4. Drug Pricing

The Contractor must provide the Programs with aggressive drug pricing, including pass-through pricing on all Retail Pharmacy Network prescriptions, subject to a Minimum Guaranteed Discount. One Program MAC list must be used for Generic Drugs dispensed through the Retail Pharmacy Network or at the Mail Service Pharmacy. Note: Each Procuring Agency, respectively, reserves its rights for the Contractor to create and maintain a second MAC List should industry or programmatic events necessitate the use of a second list. The use of a second MAC List will be at the sole discretion and approval of each Procuring Agency, respectively. The Guaranteed Minimum Discounts and the overall maximum dispensing fee guarantees for generic drugs will be subject to negotiation if a second MAC List is utilized.

a. Drug Pricing Questions

(1) Please describe in detail how the Offeror's Generic Drug pricing model maximizes Generic Drug utilization and savings accruing to the financial benefit of the Programs.

Our MAC program is designed with the overall goal of obtaining the lowest net prescription drug cost for our customers. We use a variety of resources in determining the components of our MAC list including AWP, pharmacy acquisition costs, and competitive benchmarks. Our MAC is customized at the GPI level to provide maximum savings for our customers. Products not on the MAC list are priced at AWP less the network discount. This method results in controlled, discounted pricing for generic products.

MAC Strategy

MAC unit pricing methodologies vary based on the marketplace characteristics of a particular drug. In general, the number of product lines available at the weighted market price points (WAC, AWP and ACQ) are captured and used in our proprietary MAC pricing algorithms.

Our MAC pricing program provides the following benefits to the Programs:

- Comprehensive product coverage of 91 to 93 percent of generic products to optimize unit cost discounts and maximize compatibility with incentive-driven plan designs
- Daily pricing updates to support adoption of new products and reflect changes in pharmacy acquisition costs

MAC unit pricing methodologies vary based on the marketplace characteristics of a particular drug. In general, the number of product lines available at the weighted market price points (WAC, AWP, and ACQ) are captured and used in our proprietary MAC pricing algorithms. Products are selected for inclusion on our MAC list based on availability and associated market forces. Typically, generic products are not considered for inclusion until the generic exclusivity period has expired and two or more generic manufacturers exist. Once identified for inclusion, various pricing factors and benchmarks are reviewed during the determination of the MAC price.

We consider a drug for inclusion on our MAC list when combinations of the following conditions are met:

- The drug must be a multi-source product (available from more than one source) per the Medi-Span multi-source drug indicator (an industry standard metric that indicates that a drug is available from more than one source or manufacturer) or the drug has a generic equivalent.

- We consider the availability and the number of A-rated generic equivalent products using the Medi-Span Orange Book Code. The Medi-Span Orange Book Code criterion is designed to discourage inappropriate generic substitution for brand products with low therapeutic indices.
- We determine the price variance between the unit prices for the brand and the generic products. A significant difference must be present for the product to qualify for inclusion on the MAC list. We consider the price variance to verify that the MAC is meaningful.
- We consider the utilization of the generic product. If a highly utilized generic drug is not present on the MAC list per the previously defined and systematically discovered criteria, our clinical department manually reviews the characteristics of that drug and make a decision regarding its eligibility for inclusion on the list. We employ this exhaustive methodology to enable pharmacists to realistically and reasonably work within the MAC pricing schema.

PROMOTING GENERIC DRUG UTILIZATION

We proactively inform the Programs about generic drugs to optimize appropriate use, control costs and promote appropriate use through a wide spectrum of programs and specialized strategies to encourage the use of generic medications. These programs include:

- Formulary management
- Benefit design and substitution
- Lower Cost Alternative Program

FORMULARY MANAGEMENT

The formulary serves as a guide for the selection and use of cost-effective medications. We manage compliance through communication and reporting. With the aid of physician-profiling reports, the Programs may identify issues to communicate directly with physicians. Additionally, formulary information is available to physicians to help them communicate the formulary to Enrollees. As needed, Enrollees receive formulary booklets and educational materials that specifically address generic usage.

