



Redesigning the Healthcare Experience for America's Workers.

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Bucking the National Trend, NJ Captures \$1.6 Billion in Prescription Drug Savings Without Cutting Benefits or Shifting Costs to Public Employees

Trenton, NJ – The State of New Jersey has netted an unprecedented \$1.6 billion, or 18%, reduction of its prescription drug spend over the next three years by adopting an innovative, technology-based strategy that features an online auction to select a pharmacy benefits manager or “PBM” to administer prescription drug benefits to 750,000 New Jersey public employees, dependents, and retirees. The savings were secured without imposing any pharmacy benefits cuts on public employees. In fact, public workers will see a lower rate of growth in their health plan premium shares as a result of the massive prescription drug savings beginning in calendar year 2018.

New Jersey is the first state in the nation to implement such a strategy. Earlier this year, the State invited eligible PBMs to submit bids to its online auction, but required them to accept best-in-class contract terms prescribed by the State as a condition for participating. Powered by a state-of-the-art technology platform, New Jersey’s online PBM auction created a dynamic, truly competitive marketplace in which PBMs bid and counter-bid against one another over multiple rounds of bidding for an exclusive agreement to provide prescription drugs to the beneficiaries of the State’s two public employee health benefit plans, an “eBay for PBM’s.”

The advanced technology platform included a price adjudication engine comparable to those used by the PBMs, but deployed it to apply standardized pricing assumptions, prescription drug classifications, definitions, price lists, and drug price data sources to all the PBM proposals. Applying this methodology and best-in-class PBM contract terms required by the State, the price adjudication engine was able to generate “apples to apples” comparisons of diverse and complex PBM bids, calculate the real dollar costs of each PBM proposal over the 3-year contract term, and produce rankings of the anonymous PBM bids, viewable online by the competing PBMs and the State PBM Selection Committee after each bidding round.

The same technology platform will be deployed to electronically review bi-weekly invoices from the winning PBM, claim-by-claim and line-by-line to flag errors and overcharges. The electronic audit can be completed within a matter of hours after the invoice and supporting claims data feed are received. The State has never audited the invoices from incumbent PBM Express Scripts or Medco, its predecessor, during the past 9 years. The State’s adoption of the new, technology-enabled strategy this year signals New Jersey’s transition to becoming a discipline 21st Century buyer of health care services and prescription drugs.

“Adoption and execution of this technology-enabled strategy is a major paradigm shift for elected State leaders and public worker unions,” says Mark Blum, executive director of America’s agenda, the non-profit health care coalition and think tank that proposed the new strategy and has worked closely with New Jersey public employee unions and elected officials to carry it out. “One might imagine that a solution like this -- one in which taxpayers win, public workers win, New Jersey state and local governments and school districts win -- would be a slam dunk. The truth is, paradigm shifts never come easily.

“Success in executing this strategy and then capturing the enormous savings it will generate for State taxpayers and union-represented public workers requires alignment of interests between people and organizations who often see one another as adversaries. Even when the value of transforming the delivery model is as big and obvious as it is here, aligning interests between adversaries on other issues -- finding common ground they share, but may not realize it -- is not simple or trivial,” says Blum. “But that’s what we do.”

America’s Agenda introduced the PBM online auction concept, initially, to public employee unions that represent public worker participants in the School Employees Health Benefits Program (SEHBP) and State Health Benefits Program (SHBP), the State plans that provide health benefits to Jersey public school teachers and other educators (represented by the New Jersey Education Association and American Federation of Teachers), state and local government employees (represented by the Communications Workers of America and the American Federation of State, County, Municipal Employees), police and firefighters. Union representatives to the SEHBP and SHBP Plan Design Committees responded enthusiastically to the concept. Christie Administration representatives were invited to participate in educational forums that union representatives organized together with America’s Agenda.

In July 2015 and January 2016, the Plan Design Committees of both the SHBP and SEHBP each agreed to hundreds of millions of dollars in health benefits cuts in conjunction with union-Christie Administration agreement to a ground-breaking, America’s Agenda-designed Direct Primary Care Pilot Program for public employees and their families. Shortly thereafter, Governor Christie demanded \$250 million in additional health benefits concessions from each of the Plan Design Committees. Union representatives to the SHBP Plan Design Committee proposed a resolution for conducting the PBM online auction as an alternative way to capture savings sought by Governor Christie. The Christie administration representatives rejected it. Subsequently, in a split vote of the union representatives, the SHBP capitulated to the Governor’s demands.

The SEHBP Plan Design Committee, led by NJEA, steadfastly refused the demands. Governor Christie then threatened to rescind New Jersey’s reciprocal income tax agreement with the neighboring State of Pennsylvania in order to raise tax revenues from highly-paid Pennsylvanians working in New Jersey. Low income South Jersey workers who commuted to jobs in metropolitan Philadelphia would become collateral damage if the Governor followed through on his threat, because their incomes would become taxed at higher rates in Pennsylvania.. Senate President Steve Sweeney decided that the time had come to suggest the online PBM auction to the Governor as an alternative way to save more than \$200 million in the State budget.

In politics, timing can mean everything. The Governor withdrew his unpopular income tax threat and agreed to support Senator Sweeney's suggestion. Kevin Kelleher, NJEA Director of Economic Services and a moving force behind adoption and successful implementation of the PBM auction strategy, commented, "The PBM auction made such good sense that even the Governor, after exhausting all other options, finally got behind it."

At Senator Sweeney's invitation, America's Agenda representatives met with State Treasurer Ford Scudder and senior Senate and Treasury staffers to discuss pathways for implementing the PBM auction idea. There were concerns that the State's archaic procurement rules could prevent acquisition of requisite technology in a reasonable time period. In response, Senator Sweeney authored legislation, [S2749](#), early this year that created an expedited process for state selection of a technology vendor capable of conducting the online auction within just 10 days -- warp speed for State procurement. Public sector unions led by NJEA put their full support behind the Sweeney-sponsored bill, which was enacted and signed by the Governor in record time.

Under the expedited timeline of S2749, the State Division of Purchase & Property issued an RFP and selected Truveris, Inc. as the technology vendor to conduct the online auction and electronic review of PBM invoices for one year. America's Agenda worked hand-in-hand with NJEA to assure that public sector unions had a representative on the PBM Selection Committee. NJEA's Kevin Kelleher was ultimately appointed to the Committee, building confidence in the legitimacy of the process among public worker unions.

On June 30th, less than 4 hours before the midnight shutdown of the NJ State Government, a 3-year contract was awarded to Optum Rx, the winning PBM. In calendar year 2018, the state's new PBM contract will save New Jersey nearly \$350 million in prescription drug spending, or nearly \$30 million per month. Even larger dollar savings are estimated for calendar years 2019 and 2020, the second and third years of the State's PBM contract with Optum Rx.

"We are rooting out PBM profiteering at the expense of New Jersey taxpayers and public employees," Senator Sweeney said.

In a similar vein, NJEA President Wendell Steinhauer observed, "Without the technology-enabled auction, that \$1.6 billion in savings would have shown up simply as extra profits for private companies at the expense of our members and other taxpayers."

"We couldn't have gotten here without America's Agenda," said NJEA's Kevin Kelleher. "They gave us the roadmap. They've kept us together, guided our progress, built momentum to transform health care. We're on our way!"

America's Agenda is a national health care alliance that brings together labor unions, businesses, health care providers, and government leaders who share a common commitment to our mission of winning guaranteed access to affordable, high quality health care for every American.