

ITEM #: 12  
DATE: 12-12-23  
DEPT: HR

**COUNCIL ACTION FORM**

**SUBJECT: APPROVAL OF PHARMACY BENEFIT MANAGER (PBM) AS SEPARATE VENDOR**

**BACKGROUND:**

For almost twenty years, Wellmark Blue Cross Blue Shield of Iowa has been the City's provider for administrative services and excess coverage for the self-insured health and pharmacy programs. As the Pharmacy Benefits Manager (PBM) this third party company functions as an intermediary between insurance providers, such as Wellmark, and pharmaceutical manufacturers. PBMs negotiate rebates with manufacturers, process claims, create pharmacy networks, review drug utilization, and manage mail-order specialty pharmacies. **Since pharmaceutical costs are a significant portion of the overall costs incurred by the City's Health Insurance Fund, the terms that can be negotiated by a PBM can result in significant impacts to the City's costs.**

Because pharmacy costs are the fastest growing portion of the City's health care costs, staff decided to enlist Gallagher Benefit Services, Inc. to conduct a Request for Proposals (RFP) earlier this year seeking cost savings from a competitive process for a PBM. This process sought to create a service unbundled from the services currently provided by Wellmark. Gallagher Benefit Services, Inc. considered five proposals and identified Carelon Rx as the preferred vendor for the PBM, with its services starting January 1, 2024.

The proposal submitted by Carelon Rx provided better transparency regarding drug rebates and better pricing for drugs than the other proposals. **Pricing with Carelon Rx is projected to be approximately \$1.5 million less than Wellmark's projected costs over a period of 3 years.** Wellmark will continue to serve as the City's third party administrator for medical insurance for City employees and their families.

**ALTERNATIVES:**

1. Accept the contract documents from Carelon Rx to serve as the City's Pharmacy Benefit Manager by negotiating rebates with manufacturers, processing claims, creating pharmacy networks, reviewing drug utilization, and managing mail-order specialty pharmacies for benefits effective January 1, 2024, for 3 years.
2. Do not accept this new vendor for carved out Pharmacy Benefit Manager services and remain with Wellmark as the City's PBM.

**CITY MANAGER'S RECOMMENDED ACTION:**

Carelon Rx's services are cost-effective, and they have a strong working reputation in the local market with other public employers as a health care partner. Approving of this contract will provide the best value to the City in administering its Pharmacy Benefit Manager services. Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative #1, as described above.

**ATTACHMENT(S):**

[City of Ames - PBM Agreement \(CarelonRx 11-21-2023\)v2.docx](#)

