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Dear members,

Over the past 15 years, two things have remained constant in the midst of an ever-changing and challenging industry: our growth and our commitment to providing members with savings and expertise to optimize pharmacy benefit performance. We continue to help our clients evolve their benefit strategies to address the current environment so they can best decide what will improve their employees’ health.

This year our membership increased by 14%, and we remain the largest pharmacy group purchasing coalition in the nation, giving us significant leverage that delivers guaranteed savings to employers. As a result of our combined efforts, our member groups continue to experience pharmacy performance that is superior to those of our PBM partners’ books-of-business.

Throughout the marketplace’s evolution, the Willis Towers Watson Rx Collaborative has created and negotiated many best-in-class offerings and solutions. These innovative approaches have enabled us to save our clients more than $2 billion since the Rx Collaborative’s inception.

Our PBM partner relationships continue to remain strong and unchanged, even as two of our vendors — ESI and CVS — merge with Cigna and Aetna respectively. We look forward to future opportunities these merged organizations may bring to our plan sponsors.

We offer members the advantages of a coalition led by our Willis Towers Watson experts, including a pharmacy practice that is the largest among our competitors. All of our clients have access to clinicians, actuaries and project managers. Clients also have an assigned pharmacist to provide guidance on clinical strategies and cost-saving solutions.

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

2018 members
4.6 million

2018 prescriptions
43.9 million
Retail: 33.8 million
Mail: 10.1 million

2018 drug spend*
$6.3 billion
Retail: $2.5 billion
Mail: $3.8 billion

14% increase in client membership

98% of surveyed employers would recommend the Rx Collaborative

*drug spend does not include the value of rebates
Our value proposition to clients

In 2003, Willis Towers Watson created the Rx Collaborative. As the first large-scale national pharmacy benefits coalition focused on true transparency, the Rx Collaborative introduced disclosure and clarity principles that add significant financial value to employers seeking a PBM relationship.

As the marketplace has evolved, the Rx Collaborative has remained a leader in the space. We have created and negotiated many best-in-class offerings and solutions that provide true pricing disclosure, transparency and value on behalf of our employer clients.

We continue to experience year-to-year growth. As of January 1, 2019, our membership includes 392 employers, representing more than 5.1 million members. Our clients benefit from a consultant-led coalition with oversight and experience from the largest pharmacy team in the industry and support from industry-leading PBM partners Express Scripts, CVS Health and OptumRx.

Financial

Our collective purchasing power is unsurpassed, and our growth and scale provide us with a unique advantage to negotiate higher financial savings than other coalitions. Our membership includes more than 75 Fortune 500 companies. Our research shows our members can save anywhere from 2% to 10% more than other coalitions in the market.

Savings throughout the term

Rx Collaborative members have access to savings opportunities through ongoing price improvements and clinical and formulary management. These terms consistently produce substantial savings for our members.

We ensure our clients receive a market-competitive offering through annually negotiated contract terms with our PBM partners. Our pharmacy practice gathers first-hand knowledge from performing procurements and audits of multiple PBM vendors. We leverage these insights to identify and eliminate unfavorable PBM pricing tactics from our PBM contract.

- Members have access to pricing available only through our Rx Collaborative.
- A contract template means an easier contracting process.
- Annual market checks result in additional savings, ensuring the Rx Collaborative’s financial terms remain competitive throughout a client’s membership.
- Upon joining the Rx Collaborative, employers realize an average savings of 9% to 12% over their previous arrangement.
- Effective January 1, 2019, 266 existing clients received a midterm price improvement that will generate an estimated average 1% to 4% in savings.

Our pharmacy consultants develop a custom approach for each client, leveraging our exclusive Rx Collaborative strategies along with our PBM partners’ existing programs. With this coordinated approach, members have the tools to increase generic utilization, reduce waste and achieve significant savings.
Advocacy
Willis Towers Watson’s commitment to advocating on behalf of Rx Collaborative clients remains strong and is paramount to our client service delivery model. Rx Collaborative clients continue to achieve higher client satisfaction rates than the PBMs’ books-of-business. Our high client satisfaction rates are attributed to our custom service delivery model, including:

- Consulting and pharmacy management including a Willis Towers Watson pharmacist and project manager
- A custom and proprietary account management playbook endorsed by all PBM partners. The playbook defines unique requirements for supporting Rx Collaborative clients, including best practices, the joint account team approach and custom processes. We review the playbook jointly with the PBMs on an annual basis to identify process improvements.
- Access to senior management at our PBM partners to address issue escalation and drive innovative management opportunities.
- Custom performance guarantees to address PBM account team satisfaction, change management, annual enrollment and audits. A high dollar amount at risk for each Rx Collaborative client increases the PBM’s accountability to deliver on service.

