their employees, their communities and core priorities.