BENEFIT DESIGN AND SUBSTITUTION STRATEGIES

Benefit design is an important tool for promoting generic drug utilization. We work with the Programs to identify plan design criteria and guidelines that influence prescribing and utilization patterns. Strategies like the Programs' mandatory generic substitution requirement are effective in increasing generic utilization.

We also offer customized online edits to maximize generic usage. Some examples include:

- A brand-name medication chosen over a generic edit adds a price difference to the copayment. This may be turned off in certain situations, such as the brand-name is selected by the physician or the generic is out of stock
- A generic mandate edit requires dispensing of a generic or the system rejects the claim
- Fixed dollar differentials and percentage copayments incent Enrollees to choose the generic

- Pharmacy reimbursement differentials, with higher payments for generics, incent pharmacists to discuss the benefits of a generic with Enrollees

LOWER COST ALTERNATIVE PROGRAM

Our Lower Cost Alternative (LCA) Program educates Enrollees on LCA options, with real-time pricing at retail and mail. Enrollees have the ability to turn down each LCA opportunity and do not receive additional communication for one year.

LCA alerts are clinically appropriate and consistent with the Enrollee's formulary and benefit structure. Touch-points may include OptumRx Home Delivery Pharmacy, OptumRx customer service advocates, OptumRx pharmacists and the Enrollee Web portal.

Examples of how we engage Enrollees include:

- OptumRx customer service and clinicians—When Enrollees make inbound calls, personnel providing first-line support receive automated benefit-specific notifications of lower-cost options to discuss with Enrollees.
- Enrollee Web portal—Enrollees logging into our website receive an automated alert notifying them of specific lower-cost options.
- Marketing outreach—Education from targeted mailings and personal phone calls notify Enrollees of LCA opportunities to discuss with their physicians.

(2) Describe in detail the process the Offeror will utilize to set unit pricing for individual Generic Drugs dispensed? Please detail how the Offeror sets and periodically updates MAC pricing, including all factors considered? Please detail any and all exceptions, if any, to the standard Generic Drug pricing process described above? How does this process promote the dispensing of the most cost-effective Generic Drug NDC within a particular GPI?

Our MAC program has been designed with the overall goal of obtaining the lowest net prescription drug cost for our customers. We use a variety of resources in determining the components of our MAC list including AWP, pharmacy acquisition costs, and competitive benchmarks. Our MAC is customized at the GPI level to provide maximum savings for the customer. We review and update the MAC list twice weekly with additional updates implemented on an as needed basis based on market forces and other additional information. We routinely monitor pricing activity in the wholesale channel, expansion and contraction in the sourcing of products, new generic additions, and other factors to determine our proprietary MAC pricing algorithms. Products not on the MAC list are priced at AWP less the network discount. This method results in controlled, discounted pricing for generic products.

MAC UPDATES

We review and update our MAC list twice weekly with additional updates implemented as needed based on market forces and other additional information.

We routinely monitor pricing activity in the wholesale channel, expansion and contraction in the sourcing of products, new generic additions, and other factors to determine our proprietary MAC pricing algorithms. Our MAC team works with our customers to identify additional cost savings through the MAC programs.

MAC Additions

MAC unit pricing methodologies vary based on the marketplace characteristics of a particular drug. In general, the number of product lines available at the weighted market price points (WAC, AWP, and ACQ) are captured and used in our proprietary MAC pricing algorithms. Products are selected for inclusion on our MAC list based on availability and associated market forces. Typically, generic products are not considered for inclusion until the generic exclusivity period has expired and two or more generic manufacturers exist. Once identified for inclusion, various pricing factors and benchmarks are reviewed during the determination of the MAC price.

