

Rx Collaborative

2020 Annual Report to Employers



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Letter from the Rx Collaborative leadership

Dear members,

During a year like no other, the Rx Collaborative focused on providing timely information to help clients adapt to challenges wrought by the pandemic. While the need for cost containment intensified during this time of uncertainty, the Rx Collaborative's savings proposition remained constant, providing assurance to our members.

At the onset of the pandemic, we worked closely with our PBM partners on your behalf to ensure the pandemic's unforeseen effects were being addressed (e.g., taking action to ensure patients had access to medications). We collaborated with Willis Towers Watson's broader Health and Benefits teams on several communications to keep you updated on testing, treatment, vaccine development and virtual health care delivery solutions. We also worked alongside our clients to reset strategies accounting for COVID-19's impact.

Despite 2020's challenges, the Rx Collaborative's value continues to resonate in the market, as evidenced by our growth to 425 plan sponsors. Our PBM partners comprise the industry's three largest PBMs. We are well positioned to provide significant benefits to members.

Our members also benefit from the expertise and innovation available through the Willis Towers Watson Pharmacy and Health and Benefits teams. Understanding the complexities of the pharmacy benefit, we continue to monitor the market and evaluate new point solutions and disruptive innovators. We are also exploring new pricing alternatives to bring enhanced value to Rx Collaborative employers.

Thank you for your continued support. As always, we strive to better serve your needs and welcome your feedback. If you have any questions, comments or suggestions, please contact your Willis Towers Watson pharmacy consultant or email me at jasmine.aral@willistowerswatson.com



Jasmine Aral
Rx Collaborative Team Lead

Fast facts

2020 members
4.9 million

2020 prescriptions
42.9 million

Specialty: 400 thousand
Non-specialty: 42.5 million

2020 drug spend*
\$7.3 billion

Specialty: \$3.3 billion
Non-specialty: \$4.0 billion

96%
of surveyed employers
would recommend the
Rx Collaborative

*Drug spend does not include the value of rebates.

Our value proposition to clients

The Rx Collaborative is driven by the fundamental concept that employer groups deserve to understand the actual cost of prescription drugs their members are using as well as revenue sources of pharmacy benefit managers. For more than 15 years, we have consistently worked to add transparency to PBM pricing and revenue sources, while adding significant financial value to employers. Throughout the market's ongoing evolution, the Willis Towers Watson Rx Collaborative has consistently pioneered the prescription drug group purchasing space, transforming the pharmacy benefit industry into the first large-scale, national pharmacy benefits solution.

Our consulting team is comprised of more than 100 clinicians and financial pharmacy consultants. We continue to provide support to clients seeking a coalition with strong oversight of our PBM partners, Express Scripts, CVS Health and OptumRx. The Willis Towers Watson pharmacy community specializes in creating meaningful, custom approaches that address our clients' specific needs. Our best-in-class solutions are designed to provide our employer clients with true pricing disclosure, transparency and value.

Financial

With our experience, capabilities and reach, we have successfully negotiated attractive pricing on behalf of our clients and their members consistently over time. We can typically negotiate pricing that is 2% to 10% better than other coalitions in the market.

Savings throughout the term

Our clinical and formulary management coupled with annual price improvements ensure that Rx Collaborative members continue to enjoy increased savings opportunities throughout the life of their PBM contracts. This oversight consistently produces significant savings for members with minimal or no disruption.

The Rx Collaborative team negotiates annually with each of our PBM partners to provide our members improved market-competitive pricing. We gather significant market intelligence via various audits and procurements for clients of all sizes and then leverage these insights to stay ahead of unfavorable PBM pricing modifications, ensuring our contracts remain market-leading:

- Rx Collaborative pricing is only available to our members.
- Our pre-negotiated contract template creates a streamlined contracting process with best-in-class provisions.
- We revisit pricing and contract language on an annual basis to drive additional savings and ensure that our market intelligence is reflected, with no member-required action.

- Historically, employers who have joined the Rx Collaborative have seen an average savings of 9% to 12% over their previous arrangement.
- More than 275 existing clients received an automatic price improvement effective January 1, 2021, generating an estimated 1% to 4% in savings.

With an understanding that every client is different, our pharmacy consultants work with each of their clients to develop custom approaches that leverage our exclusive Rx Collaborative strategies in addition to our PBM partners' existing programs. As a result, our members have the knowledge and tools necessary to drive appropriate utilization, reduce waste and achieve significant savings.

Advocacy

Willis Towers Watson's drive to provide excellent client service is exemplified in the Rx Collaborative service model through our commitment to client advocacy. We press our PBM partners to deliver innovative solutions to help our clients achieve savings, offer quality programs, and deliver on both client and member satisfaction. Our pharmacy team offers superior consulting advice to our clients while also partnering with PBMs to safeguard the delivery of best-in-class service.

