



Taking Control of Prescription Drug Cost: Trends, Marketplace and Lockton Service Offerings

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Lockton at a Glance

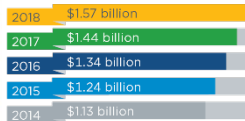
Unmatched global reach
and local understanding.

Lockton is a global
professional services firm.



\$1.57B

Revenue



96%

Client retention
11% above the industry average



7,000+

Associates



95+

Offices



52,000+

Clients



\$29+

BILLION

In premium volume worldwide



Key services and solutions

- ▶ Affinity programs
- ▶ Aviation
- ▶ Casualty insurance
- ▶ Claims management
- ▶ Compensation consulting
- ▶ Cyber risks
- ▶ Directors and officers
- ▶ Employee benefits
- ▶ Environmental
- ▶ Health reform
- ▶ Health risk solutions
- ▶ Marine
- ▶ Mergers and acquisitions
- ▶ Personal lines — private clients
- ▶ Political and trade credit risk
- ▶ Product recall
- ▶ Professional indemnity
- ▶ Property insurance
- ▶ Reinsurance
- ▶ Retirement services
- ▶ Risk control
- ▶ Risk finance
- ▶ Strategic risk management
- ▶ Surety
- ▶ War and terrorism
- ▶ Wealth management and protection



Key Topics

- 1 Rising Pharmacy Costs: Current and Future Trends
- 2 Pharmacy Ecosystem and Marketplace Overview
- 3 Negotiating Client Favored PBM Contracts
- 4 Lockton Pharmacy Consulting Services

Rising Pharmacy Costs: Current and Future Trends



#1

Prescription drug coverage is the **most** utilized healthcare benefit



20-30%

Percentage of cost of employer healthcare benefits attributed to pharmacy



50%

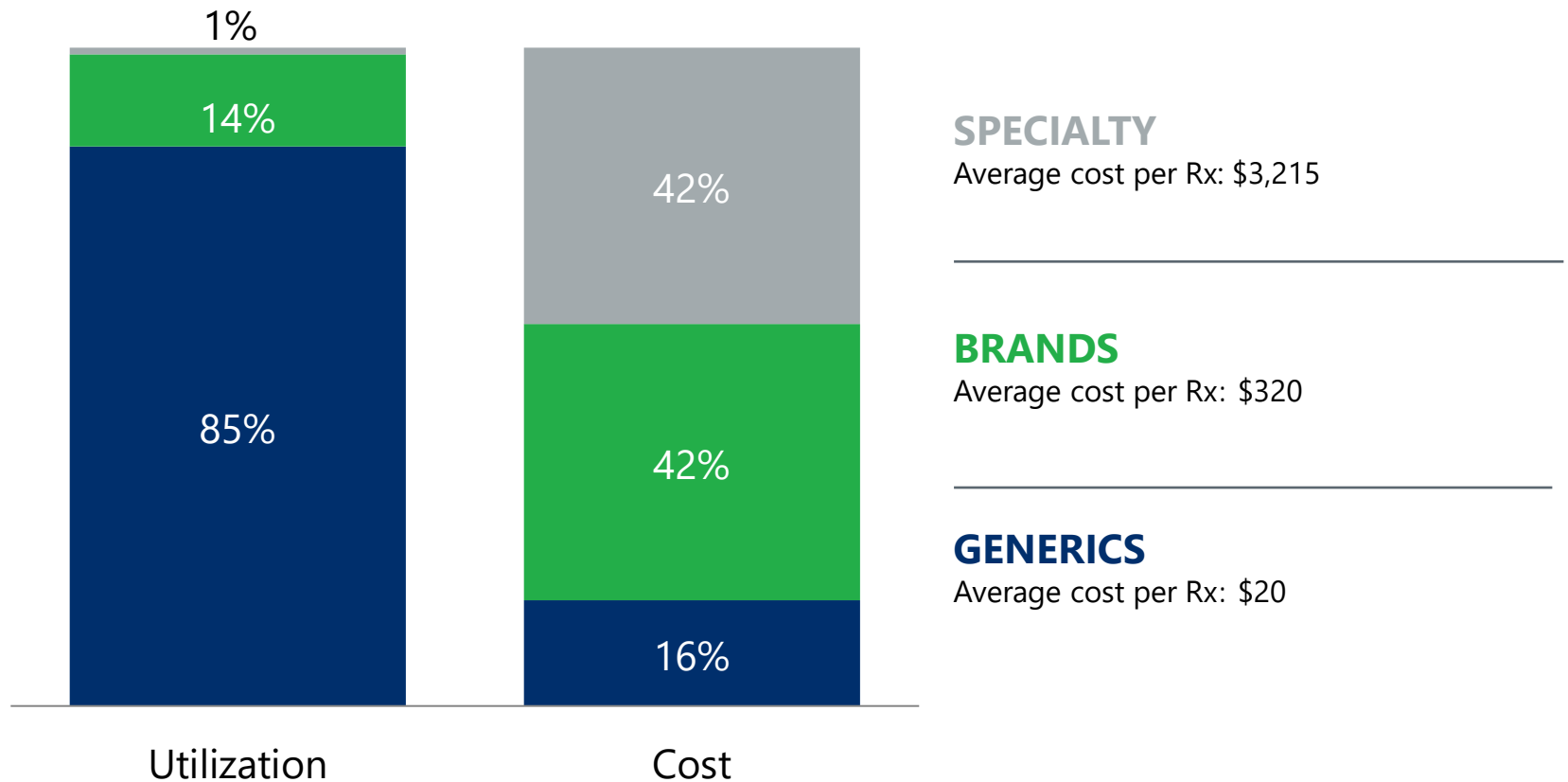
Estimated percentage of Specialty drugs cost of US total drug spend by 2020¹