We consider a drug for inclusion on our MAC list when combinations of the following conditions are met:

- The drug must be a multi-source product (available from more than one source) per the Medi-Span multi-source drug indicator (an industry standard metric that indicates that a drug is available from more than one source or manufacturer) or the drug has a generic equivalent.
- We consider the availability and the number of A-rated generic equivalent products using the Medi-Span Orange Book Code. The Medi-Span Orange Book Code criterion is designed to discourage inappropriate generic substitution for brand products with low therapeutic indices.
- We determine the price variance between the unit prices for the brand and the generic products. A significant difference must be present for the product to qualify for inclusion on the MAC list. We consider the price variance to verify that the MAC is meaningful.
- We consider the utilization of the generic product. If a highly utilized generic drug is not present on the MAC list per the previously defined and systematically discovered criteria, our clinical department manually reviews the characteristics of that drug and make a decision regarding its eligibility for inclusion on the list. We employ this exhaustive methodology to enable pharmacists to realistically and reasonably work within the MAC pricing schema.

MAC Deletions

Products may be removed from the MAC list if the following conditions exist:

- The drug is no longer available
- The number of generic product manufacturers is reduced leaving one manufacturer
- Product costs can no longer sustain MAC reimbursement
- The drug's AWP discount provides a suitable return
- Product quality and safety issues, such as a recall or FDA warning, exist

Pharmacy Appeals Process:

- Providers must go to our website at https://www.Optumrx.com/ to access the Provider MAC pricing appeal form available within the Health Care Professionals area
- The Microsoft Excel must be completed as requested and can be emailed to OptumRx

- Appeal requests not completed as requested will be denied and not researched any further
- Responses will ONLY be responded to via email to the original requestor.

Our appeals process is the same for all pharmacies (chains, PSAOs, and independents).

Please note that all non-MAC related reimbursement and/or contract inquiries should be directed to Provider Relations at providerrelations@OptumRx.com.

We understand the importance of ongoing quality assurance, especially as it pertains to issues that affect payment to providers. Accurate payments to pharmacies help to secure relationships with providers and ultimately impact the services that our customers receive. Prior to implementation and utilization of a MAC list, we follow internal procedures to confirm that files are loaded accurately into the RxClaim system. We combine these procedures with a final post promotion review.

However, it is still possible that the provider community may be in disagreement with posted MAC list pricing. When a discrepancy is reported, we initiate a formal quality assurance process. Our Industry Relations team records the drug/strength/dosage form, current MAC price, and detailed issues and forwards the information to the Clinical team for verification and validation of the MAC price in our claims processing system against current acquisition pricing through application of the algorithm logic. We investigate the availability of the drug and after a final disposition, contact the provider with an explanation of findings.

(3) How are Generic Drugs that are not on a MAC list priced under the Network Pharmacy agreements that are applicable to the Programs?

For purposes of pricing, brand drug pricing may apply to Non-MAC generic drugs. However, Non-MAC generics will be included in the overall Generic drug guarantee. Drug Discount includes single source generics.

(4) Is the Offeror's Generic Drug pricing process described above incorporated in formally adopted corporate policies and procedures? Please explain.

Yes. MAC pricing sources include our in-house procurement department which aggressively pursues the best cost on volume purchases and product available through direct manufacturers.

We do not use an ingredient cost baseline for our MAC program. We benchmark the aggregate MAC ingredient cost by comparing it to AWP. We can guarantee a MAC performance rate for the Programs and discuss an annual or contract-length aggregate generic guarantee performance.

Newly launched generics are priced based on factors such as number of manufacturers available and product availability in the marketplace. We make every effort to keep our aggregate reimbursement levels stable with regard to proposed performance target levels.

(5) Does the Offeror maintain more than one pricing list (whether referred to as a MAC list or by some other name) for purposes of <u>billing clients</u>? If so, please indicate the number of pricing lists maintained for client billing purposes.

Yes. We manage the MAC aggressively by lowering the ingredient cost in order to hit the proposed Generic Effective Rate. We manage multiple MAC lists across all lines of business; however, the Programs will be managed on one MAC list. The number of products and discounts can vary based on location, drug mix, and the customer type.

