

CITY OF BUFFALO
DEPARTMENT OF AUDIT AND CONTROL

REPORT ON PRESCRIPTION DRUG
EXPENSES

MARK J.F. SCHROEDER
COMPTROLLER



ANNE FORTI-SCIARRINO
FIRST DEPUTY COMPTROLLER

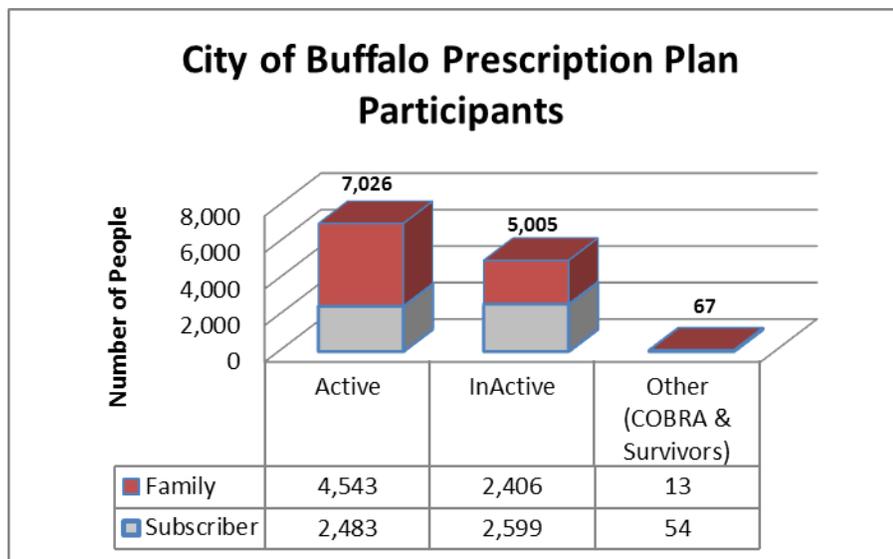
KEVIN J. KAUFMAN, CPA
CITY AUDITOR

NOVEMBER 2012

Background

The City of Buffalo (the City) offers medical and prescription drug coverage to employees and retirees through Blue Cross Blue Shield of Western New York (BCBSWNY). Historically, the City has purchased fully insured medical and prescription drug coverage. The cost is based on rates for individual and family coverage which BCBSWNY files with the New York State Department of Insurance. At the outset of fiscal year 2012 the City was facing a cost increase of approximately 16%. With the increase it was estimated that the City's medical insurance expense would be \$75 million in fiscal year 2012. In an effort to reduce the cost of the medical/prescription benefits, the City investigated the option of self-funding its prescription drug coverage. The prescription drug portion of medical expense was 32% of health insurance costs during fiscal year 2011 and was anticipated to grow at a higher rate than other medical expenses. Based on recommendations from our insurance broker it was estimated that the City would save \$2 million annually by changing prescription coverage to a self-insured plan. Therefore the City went to a self-insured model for the prescription component of the plan effective September 2011. The City elected to continue the medical portion as fully insured.

As of June 30, 2012 the total number of covered individuals was 12,098. 2,483 employees, 2,599 retirees and 7,016 other covered individuals.



The prescription drug expense in fiscal year 2012 was \$1,795 per covered individual. It is estimated there will be 267,000 prescription claims annually. The average individual had 22 claims annually averaging \$81 per claim.

Audit Objectives

The audit objective is to provide a high level examination of the City's pharmacy expenses for fiscal year 2012. The report will examine the effect of changing to a self-funded prescription benefit plan during fiscal year 2012 and will focus on 3 areas related to the self-funded prescription plan:

1. Cost Savings due to move to Self-insured Prescription Drug Plan
2. Contract Terms
3. Accuracy of Billing Data

Cost Savings due to move to Self-insured Prescription Drug Plan

Under the fully insured model the City would have experienced prescription insurance premiums of \$25.2 million for fiscal year 2012. The actual expense incurred for fiscal year 2012 was \$21.6 million. The move to a self-insured prescription plan produced savings of \$3.6 million during fiscal year 2012.

Contract Terms

The self-insured prescription contract has several components:

1. **BCBSWNY guarantees pricing on drugs.** The guarantees are expressed as a percentage discount from the Adjusted Wholesale Price (AWP). The guaranteed discount varies depending on point of purchase i.e. retail versus mail order. The guaranteed discount also varies depending on whether the drug is a generic drug or branded single source drug. The following table shows the guarantees.

<i>Point of Sale</i>	<i>Brand Drugs</i>		<i>Generic Drugs</i>	
	Discount % Guarantee	Price Guarantee ≤ % of Adjusted Wholesale Price	Discount % Guarantee	Price Guarantee ≤ % of Adjusted Wholesale Price
Retail	14.5%	85.5%	71.5%	28.5%
Mail	21.2%	78.8%	71.5%	28.5%

2. **Prescription Contract Rebates** The rebates are similar to the guarantees as they vary by point of sale and formulary drug i.e. incentive formulary (Branded) and open formulary (Generic). The following table shows the rebate rates.