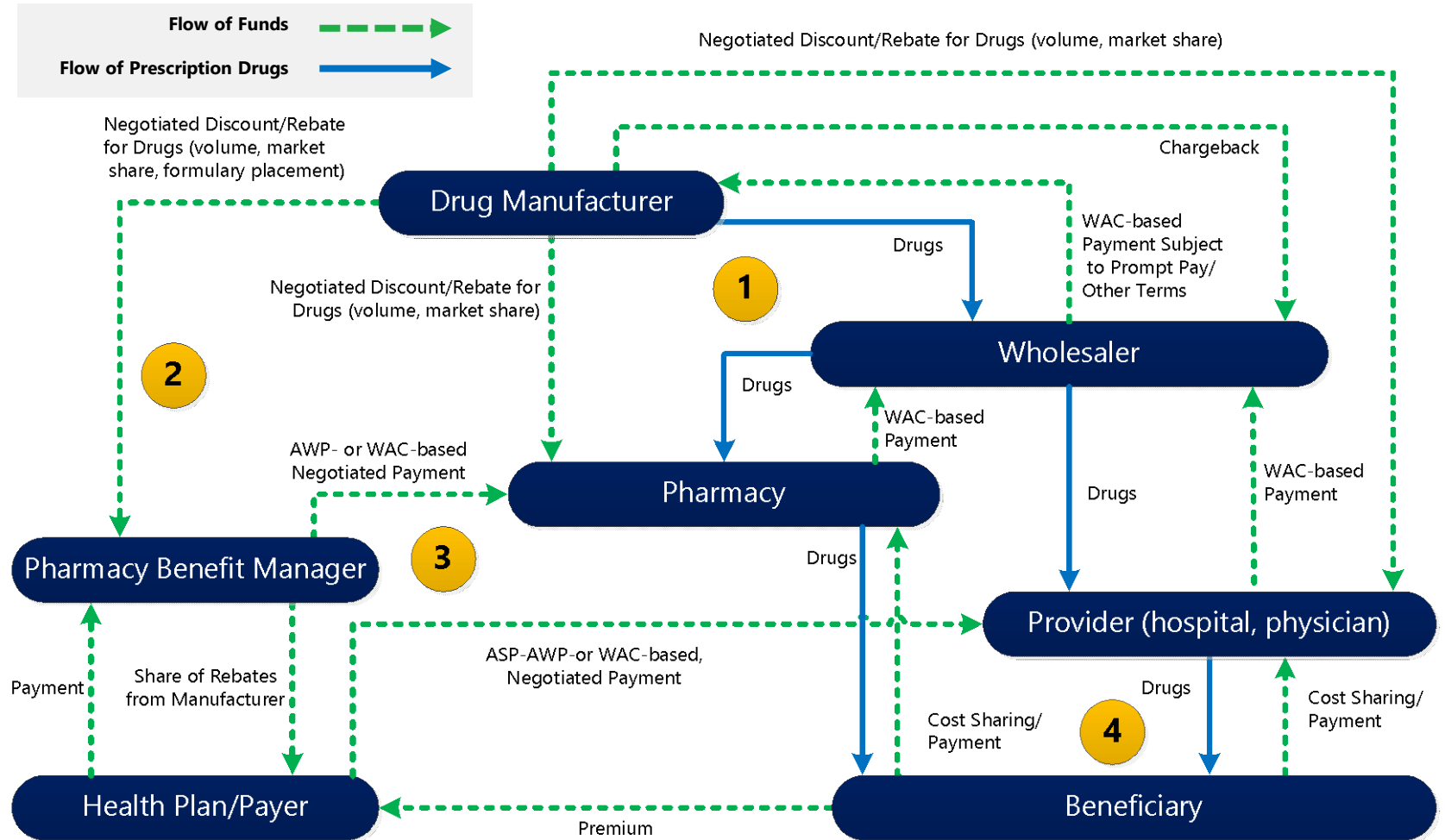
78%

Of new drug approvals in 2017 were Specialty drugs²

A Deeper Look: Drug Distribution Utilization and Cost



The Complexity of the Pharmacy Ecosystem



The Pharmacy Marketplace is Dynamic