In combination with our pharmacy expertise and marketplace knowledge, the custom service delivery model offers:

- Consulting and pharmacy management, including a Willis Towers Watson pharmacy consultant



- A defined custom service delivery model formally documented in our proprietary account management playbook. All PBM partners endorse the playbook through ongoing account team training and annual updates. The playbook defines the joint management approach for supporting Rx Collaborative clients, including best practices and custom processes.
- Implementation support from Willis Towers Watson, which ensures PBMs accurately identify, understand and implement client requirements. Annual implementation debriefs with the PBMs provide Willis Towers Watson the opportunity to review lessons learned and pursue service improvements for our clients.
- Direct access to senior management within our PBM partners allows Willis Towers Watson to advocate for client issue resolution and negotiate solutions for complex client requests.
- Custom performance guarantees to address PBM account team satisfaction, change management, annual enrollment and audits. The custom guarantees and high-dollar amount at risk increase the PBMs' accountability to deliver on service.

During this unprecedented year, we quickly worked with our PBM partners on behalf of our clients to address the COVID-19 pandemic in several key ways:

- Moved client annual review meetings in collaboration with Willis Towers Watson client teams to a virtual environment
- Offered virtual benefit fair support with digital materials and prerecorded benefit fair content
- Supported a virtual site visit for our annual Rx Collaborative operational assessment

Flexibility

Employers want to provide benefits tailored to the needs of their employee populations. The Rx Collaborative provides flexibility to members, allowing them to choose plan design, utilization management, retail network and formulary based on what is right for their individual company and employees.

Innovation

The drive to innovate and move the market is at the Rx Collaborative's foundation. We continue to prove ourselves as a marketplace thought leader, leveraging our market intelligence and understanding of the PBM business to create new approaches and solutions to add value and address employer needs. We continually monitor the marketplace and evaluate new technologies and programs to provide guidance to our employers. Our innovative approaches include:

- Engaging PBM partners to pilot new programs that address our members' needs
- Oversight of PBMs' specialty drug lists to save clients up to 2% on drug spend
- Increasing PBM credits and negotiating discounted fees for most PBM services
- Creating custom performance guarantees that hold PBMs more accountable
- Applying new pricing strategies on key specialty medications, ensuring members benefit from the aggressive terms pharmacy and financial Rx Collaborative experts negotiate

- Exploring new strategies to provide savings through true utilization management
- Specialty pharmacy recommendations that include preferred products, optimal distribution channels, utilization management and plan design
- Real-time clinician team review of pipeline specialty medications and therapies that are evolving at an ever-increasing rate

Governance

The annual Rx Collaborative audit initiative adds significant value to plan sponsors and members because it provides assurance that the pharmacy benefit is functioning as negotiated and expected.

Our comprehensive annual audit initiative reviews financial contract terms, including rebates, discounts, dispensing fees and our PBM partners' operational capabilities. The Rx Collaborative audit team consists of seasoned pharmacy and audit specialists who understand Rx Collaborative pricing terms, know how prescription claim transactions should adjudicate, and have deep experience with how pharmacy benefit managers should perform to provide maximum value to clients.

The annual audit initiative

In 2020, we once again performed each audit component on behalf of Rx Collaborative members. Overall, we found our PBM partners were adhering to financial contract terms and providing a high level of service to Rx Collaborative clients.

Group-level claim audit

Purpose

- Verify discounts, dispensing fees applied correctly
- Confirm Rx Collaborative proprietary definitions and reconciliation logic applied correctly

Findings

- Overall, PBMs adhered to contract terms
- Types of errors found included client-specific setup issues that resulted in incorrect payments to some clients

Rebate review

Purpose

- Confirm 100% rebates paid to PBM from five manufacturers were passed through to sample clients
- Confirm PBMs adhered to rebate reconciliation provisions

Findings

- Overall, PBMs passed through 100% of rebates collected from the drug manufacturers
- Audit confirmed that PBMs accurately adhered to rebate provisions
- Audit uncovered a discrepancy in the reconciliation criteria that was resolved through discussions between Willis Towers Watson and the PBM

Operational assessment

Purpose

- Review all aspects of PBM operations to determine PBMs' effectiveness in service delivery
- Virtual visit to a key facility to focus on one aspect of PBM service

Findings

- Overall, PBMs have the operational processes in place to provide a high level of service to Rx Collaborative clients
- The assessment highlighted opportunities for improvement, such as evaluating the need for account management and audit resources and streamlining member communications



The Rx Collaborative annual audit initiative becomes increasingly critical as PBM pricing tactics change and operational processes are revised. One example seen over the last year; ESI started to use group purchasing organizations (GPOs) to manage rebate contracting with pharmaceutical manufacturers. GPOs aggregate the purchasing volume of their member organizations to potentially receive more aggressive rebates. GPOs charge a fee for using their services. Given that the PBM is a step removed from the rebate process, we will adjust the annual audit process to reflect the use of these GPOs. Through our annual audit, we will be able to determine whether GPOs negatively impact Rx Collaborative clients.

