EXECUTIVE SUMMARY

Designing a Pharmacy Benefit for the New Public Health Insurance Exchange Consumers

As health plans prepare to participate in the public health insurance exchanges for 2014, they are looking for ways to optimize their plans to attract new consumers while managing costs and promoting healthy outcomes. The role that pharmacy benefits will play cannot be overlooked in helping to achieve these financial and clinical outcomes and differentiate their offerings in the marketplace.

Express Scripts is ready to assist health plans with a focused approach that includes consumer research insights as well as consultative support to help in designing pharmacy solutions, taking into account the relative cost to the plan and consumer preferences for benefit access. Details of this approach are outlined below and in this report:

• In November 2012, Express Scripts commissioned an independent, custom, consumer market research study to gain a better understanding of the new public exchange consumer and how pharmacy benefits can influence plan selection in the public exchange marketplace. For two critical insights and seven key findings from this study, see pages 4-10.

• Express Scripts has proven pharmacy benefit solutions that can be leveraged for plan design to align with a health plan’s exchange strategy and achieve cost and clinical objectives. Solutions are driven by our proprietary approach known as Health Decision ScienceSM — the application of behavioral sciences, clinical

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specialization and actionable data to help drive better decisions that lead to healthier outcomes. For complete details on how these solutions compare relative to benefit access or clinical outcomes, see pages 11-13. For specific considerations on applying the solutions for different consumers based on the study insights, see page 14.

- Express Scripts has also created a proprietary benefit solutions model to enable health plan clients to run simulations based on their strategic approach to developing plans for the public exchanges. This model helps clients to understand the financial and clinical impact of different solutions as well as the associated implications to member access. To put the model to work, health plan clients should contact their Express Scripts account management teams.

We encourage health plan clients to take advantage of the consumer insights and proven solutions in this report, as well as our proprietary modeling tools and consultative support to help optimize their plan design for attracting and managing new public exchange consumers for 2014 and beyond.
BACKGROUND

Dramatic Changes for Health Insurers

With the reelection of the president, the Patient Protection and Affordable Care Act (PPACA) provision for public health insurance exchanges remains scheduled for implementation in 2014, with open enrollment to begin October 1, 2013. The law includes an individual mandate, upheld by the Supreme Court last summer, requiring most individuals to purchase coverage or face penalties for noncompliance. As a result, health insurers are facing dramatic changes in how healthcare will be purchased, delivered and regulated. They are tackling new market realities and challenges, preparing to reach millions of individuals directly rather than through employers. The vast majority of these public exchange consumers are expected to be uninsured, lower-income and purchasing insurance for the first time, with an estimated 90% qualifying for subsidies from the federal government. In fact, Americans are projected to receive $23 billion in federal healthcare subsidies for use in the public exchanges in 2014 alone.

THE NEW PUBLIC EXCHANGE CONSUMER

No One-Size-Fits-All Solution

It’s an unprecedented opportunity that requires fresh thinking about the new public exchange consumer. There is no one solution that will meet their needs. Those who have gone a year or more without coverage (referred to as “long-term” uninsured in this document) are likely to be focused on cost, while those who only recently lost coverage are more likely to seek options that are similar to employer-based coverage. However, some commonalities exist. The new exchange consumer is likely to be overwhelmed and will need education and guidance to understand the complicated choices across the various precious metals and catastrophic coverage options. We believe they will be acutely price sensitive and brand recognition is likely to have an impact on their decisions. Still, little is known about the buying behavior of this risky and potentially costly group, particularly around their pharmacy purchase behavior and usage patterns.
RESEARCH SUMMARY

Understanding the Pharmacy Preferences of the New Exchange Consumer

In November 2012, Express Scripts commissioned an independent, custom, consumer market research study to gain a better understanding of the role that pharmacy will play in the overall selection of a health insurance plan in the new public insurance exchange marketplace.

As pharmacy is the most heavily utilized healthcare benefit, we believe its role in the exchanges merits attention. We looked at consumer preferences for a variety of pharmacy benefit bundles among three groups:

- The uninsured
- Those who currently purchase insurance directly on their own
- Those who currently receive health insurance through their employer

The web-based, conjoint study had 2,765 participants, aged 18 to 64, with heavier weighting in California, New York, Pennsylvania, Ohio and Tennessee, and excluded those currently with coverage through Medicare or Medicaid.

