

**Kevin Lyons**  
**Plan Administrator, New Jersey State Policemen's**  
**Benevolent Association, Inc.**

Answers to Questions for the Record  
Subcommittee on Health  
House Committee on Energy and Commerce  
*Health Care Spending in the United States: Unsustainable for*  
*Patients, Employers, and Taxpayers*

January 31, 2024

Honorable Chairman Brett Guthrie  
House of Representatives  
Committee on Energy and Commerce  
2125 Rayburn House Office Building  
Washington, DC., 20515-6115

Honorable Chairman Guthrie,

I appreciate the opportunity to expand on New Jersey's use of the Pharmacy Benefit Manager (PBM) Reverse Auction process and to address the broader context of its impact on prescription drug spending and the healthcare benefits landscape for public employees.

New Jersey's pioneering adoption of the PBM Reverse Auction, first implemented in 2017, was a strategic move to confront and mitigate the escalating costs of prescription drugs. By engaging PBMs in a transparent, competitive bidding process, the state not only fostered a more competitive market but also ensured that contract terms, including crucial aspects like formulary control, plan design, and member cost-sharing, could be standardized and managed in a manner most advantageous to the state. This innovative approach is estimated to have enabled the state to achieve an estimated \$2.5 billion in savings between 2017 and 2022, without compromising drug benefits for the state's 800,000 public employees.

The reverse auction process, by design, allowed New Jersey to leverage these savings to implement innovative plan design solutions that directly benefited members by lowering out-of-pocket costs and overall premiums. The savings accrued from the auction provided the state with the flexibility to enhance plan offerings and reduce premiums by 1.1% for Plan Year 2019.

Moreover, New Jersey's approach not only resulted in immediate financial savings but also set a precedent for managing future drug spending. By requiring all participating PBMs to offer the same contract terms but at lower prices, the state ensured that savings could be realized in a manner that was both fair and transparent. This process has proven that when provided with the right tools and transparency, states can more effectively navigate the complex PBM marketplace to secure significant cost savings.

It is important to acknowledge that the PBM reverse auction process is not the solution to the very real issues that exist in the PBM industry, for employers, consumers and indeed, independent pharmacies alike. As the son of a pharmacy owner of an independent, local pharmacy that served our community, I understand first hand the challenges facing this industry and continue to look for ways to address these challenges.

Some have expressed skepticism regarding the reverse auction process as a panacea for the challenges within the PBM industry. Critics have pointed out potential limitations, including concerns about PBMs hiding rebates and fees. While we recognize these concerns and agree that this process is not a panacea, it's crucial to note that New Jersey's approach included drafting strong, non-negotiable contract language that addressed these issues head-on, reducing the risk of such practices.

In acknowledging these criticisms, it's equally important to clarify that the reverse auction was never proposed as the sole solution to the pharmaceutical spending crisis. Instead, it represents a critical step towards increased transparency, control over contract terms, and the potential for future term adjustments in the state's best interest. The insights gained from the reverse auction process and the ongoing contract compliance efforts have illuminated multiple opportunities for further significant cost savings.

As illustrated in the presentation by our then-Director, Chris Deacon, to the National Academy of State Health Policy (deck attached here), New Jersey's experience has laid a foundational framework upon which we can continue to build. This includes ongoing efforts to improve transparency, negotiate favorable contract terms, and ensure compliance, all of which contribute to our broader strategy to manage healthcare costs effectively.

In conclusion, while I acknowledge the concerns of some and the overall concern that there are no silver bullets to the crisis of cost we find ourselves in, our experience in New Jersey demonstrates the tangible benefits of this particular innovative approach. It has served as an important tool in our arsenal to combat rising prescription drug costs, providing a model that other states are beginning to follow. We remain committed to refining these strategies, learning from our experiences, and exploring new ways to ensure the fiscal health of our state's benefits programs and the well-being of its beneficiaries.

Thank you for the opportunity to address these points further. I remain at your disposal for any additional information or clarification.

Sincerely,

*Kevin T. Lyons*

Director of Member Benefits  
New Jersey State Policemen's Benevolent Association

C: Honorable Anna Eshoo, Ranking Member, Subcommittee on Health  
Emma Schultheis, Legislative Clerk, Committee on Energy and Commerce

Attachment

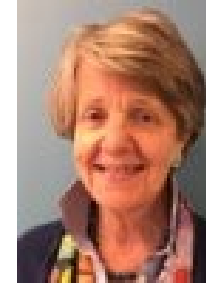


# How States Can Control Pharmacy Benefit Manager Contract Costs through Reverse Auctions

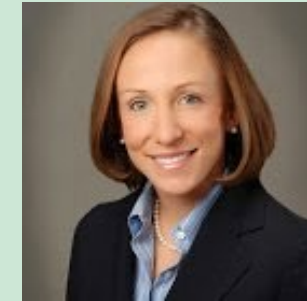
Tuesday, July 28, 2020  
3:30 – 4:30 pm Eastern

