

**Confidential Until Award and
Subject to Redaction under G.S. 132-1.2**



**Pharmacy Benefit Management (PBM) Services Contract
Request for Approval**

Board of Trustees Meeting

March 10, 2016

A Division of the Department of State Treasurer

Contract Approval Required by Statute

North Carolina General Statutes §135-48.22 and §135-48.33(a) require that the BOT approve all Plan contracts with a value over \$500,000.

The cost of this contract is estimated to be over \$500,000.

This contract is exempt from Department of Administration Purchase & Contract rules pursuant to §135-48.34.

PBM Services Request for Proposals (RFP)

- Intent of procurement: Secure a pharmacy benefit manager to provide services and support that will assist with meeting the Plan's strategic goals for improving members' health, members' experience, and ensuring financial stability.
- Express Scripts, Inc. currently holds the contract for PBM services.
 - Initial term was originally set to expire on September 30, 2013, but extended to December 31, 2013, so the contract would align with the new calendar benefit year.
 - The Plan's original two-year option to extend the contract following the initial term was exercised at the same time and the contract was amended to add another option to extend through 2016.
 - The contract was again amended to exercise the extension through 2016 and add an option for extension through 2017.
- The PBM RFP was issued since the original term of the contract and extension periods have expired and to help manage the Plan's overall procurement schedule.

Procurement Process

- The Plan issued the PBM RFP on October 1, 2015.
- Minimum responses were received October 23, 2015. Five potential bidders met minimum requirements and were notified on October 27, 2015.
- Bids were received on December 7, 2015, from the following:
 - Blue Cross Blue Shield of North Carolina with Prime Therapeutics
 - Caremark PCS Health, LLC (CVS)
 - Catamaran LLC, an Optum Rx Company
 - Express Scripts, Inc. (ESI)
 - Magellan Rx Management, Inc.

Procurement Process

- Technical proposals were evaluated by the evaluation committee between December 14, 2015, and January 28, 2016. ESI and CVS had the two highest technical scores.
- All proposals were reviewed to identify “programs of value” and scored accordingly for incorporation into the cost proposal.
- Technical proposals for ESI and CVS were then reviewed a second time using a supplemental document to identify important services and programs that may not have been reviewed during the initial scoring process.
- The Segal Company (Segal), the Plan’s actuarial services vendor, assisted in the analysis and scoring of the cost proposal, but received “blinded” copies of the bidder’s proposal.

Procurement Process

- Best and Final Offers (BAFO)
 - Issued to the two bidders with the highest overall scores, ESI and CVS, on February 24, 2016.
- Clarifications
 - Sent to bidders throughout the evaluation process as needed.
 - Additional clarifications were sent to ESI and CVS on February 26, 2016, following a detailed review of the responses by the pharmacy benefits team.
 - Responses were received on March 2, 2016. ESI did not agree to a contract requirement regarding the Plan's audit rights.
- Award Recommendation
 - The evaluation committee met on March 3, 2016, and March 4, 2016, to discuss making a recommendation to the Executive Administrator (EA).
 - The evaluation committee reached consensus and made a recommendation to the EA on March 7, 2016.
 - The EA's recommendation for award sent to the Board on March 8, 2016.

Scoring Overview

- The maximum total score possible was 1,000 points. The technical and cost scores were weighted at 50% each making the technical proposal and cost proposal worth a maximum of 500 points each.
- Scoring areas within the technical and cost proposals were weighted as follows:

| Technical Scoring | Cost Scoring |
|------------------------|-------------------------------|
| Customer Service (10%) | Administrative Fee (10%) |
| Reporting (10%) | Network Fees (60%) |
| Implementation (10%) | Other Clinical Programs (30%) |
| Specialty (30%) | ➤ Clinical Fees |
| Technology (25%) | ➤ Programs of Value |
| Clinical (15%) | ➤ Programs with Savings |

Cost Scoring Overview

Administrative and Network Fees

- Bidders provided administrative and network pricing on four separate designs:
 - Broad Network / Open Formulary
 - Narrow Network / Open Formulary
 - Broad Network / Closed Formulary
 - Narrow Network / Closed Formulary
- [REDACTED]
- Formulary Requirements:
 - Each bidder's closed formulary was evaluated as part of the technical proposal analysis to verify that adequate and reasonable clinical coverage is available.
 - A proposal not meeting the following criteria received a cost proposal score of 0 for the closed formulary categories.
 - Total member disruption of <10%
 - On average, acceptable member disruption levels within 8 critical therapeutic classes
- Network Requirements:
 - Each bidder's narrow network was evaluated as part of the technical proposal analysis to verify that adequate minimum member access is maintained.
 - Minimum required access is defined as 98% of members having access to at least one participating pharmacy within 1 mile for urban areas and 95% of members having access to at least one participating pharmacy within 15 miles for rural areas.
 - Proposal not meeting that criteria received a cost proposal score of 0 for the narrow network categories.