This study was conducted by Deft Research, LLC. Express Scripts was not identified as the sponsor.
RESEARCH SUMMARY

Two Critical Insights

- Consumers are willing to trade access for premium savings.
  - The long-term uninsured are more price sensitive and willing to accept a more restrictive benefit for a lower premium
  - Being less experienced in purchasing insurance, the long-term uninsured are more likely to perceive that any benefit is better than none
  - Those who currently have employer coverage are willing to pay more for access to broader drug and network coverage

- Being highly subsidized effectively raises the importance of factors other than premium for plan election.
  - Nine out of ten public exchange consumers are expected to be subsidized in 2014
  - Lower-income individuals receive higher subsidies, which neutralizes the premium — the single biggest driver of plan election according to findings in this study
  - The higher the subsidy, the more that premium and cost-sharing are neutralized, raising the importance of other pharmacy factors for plan choice

Seven Key Findings

1. Consumers will select a narrower pharmacy network
2. Home delivery is acceptable for most consumers
3. As subsidies neutralize premiums, pharmacy factors more heavily influence plan choice
4. Uninsured consumers are less sensitive to drug copayments
5. Most consumers will accept a $100 drug deductible
6. High medication utilizers have similar preferences as healthier consumers
7. Consumer preferences are similar across the country and among employer groups

Note: Critical insights and key findings are extrapolated from responses of individuals participating in the study and may not necessarily reflect the preferences of any individual or group of consumers in any particular market.
Each of these seven insights from the consumer market research is important to health plans looking for ways to differentiate their offerings in the exchange marketplace.

1. Consumers will select a narrower pharmacy network.

As expected, consumers prefer access to the broadest pharmacy network possible; however, they appear to be willing to select a narrower network at a lower premium, with the option to choose pharmacies from a broader network at higher copayments. The willingness of the uninsured to trade broad access for premium savings gives health insurers an important lever in plan design.

As this graph indicates, in the absence of premium, a broader network is preferred. But when premium is factored in, just a $20 difference in premium results in a significant shift in preference from the broad to the narrow network.

Note: All scenarios include a $100 drug deductible.
SEVEN KEY FINDINGS & IMPLICATIONS

2  Home delivery is acceptable for most consumers.

This is particularly true among the currently insured and those who are recently uninsured, which is not surprising, as most employer-sponsored benefit plans feature broad inclusion of a home delivery benefit. According to one analysis in the study, when premium and drug deductible were factored in, adding a home delivery requirement to one of the plan choices reduced preference by a mere 1%. This is consistent with the study finding that, in general, the presence of a home delivery option does not appear to be a key detractor from overall plan selection.

3  As subsidies neutralize premiums, pharmacy factors more heavily influence plan choice.

Individuals and families at the lowest income levels will obtain the highest premium subsidies. In some cases, insurance premiums will be very low, as little as 4% of income. Our data indicates that as the consumers’ subsidy increases, the premium is neutralized as a choice factor, and other items such as pharmacy network, copayment amount, and formulary can influence plan choice more heavily.
Uninsured consumers are less sensitive to drug copayments.

The long-term uninsured prefer $5 and $10 generics almost equally and have only a slight preference for $30 versus $40 brand drug copayments. Having little or no experience with purchasing insurance, they are more likely to accept that any coverage is better than none, at least until they become more savvy health insurance consumers. Those who are currently insured show a greater preference for lower copayments that mirror their employer-sponsored coverage, particularly $5 generics.
Those uninsured for a year or more are most willing to accept a $100 drug deductible. A $0 deductible is preferred more by those currently insured and those who are taking prescription medications to treat chronic or complex medical conditions. For all consumers, the study indicates that drug deductibles above $150 could have a negative impact on plan election.
6 High medication utilizers have similar preferences as healthier consumers.

This study shows that those taking at least one medication for a chronic condition do show a preference for pharmacy plans with a $0 or a very low drug deductible. These medication users understand that they will be taking drugs with costs well in excess of any deductible level, so they view higher deductibles as a penalty. Otherwise their preferences are very similar to participants who do not take chronic medications.