*This webinar is supported by Arnold Ventures.*

**Trish Riley**, Executive Director, National Academy for State Health Policy



**Christin Deacon, JD**, Assistant Director of Health Benefit Operations and Policy and Planning, New Jersey Division of Pensions and Benefits, Department of Treasury



**Alysha Fluno, PharmD, MBA**, Chief Pharmacy Officer, Truveris



**Questions and Discussion**

## Leading the Charge

How The State Of New Jersey Cut Pharmacy Costs Without Cutting Member Benefits

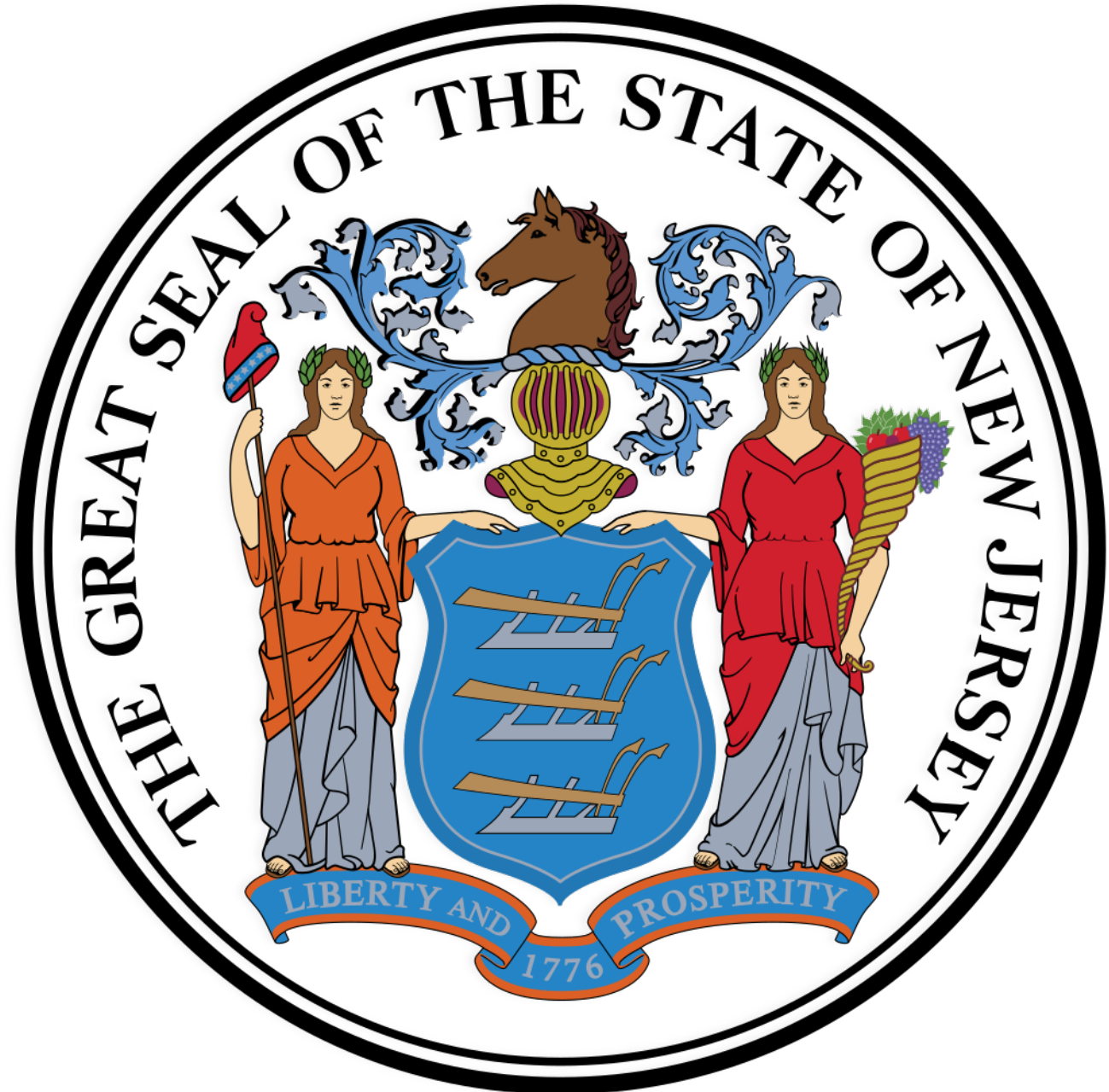
### Christin Deacon

Director of Health Benefit Operations and Policy and Planning

New Jersey Division of Pensions and Benefit  
Department of Treasury, New Jersey

### Alysha Fluno

Chief Pharmacy Officer  
Truveris



# The Challenge

## State of New Jersey – by the numbers



- 700,000+ members
- Annual spend of \$2.2b
- 11 million+ claims
- Long-term relationship with incumbent PBM

## Pharmacy benefit plans



- Large plan with many stakeholders
- Multiple, complex plan design and formularies
- Expensive
- Hard to measure and manage
- It's a black box!

