

SERVICES CONTRACT

ITEM: 1-S **Agency Contact:** Anne Timmons
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DEPARTMENT/PROGRAM: Budget and Management (DBM)
Office of Personnel Services and Benefits
Employee Benefits Division

CONTRACT ID: F10B0400006;
Pharmacy Benefits Plan Management Services and
Pharmacy Purchasing Pool Management
ADPICS NOs. F10B0400006 (Admin.)
F10B0400007 (Claims)

CONTRACT DESCRIPTION: Contract to provide pharmacy benefits management and prescription coverage for State of Maryland employees, retirees, satellite organization employees, direct pay enrollees, and their respective eligible dependents. The plan is self-funded by the State and is a group health plan administered as part of the State Employee and Retiree Health and Benefits Program. The Contract includes management of the Maryland Rx Program, a purchasing pool for pharmacy benefits for State Employee and Retiree Health and Welfare Benefits Program, eligible local government entities, and qualifying not-for-profit organizations in Maryland (see Requesting Agency Remarks below).

AWARD: Express Scripts, Inc.
St. Louis, MO

TERM: 2/9/2012 - 6/30/2017

AMOUNT: \$2,433,094,930 Est. Total
(Approx. 5 Years; 5 Months)

PROCUREMENT METHOD: Competitive Sealed Proposals

BIDS OR PROPOSALS: See Attachment

MBE PARTICIPATION: 0.12% (See Requesting Agency Remarks below)

PERFORMANCE SECURITY: None

INCUMBENT: Catalyst Rx
Rockville, MD

REQUESTING AGENCY REMARKS: A notice of the availability of the Request for Proposals (RFP) was advertised on *eMarylandMarketplace.com*. Copies of the solicitation notice were sent directly to 41 prospective vendors. A copy was also sent to the Governor's Office of Minority Affairs.

Five proposals were received in response to the RFP, and three were deemed to be reasonably susceptible of being selected for award (see Attachment). One proposal was determined not to be reasonably susceptible of being selected for award for MBE issues. One Offeror was determined to be not responsible because it did not meet the minimum qualifications.

The RFP provided that technical factors were given equal weight to financial factors in the overall award determination. Award is recommended to Express Scripts, Inc. (ESI). ESI was the second highest technically ranked offeror with the lowest price and was determined to be the most advantageous offeror to the State.

This contract provides a Prescription Drug Benefits Plan ("Plan") and related management services for Maryland employees, retirees, their dependents and other participants. The Plan covers the cost of approved prescription drugs, subject to certain copayments.

This contract will replace the current contract, which will terminate effective 5/15/2012. Because there is a need for a 90 day transition period to this contract, work will begin promptly upon approval by the Board of Public Works (BPW). However, no payments are required to be made to the Contractor until after 5/16/2012. The transition will allow time for the Contractor to prepare for implementation and ID card issuance prior to 5/16/2012 and to participate in employee/retiree open enrollment activities beginning in April, 2012. The incumbent contractor will continue to provide administrative and management services through 5/15/2012.

The Plan will continue to serve satellite agencies and individuals eligible for participation in the Consolidated Omnibus Budget Reconciliation Act (COBRA) Continuation of Coverage activity. It is the only drug plan offered by the State to its approximately 105,000 current members (employees and retirees) living in Maryland, across the United States, and abroad. When employees' and retirees' dependents are added, over 200,000 individuals will be covered by this contract.

This contract also continues other features which include *pass-through pricing* and *full-disclosure of revenue* (collectively called *transparency* in the RFP). These features require the Contractor to fully disclose all revenue streams and pass them through to the State.

As in the current contract, this contract may be used by Maryland local governments and non-profit organizations that participate in the MD Rx Pool.

Like the current contract, this contract provides drug utilization reviews (DURs). DURs are used to monitor eligibility, use, and to improve quality in the delivery of prescription drugs. DUR activities help control costs by: decreasing the number of prescriptions that aren't needed, decreasing inappropriate drug use, and persuading non-compliant physicians to conform to the Plan's guidelines.

Aside from performing administrative duties, an integral part of the scope of work in this contract is the inclusion of a network of pharmacies. The Contractor will continue to provide a sufficiently sized and dispersed network of pharmacies to serve State employees and retirees.

