

**Texas Health Insurance Pool  
Board of Directors Meeting  
June 24, 2011**

The meeting of the Board of Directors of the Texas Health Insurance Pool was held Friday, June 24, 2011 at 300 E. 4<sup>th</sup> St., Guadalupe Room, Austin, Texas. Notice of the meeting was filed electronically with the Secretary of State's office on Thursday, June 16, 2011 and published immediately on the Texas Register web site (TRD# 2011004262).

Board members present: Gary Cole, Chair; Rick Ott, Vice-Chair; Greg Barbutti, Secretary/Treasurer; Pati McCandless; Maureen Milligan, Ph.D.; and Vicky Paparelli, APRN. Robert Emmick, M.D. participated via teleconference. Bill Rainey, M.D. and Marinan Williams were unable to attend. Steven Browning, Pool Executive Director, Denise Haidet, Pool Office Manager, and Betty DeLargy, General Counsel to the Pool, were also in attendance.

**Meeting Called to Order**

With a quorum of the Board present, Chairman Cole called the meeting to order at 8:30 a.m.

**I. Board Issues and Administrative Matters**

Mr. Cole noted that the agenda for the meeting was short but important, because the Board will be asked to award the Pool's contract for Pharmacy Benefit Manager ("PBM") services. He expressed his appreciation to Mr. Kellogg, the Pool's PBM consultant, Mr. Browning, and the Board members who served on the review panel, who all devoted a great deal of time to the process. He noted they had participated in several conference calls, conducted face-to-face interviews with bidders, and were involved in the final evaluation of the respondents in order to award the contract. He asked Mr. Kellogg and Mr. Browning to further describe the process undertaken, the proposal evaluation criteria, and to present the panel's final recommendation.

Mr. Kellogg referred the Board to his executive summary briefing document, which listed the critical dates for the project and described the process used to evaluate the bids submitted by companies competing for the Pool's PBM contract. The request for proposals ("RFP") solicitation document was released on December 27, 2010 to all qualified PBMs and those companies that requested a package. Eighteen bid packages were sent out, and 17 companies returned their written intent to bid. Of these 17, a total of 13 companies actually submitted a proposal. The bid deadline was March 11<sup>th</sup>. Mr. Kellogg confirmed that proposals were received from all PBMs capable of handling the Pool's account, with the exception of Express Scripts, which declined to bid.

Upon receipt of the proposals, Mr. Kellogg graded the bidders' responses to the RFP questions, which were weighted by their relative importance. This allowed Mr. Kellogg to develop a preliminary ranking of the bidders. In addition to the administrative services proposal, each bidder submitted a financial offer, which included a drug pricing estimate based on the Pool's actual 4Q 2010 scripts. Mr. Kellogg annualized each bidder's repriced claims, and then ranked the financial results. Each bidder's administrative and financial scores were then combined, which allowed the panel to reach consensus and narrow the competitive bidder list to four finalists. The proposals for these four companies were then evaluated in greater detail. The review group decided to conduct in-person interviews with the

two companies with the top scores, CVS Caremark and Medco Health Solutions.

The interviews were conducted in Austin on June 16<sup>th</sup>. Each company was allowed 30 minutes to present its proposal, followed by an hour during which the work group members could ask questions. Mr. Kellogg commented that the interview panelists, composed of Mr. Cole, Mr. Barbutti, and Dr. Emmick, along with Mr. Browning and Ms. DeLargy, were very thorough in their questioning of Caremark and Medco.

After further discussion, Mr. Kellogg asked Mr. Browning to summarize the panel's recommendations. Mr. Browning noted the RFP process had been very competitive and thorough. The review panelists, and Ms. DeLargy, Mr. Kellogg, and himself, participated in three formal conference calls. Following the finalist interviews, Mr. Browning conducted a site visit with Caremark in San Antonio to tour the mail order facility as well as the call center. During his five-hour visit, he met with Caremark's proposed Pool account teams and their clinical management teams, including Caremark pharmacists. He stated that Caremark's operation was impressive.