In the future, we will continue to leverage audit results in contract negotiations, adding value through more targeted contract language. Additionally, Willis Towers Watson pharmacy consultants can provide supplementary strategies to ensure the plan is functioning as expected. At least once per contract term, Rx Collaborative clients should consider additional plan-specific reviews targeting benefit rules, eligibility and accumulators.

In 2021 we will once again perform a comprehensive audit of our PBM partners.

Value-added services

The Rx Collaborative team provides information developed by a broad range of Willis Towers Watson subject matter experts to employers on current marketplace developments. Employers can use this information to make timely decisions on changes to their pharmacy benefit plans.

Timely communication to our employer clients was more important this year than ever before. This year's focuses included:

- Updates on the pandemic
- Points of view
- Consulting recommendations

Monthly e-newsletters and quarterly calls feature clinical, legal and market updates from Willis Towers Watson experts. Several of our 2020 e-newsletters focused on providing members with valuable information related to the pandemic, including COVID-19 resources and information, regulatory and policy changes in response to COVID-19, and an overview of vaccine development.

Employers are invited to our annual employer meeting, an exclusive forum for Rx Collaborative members. This premier event showcases the latest trends in health care and pharmacy,

as well as strategies to overcome emerging challenges. Due to the pandemic's stay-at-home orders, we hosted our very first virtual annual meeting in 2020.

Clinical management

Throughout 2020, the Rx Collaborative focused on providing employers with clinical guidance and information pertinent to navigating the pandemic, while also maintaining their pharmacy benefits' value, to improve the employee experience.

We continue to assess the programs and solutions offered in the marketplace, and we monitor the pharmaceutical pipeline to prepare employers for the near future. We stay abreast of regulatory changes and market dynamics that may affect the pharmacy benefit and its costs.

Transparency has been a core value since the Rx Collaborative's inception, and it remains a key requirement for our vendor partners. Transparency in the pharmacy benefit space has also received a significant amount of legislative attention in the past year, with various states proposing bills to increase the transparency of PBMs and other stakeholders in the pharmacy supply chain. We will continue to closely monitor the potential impact on our employer clients.

Navigating the pandemic

The COVID-19 pandemic impacted all aspects of pharmacy benefits in 2020. We were there to help employers adapt to this challenging environment.

We worked with our vendor partners to understand what steps they were taking initially to limit drug supply shortages and other dangerous downstream effects of a global phenomenon for which the pharmaceutical industry was not well-prepared. We developed weekly communication strategies to share information in near real time so clients could opt in or out of changes and rules that could alleviate strain for their employees. As the year progressed and the drug supply stabilized, we focused on testing, vaccines, vetting virtual health care delivery solutions and return-to-work strategies.

We developed resources for employers that addressed the impending vaccine rollout across our nation and around the world, including online videos and educational resources, such as *The COVID-19 Vaccine and Employers: Frequently Asked Questions*. Through these resources we provided high-level and timely information, including strategies to support employee vaccine initiatives. For employers considering onsite vaccinations as part of a return-to-work strategy, the Rx Collaborative clinical team collaborated with other internal colleagues to launch a vaccine provider request for information to more than 30 organizations.

Communications

In 2020 we shared several communications on high-impact issues that addressed pharmacy benefit design:

- In February 2020 we released a communication titled *Regulatory Bills Focused on Pharmacy: Willis Towers Watson Summary of Key Legislative Proposals*.
- In April 2020, we shared an RxFlash article titled *Diabetes Cost Management: Focus on Insulin* which described how to make diabetes medications, and specifically insulin, more affordable to members through preventive drug lists, point-of-sale rebates and other benefit designs.
- In May 2020, we published a related e-newsletter on continuous glucose monitors and insulin pumps, describing the emerging market to inform employers of decisions they would need to consider in the future.
- Also in May 2020, we addressed Pre-Exposure for Prophylaxis (PrEP) for HIV Prevention. The article addressed the regulatory changes that require \$0 cost share for HIV-preventative medications. We provided information about new generic versions of PrEP drugs coming to market and Willis Towers Watson's recommendation on how to design benefits and utilization management strategies that would save employers money while providing important medication access, benefit design and utilization management. In 2020, we saw a 1.6% decrease in the gross cost per Rx for HIV drugs realized for Rx Collaborative members.