7 Consumer preferences are similar across the country and among employer groups.

Nationally, we did not see significant variation in preferences from market to market. The lone exception was California. More Californians are willing to accept leaner pharmacy benefits than Americans nationwide and in other states where the study was also weighted more heavily (New York, Pennsylvania, Ohio and Tennessee). While the study found no significant differences among those insured by small and large employer groups, employees of larger organizations would expect a somewhat richer plan, most likely because their current plans have richer benefits than those offered by smaller employers.
PHARMACY BENEFIT SOLUTIONS

Optimizing Plan Design for the Exchanges

Covering an estimated 29 million uninsured Americans by 2021\(^1\), the public exchanges represent a significant growth opportunity for health insurers. Express Scripts is uniquely positioned to help health plan clients attract, retain and manage public exchange consumers for greater clinical and financial outcomes.

Leveraging our extensive knowledge of healthcare reform, decades of pharmacy benefit expertise and new insights from this market research, we have developed solutions to help clients manage costs, improve health outcomes and attract new consumers. Each solution incorporates our proprietary approach known as Health Decision Science\(^{SM}\) — the application of the behavioral sciences, clinical specialization and actionable data to improve health decisions. Solutions are organized around drug choices, pharmacy choices and health choices, which represent the three key areas where Express Scripts can help drive better decisions that lead to healthier outcomes.

See the tables on pages 12-13 for our comprehensive solutions and their relative impact on benefit access or clinical outcomes.
PHARMACY BENEFIT SOLUTIONS

Impact on Benefit Access

This table shows how these solutions compare in terms of benefit access for the consumer. Solutions that offer narrower or more restricted benefit access typically drive lower plan costs (e.g., High Performance Managed Formulary).

<table>
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<th>DRUG CHOICES</th>
<th>Benefit Access</th>
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<td>Formulary</td>
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<td>High Performance Managed</td>
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<td>Utilization Management</td>
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<td>Advantage Plus</td>
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<td>Advantage</td>
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<td>Limited (least aggressive)</td>
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<th>PHARMACY CHOICES</th>
<th>Benefit Access</th>
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<td>Retail Network</td>
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<td>Express Advantage Network\textsuperscript{SM} (EAN)</td>
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<td>Pharmacy Vaccination Program</td>
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<td>Home Delivery</td>
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<td>Specialty Pharmacy</td>
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Broad Access
Moderate Access
Narrow Access

Narrower Access Drives Lower Plan Costs

For a brief description of each of these solutions, see Appendix on page 16.
PHARMACY BENEFIT SOLUTIONS

Impact on Clinical Outcomes

This table shows how these solutions compare in terms of clinical outcomes for the consumer. Solutions that offer the best clinical outcomes typically drive the highest plan savings (e.g., RationalMed® health and safety program).

<table>
<thead>
<tr>
<th>DRUG CHOICES</th>
<th>Clinical Outcomes</th>
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<tbody>
<tr>
<td><strong>Utilization Management</strong></td>
<td>My Rx Choices Plus® / Prescription Benefit Review Statements</td>
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<tr>
<td><strong>Specialty Utilization Management</strong></td>
<td>Medical Benefit Management</td>
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<th>HEALTH CHOICES</th>
<th>Clinical Outcomes</th>
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<td><strong>Health and Safety</strong></td>
<td>RationalMed®</td>
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<td><strong>Care Coordination</strong></td>
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<td>Physician Report Card</td>
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<td>Academic Detailing</td>
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Better Clinical Outcomes Drive Higher Plan Savings

For a brief description of each of these solutions, see Appendix on page 16.
PHARMACY BENEFIT SOLUTIONS

Considerations

In applying these solutions to plan design for the new public exchange consumer, consider how different combinations may attract different groups:

The uninsured, particularly the long-term uninsured, may prefer leaner programs.

As a general rule, this group indicates a preference for lower premiums and more restrictive plan options, which costs less for health plans to provide coverage. This suggests that health plans can offer this group an attractive benefit while keeping premiums and other costs low. Consider these key design factors to drive this strategy:

• Use the aggressive High Performance Managed Formulary to ensure the highest generic fill rate, because the uninsured are more likely to accept generics-only coverage
• Apply a $100 drug deductible, as it is the most direct way to reduce plan costs, and the research shows it is acceptable to most consumers, particularly this group
• Apply a higher drug copayment tier structure (e.g., $10/$40/$50), which the study shows is preferred nearly as much as a $5/$30/$50 structure by the uninsured, yet provides a much more favorable cost-share structure for the plan
• Include home delivery as part of the plan design, as the study indicates that a home delivery option does not materially detract from plan choice

The currently insured and chronic medication users are likely to seek richer solutions.