Cost Scoring Overview

Other Clinical Programs

- Other Clinical Programs were split into three areas with a maximum of 50 points for each:
 - Clinical Fees: Analysis to determine the PMPM fees for clinical programs not included in the utilization management bundled fee.
 - Programs of Value: A review of programs offered by the PBM that may provide added value to the Plan. For example, programs that increase adherence, improve member outcomes and experience, and improve rebates or other financial opportunities.
 - Programs with Savings: Management programs with guaranteed or projected savings. A minimum of 3 bidder proposals had to include clinical programs beyond the required core programs that have either guaranteed or estimated savings indicated, otherwise no points would be awarded.

Best and Final Offer (BAFO)

- A BAFO was requested from ESI and CVS on February 24, 2016.
- The bidders were required to respond to the BAFO request by 8:30 a.m. on February 29, 2016.
- Responses were received and blinded versions sent to Segal.
- The cost analysis was updated by Segal to incorporate the pricing received in the BAFO.
- The BAFO resulted in additional potential savings that range from \$20 million to \$67 million.

Bidder Disqualification

- A comprehensive review of technical proposals for ESI and CVS was conducted by the Director of Pharmacy Benefits and the pharmacy team to identify responses that would need to be addressed prior to contract award.
- This resulted in clarifications being sent to ESI and CVS on February 26, 2016, regarding various areas of the RFP and the bidder's response.
- Responses were received on March 2, 2016.
- ESI did not agree to accept the Plan's audit findings as described in Section VI.3.7.8.a.ii of the RFP.
 - The Plan required that ESI accept the findings of the Plan's pharmacy audit vendor to measure certain performance guarantees. Although ESI confirmed, the description provided did not support a confirmation of the requirement. ESI conditioned acceptance of findings to those "mutually agreeable between [ESI] and the Plan"
- ESI's response was deemed unacceptable to the Plan, disqualifying it from further consideration and therefore precluding award of the contract to ESI.

Final Scores

Technical Proposal Scores:

| Bidder | Clinical (150) | Specialty (300) | Customer Service (100) | Reporting (100) | Technology (250) | Implementation (100) | Total (1000) | Weighted Score (50%) (500) |
|----------|----------------|-----------------|------------------------|-----------------|------------------|----------------------|--------------|----------------------------|
| ESI* | 113.60 | 267.86 | 62.50 | 68.75 | 177.50 | 15.00 | 705.21 | 352.60 |
| CVS | 123.85 | 216.43 | 15.00 | 45.00 | 150.00 | 75.00 | 625.28 | 312.64 |
| BCBSNC | 82.55 | 122.14 | 45.00 | 10.00 | 105.00 | 25.00 | 389.69 | 194.85 |
| Optum | 98.60 | 92.14 | 62.50 | 57.50 | 63.75 | 15.00 | 389.49 | 194.75 |
| Magellan | 69.00 | 90.00 | 10.00 | 10.00 | 102.50 | 15.00 | 296.50 | 148.25 |

Cost Proposal Scores with BAFOs:

| Bidder | Admin Fees (50) | Network/RX Fees (300) | Other Clinical Fees (50) | Programs of Value (50) | Programs with Savings (50) | Weighted Score (500) |
|----------|-----------------|-----------------------|--------------------------|------------------------|----------------------------|----------------------|
| ESI* | | | | 32.00 | 0 | 422.94 |
| CVS | | | | 28.00 | 0 | 409.87 |
| BCBSNC | | | | 23.00 | 0 | 340.31 |
| Optum | | | | 15.00 | 0 | 179.84 |
| Magellan | | | | 9.00 | 0 | 191.77 |

*Bidder Disqualified

Summary of Final Scores

| Bidder | Technical (500) | Cost (500) | Total (1000) |
|-----------------|------------------------|-------------------|---------------------|
| ESI* | 352.60 | 422.94 | 775.54 |
| CVS | 312.64 | 409.87 | 722.51 |
| BCBSNC | 194.85 | 340.31 | 535.16 |
| Optum | 194.75 | 179.84 | 374.59 |
| Magellan | 148.25 | 191.77 | 340.02 |

*Bidder Disqualified

Potential Savings Over Three Years

- Broad Network/Closed Formulary Overall Savings
ESI Bid: \$494.4 million
CVS Bid: \$521.1 million
- Both ESI and CVS offered total estimated savings from the current contract of 15%.