Flexibility
Unlike many other coalitions, Willis Towers Watson’s Rx Collaborative allows clients the flexibility to choose plan design, utilization management, retail network and formulary based on what’s right for their company.

Innovation
Our research and benchmarking data are key competitive differentiators and help our clients make informed decisions when designing health care strategies and programs as well as managing costs. In addition, our broad research and data portfolio, combined with our knowledge and experience, allows us to develop best practices, innovative ideas and approaches that yield practical client solutions.

We pair our market intelligence and understanding of the PBM business to develop new strategies that maximize plan performance and result in long-term cost management. We continually review our PBM partners’ utilization management and formulary strategies, and we develop recommendations that can save clients up to 25% in drug spend. Some of our innovations include:

- Specialty pharmacy recommendations, including preferred products, optimal distribution channels, utilization management and plan design
- PBM’s specialty drug list oversight, providing clients up to 2% savings on specialty drug spend
- Stand-alone specialty rebate guarantees
Governance

The Rx Collaborative offers plan sponsors a comprehensive annual audit initiative to confirm that PBMs comply with contract terms and have the core operational capabilities to support a high level of service. The audit aligns with clients’ fiduciary and governance requirements and is one of the Rx Collaborative pillars that supports effective pharmacy management.

The annual audit initiative

The annual Rx Collaborative audit initiative includes a:

- Group-level claim audit to verify PBMs correctly apply the contract’s pricing terms.
- Rebate review to confirm the PBMs complied with contract terms requiring appropriate pass through of all manufacturers’ revenue, and that the PBM correctly calculated the guaranteed rebate amounts as reported to employers.
- Operational assessment to review PBM operations, including a site visit to a key facility to determine the PBM’s effectiveness in delivery of services.

The 2018 group-level claim audit and rebate review found that, overall, the PBMs adhered to contract financial terms. Through the operational assessment we were able to confirm PBMs’ operational capabilities meet or exceed industry standards. Willis Towers Watson monitors payments to clients impacted by audit findings and pushes our PBM partners for process improvements that will ensure accuracy and service excellence in the future.

Pharmacy benefit management is evolving. The Rx Collaborative annual audit initiative becomes increasingly critical as pricing strategies change and clinical management programs become more complex. Each year, the Rx Collaborative audit process is updated to incorporate a review of these new contract and program terms. In 2019 we will once again perform a comprehensive audit of our PBM partners.

Value-added services

Willis Towers Watson provides clients with numerous communications to keep them current with the marketplace, including timely industry updates, points-of-view and consulting recommendations. Scheduled communication activities include:

- Annual employer meeting: Rx Collaborative clients are invited to attend our annual employer meeting. This event is an exclusive forum for members to hear about the latest trends in pharmacy and broader health care, discuss strategies for emerging challenges, share ideas and interact with peers and Wills Towers Watson consultants.
- Monthly e-newsletters and quarterly calls: Our frequent communications provide intellectual capital from our Willis Towers Watson experts to keep clients current with clinical, legal and market updates.
Canadian Rx Coalition
Willis Towers Watson boasts Canada’s only pharmacy coalition, providing access to a best-in-class PBM, health and benefit strategy, drug analytics and biosimilar strategy. We have also built a fully resourced pharmacy team in Canada, which leverages the success of our U.S. pharmacy practice to provide proactive support to clients of all sizes.

Clinical management
We continue to focus our resources on promoting clinical excellence. Our team of experts assesses and assigns value to old and new drug therapies and the various networks, distribution systems, clinical programs and technologies that impact how they are used.

Most drug discovery and approval trends remained consistent through 2018, as did most utilization patterns. Personalized and targeted drug therapies, treating ever-smaller populations and launch prices that continue to rise have become the new norm. The vertical integration among pharmacy benefit managers and medical carriers progressed in 2018, and each of our PBM vendor partners is now in a business arrangement that operates in both areas. As we speculated in last year’s annual report, we see this change as one way the market is shifting to leverage medical and pharmacy data insights, potentially facilitating the health ecosystem’s move from volume-based to value-based care.