In addition, we provided several Rx Collaborative e-newsletters focused on the unfolding COVID-19 pandemic:

- In April 2020, our COVID-19 update provided pandemic-relevant information and Willis Towers Watson's perspectives and resources.
- In August 2020, we delivered a newsletter detailing regulatory and policy changes in response to COVID-19. The newsletter examined key activities from the United States public and private sectors, as well as impact to the global pharmaceutical industry.
- In December 2020, we provided a general overview of COVID-19 vaccine development, including those available at the time and those in the pipeline. We also gave insights into actions employers could take in the interim while awaiting potential approval or emergency use authorization.

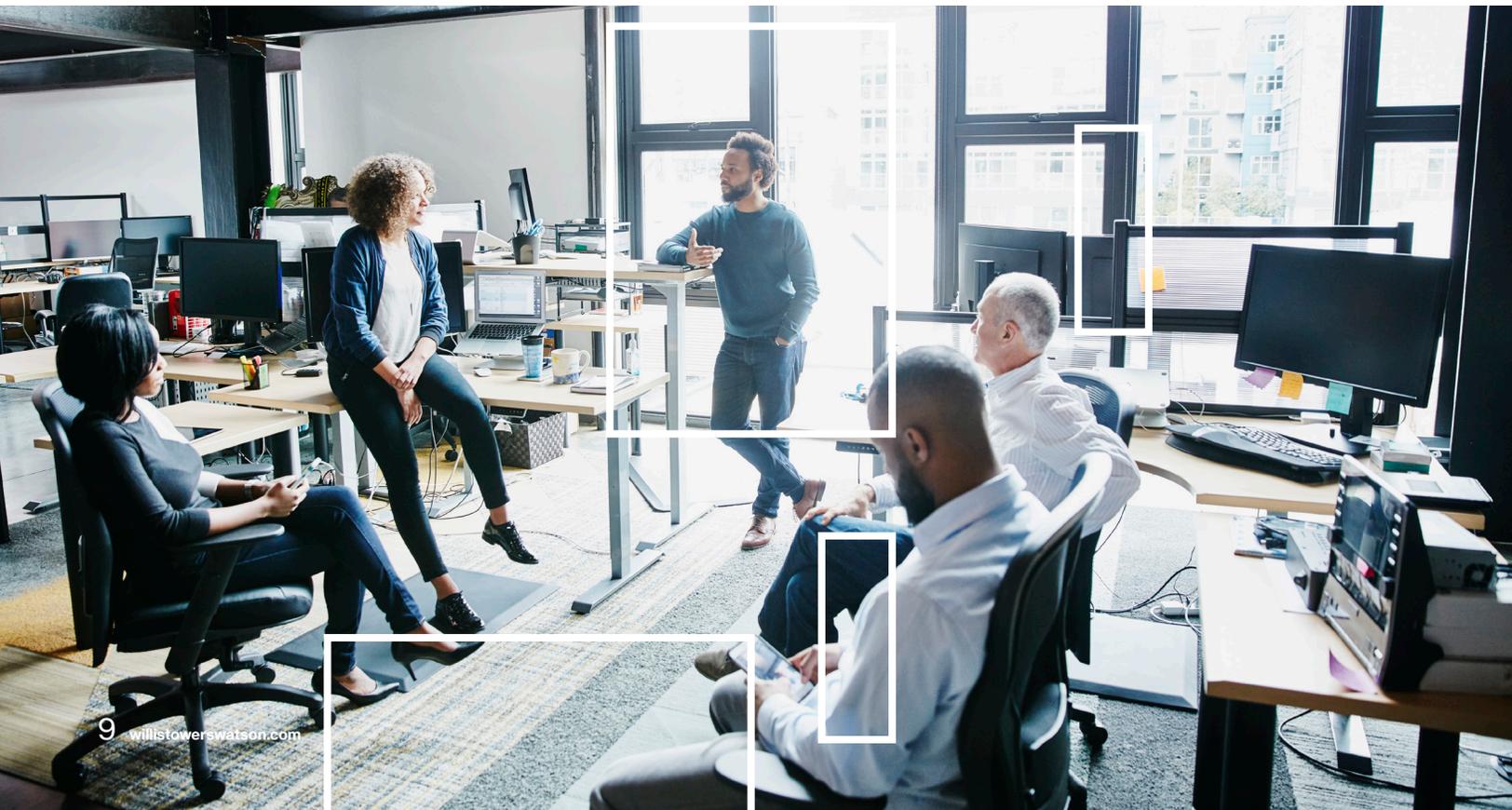
Remaining nimble

Some of the most impactful bills proposed in 2020 considered point-of-sale rebate requirements and copay accumulator requirements. As we stayed well-informed of the bills, we helped employers navigate the best decisions for today and tomorrow, taking into account not only member cost-sharing but also how plan design changes or adopting certain programs impact other parts of the employer-sponsored benefit.