Segal's complete cost analysis is attached as Appendix 1.

New Contract

- The new contract will be effective upon award with services beginning January 1, 2017. The contract will expire December 31, 2019, but has two one-year extensions.

Recommendation

Plan staff recommends approval of a contract with CVS for Pharmacy Benefit Management Services.



State of North Carolina PBM RFP (BAFO)

Pharmacy Benefit Management Request For Proposals BAFO Financial Analysis

March 2, 2016

CONFIDENTIAL

 Segal Consulting

Administrative Fee Summary

| | Bidder 100 | Bidder 125 | Bidder 150 (BAFO) | Bidder 175 | Bidder 200 (BAFO) |
|-------------------------|------------|------------|----------------------|------------|----------------------|
| PMPM Fees | | | | | |
| Administrative Fee PMPM | ████ | ████ | ████ | ████ | ████ |
| 3-Year Cost | | | | | |
| Broad / Open | ██████ | ██████ | ██████ | ██████ | ██████ |
| Narrow / Open | ██████ | ██████ | ██████ | ██████ | ██████ |
| Broad / Closed | ██████ | NA | ██████ | NA | ██████ |
| Narrow / Closed | ██████ | NA | ██████ | NA | ██████ |
| RFP Score | | | | | |
| Broad / Open | ████ | ████ | ████ | ████ | ████ |
| Narrow / Open | ████ | ████ | ████ | ████ | ████ |
| Broad / Closed | ████ | 0.00 | ████ | 0.00 | ████ |
| Narrow / Closed | ████ | 0.00 | ████ | 0.00 | ████ |
| Total Score | ████ | ████ | ████ | ████ | ████ |

Notes:

Projected cost numbers are in thousands.

Bidder 125 and 175 closed formulary options exceeded SHP disruption threshold.

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Network / Rx Fee Summary

| | Bidder 100 | Bidder 125 | Bidder 150 (BAFO) | Bidder 175 | Bidder 200 (BAFO) |
|--------------------|------------|------------|----------------------|------------|----------------------|
| 3-Year Cost | | | | | |
| Broad / Open | ██████████ | ██████████ | ██████████ | ██████████ | ██████████ |
| Narrow / Open | ██████████ | ██████████ | ██████████ | ██████████ | ██████████ |
| Broad / Closed | ██████████ | NA | ██████████ | NA | ██████████ |
| Narrow / Closed | ██████████ | NA | ██████████ | NA | ██████████ |
| RFP Score | | | | | |
| Broad / Open | ██████ | ██████ | ██████ | ██████ | ██████ |
| Narrow / Open | ██████ | ██████ | ██████ | ██████ | ██████ |
| Broad / Closed | ██████ | 0.00 | ██████ | 0.00 | ██████ |
| Narrow / Closed | ██████ | 0.00 | ██████ | 0.00 | ██████ |
| Total Score | ██████ | ██████ | ██████ | ██████ | ██████ |

Notes:

Projected cost numbers are in thousands.

Bidder 125 and 175 closed formulary options exceeded SHP disruption threshold.

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Clinical Fee Summary

| Fees per Review | Bidder 100 | Bidder 125 | Bidder 150 (BAFO) | Bidder 175 | Bidder 200 (BAFO) | Expected # of Annual Reviews |
|-------------------------|------------|------------|-------------------|------------|-------------------|------------------------------|
| Prior Authorization Fee | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | 33,333 |
| Step Therapy Fee | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | 33,333 |
| Quantity Limits Fee | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | 33,333 |

| PMPM Fees | Bidder 100 | Bidder 125 | Bidder 150 (BAFO) | Bidder 175 | Bidder 200 (BAFO) |
|-------------------|------------|------------|-------------------|------------|-------------------|
| Concurrent DUR | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| Retrospective DUR | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

| 3-Year Cost and Score | Bidder 100 | Bidder 125 | Bidder 150 (BAFO) | Bidder 175 | Bidder 200 (BAFO) |
|-----------------------|------------|------------|-------------------|------------|-------------------|
| Total Cost | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| Total Score | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

Notes:

Prior Authorization, Step Therapy, and Quantity Limit Fees total cost was calculated by multiplying expected number of annual reviews (33,333) * number of contract years (3) * fee per review. The expected number of annual reviews was estimated based on the historical experience of the State.

