

***VA Pharmacy Benefits
Management Strategic
Healthcare Group Update***



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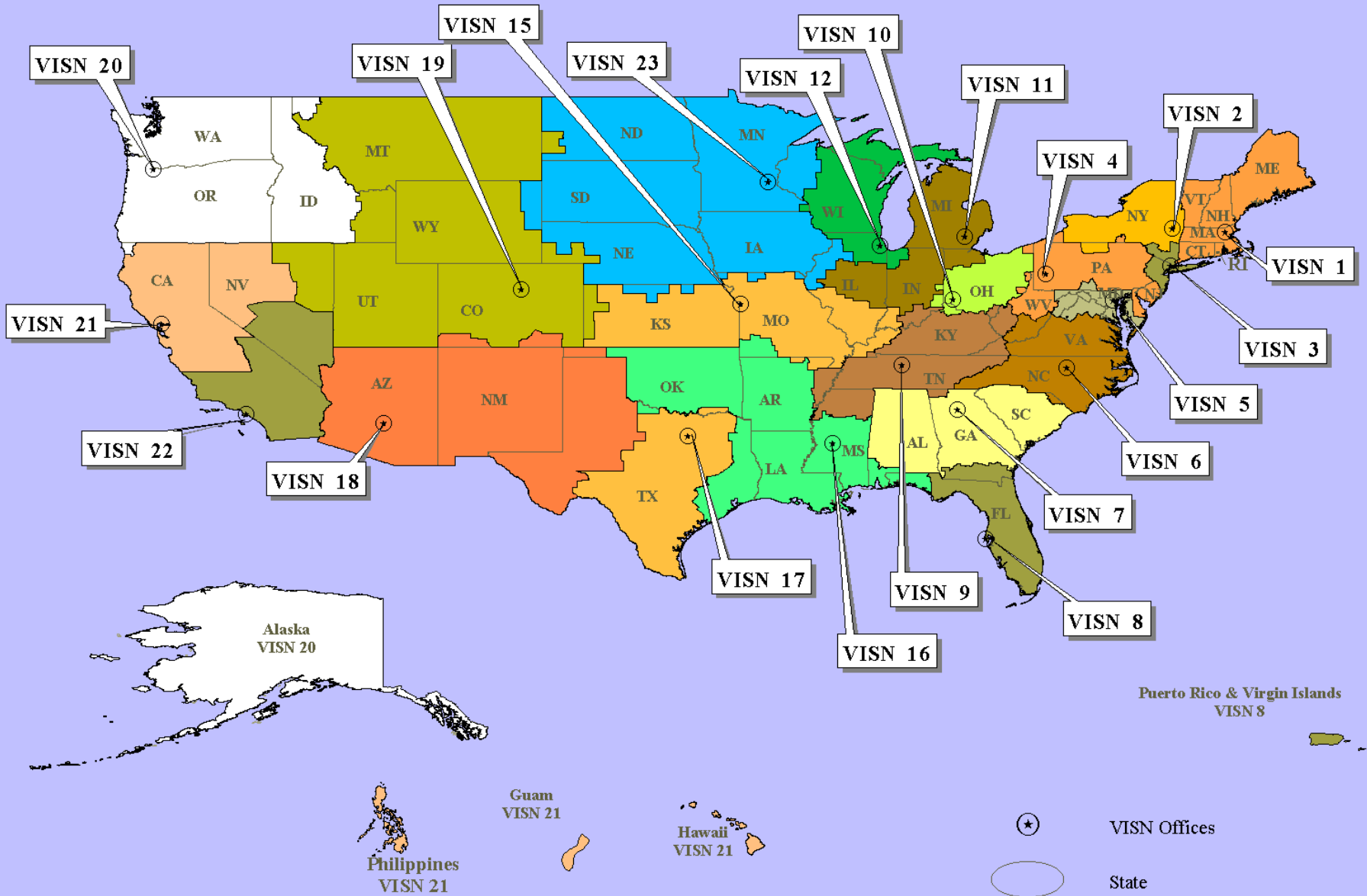
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PURCHASING METHODS USED BY VA

- VA Healthcare System
- Effects Of Contracting
- PPV Contract
- Industry Access Policy
- Cost Avoidance

Department of Veterans Affairs
 Veterans Health Administration
 21 Veterans Integrated Service Networks