The background of the slide is a photograph of the New Jersey State Capitol building, featuring its prominent golden dome and classical architectural details. The image is dimmed to allow the white text to stand out.

# Reverse Auction Legislation

**“We are rooting out PBM profiteering at the expense of New Jersey taxpayers and public employees.”**

**We are achieving enormous savings without any cuts in public employee benefits and no compromises in the quality of health care for hard working public employees and their families.”**



# A fresh approach: The PBM reverse auction

- Innovative, forward-thinking approach
- Scalable reverse auction platform
- Granular analysis of 100% of claims
- Levelled playing field among bidders for objective comparison
- Dynamic, competitive PBM marketplace lowered prices
- Entire process: weeks not months

## THE PROCESS



Pre-Qualification Step



# PBMs are invited to bid



## ➤ RFP summary dashboard

RFP SUMMARY (Sample State) [Return to RFP Configuration](#)

First Round: 19 DAYS 3 HRS 20 MINS

### Client Profile

- [Sample State](#)
- 750,000 members
- 300,000 plan participants
- Annual Spend: \$2,000,000,000.00
- Channel Partner: Zayas
- Channel Partner Location: New York, NY
- Incumbent PBM: Market Comp #4
- Background Info: Cras fermentum enim aliquet nibh aliquet, et facilisis est convallis. Sed vel neque vel elit tempus ... [\(read more\)](#)

### Time Frames

- Invitation: 10/15/2019 02:02 PM EST
- First Round Bidding: 10/28/2019 02:03 PM EST
- Second Round Bidding: TBD
- Email Reminders: Every 5 Days
- Plan Start Date: 01/01/2020

### Deal Type

- Broad
- 30 Day Retail Network
- Specialty Open Network

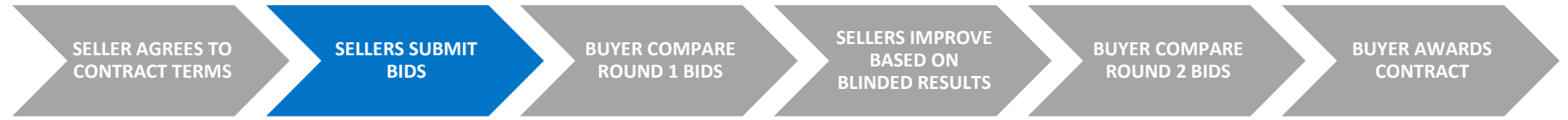
ROUND 1

RESULTS | FINANCIAL SUMMARY | DRUG CLASSIFICATION | PRICING PROPOSAL

Market Comp #1 (Accepted)  Market Comp #2 (Accepted)  Market Comp #3 (Not Decided)



# Creating a level playing field –terms, classification, & pricing



- Terminology and definitions are set and agreed-to upfront
- Helps state conduct side-by-side contractual comparisons
- The classification of drugs can unnecessarily increase spend and can impact rebate performance
- PBMs input proposed discounts
- This can be analysed on a claim-by-claim basis to give a more accurate proposal

AVERAGE COST GUARANTEES (average across Guarantee Period)			
	YEAR 1	YEAR 2	YEAR 3
Discounts (Average 12 Month)	%	%	%
Retail Brand	17.50	17.50	17.50
Retail Generic	72.00	72.00	72.00
Mail Brand (1 to 999 days)	22.00	22.00	22.00
Mail Generic (1 to 999 days)	78.00	78.00	78.00
Dispensing Fee (Average 12 Month)	\$	\$	\$
Retail Brand	1.25	1.25	1.25
Retail Generic	1.25	1.25	1.25
Mail Brand (1 to 999 days)	0.00	0.00	0.00
Mail Generic (1 to 999 days)	0.00	0.00	0.00

CLAIM ADJUDICATION RATES				
	MIN CLAIM PRICE	YEAR 1	YEAR 2	YEAR 3
Ingredient Cost (Min. Discount per Claim)	\$	%	%	%
Retail Brand	Lesser of: AWP @ MAC @ U&C	0.00	17.50	17.50
Retail Generic	Lesser of: AWP @ MAC @ U&C	0.00	72.00	72.00
Mail Brand (1 to 999 days)	Lesser of: AWP @ MAC @ U&C	0.00	22.00	22.00

\*Sample, deidentified data



# First round results



- Detailed comparisons by PBM
- Forecasted total drug spend for side-by-side comparisons
- Estimated savings by PBM
- Comparisons includes readjudication of 100% historical claims data by each proposed PBM contract