Projected cost numbers are in thousands.

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Cost Scoring Summary

| | | | Max Points | Bidder 100 | Bidder 125 | Bidder 150 (BAFO) | Bidder 175 | Bidder 200 (BAFO) |
|---|---|-----------------------|------------|---------------|---------------|-------------------|---------------|-------------------|
| 1 | | Administrative Fees | 50 | ████ | ████ | ████ | ████ | ████ |
| 2 | | Network/Rx Fees | 300 | ████ | ████ | ████ | ████ | ████ |
| 3 | A | Other Clinical Fees | 50 | ████ | ████ | ████ | ████ | ████ |
| 3 | B | Programs of Value | 50 | 23.00 | 9.00 | 28.00 | 15.00 | 32.00 |
| 3 | C | Programs with Savings | 50 | - | - | - | - | - |
| | | TOTAL | 500 | 340.31 | 191.77 | 409.87 | 179.84 | 422.94 |

Notes:

Scoring based on methodology and allocation as provided by SHP on 1/1/2016.

Programs of Value points provided by SHP on 2/8/2016.

Programs with Savings was not scored since the minimum threshold of three bids with guaranteed or estimated savings was not reached.

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Three Year Financial Comparison – Broad Network, Open Formulary

| Three Year Total | ESI - Current | Bidder 100 | Bidder 125 | Bidder 150 (BAFO) | Bidder 175 | Bidder 200 (BAFO) |
|--|---------------|-------------|-------------|-------------------|-------------|-------------------|
| Drug Cost Before Discounts | \$6,814,236 | \$6,814,236 | \$6,814,236 | \$6,814,236 | \$6,814,236 | \$6,814,236 |
| Drug Cost Before Rebates and Administrative Fees | ████████ | ████████ | ████████ | ████████ | ████████ | ████████ |
| Discount Savings from Current \$ | | ████████ | ████████ | ████████ | ████████ | ████████ |
| Discount Savings from Current % | | ██ | ██ | ██ | ██ | ██ |
| Formulary Rebates | ████████ | ████████ | ████████ | ████████ | ████████ | ████████ |
| Net Drug Cost Before Fees | ████████ | ████████ | ████████ | ████████ | ████████ | ████████ |
| Administrative Fees | ████████ | ████████ | ████████ | ████████ | ████████ | ████████ |
| Clinical Fees | ██ | ████████ | ████████ | ████████ | ████████ | ████████ |
| Net Drug Cost | \$3,395,666 | \$3,093,300 | \$3,341,490 | \$3,031,740 | \$3,102,641 | \$2,975,794 |
| Total Savings from Current \$ | | \$302,366 | \$54,176 | \$363,926 | \$293,024 | \$419,872 |
| Total Savings from Current % | | 9% | 2% | 11% | 9% | 12% |

Notes:

Cost projections are based on claims experience from October 1, 2014 through September 30, 2015, trended forward, assuming the guaranteed terms of each bidder's financial proposal. Drug Cost is not offset by member cost share. Numbers are in thousands. Due to the deferred nature of rebate payments, actual rebates under the current terms may be higher or lower than indicated which would affect estimated savings shown.

The projections in this report are estimates of future costs and are based on information available to Segal Consulting at the time the projections were made. Segal Consulting has not audited the information provided. Projections are not a guarantee of future results. Actual experience may differ due to, but not limited to, such variables as changes in the regulatory environment, local market pressure, health trend rates and claims volatility. The accuracy and reliability of health projections decrease as the projection period increases.

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Three Year Financial Comparison – Narrow Network, Open Formulary

| Three Year Total | ESI - Current | Bidder 100 | Bidder 125 | Bidder 150 (BAFO) | Bidder 175 | Bidder 200 (BAFO) |
|--|---------------|-------------|-------------|-------------------|-------------|-------------------|
| Drug Cost Before Discounts | \$6,814,236 | \$6,814,236 | \$6,814,236 | \$6,814,236 | \$6,814,236 | \$6,814,236 |
| Drug Cost Before Rebates and Administrative Fees | ████████ | ████████ | ████████ | ████████ | ████████ | ████████ |
| Discount Savings from Current \$ | | ████████ | ████████ | ████████ | ████████ | ████████ |
| Discount Savings from Current % | | ██ | ██ | ██ | ██ | ██ |
| Formulary Rebates | ████████ | ████████ | ████████ | ████████ | ████████ | ████████ |
| Net Drug Cost Before Fees | ████████ | ████████ | ████████ | ████████ | ████████ | ████████ |
| Administrative Fees | ████████ | ████████ | ████████ | ████████ | ████████ | ████████ |
| Clinical Fees | ██ | ████████ | ████████ | ████████ | ████████ | ████████ |
| Net Drug Cost | \$3,395,666 | \$3,058,412 | \$3,317,752 | \$3,001,059 | \$3,063,061 | \$2,948,494 |
| Total Savings from Current \$ | | \$337,254 | \$77,914 | \$394,607 | \$332,605 | \$447,172 |
| Total Savings from Current % | | 10% | 2% | 12% | 10% | 13% |