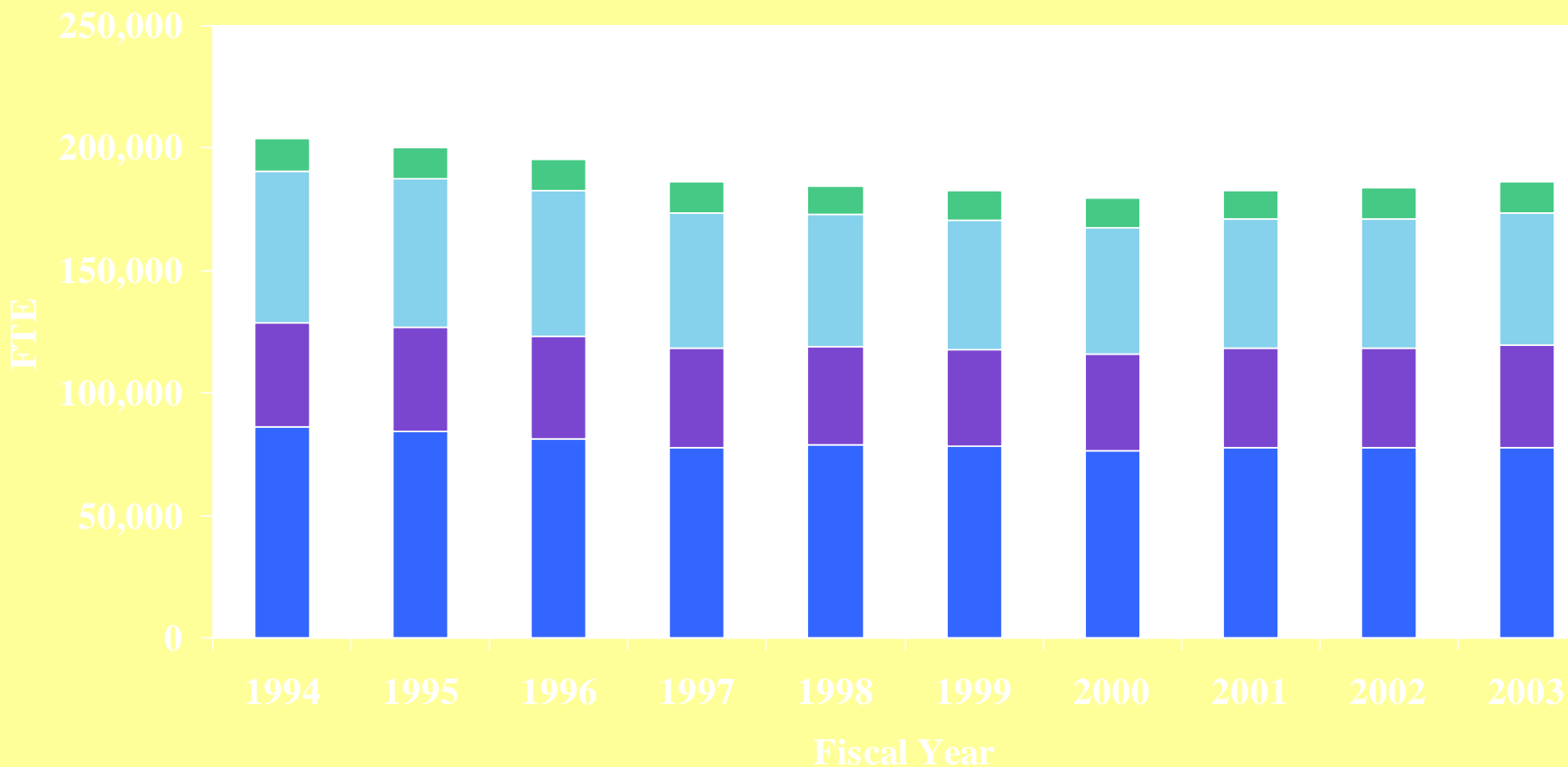
VA HEALTH CARE SYSTEM

- 172 hospitals
- 800 outpatient clinics
- 135 nursing homes
- 43 residential care facilities
- 206 readjustment counseling centers
- 73 home care programs
- 40,000 beds