Large carriers have responded to potential new market entrants with consolidation and vertical integration







Other PBMs:



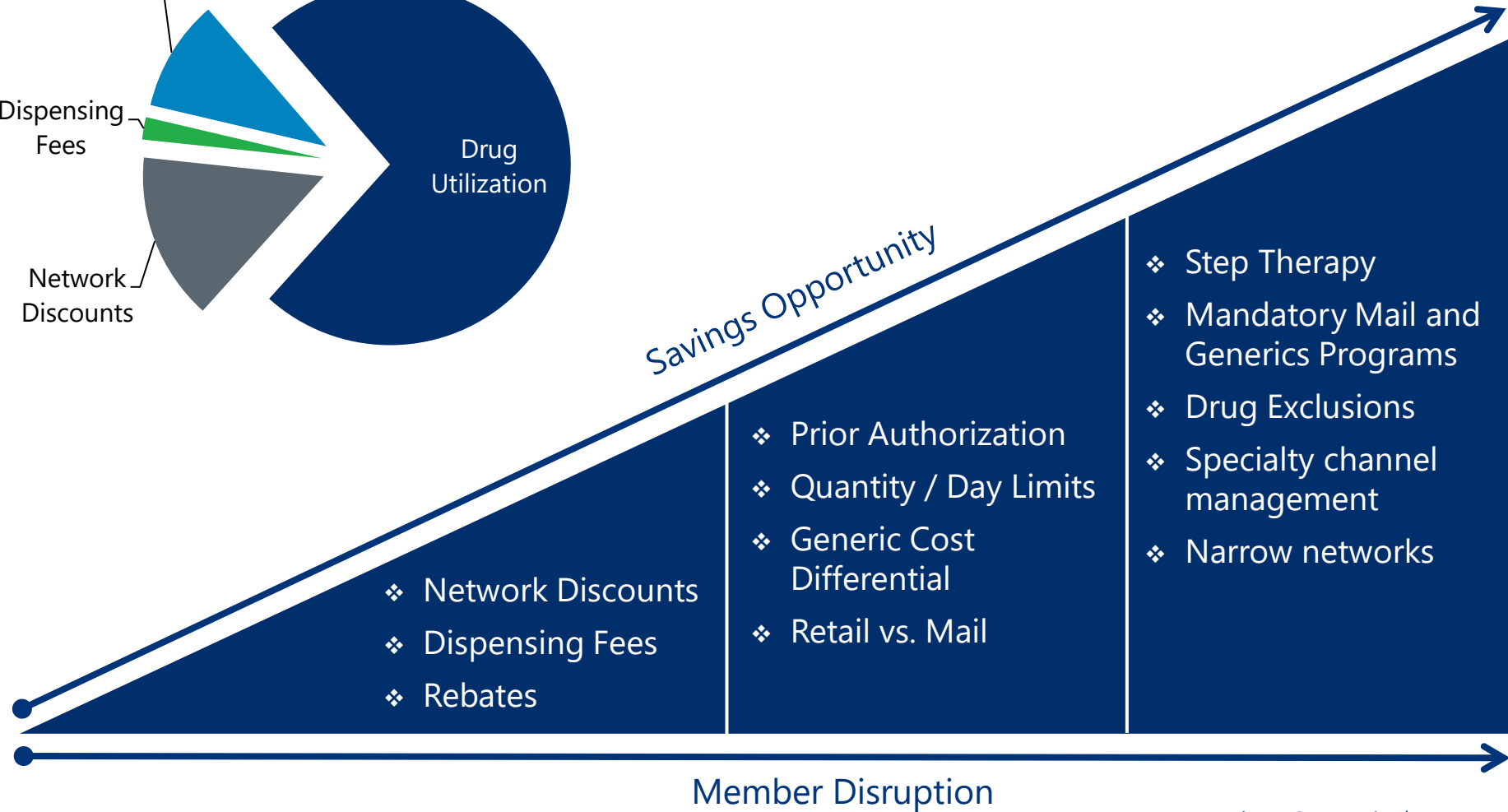
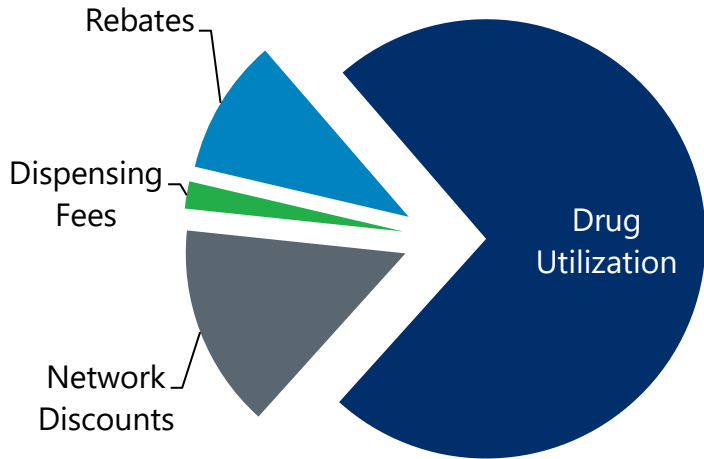
Potential New Entrants?:



Key Components of a Pharmacy Contract

	Description	\$ Impact
Ingredient Cost Discount Guarantees	Percentage discount (off AWP) applied to pharmacy claims. Different discounts based on generic/brand, channel and day supply	
Dispensing Fees	Per claim fee charged to the plan sponsor	
Rebates	Discounts negotiated by PBMs and Carriers for Brand drugs. These may be fully passed onto the payor, only a percentage or given as an admin fee credit	
Contractual Language	Underlying language which includes definitions, requirements, caveats and details behind discount guarantees and rebates	

Pharmacy Cost Management Tactics



Lockton Pharmacy Analytics Services



Contract Reviews

- Ensure appropriate definitions for brand, generic, and AWP
- Structure dollar-for-dollar pricing guarantees
- Structure objective audit procedures
- Define clear algorithms for guarantee and penalty calculations



Diagnostic

- Assesses performance of current Contract
- Pricing terms, disease state and drug mix analysis with drug interchange opportunities
- Project employer savings if we shopped PBMs today
- Specialty drug review



PBM Marketing & Renewal

- Objective approach with transparency and no carrier/PBM specific incentives
- Rigorous financial valuation of all proposals, quantify drug mix savings and pricing terms savings
- PBM must submit to certain contract provisions, guarantees, and annual audits prior to being awarded business
- Implementation support and ongoing maintenance



Audit

- Annual pricing reconciliation based on all Rx claims
- Based on all information affecting employer cost: discounts, dispensing fees, rebates, admin fees, brand vs. generic classification, and formulary lists
- Employers receive penalty check if guarantees were not met

Pharmacy Contract Evaluation



Best-in-Class Pharmacy Agreement



Ensure Outcome via Audit

Pricing Reconciliation Audit

Ensure All Contractual Guarantees are Met

Lockton Success Story

\$146,191

Pharmacy dollars recouped

- *6% of client's total 2017 Pharmacy Spend (\$2.4M) was recouped*
- *Carrier fell short of all discount guarantees*

