

COLORADO PBM REVERSE AUCTION SAVINGS

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NEARLY \$9 MILLION ANNUALLY



Given their technology imbalance with its incumbent Pharmacy Benefit Manager (PBM) and the absence of transparent and dynamic competition between OptumRx and other PBM vendors, the Colorado Department of Personnel and Administration (DPA) did an adequate job in negotiating deal improvements in the recent renewal of its OptumRx contract, commencing in July 2020. DPA's current PBM contract is consistent with the mainstream of OptumRx deals negotiated with its clients in other states.

Despite Colorado's deal improvements, the terms of the current OptumRx PBM contract fail to put Colorado in the top tier of cost savings in contracts of similarly-sized employee groups with other PBM vendors. In fact, the DPA contract, with its 2020 improvements, ranks at the lower end of the savings range compared to contracts in other states with competing PBMs. It is highly unlikely that DPA can, through a market check process, close the gap significantly between current and top-tier PBM cost savings.

COLORADO STATE EMPLOYEES PBM REVERSE AUCTION SAVINGS PROJECTION:



Projected savings from a well-designed PBM reverse auction for the Colorado state employees' prescription drug plan is in the range of 15% to 20%, with a reasonable

expectation of 20% savings if the State specifies particular contract pricing term improvements as reverse auction bidder requirements. This translates to annual savings projection in the range of **\$6.7M to \$8.9M**, without any changes to current Colorado State employee benefits.



Additional savings are also expected from repurposing of PBM reverse auction technology to conduct ongoing, real-time, electronic review of 100% of PBM invoiced claims and quick reconciliation of PBM overcharges.

The amount of such overcharges can vary substantially, depending on the selected PBM, but additional state capture of savings from ongoing electronic PBM invoice review can be significant. For example, tens of millions of dollars in overcharges have been recouped by the State of New Jersey during OptumRx's term as incumbent PBM for the state's public employee plan.



Additional savings in the range of 1% to 3% are achievable if the State introduces programs to enhance engagement of health plan participants without reducing the quality of current state employee benefits. Such additions would raise total expected state savings to within a range of \$8M to \$10.24M.



The analysis above applies only to the state employee prescription plan and does not include potential savings from enrolling Colorado local government employees and dependents in a common purchasing pool with state employees. Inclusion of local government employees and dependents, as allowed in the proposed PBM reverse auction bill, would increase the volume of the state's demand for prescription medicines in a PBM reverse auction marketplace substantially, and it would increase competitive, downward pressure on Rx prices. The bill allows for local government employee groups to join state employees in a shared PBM reverse auction process, which creates measurably greater savings for both local and state employee plans.