FINANCIAL SUMMARY: 3 YEAR				
	Current Contract	Market Comp #3 Bid #14801	Market Comp #1 Bid #14802	Market Comp #2 Bid #14797
Status		Submitted	Submitted	Submitted
Ingredient Cost	\$24,950,012	\$22,499,738	\$22,761,668	\$24,200,497
Dispensing Fee	\$161,734	\$106,033	\$118,019	\$148,098
<b>Drug Spend</b>	<b>\$25,111,746</b>	<b>\$22,605,771</b>	<b>\$22,879,687</b>	<b>\$24,348,595</b>
Admin Fees	\$2,700,000	\$0	\$0	\$0
Admin Credits	\$0	\$0	\$0	\$0
Rebates	(\$7,781,327)	(\$6,093,385)	(\$6,655,605)	(\$5,870,187)
Other Financial Considerations	\$0	\$0	\$0	\$0
Projected Bid Cost	\$20,030,419	\$16,512,385	\$16,224,082	\$18,478,409
Proj. Current Plan Cost	N/A	\$20,030,419	\$20,030,419	\$20,030,419
<b>Total Savings \$</b>	<b>N/A</b>	<b>\$3,518,033</b>	<b>\$3,806,337</b>	<b>\$1,552,010</b>
<b>Total Savings %</b>	<b>N/A</b>	<b>17.56%</b>	<b>19.00%</b>	<b>7.75%</b>
Implementation Allowance	\$0	\$0	\$0	\$60,000
Performance Guarantees Risk	\$0	\$0	\$0	\$8

\* Plan & Member spend/savings assume same level of member cost share % as historical claims data

\*Sample, deidentified data

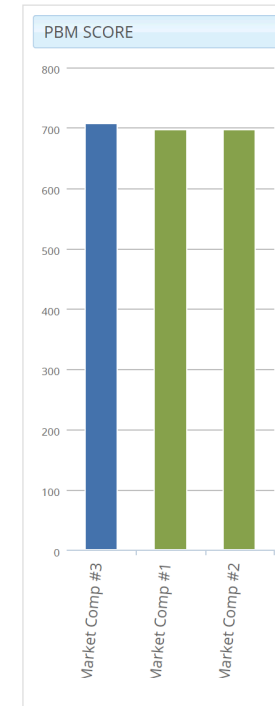
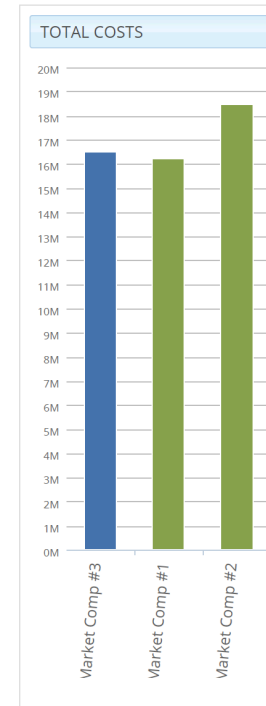


# Round 1 results: PBMs see how their bids compared and improved



- Scored weighed by importance to the plan –configurable by plan
- Objective, third-party scoring, no misaligned incentives

MARKET COMP #3 OVERALL SCORE		
	Weight	Score
<b>Qualitative Score — 30%</b>		
DEFINITIONS	9%	19 / 19
INCORPORATION OF BID TERMS	9%	19 / 19
PLAN MANAGEMENT SERVICES	9%	18 / 19
OPERATION SERVICES	9%	18 / 19
AUDIT	9%	19 / 19
PRICING AND GUARANTEES	9%	19 / 19
REBATES	9%	18 / 19
CONTRACT TERM	9%	19 / 19
PERFORMANCE GUARANTEES	9%	19 / 19
CUSTOM TERMS	9%	0 / 19
Pharmacy Network	5%	11 / 11
Formulary Disruption	5%	20 / 22
<b>Qualitative</b>		<b>199</b>
<b>Financial Score — 70%</b>		
Pricing Exhibit	95%	498 / 498
Generic Dispensing Rate (GDR)	5%	10 / 26
<b>Financial</b>		<b>508</b>
<b>Qualitative and Financial Blend</b>		
Percent of Total Score		94.34%
<b>Total Score</b>		<b>707</b>



\*Sample, deidentified data



# Second round results



- Estimated savings by PBM
- Review improvement from first round

FINANCIAL SUMMARY: 3 YEAR				
	Current Contract	Market Comp #3 Bid #14806	Market Comp #2 Bid #14805	Market Comp #1 Bid #14804
Status		Submitted	Submitted	Submitted
Ingredient Cost	\$24,950,012	\$22,499,738	\$23,817,876	\$22,587,237
Dispensing Fee	\$161,734	\$106,033	\$148,098	\$118,019
<b>Drug Spend</b>	<b>\$25,111,746</b>	<b>\$22,605,771</b>	<b>\$23,965,974</b>	<b>\$22,705,256</b>
Admin Fees	\$2,700,000	\$0	\$0	\$0
Admin Credits	\$0	\$0	\$0	\$0
Rebates	(\$7,781,327)	(\$6,933,001)	(\$5,870,187)	(\$6,715,891)
Other Financial Considerations	\$0	\$0	\$0	\$0
Projected Bid Cost	\$20,030,419	\$15,672,769	\$18,095,788	\$15,989,365
Proj. Current Plan Cost	N/A	\$20,030,419	\$20,030,419	\$20,030,419
<b>Total Savings \$</b>	<b>N/A</b>	<b>\$4,357,649</b>	<b>\$1,934,631</b>	<b>\$4,041,053</b>
<b>Total Savings %</b>	<b>N/A</b>	<b>21.76%</b>	<b>9.66%</b>	<b>20.17%</b>
Implementation Allowance	\$0	\$0	\$60,000	\$0
Performance Guarantees Risk	\$0	\$0	\$8	\$0