Medical Care Staffing

FY 1994-2003

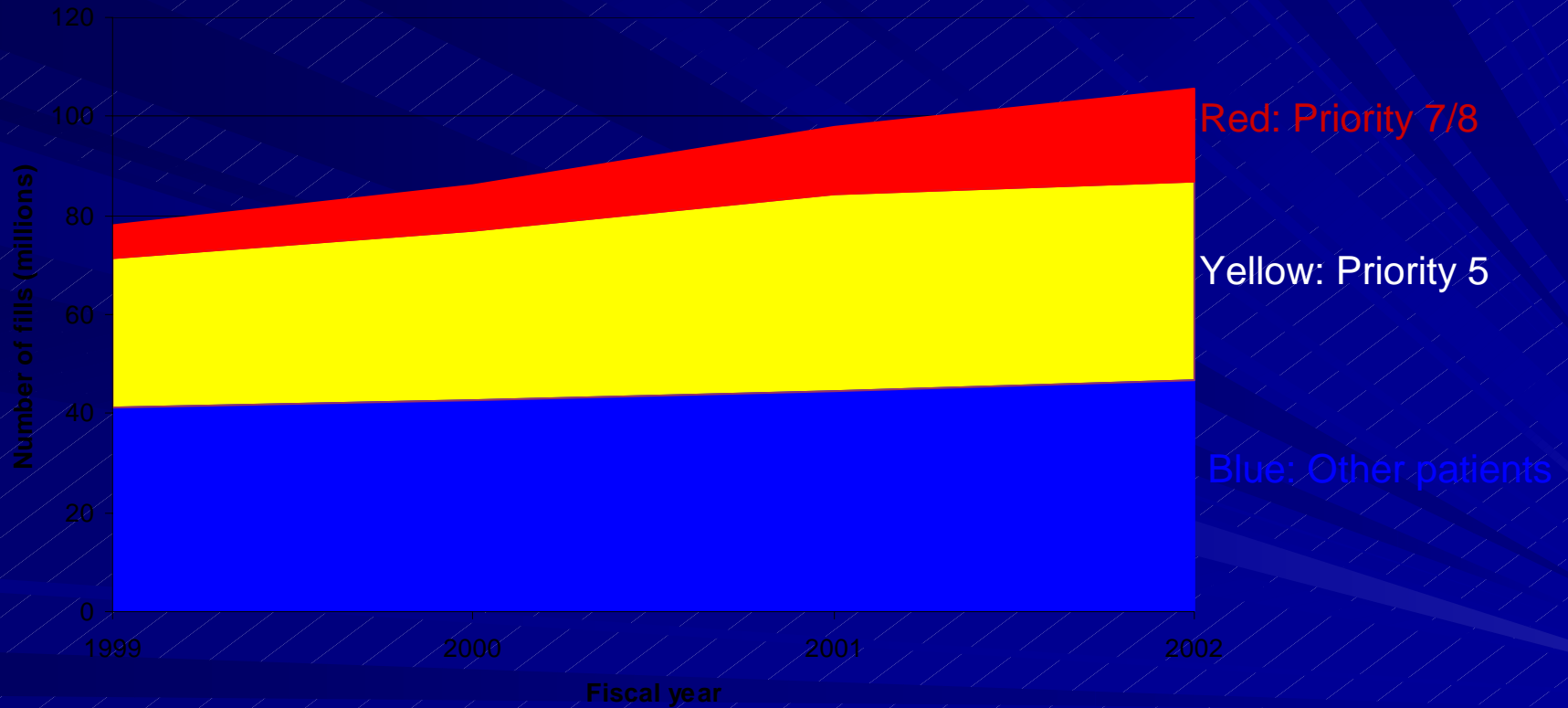


■ All Other * ■ Other Health Care Providers ■ Nurses ■ Physicians & Dentists

* All Other includes Administrative, IT and Wage Board FTE

Growth in VHA Rx Workload

FYs 1999-2002



VA HEALTH CARE SYSTEM

SELECTED VHA STATISTICS: FY 2002—FY 2003

	FY 2002	FY 2003	YR TO YR CHANGE
Total Enrollees	6,788,781	7,120,347	4.9%
Total Patients Treated (uniques)	4,471,951	4,733,166	5.8%
Inpatient Admissions	565,565	567,604	0.4%
Outpatient Visits (includes fee visits)	46,452,859	49,800,357	7.2%

VA HEALTH CARE SYSTEM

- Approx. 7M patients enrolled
- Approx. 5M active patients
- Approx. 4M pharmacy beneficiaries (FY 2003)

VA HEALTH CARE SYSTEM

- 108,000,000 actual RXs in FY 2003
- 200,000,000 30-day equivalent RXs in FY 2003
- 3.1 Billion in PV drug costs in FY 2003

VA HEALTH CARE SYSTEM

Workload FY 2003:

- Facility 46,814,419 30 day eq. Rx 23%
- CMOP 153,207,098 30 day eq. Rx 77%



VA Pharmacy Service FY 2003

Prescriptions Workload	108 million
Co-payment per 30 day prescription*	\$7
Uniques Pharmacy Outpatients	4.0 million
Pharmacist FTE	5,148
Pharmacy Technicians	3,262
Outpatient Drug Cost	2.8 billion