Notes:

Cost projections are based on claims experience from October 1, 2014 through September 30, 2015, trended forward, assuming the guaranteed terms of each bidder's financial proposal. Drug Cost is not offset by member cost share. Numbers are in thousands. Due to the deferred nature of rebate payments, actual rebates under the current terms may be higher or lower than indicated which would affect estimated savings shown.

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Three Year Financial Comparison – Broad Network, Closed Formulary

| Three Year Total | ESI - Current | Bidder 100 | Bidder 125 | Bidder 150 (BAFO) | Bidder 175 | Bidder 200 (BAFO) |
|--|---------------|-------------|------------|-------------------|------------|-------------------|
| Drug Cost Before Discounts | \$6,814,236 | \$6,814,236 | | \$6,814,236 | | \$6,814,236 |
| Drug Cost Before Rebates and Administrative Fees | ██████████ | ██████████ | | ██████████ | | ██████████ |
| Discount Savings from Current \$ | | ██████████ | | ██████████ | | ██████████ |
| Discount Savings from Current % | | █ | | █ | | █ |
| Formulary Rebates | ██████████ | ██████████ | | ██████████ | | ██████████ |
| Net Drug Cost Before Fees | ██████████ | ██████████ | | ██████████ | | ██████████ |
| Administrative Fees | ██████████ | ██████████ | | ██████████ | | ██████████ |
| Clinical Fees | █ | ██████████ | | ██████████ | | ██████████ |
| Net Drug Cost | \$3,395,666 | \$3,047,835 | | \$2,874,582 | | \$2,901,304 |
| Total Savings from Current \$ | | \$347,831 | | \$521,083 | | \$494,362 |
| Total Savings from Current % | | 10% | | 15% | | 15% |

Notes:

Cost projections are based on claims experience from October 1, 2014 through September 30, 2015, trended forward, assuming the guaranteed terms of each bidder's financial proposal. Drug Cost is not offset by member cost share. Numbers are in thousands. Due to the deferred nature of rebate payments, actual rebates under the current terms may be higher or lower than indicated which would affect estimated savings shown.

Bidder 125 and 175 closed formulary options exceeded SHP disruption threshold.

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Three Year Financial Comparison – Narrow Network, Closed Formulary

| Three Year Total | ESI - Current | Bidder 100 | Bidder 125 | Bidder 150 (BAFO) | Bidder 175 | Bidder 200 (BAFO) |
|--|---------------|-------------|------------|-------------------|------------|-------------------|
| Drug Cost Before Discounts | \$6,814,236 | \$6,814,236 | | \$6,814,236 | | \$6,814,236 |
| Drug Cost Before Rebates and Administrative Fees | ██████████ | ██████████ | | ██████████ | | ██████████ |
| Discount Savings from Current \$ | | ██████████ | | ██████████ | | ██████████ |
| Discount Savings from Current % | | ██ | | ██ | | ██ |
| Formulary Rebates | ██████████ | ██████████ | | ██████████ | | ██████████ |
| Net Drug Cost Before Fees | ██████████ | ██████████ | | ██████████ | | ██████████ |
| Administrative Fees | ██████████ | ██████████ | | ██████████ | | ██████████ |
| Clinical Fees | ██ | ██████████ | | ██████████ | | ██████████ |
| Net Drug Cost | \$3,395,666 | \$3,012,947 | | \$2,843,901 | | \$2,865,846 |
| Total Savings from Current \$ | | \$382,719 | | \$551,764 | | \$529,820 |
| Total Savings from Current % | | 11% | | 16% | | 16% |

Notes:

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Summary of BAFO Proposal Changes – Bidder 150

[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

[REDACTED]

- [REDACTED]

[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

[REDACTED]

- [REDACTED]

Summary of BAFO Proposal Changes – Bidder 200

[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

Summary of BAFO Proposal Changes – Bidder 200 (continued)

[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]