2018 drug trend highlights (Figure 1 and Figure 2)
- The number of Rx Collaborative-covered lives increased 6.3% in 2018 to 4,646,113
- Total prescription volume increased by 5.3% to nearly 44 million filled prescriptions
- Specialty drugs accounted for less than 1% of all prescriptions in 2018, yet made up 40.3% of total drug costs – up from 37.8% in 2017 and 34.8% in 2016
- The drug-price inflation rate continued to decrease to 3.5% in 2018, compared to 4.2% in 2017 and 6.8% in 2016
- Member cost share for prescription drugs also continued a downward trend; 13.4% in 2016, 12.6% in 2017 and 12.1% in 2018
- Gross prescription drug spend in the Rx Collaborative was nearly $6.3 billion

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2017</th>
<th>2018</th>
<th>% Change</th>
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<tbody>
<tr>
<td>Members</td>
<td>4,371,757</td>
<td>4,646,113</td>
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<tr>
<td>Patients (utilizers)</td>
<td>3,297,672</td>
<td>3,517,179</td>
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<tr>
<td>Total Rx count</td>
<td>41,697,112</td>
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<tr>
<td>Gross cost</td>
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<td>Gross cost PMPM</td>
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<td>$112.96</td>
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<tr>
<td>Plan cost</td>
<td>$4,918,363,612</td>
<td>$5,537,945,634</td>
<td>12.6%</td>
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<tr>
<td>Specialty as a % of gross cost</td>
<td>37.79%</td>
<td>40.32%</td>
<td>6.7%</td>
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<tr>
<td>Utilization</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Days/member (utilization)</td>
<td>371</td>
<td>372</td>
<td>0.3%</td>
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<tr>
<td>Patients/member (prevalence)</td>
<td>75.4%</td>
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<tr>
<td>Inflation</td>
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<td>AWP/day</td>
<td>$7.18</td>
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<tr>
<td>Cost Share</td>
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<tr>
<td>Members’ cost share (total)</td>
<td>12.6%</td>
<td>12.1%</td>
<td>-4.0%</td>
</tr>
</tbody>
</table>

Figure 1. Rx Collaborative stats at a glance

Source: Rx Collaborative data on file
Clinical management activity and savings
Tools such as formulary and utilization management have been the cornerstone of drug cost containment for many years. Those efforts have paid off, as shown in trends such as the generic dispensing rate which has remained above 84% since 2015 and reached nearly 87% in 2018. Generic first-step therapy requirements can help ensure lower-cost generics are used first in drug therapy classes where they exist. In classes without generic competition, prior authorizations can ensure drugs are approved for patients with the right diagnosis.

In the past year, there has been an increased focus on proactively making this type of pharmacy benefit information available to members, pharmacists and prescribers so each understands drug coverage requirements in real time. Physicians can prescribe a drug they know is covered and can initiate prior authorization paperwork during the patient’s office visit. This enables more informed decision-making that can save time and money for members and their plans. These programs are available now, but their uptake is largely dependent on the interoperability of information technology systems and providers’ willingness to embrace them.

The use of manufacturer-sponsored copay coupons also increased in 2018. These programs can work against prescription benefit management principles. For example, a coupon may reduce a copay for a brand-name drug when a less-expensive generic equivalent exists. Our PBM partners help mitigate the impact of copay coupons in several ways, such as excluding brand-name drugs with generic equivalents and using benefit design enhancements to prevent copay cards from applying to a member’s deductible or out-of-pocket maximum. The Rx Collaborative has seen a relatively flat usage rate of brand drugs with generic equivalents — about 1% from 2015 to 2018.

Drug pricing and inflation
While our PBM partners have levers to control drug utilization and negotiate discounts, they have less control over the prices drug manufacturers set. In recent years, pervasive media coverage and political debate have focused on drug pricing. The gap between gross drug prices (before rebates) and net prices (after rebates) still exists and continued to attract political attention and media coverage throughout the year. Key to this effort was the release of the Trump administration’s widely circulated “Blueprint to Lower Drug Prices and Reduce Out-of-Pocket Costs.” The blueprint outlines proposals aimed at lowering prescription drug prices and out-of-pocket costs and places a major focus on ensuring incentives are aligned among patients, PBMs and drug manufacturers. Potentially high-impact topics included removing drug rebates altogether and requiring rebates to be passed through to the member at the point of sale.