Mr. Browning reported that the competitive nature of the PBM RFP had once again proven to be very beneficial for the Pool. Using conservative assumptions, the final drug pricing offers from both Medco and Caremark are estimated to save the Pool in excess of \$20.0 million over the next two years in reduced drug costs, based on pricing using actual Pool claims. Mr. Browning stated that the estimated savings from Medco exceeded Caremark's bid and, after deliberate and careful review of the final terms, the panel and he recommend that the Board award the January 1, 2012 PBM contract to Medco Health Solutions. He noted that the panel also recommends a back up award to Caremark, as first alternate, if the Pool and Medco cannot quickly reach full agreement on contract terms.

Mr. Cole asked for questions and comments from the Board on any aspect of the bid process. Ms. McCandless asked and Mr. Browning confirmed that he is generally satisfied with Medco's service level, and he noted that the Medco account team is very responsive. He observed that he also believed Caremark would provide good service, given the positive references he obtained from current clients. Mr. Ott asked if there is any concern that Medco might not agree to the Pool's contract terms. Mr. Browning explained that the immediate focus will be negotiation of specific contract language for years 2014 and 2015, and the guarantee that proposed terms would extend into later years, as necessary for the anticipated dissolution of the Pool, due to federal health care reform. He added that it was crucial for the Pool not to be in the position, during the anticipated dissolution period, of having to go back out to the market with another RFP. The Pool must be able to unilaterally extend the contract beyond 2013, and Medco must not be able to unilaterally terminate its services. Mr. Browning affirmed that both Caremark and Medco conceptually agreed to extend the contract through 2015, at the same terms offered during the two base years. Mr. Kellogg confirmed that Mr. Browning and the panel had thoroughly explained the Pool's expectations with respect to the retention of services. Mr. Browning noted that similar extension provisions were recently incorporated into the BCBSTX renewal contract; BCBSTX cannot terminate the contract, while the Pool has the unilateral right to extend TPA services through 2015, if necessary.

Discussion ensued regarding possible legislative actions during the next session that could impact the Pool. There may be an effort to extend operations of the Pool into 2014 to allow for a more orderly transition of enrollees into commercial market coverage through the Exchange. Mr. Browning speculated that the Pool would, however, likely be closed to new enrollment after implementation of the Exchange. When asked if she had any insights through her association with the Centers for

Medicare and Medicaid Services (“CMS”), Ms. Milligan affirmed that such discussions are still very preliminary, but she did note that CMS was complimentary about the Pool’s assistance with the redirection of eligible Texans into the federal risk pool.

Mr. Cole noted that the panel had also reviewed the Medco clinical programs in place and the savings they now generate for the Pool. Mr. Browning stated that the \$20 million in drug cost savings previously mentioned did not include the clinical program savings from Medco. He noted that a transition to a new PBM would result in some period of diminished clinical savings. Mr. Cole asked Ms. DeLargy to comment on the anticipated timeline for execution of the Medco contract. She stated that Medco had already pointed out a few inconsistencies between the current Pool contract and the contract template that was included in the RFP bid package. Since the Pool had already approved the current Medco contract provisions, she did not anticipate a problem with negotiated revisions. She affirmed that the renewal contract will contain the terminology to allow the Pool to extend with six months prior notice to Medco and to lock in the base-year pricing throughout the extension periods, even if enrollment declines.

Mr. Kellogg noted the current Medco contract has been revised and enhanced several times, and he felt there would be few substantive changes at this renewal. Ms. DeLargy noted that the Medco renewal contract would retain the annual open network repricing provision now in place, which allows the Pool to benefit from Medco’s annual pricing negotiations with its network pharmacies.

After further discussion, **Mr. Barbutti moved to award the PBM contract, effective 1/1/2012, to Medco Health Solutions. If, however, the Pool’s representatives are unable to successfully negotiate a contract acceptable to the Pool on or before August 1, 2011, the award may be revoked and the PBM contract awarded instead to CVS Caremark. Mr. Barbutti also moved to grant authority to Mr. Browning to execute the final contract. The motion was seconded by Mr. Ott and unanimously approved.**

## **II. Public Comment**

Mr. Cole requested public comment but none was offered.

## **III. Adjournment**

Mr. Browning informed the Board that he plans to schedule the fall meeting for mid-September. **Mr. Barbutti moved to adjourn the meeting. The motion was seconded by Ms. Milligan, and unanimously passed.** There being no further business, Mr. Cole adjourned the meeting at 9:00 a.m.