* In general, applied to prescriptions for non-service connected conditions, P 2-8

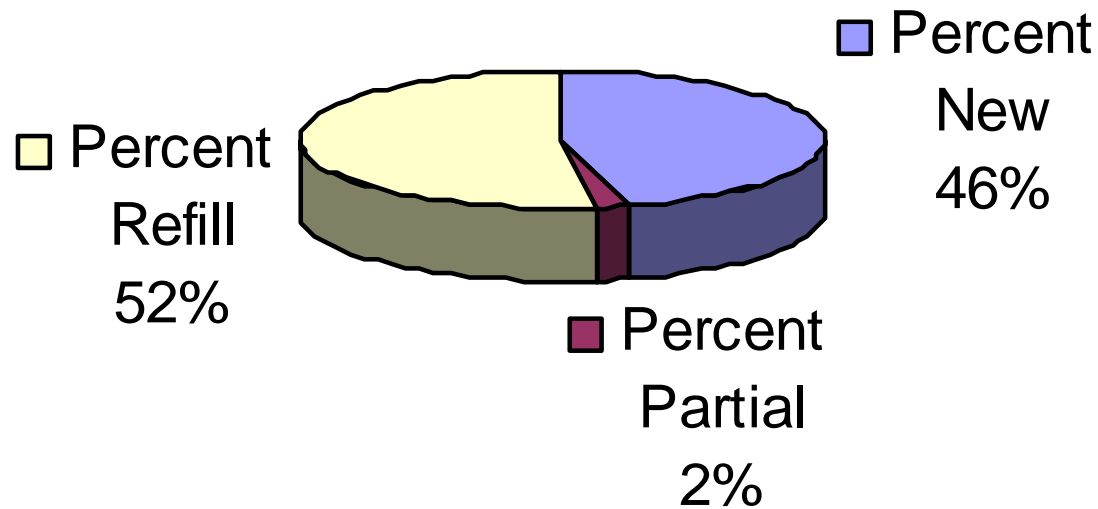
PBM Statistics

MEASURE	2003	Annual % Change
Avg. Rx Cost per Unique (PMPY)	\$705	6.3%
Avg. Rx Cost	\$26.13	9.8%
Avg. Rxs per Unique	27	-3.5%
Percent Formulary (by volume)	98%	0
Percent Formulary (by cost)	94%	1%