In tandem with legislative proposals, PBMs and drug manufacturers experimented with new initiatives associated with drug pricing in 2018. One such development was introducing what some industry insiders call “authorized alternatives.” These alternatives are identical to the brand name drugs made by the same manufacturer, but with lower list prices — typically the branded price minus rebates. For their part, PBMs have developed new formularies that can accommodate the new pricing dynamics, and all Rx Collaborative PBM partners can pass rebates through to the point of sale.
**High-cost and high-impact drugs**

Although they comprise only 1% of prescriptions, the top 10 drugs by gross cost in the Rx Collaborative account for 20% of spend, and most (eight) were the same drugs as in the previous year. The specialty injectable immunotherapy drugs (Humira®, Enbrel® and Stelara®) were the first-, second- and third-highest drugs by gross cost spend, respectively. Of the non-specialty drugs, four were indicated for diabetes, including two injectable insulin drugs (Humalog® and Lantus®).

Half of the top 10 medical conditions by drug spend were specialty, including inflammatory conditions, cancer and multiple sclerosis. Respondents to our 2018 RxC Annual Employer Survey noted that cancer and autoimmune diseases were among the most concerning specialty conditions affecting cost and quality of life. Survey respondents also indicated they were “very likely” to consider rare disease or gaps in care pharmacy cost strategies in 2020.

The majority (about two-thirds) of new drugs approved in 2018 were specialty drugs – a trend similar to last year. For the first time ever, most new approvals were for orphan diseases which affect 200,000 or fewer people and often come with the highest price tags. In 2018, we collaborated with our vendor partners to develop weekly reporting that captures all high-cost claims for secondary review.
For non-specialty drugs, the Rx Collaborative saw Truvada®, an HIV prevention and treatment product, reach the top 10 by spend in 2018, likely due to increased use for pre-exposure prophylaxis (PrEP). In diabetes treatment, the Rx Collaborative saw the gross cost per prescription for insulin increase about 4% in 2018 to about $338 million in total spend. Policy makers focused on the rising cost of insulin throughout 2018, proposing a variety of recommendations.

With conditions and their treatments being as disparate as diabetes, HIV and cancer, it’s clear that a one-size-fits-all clinical management approach is not feasible. Our PBM partners offer a wide variety of clinical programs to manage individual disease and the constellation of conditions that can impact an employee population. They continuously innovate to ensure clinical programs result in measurable clinical and financial outcomes, utilizing tools such as preauthorization, genetic testing, prescriber detailing and one-on-one patient consultations.

Connected medical devices such as glucose meters and inhalers are being incorporated into clinical programs to monitor patients remotely, and our PBM partners are developing apps to aggregate this and other data into one place. Vendors proposed methods for identifying pre-diabetes populations to limit the progression to diabetes, which could impact the need for oral medication and insulin.

Opioids and drugs to treat substance abuse disorders remained a focus in 2018 amid an opioid epidemic that now spans half a decade. The number of narcotic claims per user decreased 6% in 2018, with a 26% cost-per-claim decrease for the Rx Collaborative. Our vendor partners continued producing positive outcomes in 2018 while enhancing their opioid and substance abuse programs to address the epidemic’s fluid nature.

FDA approvals

The FDA set a new record in 2018, approving 59 new drugs. Seven new biosimilars were approved in 2018, surpassing 2017’s record of five in one year; three biosimilars were approved in 2016. Nearly three-fourths of all the new drug approvals were designated priority review, which a drug receives when the FDA determines it could potentially provide a significant advance in medical care.