\*Sample, deidentified data



# Contract awarded



## ➤ Bidder award

**WINNER**

**PBM  
B**

**\$8.3b > \$6.69b**

**\$ 1.6b  
Savings**

Hello:

Please note that there is a new pending item posted regarding RFP #3042 for Sample State that requires your response by 11/01/2019 11:59 PM.

New Pending Item:

Congratulations!! The Client has awarded their business to Sample PBM and has requested that Sample PBM provide an executable contract based on the final offer submitted in the TruBid platform. Please provide your ETA as we would appreciate a timely response to communicate to the client. Please provide contact information for your Implementation Manager, as well as for your Billing Contact (name, address and e-mail). Thank you for your continued assistance.

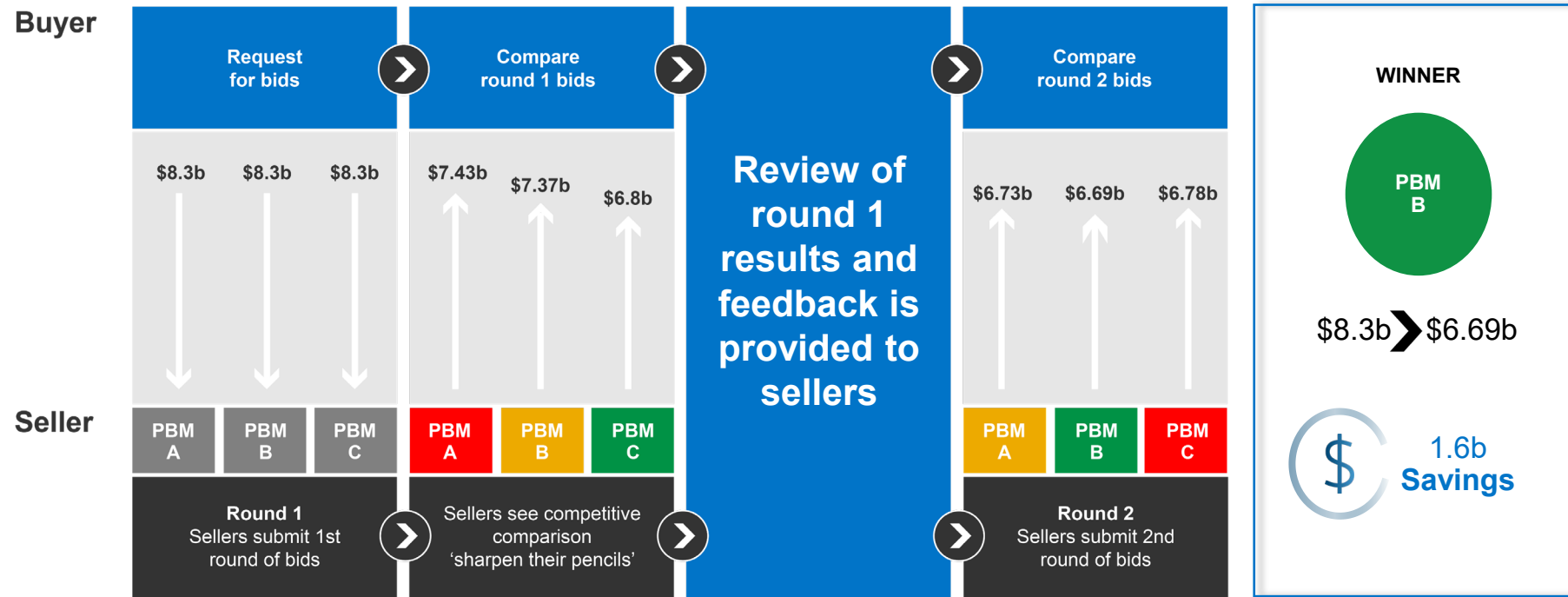
Please submit your responses through the portal [here](#). Responses via e-mail will not be considered.

Thank you for your cooperation.