Many companies have emerged, offering to disrupt the status quo of pharmacy benefits with tools said to be more transparent. For example, many drug-pricing tools in the market advertise better prices than what employees could get through their employer-sponsored insurance. This can be true in some situations, but members using the services lose the comprehensive clinical oversight of the drugs. The brand

drugs in discount programs are often discounted through behind-the-scenes rebates from PBM partnerships — an arrangement that has the potential to misalign incentives, perpetuate a broken rebate and inflation cycle, confuse members and result in challenges to tracking clinical outcomes. The potential repercussions, paired with our commitment to the Rx Collaborative's mission and its members, make it more important than ever that, with transparency, we help our employer clients develop benefits their employees continue to value and appreciate.

The Rx Collaborative continues to drive transparency in several ways. We perform in-depth reviews of all terms and conditions for new clinical programs so member employers may easily and thoroughly evaluate the programs for their employees. We also use data to closely track compliance with the formulary and utilization management edits.



For example, in 2020 we continued to improve upon the high-cost claimant reporting we receive from our PBM vendor partners on a weekly basis; we now include a prior authorization indicator to confirm whether a high-cost claim has processed through a prior authorization requirement. This integrated approach streamlines the process and ensures Willis Towers Watson pharmacy consultants get information as quickly as possible regarding individual claims over \$15,000.

A few of the elements we look for when doing these weekly reviews on Rx Collaborative members' behalf include:

- **Formulary compliance:** Confirming that formulary-preferred drugs process instead of non-preferred or excluded drugs can help save money and improve manufacturer rebates.
- **Multi-source brands:** We aim to ensure that controls are in place to steer members to generics for brand name drugs if possible.
- **Less costly alternatives:** We check whether there are clinically appropriate, less-costly alternatives members can take.
- **Split-fill program:** We seek opportunities for clients to adopt a program for certain drugs that have common side effects and are prone to discontinuation; instead of getting a 90-day supply for the first fill, a member can try a 15-day supply to see if the medication is tolerable.
- **Exclusive specialty:** We review where claims process each week and aim to identify opportunities for a client to save money by using an exclusive specialty arrangement.
- **Prior authorization:** We confirm whether a drug has undergone prior authorization review.
- **We check to ensure the drug quantity ordered and dispensed makes sense, and we perform other clinical appropriateness checks on a weekly basis.**

These are just a handful of examples of how the Willis Towers Watson pharmacy team collaborates with our PBM vendor partners to manage clients' drug spend.

Some clinical programs are aimed at extracting additional manufacturer discounts for select drugs or limiting member out-of-pocket expenses. These are excellent for the member experience; however, it is vital for us to understand the true inflation of pharmaceuticals to gauge whether the increased discounts offset or keep pace with the rate of inflation. As such, in 2020 we initiated a new process which uses data to track monthly and annual drug price inflation.

Transparency requires data and the capability to act on it. This is how the Willis Towers Watson Rx Collaborative continues to innovate and push the market forward.

Pilot programs

Many of our clients have let us know of their desire to be at the forefront for innovation and pilot programs or services. In 2019 we formalized a process to engage our PBM partners for pilots that may be attractive to certain employers based on their unique needs. In 2020, we expanded upon this capability and are now engaging internal departments within the broader Willis Towers Watson organization and outside vendors who can provide services, such as connected devices, digital health apps or other clinical programs. In some cases, partners with whom we have historical relationships would like to test the waters with new offerings. We collect the requirements and find employers who may already be working with the vendor, and we then share information to determine whether there is a good fit.

We first announced our biosimilar pilot in 2019, and in 2020 we began modeling individual client data to better understand potential savings opportunities. This pilot truly brings together transparency, data research and an understanding of the pharmaceutical pipeline to make sure we put employers in the best possible position now and for the foreseeable future.

Between 2019 and 2020 we saw an increase in biosimilar claims of 71%. In 2019 and 2020, specialty drugs to treat autoimmune conditions took the top three spots in drug spend for Rx Collaborative employers; in order of spend rank for 2020, they are Humira®, Stelara® and Enbrel®. Starting in 2023, it is expected that Humira will begin to have competition from the many biosimilars which have already been approved. Enbrel may be delayed to 2029 depending on patent litigation.

In 2021 we will continue our work to make sure Rx Collaborative members can realize the cost savings from biosimilars as soon as possible. Additionally, we will continue to actively communicate open pilots throughout 2021 and beyond.