As the market awaits generic competition from the introduction of biosimilars, the FDA worked actively in 2018 to provide additional guidance and remove hurdles for manufacturers. The Biosimilars Action Plan was issued midyear to improve regulatory clarity for drug development. Toward the end of the year, four additional guidance documents were issued; these further outlined approval regulations and detailed how the FDA will address what it deems to be anti-competitive practices aimed at preventing biosimilar adoption.
Looking ahead: 2019 and beyond

Specialty

Employers highlighted the importance of managing pharmacy costs — particularly those related to specialty pharmacy cost and utilization — as a top priority in Willis Towers Watson’s 23rd Annual Best Practices in Health Care Employer Survey. While 42% of clients evaluated and addressed specialty drug costs and utilization through the medical benefit in 2018, that number is expected to nearly double to 82% by 2020. There is hope for biosimilars to provide relief as well, with 64% of employers anticipated to implement approaches that promote biosimilars by 2020, compared with just under a quarter (23%) having done so in 2018.3

In 2018 the Institute for Clinical and Economic Review (ICER), an independent health economics research organization, released value-assessment reports on a number of high-cost, innovative specialty drugs. Among the inclusions are infused CAR-T therapies for leukemia and lymphoma, a new drug treatment for ultra-rare amyloidosis and the world’s first targeted gene therapy to treat an inherited cause of blindness. Numerous ICER assessments are scheduled for 2019 and beyond; these will address new specialty drugs for conditions such as rheumatoid arthritis, multiple sclerosis and lymphoma.4 How these value assessments will impact drug pricing remains to be seen, but there may be an opportunity for downward pressure when value assessments are published prior to drugs’ marketplace introductions.

Technology

Employers show a growing interest in new technology, with 56% prioritizing health technology solutions (i.e., connected devices) over the next three years. Digital therapeutics, or “digiceutics,” have received FDA approval in recent years. This trend will likely continue through 2019 and onward as the market becomes more comfortable with these types of products and payers demand proven outcomes for reimbursement.

In the coming years, products like connected glucometers and inhalers will transmit, store and act on data differently, and electronic health information’s interoperability will be paramount to design considerations. Notably, we expect that policy makers and consumers will direct interoperability’s importance in the near future. We anticipate digital health device and app manufacturers to have interest as it could expand their scope. PBMs want to serve as “interoperable hubs” to have access to multiple devices and Electronic Health Records.

Wearable devices will continue to improve in upcoming years as well, as entrenched device makers such as Apple and Samsung incorporate health-focused features into their mobile phones and wrist watches. Mobile phones and home computers are also key to the adoption of telehealth services which have been gaining traction. How telehealth and telemedicine services impact pharmacy is unknown, but our PBM partners have already incorporated the technologies into pharmacy benefits in numerous ways.

Value

As was the case in 2018, value remains of the utmost concern to employers. Thousands of health care vendors enter the market each year, and thousands of new medicines are in development. In addition, numerous configurations and ways to structure vendors, providers, medications, procedures, networks and technologies exist to best serve an employee population. Ensuring there are reliable ways to measure the clinical and financial outcomes from these arrangements will be key to assigning value.

Another growing trend is the availability of genetic information that can impact how people use medicine. Many of the newest technologies are being created by companies outside of the typical health care arena. We predict an increased focus on health information privacy and security in the coming years, as well as a drive to incorporate data from new technology into more traditional medical health records.
Summary
Pharmacy represents about 20% of overall health care spend today and is expected to reach 25% by 2020. While the future is not certain, many parts of the pharmacy benefit can be adequately managed now and in the years ahead. Validated clinical management strategies coupled with proven drug utilization management techniques are able to help contain costs and improve health outcomes. New technologies can be leveraged to facilitate the way employees interact with the pharmacy benefit. In some instances, they access real-time prescription benefit information; in others, they use an app to speak with a pharmacist or other member of their care team in real-time.

With the numerous recent science and technology breakthroughs impacting medication use, there is a lot of noise; this is not surprising considering the sheer size of the U.S. drug market. Deciphering which new drugs, technologies or clinical programs will add value requires a dedicated team with the appropriate resources and experience. Navigating federal and state-based policy changes impacting commercial pharmacy benefits can demand an equal amount of attention and expertise.

Relatively recent changes, such as industry consolidation and new market entrants, are causing mixed reactions among employers regarding how the activity will impact costs and quality of care. The Willis Towers Watson Rx Collaborative is well positioned to ensure improvements in both cost and quality for employers and their employees. While change can lead to uncertainty, it also presents an opportunity for improvement.

Sources
4. Food and Drug Administration (FDA) Statement. Statement from FDA Commissioner Scott Gottlieb, M.D., on new actions advancing the agency’s biosimilars policy framework. https://www.fda.gov/NewsEvents/Newsroom/PressAnnouncements/ucm628121.htm
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.