

ITEM#: 13
DATE: 01-10-23
DEPT: HR

COUNCIL ACTION FORM

SUBJECT: AWARD OF CONTRACT FOR PHARMACY BENEFIT MANAGER SELECTION PROCESS

BACKGROUND:

The City has contracted with Wellmark Blue Cross and Blue Shield to provide health insurance services for many years. Included in the health insurance contract are pharmacy benefits. Pharmacy costs have represented approximately 19% of the overall health insurance budget in the last several years, with notable exceptions occurring in FY 2020/21 and FY 2021/22 – largely due to the COVID-19 pandemic. These pharmacy costs are projected to increase to 22% (~\$2.5M) of the overall health insurance budget in the next fiscal year.

Within the existing contract with Wellmark, it is possible to carve out pharmacy benefit management as a separate insurance plan. Pharmacy benefits could then be administered by a pharmacy benefits manager selected through a competitive process, who would negotiate pricing with retailers, establish the formulary (including the “tiers” of drugs placed at different co-pay points), and administer policies such as quantity limitations and step therapy (requirements to try a certain number of lower cost drugs before authorizing coverage for a higher-cost non-preferred drug).

Staff believes a competitive process has the potential to produce substantial cost savings compared to the current pharmacy services that are bundled with Wellmark’s insurance program. Given the potential for a small percentage reduction in pharmacy cost resulting in a substantial dollar savings, staff would like to take the steps to initiate that competitive bid process.

The bidding process to select a Pharmacy Benefits Manager (PBM) is a significant and complex undertaking that staff feels would be best administered by subject matter experts. Arthur J. Gallagher Benefits Services (Gallagher) has worked with the City for the last six years as its benefits consultants and has become very knowledgeable about the City’s benefits plans, budget, and overall goals related to the management of benefits. Gallagher is uniquely qualified to assist City staff in selecting a Pharmacy Benefits Manager that will offer a high level of service to employees with minimal disruption to existing service while providing significant cost savings.

Gallagher has provided a proposal to the City that outlines cost and timing of a competitive bid process to select a PBM. The proposal includes the development of the scope, expectations for service, and detailed questions for the pharmacy benefits managers that choose to bid. Gallagher will then work with each submission to determine overall cost,

potential savings, overall plan design, and potential disruption in service based on actual pharmacy claims data and each submission’s proposed pricing structure.

The timeline prepared by Gallagher ensures full implementation of a PBM by July 1, 2023. Pricing as proposed by Gallagher, is as follows:

RFP Process	\$50,000
Implementation Support (waived if current vendor is selected)	\$15,000
Post Implementation Audit (waived if current vendor is selected)	\$45,000
MAXIMUM POTENTIAL COST	\$110,000

It is possible that the competitive process will result in the City remaining with the current vendor (Wellmark). If that is the case, then the City would not retain Gallagher’s services for the Implementation Support (\$15,000) or the Post-Implementation Audit (\$45,000). Funding for Gallagher’s services under this contract will be made available from the Health Insurance Fund available balance, which is estimated at approximately \$7.7 million as of January 1, 2023.

Staff is requesting that the City Council waive the City’s Purchasing Policy to allow the City to award the contract for the PBM selection process to Gallagher. Doing so will allow the process to conclude in time for a July 1, 2023 effective date and will reduce the possibility of disruption to employees and covered family members if a new PBM is selected.

It is expected that an evaluation of this type may need to occur in the future at intervals of 3-4 years to ensure that the pharmacy services received by the City are the best possible value and quality. It is staff’s expectation that any consulting services obtained in the future to assist in the evaluation process would be competitively bid.

ALTERNATIVES:

1. Waive the City’s Purchasing Policy and Procedures requirement for competitive bidding and award a contract for the Pharmacy Benefits Manager selection process to Arthur J. Gallagher Benefits Services in an amount not-to-exceed \$110,000.
2. Direct staff to solicit competitive proposals for assistance in the selection of a Pharmacy Benefits Manager, thereby delaying the implementation of any new agreement for Pharmacy Benefits Manager services to July 2024 at the earliest.

CITY MANAGER’S RECOMMENDED ACTION:

City staff is hopeful that significant cost savings can be achieved by soliciting proposals for a Pharmacy Benefits Manager. Because of the substantial analysis required to accurately evaluate potential proposals for this service, staff believes the best course is to utilize a third-party firm to solicit proposals and evaluate them. Gallagher has provided

health insurance benefits analysis for the City for the past several years and City staff is satisfied with the firm's work.

Due to the start of a new plan year in July, 2023, staff believes it is prudent to waive the City's purchasing requirement to solicit competitive proposals and award a contract to Gallagher for the Pharmacy Benefits Manager evaluation process. Doing so will allow the evaluation to be completed and potential new vendor to be in place before July 1, 2023. Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, as described above.