	Brand Drugs 3Tier Incentive Formulary	Generic Drugs Open Formulary
Retail	\$3.80 per claim	\$3.85 per claim
Mail	\$15.65 per claim	\$11.80 per claim

The contract states “Pharmacy rebates will be credited on a quarterly basis via the claims billing up to 150 days after the close of the earned quarter”. As of November 30, 2012 three rebates have been received totaling \$591,165. Rebates can take approximately 8 – 9 months from the prescription fill date to be realized. It is estimated that annual rebates will total \$1.3 million. We expect to see an increase in the quarterly rebate amount going forward as the lag time for receiving rebates has expired. We will monitor this to verify rebates are accurately calculated by BCBSWNY.

- 3. Prescription Contract Fees** There is a \$2.00 per claim administrative fee. There is a \$1.50 dispensing fee charged for each retail point of sale claim.

Accuracy of Billing Data

Bi-weekly BCBSWNY invoices the City for prescription costs. BCBSWNY provides claim detail which City accounting personnel use to compare to the invoice and calculate any variance. The error rate calculated was less than 0.01%. It appears the detail prescription claim data supports the invoices received and paid by the City. The verification process would be better if all data reviewed was not produced by BCBSWNY.

Conclusion

It appears adopting a self-funded prescription program was a cost effective decision for the City. While the total cost of health care has gone up, this move has mitigated the potential cost increase. We recommend continuing the contract with BCBSWNY with continued monitoring to include a review of the rebate process and verification of invoices.

Recommendations

1. Regular Monitoring:

The top 25 drugs equated to 38% of the prescription cost through March 2012. A large portion of those 25 drugs are statins, which generally a more aged population utilizes. As the active and retired employee population ages, expenses are projected to increase.

Conversely, some widely used drugs have expiring patents in the coming year. We recommend that the City investigate how expenses will be impacted given those expirations based on demographics and past utilizations. We should be receiving reports from our broker/carrier on high cost claimants (with HIPAA protections) by group and by month with relative diagnosis along with recommendations on how to move forward from a cost control perspective.

2. Doctor Shopping:

There has been a lot made in the media about doctor shopping for unneeded medications, where an individual will go to several different doctors until a doctor is found that will prescribe the drugs the individual is seeking. With the City now responsible for payment of all prescription drug claims it is at risk of this happening and going undetected. We recommend that the City explore and institute a plan that would identify and deter doctor shopping for unneeded medication.

3. Medicare Prescription Drug Improvement and Modernization Act of 2003:

The City has experienced a savings with the change to a self-insured prescription model. At the same time the City has taken full risk for an expense that could climb dramatically based on user demographics, rising specialty medication costs, and catastrophic user events. We recommend that the City explore options for mitigating this risk. One idea may be to look at the Medicare Prescription Drug Improvement and Modernization Act of 2003 (MMA) which created two federal subsidy programs to offset plan sponsors' prescription drug costs for Medicare-eligible retirees. The first, known as the Retiree Drug Subsidy (RDS), provides 28% reimbursement for employers whose costs fall between \$320 and \$6,500 per retiree in 2012. The City currently participates in this program and received approximately \$1.5 million of subsidy in fiscal year 2012. The second subsidy program is the Employer Group Waiver Plan (EGWP), which is gaining popularity, as is evidenced by an increase in enrollment from 12% of employers in 2007 to 30% in 2009 ¹. An EGWP helps to protect against the rising cost of specialty medications and provides for "catastrophic" coverage of costs in excess of set amounts. Savings from adoption of an Employer Group Waiver Plan may exceed the \$1.5 million subsidy we are currently receiving under the RDS plan. Additionally, the utilization of an Employer Group Waiver Plan, in contrast to the Retiree Drug Subsidy RDS, can be reflected in the GASB 45 liability of Other Post-Employment Benefits, OPEB. Some analysts indicate that this liability can be reduced by up to 14%. We recommend that the City investigate the potential costs and rewards of an Employee Group Waiver Plan (EGWP).

4. Timely Update of City of Buffalo Computer System for Personnel Changes:

The City utilizes the MUNIS system to account for its payroll and benefit expenses. This system is found to not always be up to date with personnel changes such as additions or

deletions of health insurance coverage. The information that is being reviewed for reasonableness when assessing the monthly prescription health insurance bill is comparing two data sources received from the vendor. We recommend that a more independent analysis would be based on comparison of the City's internal records to the data source received from the vendor. In order for that to happen, the MUNIS system needs to be up to date with all personnel changes.

1. Source: Identifying Cost Savings in Pharmacy Benefits – Whitepaper, KTP Advisors, Issued April 12, 2012