(6) Does the Offeror maintain one or more pricing lists (whether referred to as a MAC list or by some other name) for purposes of reimbursing Network Pharmacies? Does the Offeror have single reimbursement arrangements, utilizing a single consistent pricing list, with individual Network Pharmacies? Or, does the Offeror have multiple reimbursement agreements with individual Network Pharmacies that are assigned and utilized based on the client?

Yes. Our pharmacy contracts vary from a reimbursement perspective based upon individual pharmacy negotiations. We have contractual relationships with more than 67,000 pharmacies. Our pharmacy network mission and vision is to create a level playing field as it relates to pricing components, including our MAC program. We provide a guaranteed minimum rate based on pharmacy utilization to the Programs. We analyze this utilization against our pharmacy network to determine specific guaranteed minimum rates. Our MAC process and pricing logic apply to every pharmacy in our network. Note, however, that the same MAC price does not necessarily apply at every pharmacy.

In very limited instances, differing MAC values may be used to reimburse pharmacies. For example, more remote or rural pharmacies may have a differing MAC value due to the increased cost of delivery.

(7) If the Offeror maintains more than one list for either clients or pharmacies please describe the purpose and rationale for maintaining multiple lists.

We manage multiple MAC lists across all lines of business. The number of products and discounts can vary based on location, drug mix, and the customer type. We maintain multiple lists to create a level playing field as it relates to pricing components in our MAC program.

(8) Does the Offeror manage the Offeror's MAC list pricing to a specific overall discount target or is pricing set on a drug by drug basis without a pre-determined discount target? Describe the process that is utilized to update the Offeror's MAC list including timelines.

[redacted]

(9) Will the Programs' MAC list be managed as or entirely unique and independent MAC list or will it be managed based on an existing MAC list? If the Programs MAC list is to be managed based on an existing MAC list, please identify that MAC list.

[redacted]

(10) In what regard, if any, will the pricing on the Programs MAC list differ from the Offeror's existing MAC list and for what reasons. Is that MAC list managed to an aggregate discount target? If it is managed to an aggregate discount target, what is that target? Is that discount target based on a discount off of all drugs on the MAC list or all Generic Drugs dispensed (including generic drugs that are not on a MAC list)? Is that target based on weighted or non-weighted utilization? Is the existing MAC list the most aggressively discounted MAC list the Offeror maintains?

[redacted]

(11) If the Programs MAC list is to be managed as an entirely independent list, please detail the price setting rules that will be applied? Please confirm that The Programs' MAC list will be managed to achieve discounts on an aggregate basis that both exceed the Guaranteed Minimum Discounts off of the aggregate AWP for Generic Drugs and exceed the most aggressively discounted MAC list in the Offeror's book of business.

[redacted]

(12) The Programs require that pricing be based on discounts off of Average Wholesale Price (AWP) as reported by the Medi-Span field coded R028 entitled "AWP unit price" as proposed by the Offeror. Are the Offeror's Network Pharmacy agreements based on AWP? Is the AWP the Offeror uses to calculate the price to the Programs the exact same AWP the Offeror uses to calculate payments to Network Pharmacies for each individual Prescription?

Yes. Our proposed AWP and WAC source is the Medi-Span Master Drug Data Base (MDDB). We adopted Medi-Span because it is widely considered to be the leading industry source for drug pricing information. A claim with an active Medi- Span NDC will have a corresponding Medi-Span AWP that is effective when the claim is adjudicated. The drug pricing information also easily integrates into our existing software applications. The AWP used to calculate pharmacy reimbursement will be the same benchmark price as used for calculating the price to the Program(s).

(13) Is the Offeror's pricing (including AWP discounts, MAC and dispensing fees) equal to or better than all other clients of the Offeror? If it is not, please detail the reason for the Programs not being offered the equivalent or better pricing. If it is not the Offeror's best pricing in the Offeror's book of business, please identify any chain Network Pharmacy the Offeror will be earning positive spread on for each Brand Drug script dispensed to an Enrollee/Claimant of the Programs.