There are options that will attract the consumer who is willing to pay a higher premium for broader access and greater choice. Consider these recommendations to drive this strategy:

• Implement the Express Advantage Network paired with a broader pharmacy wrap, which provides a cost incentive to use pharmacies in the narrower network and the option to pay higher copayments to use the broader retail network. This group indicates a preference for more choice, even at the higher copayment.
• Use our Advantage or Limited utilization management solutions for moderate to less aggressive step therapy, prior authorization and drug quantity management programs that will help reduce costs but also provide drug coverage that this group prefers.
NEXT STEPS

Put our Benefit Solutions Model to Work

Express Scripts recognizes that health plans may have different strategies to attract, retain and manage new public exchange consumers. We have developed a proprietary benefit solutions model to enable health plan clients to run simulations based on their strategic approach to designing offerings for the public exchanges.

This innovative model helps clients to assess the cost implications and savings opportunities of different solutions as well as the relative impact on benefit access and clinical outcomes. It evaluates pharmacy benefit levers across all three decision areas — drug choices, pharmacy choices and health choices — analyzing, for example, how applying the most aggressive formulary management, the narrowest retail network and the most robust care coordination program could affect overall per member per month costs. We offer our support to run any number of simulations for clients as well as expertise in analyzing the results.

We invite health plan clients to take advantage of our model, the consumer insights and proven solutions in this report, as well as our consultative support and pharmacy benefit expertise to help optimize their consumer offerings for 2014 and beyond.

Contact us today for help in designing your pharmacy benefit for the new public health exchange consumers.

Express Scripts health plan clients: Please contact your account management team to learn more about how our pharmacy benefit solutions can help differentiate your offerings to consumers in the public health insurance exchanges.

More information is also available by contacting healthplanhcr@express-scripts.com.


APPENDIX

Solutions Overview & Glossary

Formulary
- **High Performance Managed** — Narrowest, most aggressive formulary for highest generic fill rate
- **High Performance Tiered** — Moderately aggressive formulary includes some preferred brand drugs
- **National Preferred Tiered** — Broader formulary includes more preferred brand drugs

Utilization Management (UM)
- **Unlimited** — Most aggressive cost control through step therapy, prior authorization and drug quantity management programs
- **Advantage Plus** — Aggressive UM programs
- **Advantage** — Moderate UM programs
- **Limited** — Basic UM programs
- **My Rx Choices Plus®** — Expands messaging options for alerting members to savings opportunities
- **Prescription Benefit Review Statements** — Reporting option for Consumer-Directed Health plan providers

Specialty Utilization Management
- **Medical Benefit Management** — Controls costs of specialty drugs billed in medical benefit using centralized physician portal for prior authorization

Retail Network
- **Express Advantage Network℠ (EAN)** — Maximizes savings by covering prescription medications only at Tier 1 network pharmacies
- **EAN + National Plus** — Cost incentive to use EAN pharmacies; option to use broadest retail network, including CVS and Walgreens
- **National** — Broad retail network, including CVS
- **National Plus** — Broadest retail network, including CVS and Walgreens
- **Pharmacy Vaccination Program** — Reduces waste with incentive for using cost-effective retailers for vaccinations

Home Delivery
- **Exclusive Home Delivery** — Maximizes savings and promotes better patient care and adherence by requiring home delivery for maintenance medications
- **Select Home Delivery** — Reduces waste and minimizes disruption through choice-based solutions, including cost incentive to use home delivery

Specialty Pharmacy
- **Exclusive Specialty** — Maximizes savings and promotes better patient care and adherence by covering specialty medications from the Express Scripts specialty pharmacy only
- **Select Specialty** — Reduces waste and minimizes disruption by offering choice between our specialty pharmacy and a retail pharmacy, with no penalties

Health and Safety
- **RationalMed®** — Identifies and addresses safety issues by integrating and analyzing medical, pharmacy and lab data and targeting outreach to physicians, pharmacists and patients
- **ScreenRx℠** — Improves adherence through early detection and tailored interventions
- **Concurrent Drug Utilization Review** — Improves patient safety by analyzing claims and sending pharmacist alerts at point of sale

Care Coordination
- **ExpressAlliance®** — Improves care, adherence and cost savings for acute and complex conditions through web-based coordination of care providers
- **Physician Report Card** — Benchmarks physician prescribing practices to identify and address opportunities for improvement
- **Academic Detailing** — Reduces costs by training key prescribers on ways to reduce plan and patient costs