



STATE SEEKS HIGH-TECH OVERSIGHT OF \$2B ANNUAL SPENDING ON DRUG BENEFITS

LILO H. STANTON | DECEMBER 2, 2016

New Jersey would be first state to use new technology to make real-time decisions about drug purchases, contracts, possibly saving taxpayers \$200M a year



Like most health insurance purchasers, the state of New Jersey has been ill equipped to manage the pharmaceutical benefits of public employees and retirees. So, like others, it hired a national expert to handle the complex, multi-party negotiations in hopes of securing big savings for Garden State taxpayers.

But quantifying those savings has been challenging. And, like most other purchasers, the state still doesn't know if it is getting the best deal.

This should change under a new law – the first of its kind in the nation – signed last week by Gov. Chris Christie. The measure enables the state to hire a high-tech company to oversee a competitive process to select a pharmacy benefits manager (or PBM), craft a contract designed to better benefit the state, and oversee the new contractor's drug purchases in real time. The law, championed by Senate President Steve Sweeney, (D-Gloucester), with help from the public unions, is expected to save taxpayers at least \$200 million a year.

"This really brings New Jersey into the 21st century as a purchaser," explained Mark Blum, executive director of [America's Agenda: Health Care for All](#), an advocacy group that worked with Senate Democrats on the issue. "Ultimately the state can make informed comparisons on behalf of its taxpayers."

New Jersey will spend nearly \$2 billion this year on drug benefits for some 700,000 state, county and municipal workers, teachers, and retirees. The money is paid to Express Scripts, the nation's largest PBM, which took over a contract the state had signed with its predecessor, Medco Health Solutions, in 2009. At the time, [then-Gov. Jon S. Corzine](#) suggested the deal could save some \$540 million over five years, but there is no record of any analysis, Treasury officials said.

Blum did not criticize the work of Express Scripts, or PBMs, and stressed that they provide a valuable service to plan purchasers and insurance companies. But – as with computer science or hospital billing – their work is highly technical and little understood outside their insular industry. (There are only a half-dozen well-established PBMs nationwide, he added.)

And, positioned as a middleman in negotiations that involve multiple parties – drug manufacturers, distributors, retail pharmacies, insurance providers, and others – PBMs are uniquely poised to cut potentially lucrative deals with little outside scrutiny, Blum said. These companies trade rebates for bulk deals and assembly formularies, or lists of covered drugs, decisions that have tremendous impact on consumers, he added.

"It's such a complex pricing scheme and PBMs are really at the center of this game," Blum said. "They can negotiate deals on either end, creating the potential for them to make large profits."

[Express Scripts](#) reported \$102 billion in revenue in 2015 (or more than twice that of Coca-Cola,

McDonalds and Pfizer combined, [according to KUSA 9News](#), in Colorado.) And its work has sparked questions.

The health insurance provider Anthem Blue Cross Blue Shield accused the company of overpricing drugs, and in March filed in New York State for more than \$15 billion in damages. And in October, [federal prosecutors](#) in New York and Massachusetts started to probe Express Scripts' ties to drug makers and others in the supply chain, FiercePharma reported.

Reached late Thursday, a spokesperson for Express Scripts said she was not familiar with the new law in New Jersey, but the company hoped to continue serving Garden State workers. "The New Jersey SBHP is a valued client, and we look forward to continue serving them and their beneficiaries by making prescription drugs safe and affordable," spokeswoman Jennifer Luddy said. The company's contract expires at the end of the month, and Blum said the state could begin to reap savings by extending this on a month-to-month basis while they conduct the search.

The new oversight measure, [\(S-2749\)](#), was introduced less than a month ago and rocketed through the Legislature to be signed by Christie a day before [he announced the potential savings](#) could be used to offset any losses incurred by preserving an income-tax compact with Pennsylvania. Christie had previously pledged to scuttle that bi-state deal, which allowed local workers to pay taxes where they live – not where they work – in hopes of generating up to \$250 million in new state tax revenue.

Blum said the new pharmacy oversight law is designed to help the state in two ways, allowing it to penetrate what he called "a black box within a black box:" the contracting process to hire a PBM and the operations of that company once it is signed. Both have the potential to generate savings.

First, the law enables the state to hire a third party with specially designed software, built by former PBM executives, that can analyze the same sources of constantly-evolving data used by Express Scripts and similar companies and create an "apples to apples" comparison of their services. In the past, state officials and the consultants they hired to help with the process of choosing a PBM vendor have been at a significant disadvantage without access to this information, he said.

This information can be used by the state to set up a truly competitive hiring process, where PBMs work against each other to offer the best deal on a specific, uniform set of demands – a template than can quickly be converted to a contract, Blum continued. This approach has saved purchasers an average of 12 percent, Blum noted – or the equivalent of \$240 million on the state's \$2 billion tab – and sometimes as much as 17 percent.

"This basically changes the game and creates meaningful competition for PBMs that didn't exist before," he said.

The law also benefits the state once the contract is signed, Blum said, because the same technology can be used to monitor the contractor's performance, comparing invoices line-by-line against the contract details and other variables in real time. Any discrepancies can be resolved within the same quarter, or sooner. While the savings here have tended to be much less – averaging about 0.25 percent – Blum noted that, with a \$2 billion plan, they can add up.

"The state hasn't been a very disciplined purchaser, but they haven't had the tools. This would give them the tools," Blum said.

While the PBM industry is small, Blum said the number of companies equipped to effectively oversee them with the new technology is even smaller. ([Truveris](#) is the primary player, he said.) The law does not specify how this PBM manager would be paid, but Blum said contracts typically involve the PBM manager receiving a percentage of any savings it can find for the purchaser.

"The concept is they share the risk, they share the savings," he said. "And it really levels the playing field."

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