\*Sample, deidentified data



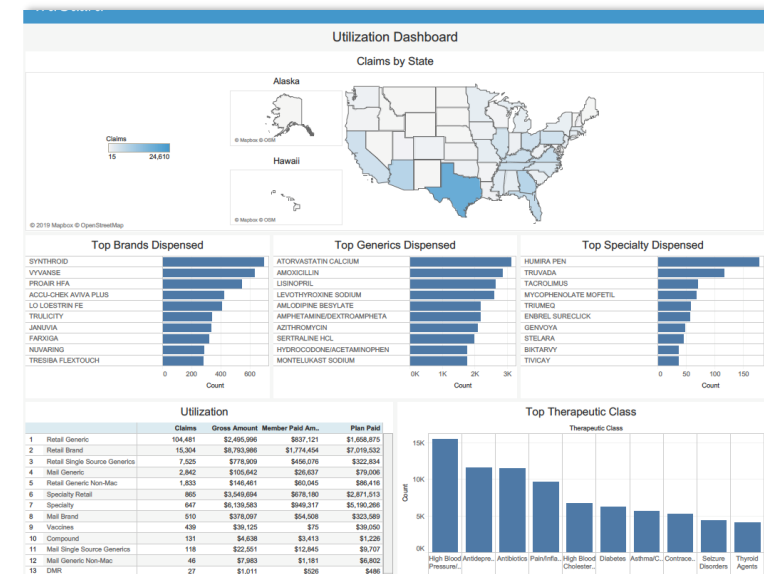
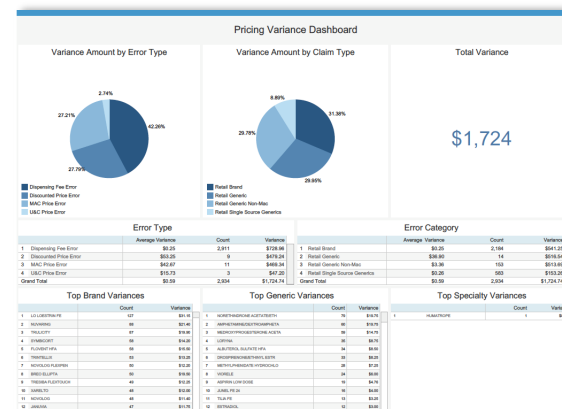
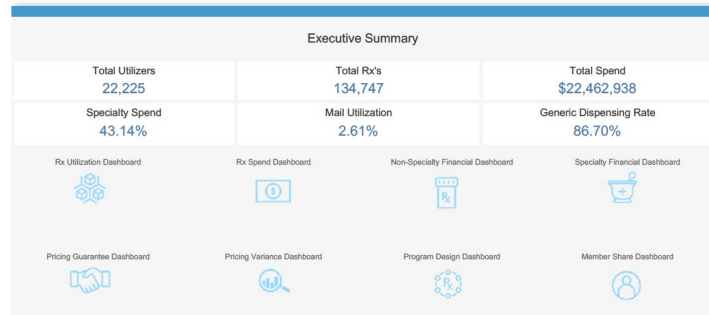
# PBM reverse auction process: Bid results 2017





# Beyond the RFP: Ensuring ongoing PBM accountability and contract oversight

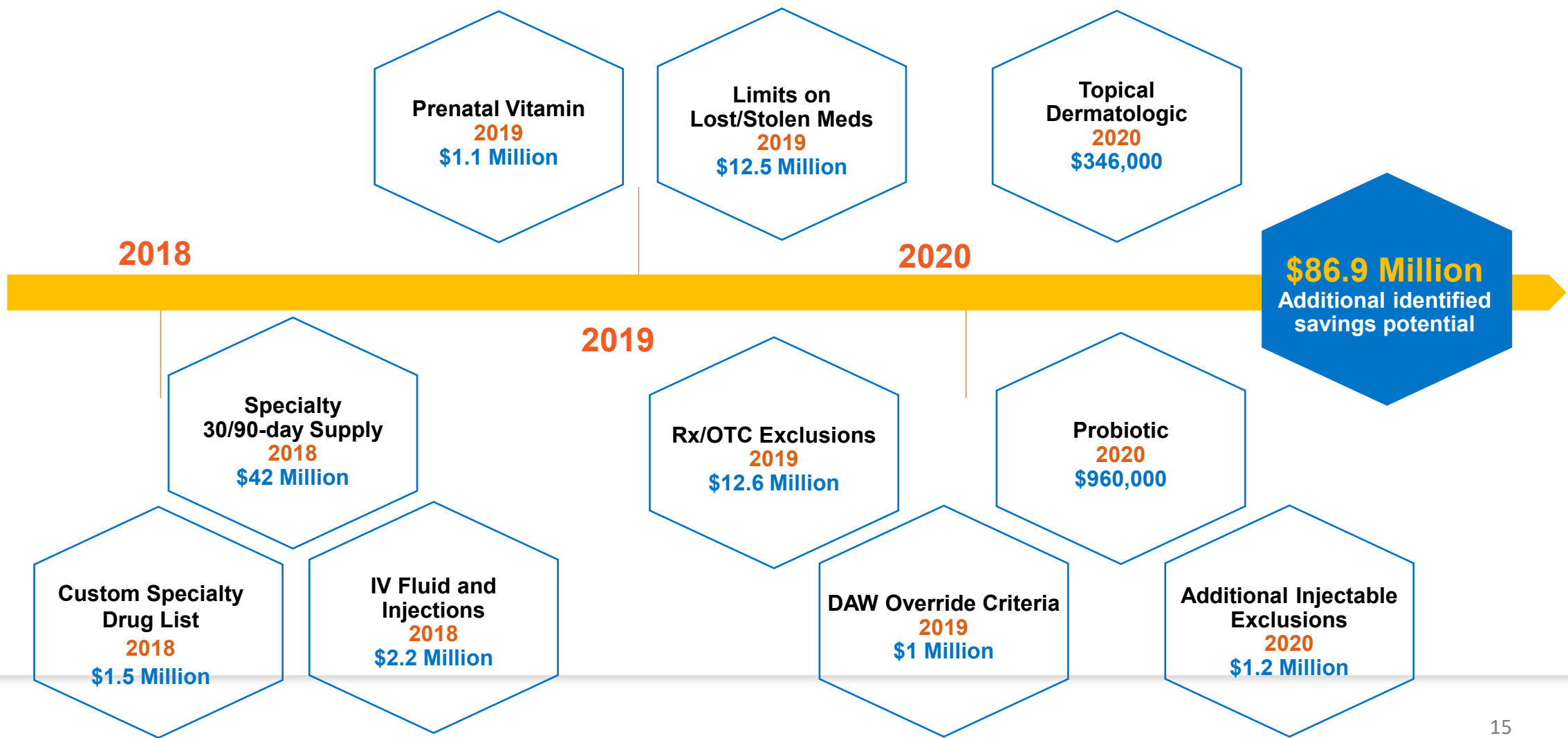
- The state employs continual contract performance monitoring for PBM accountability