[redacted]

(14) Many pharmacies, in particular major chain pharmacies, have the capacity to purchase and fill Prescriptions from bulk stock. If a Network Pharmacy does not dispense a Prescription drug in the original manufacturer packaging, what criteria does the Offeror apply regarding the submission of a particular NDC for reimbursement purposes? Does the Offeror always bill clients and reimburse pharmacies based on the same AWP for the same NDC? If not please explain.

At DCS and NYSIF's request, we can block retail claims submitted with repackaged NDCs. This practice enables our retail network pricing logic to be based on originator NDCs only.

For retail, mail service and specialty prescriptions, AWP is based on the actual package size of the full 11-digit NDC purchased and will serve as the basis for the AWP and discount calculation. The same AWP value is used for billing and payment purposes.

(15) Please detail all steps and requirements in the Offeror's process for pricing Compound Drugs as set forth in the Offeror's standard Network Pharmacy contract as well as any expected modifications to the current process as a result of implementation of NCPDP D.0. Is this pricing formula consistently applied to reimburse pharmacies for Compound Drug claims in the Offeror's entire book of business?

We have already fully implemented the NCPDP D.0 standard including all features/requirements with regards to compound drug claim processing. We communicate the following compound pricing requirements during our initial contracting negotiations with retail pharmacy providers joining our network. Following those negotiations, we routinely remind pharmacies of these policies to reinforce appropriate pricing and processing.

During the Programs' implementation, we determine how compound prescription drugs are to be paid and set up within our system.

We support NDC-based ingredient costs for determining pricing compound drug claims. We calculate the ingredient cost based on quantity submitted. We then take this aggregate figure based on quantity submitted and apply it against the pharmacy's contract rate. This calculated figure determines the final approved ingredient cost.

Required Data Fields For Compound Claims Submission

	Compound Segment Segment Identification (111-AM) = "10"	Optimal Segment Required for Compounds		Claim Billing/Claim Rebill
Field #	**NCPDP Field Name**	**Value**	**Payor Usage**	**Payor Situation**
450-EF	Compound dosage form description code.		RW	Required when compound is being submitted.
451-EG	Compound dispensing unit form indicator.		RW	
447-EC	Compound ingredient component count.	Maximum 25 ingredients	RW	
488-RE	Compound product id qualifier.		RW	
489-TE	Compound product ID.		RW	
448-ED	Compound ingredient Quantity.		RW	
449-EE	Compound ingredient drug cost.		RW	Required if needed for receiver claim determination when multiple products are billed.
490-UE	Compound ingredient basis of cost determination.		RW	*Imp Guide*: Required if needed for receiver claim determination when multiple products are billed.
362-2G	Compound ingredient modifier code.	Maximum count of 10.	O	*Imp Guide*: Required when Compound Ingredient Modifier Code (363-2H) is sent.
363-2H	Compound ingredient modifier code.		O	

Compound Drug Payment and Processing

We use a claim edit that defines how our claims system handles payment requirements for a non-NDC defined compound medication. Pharmacies request payment for compounds by submitting the appropriate National Council of Prescription Drug Programs (NCPDP) claim format, including the compound segment plus the negotiated dispensing fee. We request that pharmacies submit the cost and quantity used of each individual ingredient.

We may customize copayments and dispensing fees for compound drugs through the application of special edits in our claims processing system, which we discuss during the Programs' implementation. We have several compound edit options available, including edits that trigger a prior authorization message when the submitted amount meets a pre-defined maximum dollar threshold.

(16) Does the Offeror's claims processing system have the capacity to collect and report information on more than one component of the Compound Drug?

Yes. We adjudicate compounds using "multiple ingredient logic" where pharmacies submit each ingredient in the compound. Pharmacies are required to submit a minimum of two products but no more than 25 products in a compound submission.

(17) How will the Offeror's process ensure that a Prescription submitted falls within the Programs' definition of a Compound Drug set forth in the Contract Provisions, Section VII, (see Article I, entitled "Definition of Terms") of this RFP and should be subject to Compound Drug pricing? Does the Offeror have the right under its Network Pharmacy contracts to request submission of copies of Compound Drug Prescriptions to confirm that the Prescription was filled based on the Physician's "recipe" for the particular patient?