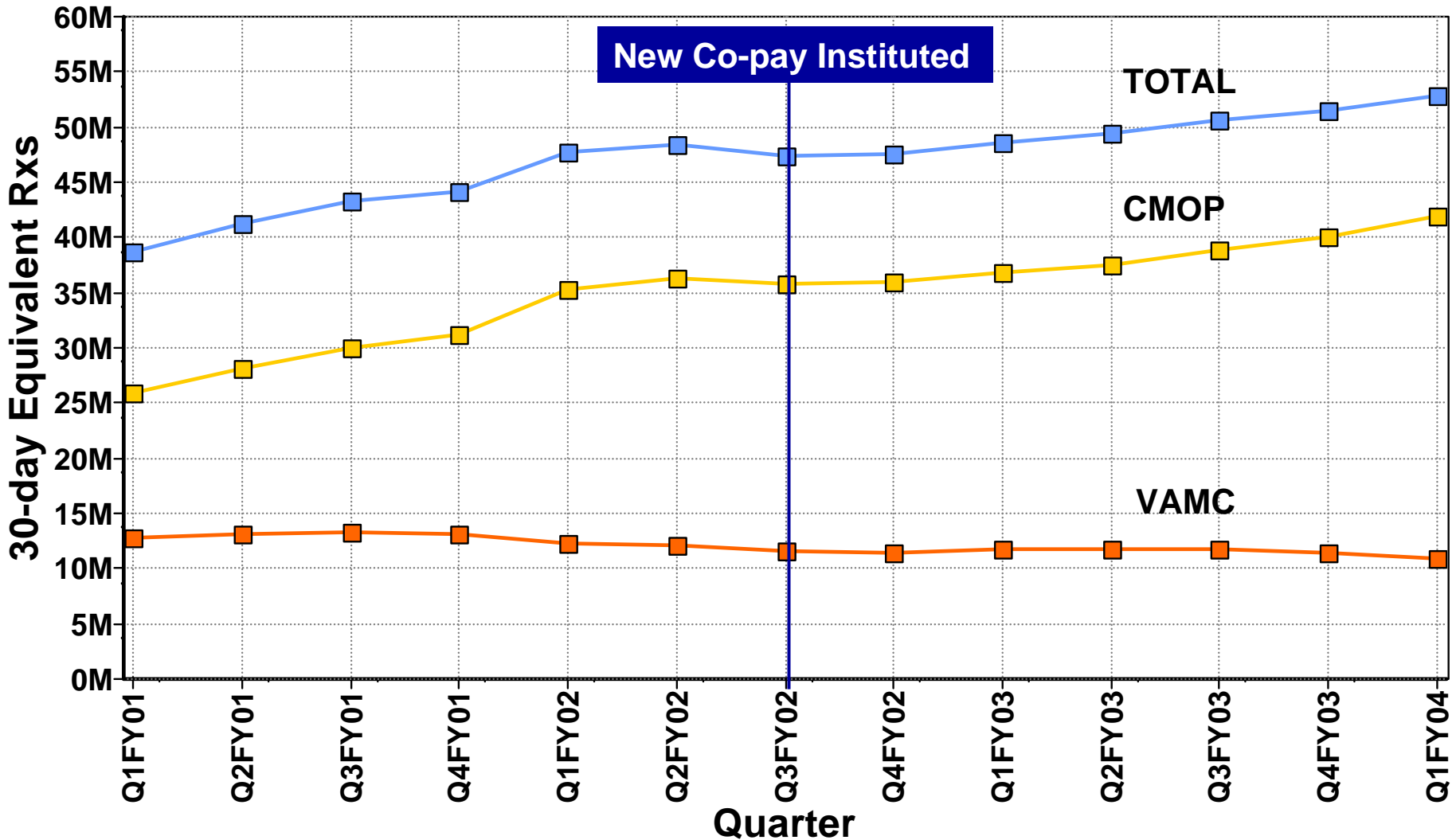
PBM Performance Monitors

MEASURE	2003	Prior Year
Avg. Drug Cost per Unique per Year	\$705	\$664
Percent CMOP	72%	70%
Percent Multimonth	44%	43%
Brand to Generic (%)	37 / 63	34 / 63
Legend to OTC	88 / 12	85 / 15