Ongoing vendor reviews

As the industry changes to incorporate more digital solutions, Willis Towers Watson will be at the forefront of the transition. Thousands of digital health vendors in the marketplace today offer a tremendous array of services covering a vast variety of health conditions. The COVID-19 pandemic propelled a move to digital health in 2020, accelerating a trend we have been watching unfold over the past few years. Digital health companies offer their services direct to consumer, direct to employer, or through channels



such as Willis Towers Watson or our PBM partners. In many cases, digital services can be billed through the pharmacy benefit, either as a one-time fee or through recurring fees based on member use of the services. The variety of available channels for digital health vendors is nearly as vast as the number of these companies in the market. Understanding how to effectively work with these vendors was of the utmost importance in 2020 and will continue to be so moving forward.

It is important for employers to understand what the companies do and what their future plans are. For example, a vendor may offer only a diabetes program today, but plan to add hypertension and behavioral health in the near future. Willis Towers Watson maintains frequent contact with these organizations because we believe digital health is here to stay. We are beginning to see the point of convergence where digital health technology can impact the clinical success of a drug and, potentially, vice versa. Without doubt, this is an exciting and impactful arena, and in it we will guide employers to the right products for their populations' needs.

Specialty pharmacy in focus

Specialty drugs are high-cost prescription medications used to treat complex, chronic conditions such as cancer, rheumatoid arthritis and multiple sclerosis. They sometimes require special handling and administration (typically injection or infusion). Patients using a specialty drug may need careful oversight from a health care provider who can watch for side effects and ensure that the medication is working as intended. Nearly two-thirds of all new drug approvals over the past three years have been for drugs that are considered specialty. We see in the market that 1% – 2% of prescriptions are for specialty drugs, yet this often accounts for about half of pharmacy spend.

It is imperative to design a benefit that provides judicious access to these important treatments. Some general market dynamics occurred in 2020 that affected the employer specialty trend, including:

- New drugs for conditions that had few treatment options in the past
- Oral options to treat diseases that formerly required frequent injections

- Old drugs approved for new conditions
- Specialty drugs being used more frequently in conditions that historically were treated with less costly, non-specialty drugs

For example, in November 2020 we saw the approval of Zokinvy®, the first-ever drug approved to treat rare conditions related to premature aging. About 20 patients have been identified for treatment in the U.S., and it's expected to be priced around \$650,000 per year. Evrysdi™ was the first oral drug approved to treat all types of spinal muscular atrophy; it costs around \$340,000 per year and will compete with another high-cost drug, Spinraza®, and the \$2 million one-time gene therapy, Zolgensma®. Orladeyo™ was approved as the first oral drug indicated to prevent hereditary angioedema (HAE) attacks in patients 12 years and older; it is priced at \$485,000 per year.

These are life-changing treatments for the small number of patients who need them, but they come at high costs to payers.

In December 2020, the FDA expanded Benlysta's approval to become the first drug approved for treating lupus nephritis. Previously, it was approved in 2011 for adults with systemic lupus erythematosus. Also, in 2020, the drug Dupixent® gained approval for treating atopic dermatitis (also called eczema) for patients aged six years and older; it was previously approved in 2017 for adult patients only, and is also approved to treat certain types of asthma. Benlysta and Dupixent are specialty biologic drugs and typically cost tens of thousands of dollars per patient per year.

In these examples, the FDA approves a drug for a small subset of patients and later expands approval to more people as additional studies are completed.

In some disease states like eczema, asthma and psoriasis, new specialty drugs are replacing older treatments (frequently generic, non-specialty drugs). In 2020, Dupixent made it to the top 10 drug spend list for the Rx Collaborative for the first time, ranking number eight overall.

The net effect of these dynamics is an overall increase in the utilization of specialty drugs. This is great news for patients who derive benefit from these advanced products; however, they are priced relatively high and require both clinical and cost management strategies to mitigate the runaway impact to employers' budgets. As trend is a component of increased cost and increased utilization, our task is to help clients address both, so they can provide the pharmacy benefits necessary to keep employees and their dependents healthy.

We worked with our PBM partners in 2020 to manage specialty trend through an array of means that include, but are not limited to:

- Negotiating excellent discounts and rebates
- Maximizing manufacturer copay assistance
- Steering members to the most appropriate channel for dispensing drugs
- Finding the right site of care for administering drugs, expert opinions and utilization management strategies

Key stats:

- Overall member count increased slightly year-over-year, while the number of drug utilizers decreased. This may have been due to COVID-19's impact of less frequent doctor visits and fewer new therapy starts.
- Specialty pharmaceuticals moved closer to making up half of overall drug spend in 2020, accounting for roughly 45%.
- Drug price inflation continued to contribute to overall spend and increased at a higher rate of 8.4% in 2020 (note this does not account for rebates but rather is the average wholesale price increase over the past year).
- Following a trend over the past five years, members' total cost share continued to decline modestly in 2020 to 11%.