- Lockton calculates discounts, dispensing fees, and rebates achieved for each specific channel based on contractual inclusions and exclusions
 - Each pharmacy claim is run through our proprietary pricing reconciliation tool
 - E.g. Retail Brand, Retail Generic, Retail Specialty
- Results are reviewed by Lockton pharmacy analysts and consultants
 - Ensure that each claim is categorized appropriately (e.g. a mail generic NDC is grouped for a mail generic discount, not a Brand or Retail generic discount)
- Lockton also requests that the PBM provide their own audit analysis
 - Allows us to determine whether both parties agree on whether a shortfall or surplus exists
 - Lockton completes our analysis first, compares findings, and handles the correspondence with your PBM

Lockton Takes an Unbiased Approach to Pharmacy Benefit Management

Coalitions and Cooperatives

- Group of employers in a similar industry or geographic area form a coalition
- Larger collective provides group purchasing services on pharmacy benefits
- Employee benefit firms may offer a pharmacy coalition

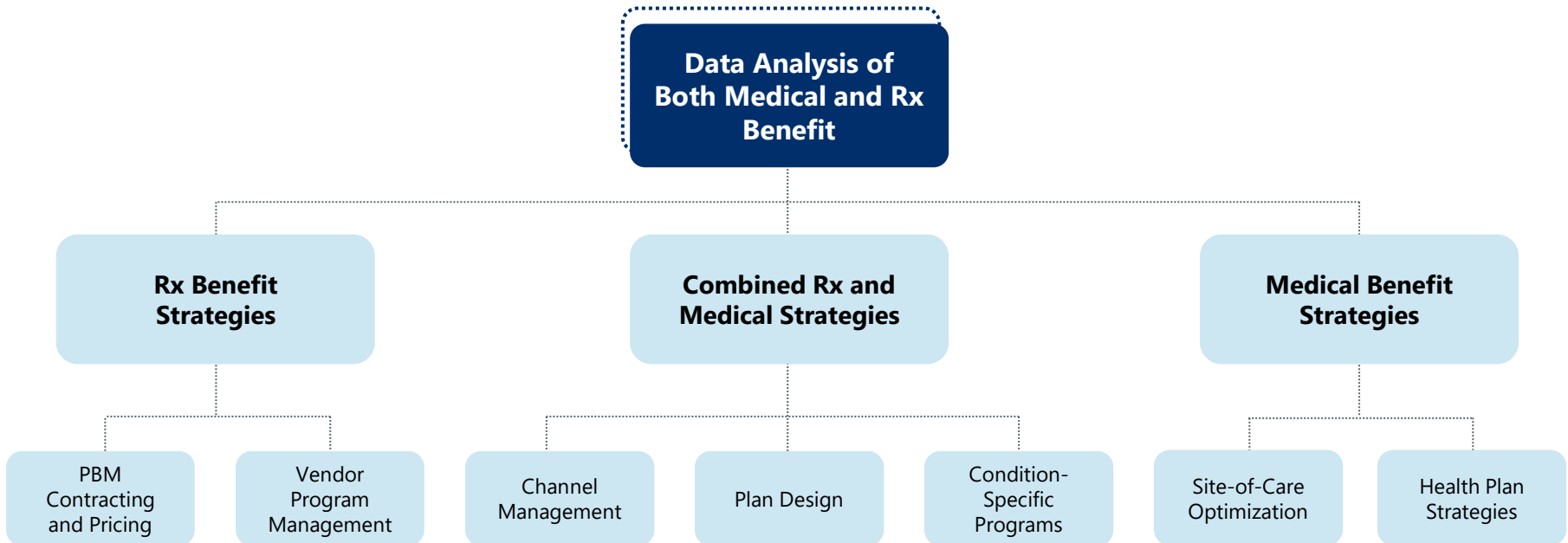
Evaluating Coalition Options – Asking the Right Questions

- Are financial guarantees at the coalition or client level?
- How flexible is the coalition in terms of plan designs, formularies, and implementing clinical or utilization management programs?
- What are the fees?
- Are you getting a strong, market competitive contract?
- What access do you have to your own data?

Our Results

- Lockton has successfully helped clients evaluate coalition and direct contract options
- In some cases, coalition options have made sense for clients, however we have also been successful in helping clients exit coalitions to direct contracts with significant savings from a reduction in fees and improved financial terms

Developing a Comprehensive Pharmacy Strategy



Using Infolock® and pharmacy analytics reporting, Lockton gives the plan sponsor a complete picture of pharmacy costs and provides coordinated strategies across the medical and pharmacy benefit.

Next Steps





If you are interested in learning more about Lockton Pharmacy services and exploring a pharmacy optimization project, please contact:

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