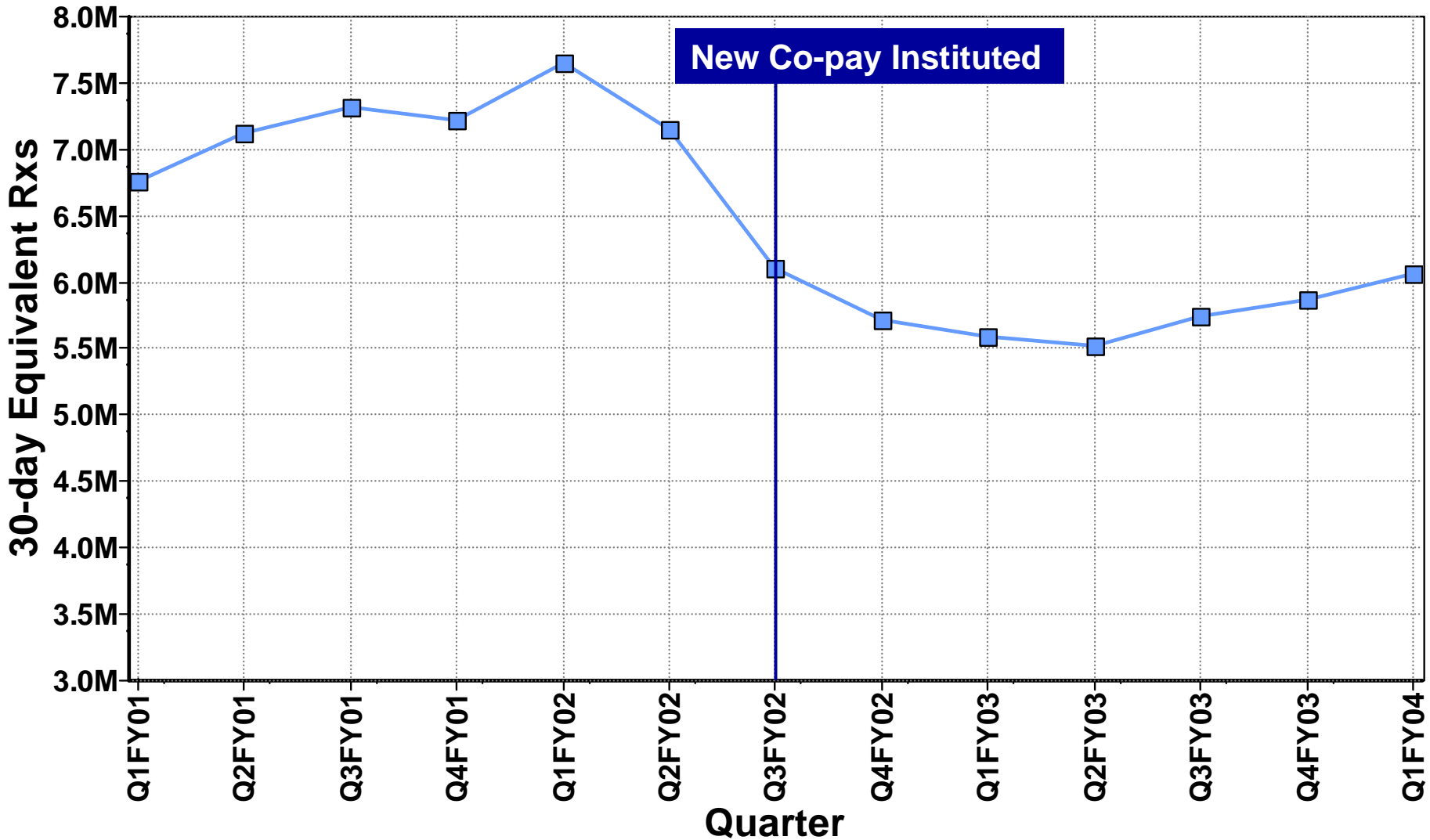
Type of Prescriptions FY 2003



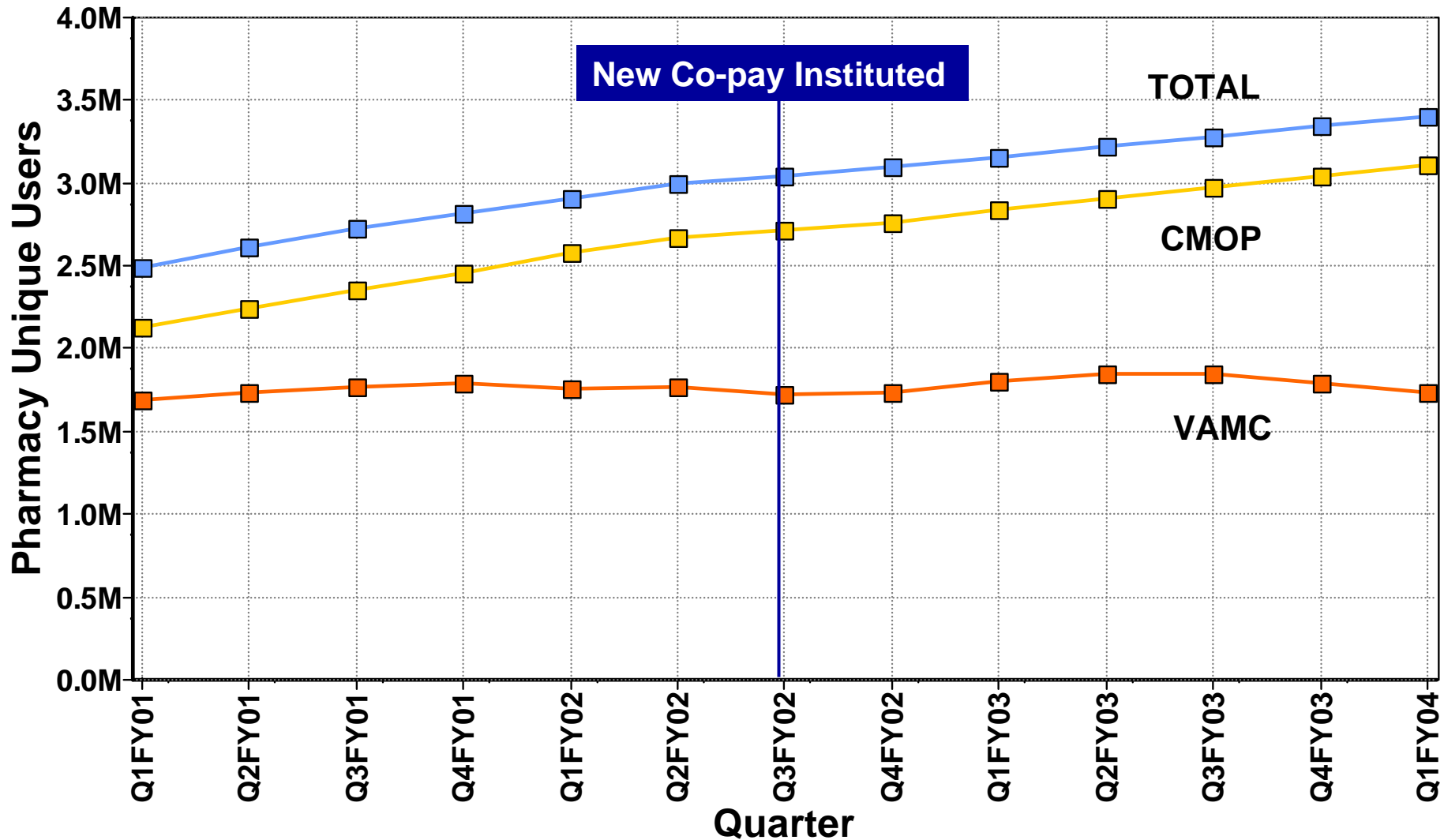