Figure 1. 2020 clinical stats at a glance

Indicator	2019	2020	% change
Members	4,880,728	4,962,098	1.7%
Patients (utilizers)	3,695,359	3,568,041	-3.4%
Total Rx count	45,354,503	42,986,423	-5.2%
Gross cost	\$6.84B	\$7.34B	7.3%
Gross cost PMPM	\$116.79	\$123.27	5.6%
Plan cost	\$6.06B	\$6.54B	7.9%
Plan cost PMPM	\$103.48	\$109.78	6.1%
Specialty as a % of gross cost	41.89%	45.38%	8.3%
Utilization			
Days/member (utilization)	371	372	0.3%
Patients/member (prevalence)	75.7%	71.9%	-5.0%
Inflation			
AWP/day	\$7.71	\$8.36	8.4%
Cost share			
Members' cost share (total)	11.4%	11.0%	-3.7%

Non-specialty areas

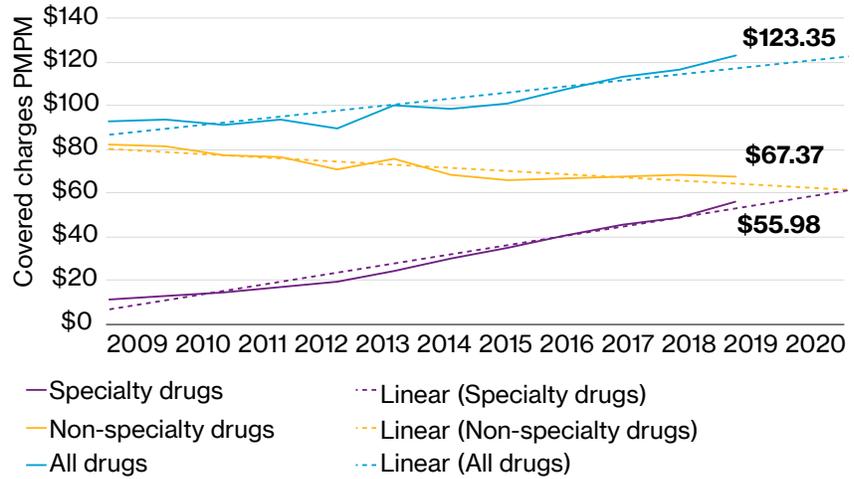
Despite specialty drugs' tremendous cost, half or more of employer pharmaceutical spend comes from non-specialty (also known as "traditional") drugs. These are often treatments for more common, chronic diseases, such as diabetes, high cholesterol or behavioral health, to name a few. While generics are available for many classes, brand drugs dominate spending, and annual price inflation can add to the trend.

For many employers, diabetes remains the top contributor to the non-specialty drug spend trend. This is due to the ongoing price inflation among branded drugs as well as new brand drug launches. Many of the same tools we use to manage specialty drugs are also used for such treatment areas as diabetes.

Formulary and utilization management strategies drive to the preferred, lowest net-cost products. We advocate for benefit designs that can lower out-of-pocket costs or deductible requirements for diabetes treatments or testing and support programs that ensure only members who need regular blood sugar testing receive blood sugar meters; this avoids waste and unnecessary finger-pricking.

As with other clinical treatment areas, our mission goes beyond managing drug spend to include helping employers navigate non-pharmacologic treatments, including digital health and point solution management vendors. In 2020, we identified non-PBM vendor companies' pilot programs and offered them to select employers. One such pilot from the company Virta has the potential to reverse diabetes, which could in turn demonstrate significant savings on such drug therapies as insulin.

Figure 2. Cost trends for Rx Collaborative clients



- The gross cost for insulin increased by 5.6% in 2020 versus 2019; in the prior year the gross cost increased by 2%.
- For the second year in a row, two injectable drugs for treating diabetes – Trulicity® and Humalog® – were the top 4 and 5 spend for employers, respectively, in 2020.

It is expected that costs associated with treating diabetes will continue to increase in the coming years, alongside a continued upward trend in the number of people diagnosed with the condition. There will be increased utilization of pharmaceuticals and health care resources, including newer brand name drugs and insulin, which continue to experience price inflation. In 2020, the FDA changed insulin's approval pathway, allowing manufacturers to develop interchangeable biosimilars for insulin, which the FDA believes will provide for more competition. This may help lower costs in the future, but we expect the overall diabetes spend to continue trending upward in the near term.