\*Sample, deidentified data



# Ongoing PBM accountability and oversight sample results

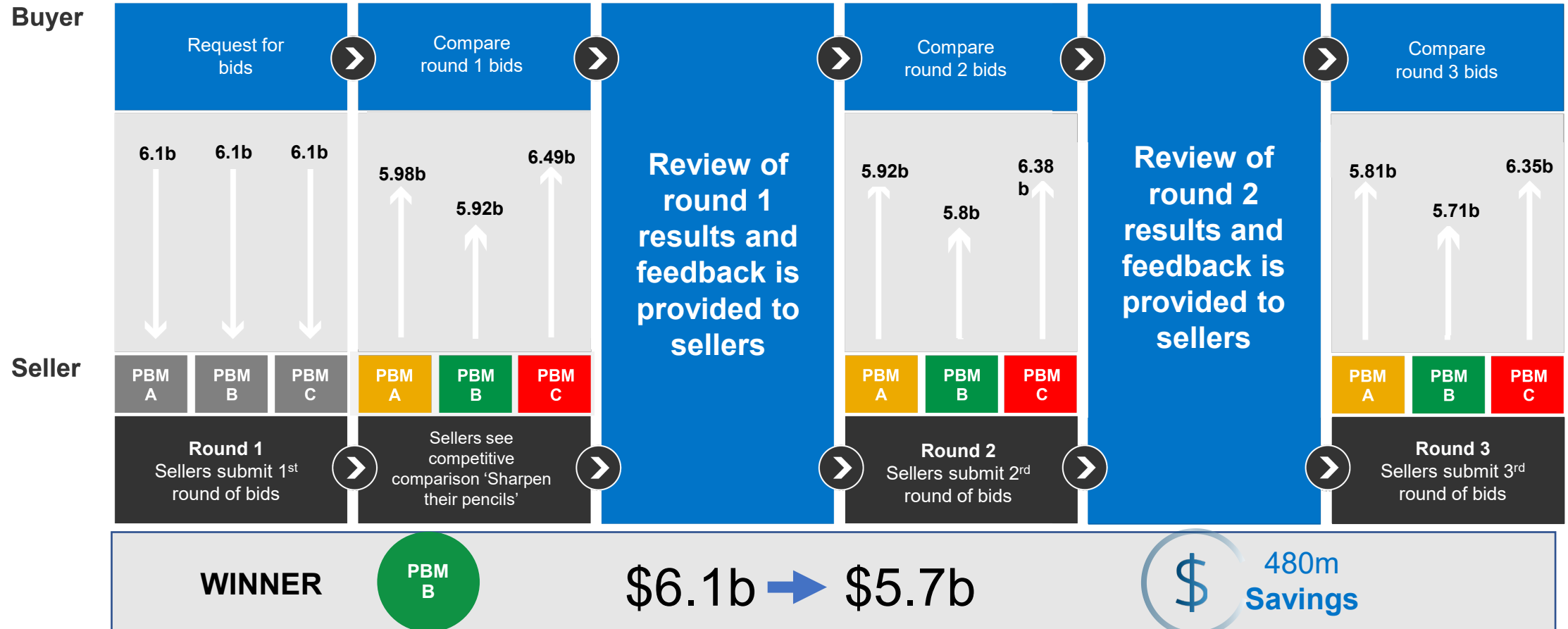


# Court ordered rebid



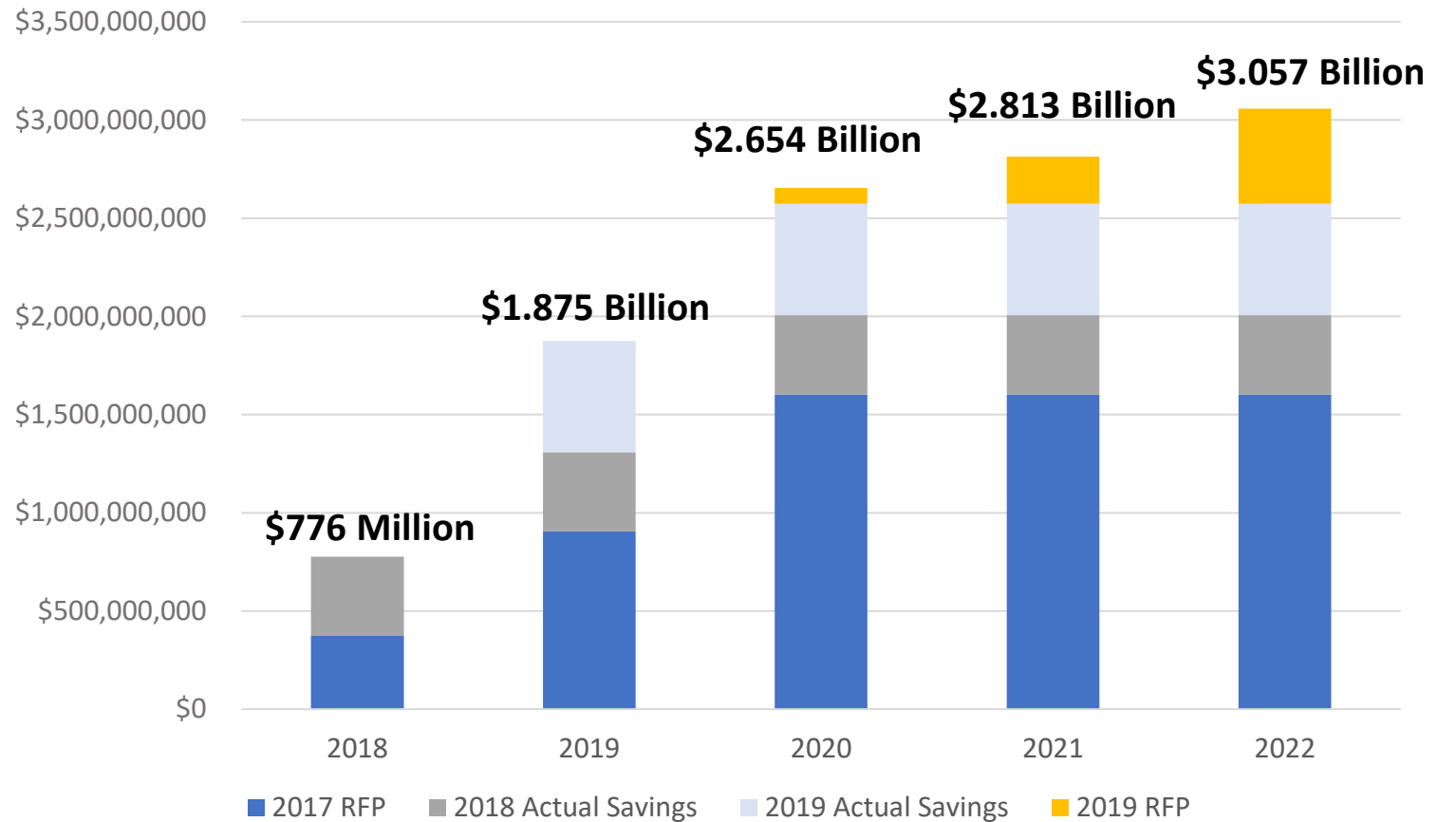
With all three suppliers evenly matched on price, quality and technical expertise, Mark resorts to his last remaining selection tool.

# PBM reverse auction process: Bid results 2019



# Accrued savings over the life of the PBM contract

- \$1.602 Billion 2017 RFP
- \$403 Million 2018 Incremental Savings
- \$567 Million 2019 Incremental Savings
- \$485 Million 2019 RFP
- **\$3.057 Billion Total Savings**



# Cutting Costs Without Cutting Benefits

[truveris.com/SONJ](http://truveris.com/SONJ)



# Q&A



**Please type your questions into  
the chat box.**



# Thank you!



Your opinion is important to us. After the webinar ends, you will be redirected to a web page containing a **short survey**. Your answers to the survey will help us as we plan future NASHP webinars.

*This webinar is supported by Arnold Ventures.*