30-day Equivalent Rx



“OTC” 30-day Equivalent Rx



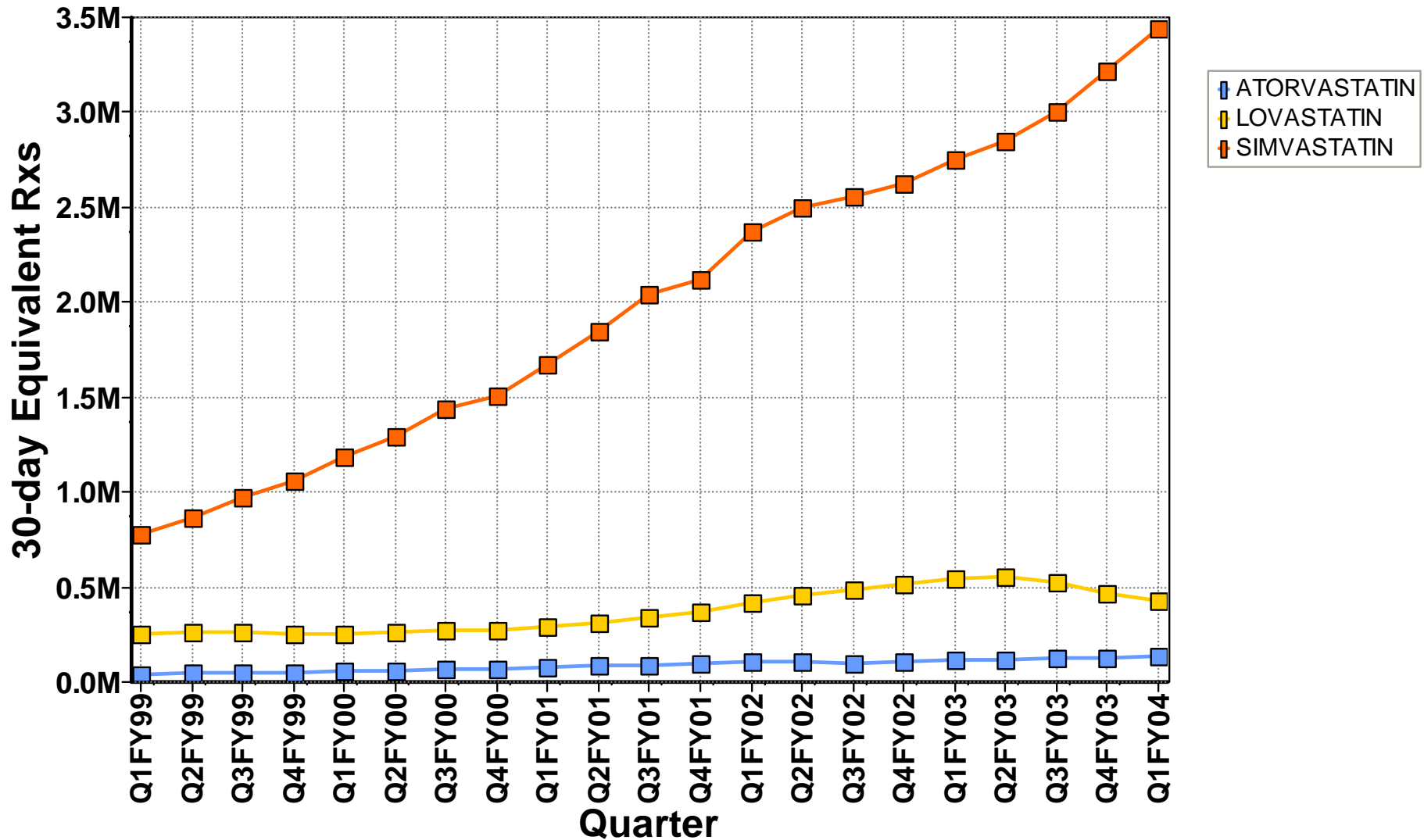
Pharmacy Unique Users