At the start of 2020, we could not have predicted the toll COVID-19 would have on the United States' mental health and what was to come in the remainder of the year, but we were able to work quickly with our PBM partners to ensure reporting was made available to employers that tracked changes in behavioral health drug utilization – a potential proxy for a population's underlying struggles. We were able to identify mental health support pilot opportunities with our PBM partners, digital health, and point solution vendors and made this information readily available to clients.

We also continued tracking opioids through 2020 and found the use is continuing to decline in the Rx Collaborative; claims for opioids were down 11% between 2019 and 2020. The success we have seen in reduced opioid claims is multi-faceted and due in part to the programs our PBM partners offer. As with any clinical area of focus, we continue to monitor the results to ensure clinical programs are working as intended year over year.

Looking ahead: 2021 and beyond

2020 highlighted the importance of being flexible and adaptable. Staying nimble during the tumultuous year meant looking at health benefits and solutions in new ways. The move to a virtual world led to an uptick in the adoption of remote monitoring, digital health apps and telemedicine. The number of digital solutions available through both third-party vendors and our PBM vendor partners increased greatly. All these factors will likely contribute to lasting, significant changes in how health care is delivered and consumed.

In 2020, Willis Towers Watson broadly, and its Rx Collaborative clinical team more specifically, focused on creating new and innovative pilot programs, giving our clients valuable early access to emerging solutions and new opportunities. We leveraged our knowledge of health care digital innovators, providing feedback to piloted vendors to deliver enhanced value to a company's employees. We will continue this effort and identify even more exciting pilots in the years ahead.

Digital health and point solutions

Willis Towers Watson will continue to evaluate health care digital providers and point solutions. In 2020, we formalized an in-house database platform to capture and share vendor information and value propositions across all Willis Towers Watson consultants, including those who focus on pharmacy, health management, wellbeing and innovation. As we collaborate across our areas of expertise, we find unique opportunities for employers to realize additional value and savings that lead to enhanced results.

We are currently exploring ways to measure the success of vendor programs using our in-house data and research expertise. This additional due diligence benefits employers considering adding new programs by helping to manage their costs and improve their employees' health and wellbeing.

We will continue to partner with vendors that provide unique value to employers and their employees and that push for aggressive negotiated rates and guarantees in templated contracts for these point solutions. As the market matures and more clinical trials and real-world data become available, we see the evaluation of these non-pharmacological solutions as an emerging space where we can offer real value.

Genetic therapies and new payment strategies

Cell and gene therapies are entering the market and resulting in new financial and clinical management strategies. For example, with some gene therapies costing over \$2 million for a one-time treatment, innovative contracting models are being considered. These may include options such as annuity-based payments extended over a number of years, or pooled-funding strategies that employers pay into, providing a buffer in case they need to cover a treatment claim.

Genetic sequencing can provide assurances that the member will benefit from the treatment before it's paid for, and expert-opinion vendors can make sure the prescribing physician and a physician from a center of excellence agree with the treatment before proceeding. These therapies will introduce new challenges for employers, with about a dozen cell and gene therapies in the pipeline through the next two years.



The unexpected

As 2020 taught us, we need to be realistic about what we cannot predict and plan ahead for what we can. Near the end of 2020, the U.S. Supreme Court upheld a law in Arkansas that could impact how pharmacy benefit managers operate. There may be implications beyond the narrow scope of the Arkansas ruling, and more states could consider their own rules regarding pharmacy benefits. Willis Towers Watson is committed to ensuring our PBM vendor partners offer compliant pharmacy benefits to employers, and we will identify the most appropriate courses of action as we look ahead.

Other areas we are watching closely are the continued ability for plan sponsors to leverage manufacturer-sponsored and needs-based assistance for drug copayments, as well as various forms of drug importation being considered in a number of states. We cannot predict how new legislation will affect employers or how well employers will be able to leverage certain cost-saving measures in the future, but we will be prepared to act quickly, remaining well-informed and flexible in the years to come.

Summary

As we transition with cautious optimism from the uncertainties of 2020 into a more stable future, we are carrying forward the valuable lessons learned. We are committed to monitoring the current environment for all the variables impacting employer-sponsored benefits, including drug pipelines, regulatory updates, shifts in consumerism, disruptive innovation, third-party vendors, technology changes, merger and acquisition activity, and the development of new models for pricing, contracting and clinical program deployment.

Being nimble means being prepared. We are committed to deploying the resources and making the investments so that all of our employer clients can achieve industry-leading levels of preparedness. We'll continue advocating for and negotiating on behalf of all employers in the Rx Collaborative. When things change, we'll ensure employers receive early access to information and innovation Willis Towers Watson develops or identifies in the marketplace.



About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 employees serving more than 140 countries and markets. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.



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