Our RxClaim system confirms a script as a compound by invoking NCPDP D.0 standard processing for compounds. The NCPDP D.0 version rejects claims with a compound flag if the claim does not include a recipe with the NDCs and quantities of the compounding ingredients used in the recipe. This system minimizes the risk of pharmacists attempting to submit commercially available products as compounds. In addition to this claims review process, compounds are reviewed as part of the standard audit process for the Programs.

THE OPTUMRX COMPOUND MANAGEMENT PROGRAM

We also have a detailed compound verification program that confirms at claim submission that compound prescriptions are warranted for the dispensing situation. This oversight is performed though our OptumRx Compound Management Program that addresses the safety and rising costs of compound medications by delivering a comprehensive approach to compound drug management. Our goal is to drive enhanced control of rising compound costs and utilization trends and address key quality and safety risks associated with inconsistent quality standards and oversight in compounding practices.

We work to credential and qualify compounding pharmacies for Active Pharmaceutical Ingredients (API) and API-like products. The extensive credentialing evaluation assesses pharmacy clinical and business practices.

(18) If the Offeror does not have the current capacity to confirm that the script is, in fact, for a Compound Drug within the definition of Compound Drug set forth in the Contract Provisions, Section VII (see Article I, entitled "Definition of Terms") of this RFP, what process will the Offeror institute to protect the financial interests of the Programs?

Our RxClaim system has the capability to confirm scripts submitted as compounds meet the Programs' definition of a compound drug.

We communicate compound pricing requirements during our initial contracting negotiations with retail pharmacy providers joining our network. Following those negotiations, we routinely remind pharmacies of these policies to reinforce appropriate pricing and processing.

During implementation, we determine how compound prescription drugs are to be paid and set up within our system.

We support NDC-based ingredient costs for determining pricing compound drug claims. We calculate the ingredient cost based on quantity submitted. We then take this aggregate figure based on quantity submitted and apply it against the pharmacy's contract rate. This calculated figure determines the final approved ingredient cost.

(19) The Programs' Lesser of Logic pricing provisions apply to all claims submitted, including claims for Compound Drugs. For the Offeror's book of business, please detail the percentage of Compound Drug claims being paid pursuant to the Offeror's standard pricing formula; and the percentage of claims being paid at the Pharmacy submitted cost.

Confirmed. If DCS and NYSIF wish to review the percentage of claims that are being adjudicated based on any particular logic control or payment calculation process, we generate detailed reports on its behalf.

SUBMITTED COST VERSUS PRICING FORMULARY

OptumRx does regularly not track this information and thus a book of business statistic is not available.

(20) The Programs are concerned that certain Compound Drug pricing formulas can result in an inflated AWP for individual Compound Drug Prescriptions. Will the Offeror agree to mutually acceptable strategies to reduce compound drug costs?

Yes. We can enable multi-ingredient compounds to process with the following optional limitations:

- Apply a set number of minimum and/or maximum ingredients
- Require that at least one of the ingredients be a legend item
- Set a specific limited list of products that can be covered in a multi-ingredient compound
- Automatically pay, deny, or prior authorize all multi-ingredient compounds
- Set multi-source indicator of all multi-ingredient compounds
- Set reimbursement for compounds at a different rate than all other claims

Compounds are adjudicated systematically to provide reimbursement to the pharmacy or an Enrollee's paper claim based on the most expensive legend ingredient within the compound.

In addition, a standard NCPDP submit clarification code of eight can be selected, enabling the pharmacy to accept those specific ingredients within the compound that might reject, while the claim as a whole (those that were considered covered paid) will pay. Each ingredient is treated individually from a coverage and pricing perspective. We also can provide unique patient pays to Multi-Ingredient Compound (MIC) claims based on the fact that the prescription was compounded. Also, the maximum cost ceiling application can be assigned based on the MIC attribute and can be set differently than non-MIC claims, if desired.