The *Award Amount* above is the total estimated cost of both projected fixed fees (administrative fees) and projected claims, using a minimum guaranteed discount and projected increases for enrollment, utilization and prescription drug trend, which is the annual rate of change of prescription drug costs (per member or per primary contract holder). The *Award Amount* takes into account projected increases over all five years of the contract term.

The *Financial Price* is based upon a financial evaluation model to allow for proper comparison between offerors, as shown in the Attachment. The RFP financial model used the FY2009 pricing structure with a flat trend and static enrollment. A projected number of prescriptions and non-discounted claims to be processed were outlined in the model. Each vendor was asked to provide maximum fees for administration and dispensing and minimum rebates and guaranteed discounts on costs. Claims costs, however, are not fixed, despite the use of guaranteed pricing points, and are dependent on actual utilization by covered individuals in the Plan.

Since non-State participants in the MD Rx Pool pay all costs of their own participation, the requested *Award Amount* for this Item is the estimated amount for only the Maryland employees, retirees, their dependents and other participants.

The actual amount to be paid to the Contractor will be a function of the actual number of prescriptions and cost of the drugs dispensed. The source of reimbursable funds for this contract comes from transfers from agency budgets.

A MBE participation goal of 8% of the administrative fees paid to the Contractor has been established for this contract; however, ESI has committed to 8.1%. Most of the payments under this contract will be used by the Contractor to reimburse pharmacies for prescriptions purchased by covered individuals (e.g. employees, retirees, and their dependants). The only payments retained by the Contractor are the administrative fees. Accordingly, administrative fees are the only areas that the Contractor can use to obtain MBE participation. Since most activities to be performed by a Contractor for this service will be done by employees of the Contractor who also service other contracts (employees that process payment claims, handle customer telephone inquiries, etc.), it was determined that an 8% MBE participation is the maximum that could reasonably be achieved. As a percentage to the total contract value, including the estimated claims amount, the MBE participation goal is 0.12%.

Maryland's reciprocal preference law does not apply because Missouri, the state in which the recommended awardee resides, does not have an in-state preference unless the "quality is equal or better and price is the same or less".

After lengthy litigation, on January 11, 2012 the MSBCA made the decision of a complete denial of the multiple protests and appeals by the incumbent for this contract, Catalyst Rx.

As explained above, after applying enrollment increases and projected increases in drug costs over the five year term of the contract, the expected total expenditures under this contract will be about \$2.4 billion. Whereas \$47 million was the price difference between ESI and Catalyst for the \$1.6 billion model used in the financial proposal, based upon the \$2.4 billion actually projected to be spent, the price difference between ESI and Catalyst is expected to exceed \$102 million. A savings of this magnitude will permit the funding of many services enhancing the health and welfare of Maryland citizens that otherwise would not be affordable.

FUND SOURCE: 100% Reimbursable

APPROP. CODE: F10A0245

RESIDENT BUSINESS: No

MD TAX CLEARANCE: 11-0396-0111

Note: This Item appeared as Item 1-S on the 3/9/2011 DBM BPW Agenda and as Item 9-S on the 3/23/2011 DBM BPW Agenda and was withdrawn both times. This Item also appeared as Item 8-S on the 1/25/2012 DBM BPW Agenda and was deferred.

Board of Public Works Action - The above referenced Item was:

APPROVED

DISAPPROVED

DEFERRED

WITHDRAWN

WITH DISCUSSION

WITHOUT DISCUSSION

ITEM: 1-S (Cont.)

ATTACHMENT

BIDS OR PROPOSALS (Cont.):

<u>Offerors</u>	<u>Technical Rank</u>	<u>Financial Price / Rank *</u>	<u>Overall Rank **</u>
Express Scripts, Inc. St. Louis, MO	2	\$1,628,275,932 (1)	1
Catalyst Rx Rockville, MD	1	\$1,675,625,387 (2)	2
Envision Pharmaceutical Services, Inc. Twinsburg, OH	3	\$1,746,541,146 (3)	3

Note: * Financial pricing five-year total cost estimates equal Administrative Fees + Ingredient Costs + Dispensing Fees – Rebates.

** Technical factors were given equal weight with financial factors in the overall award determination.