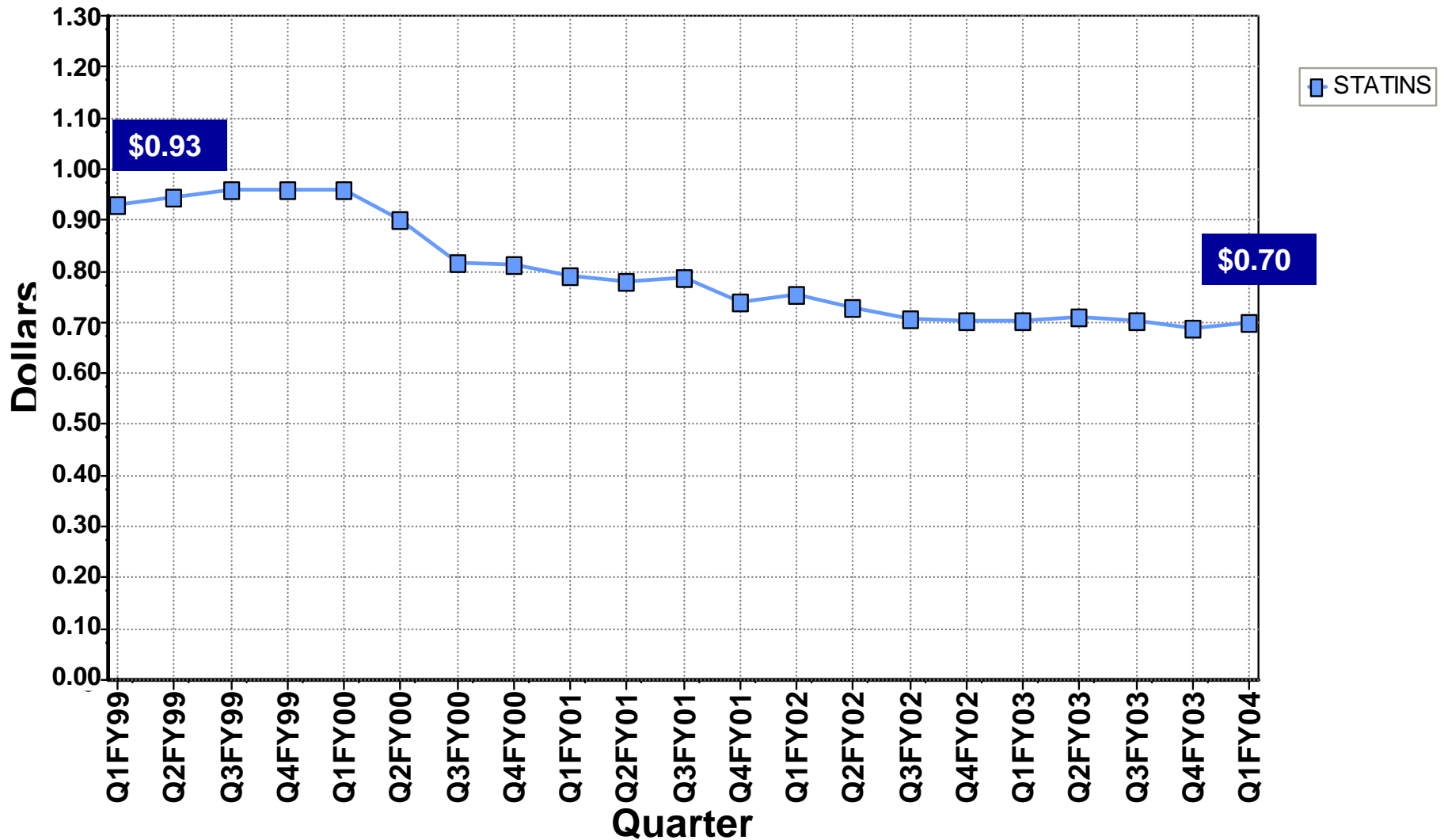
Contracting Results

- What are the effects of contracting on price and utilization?

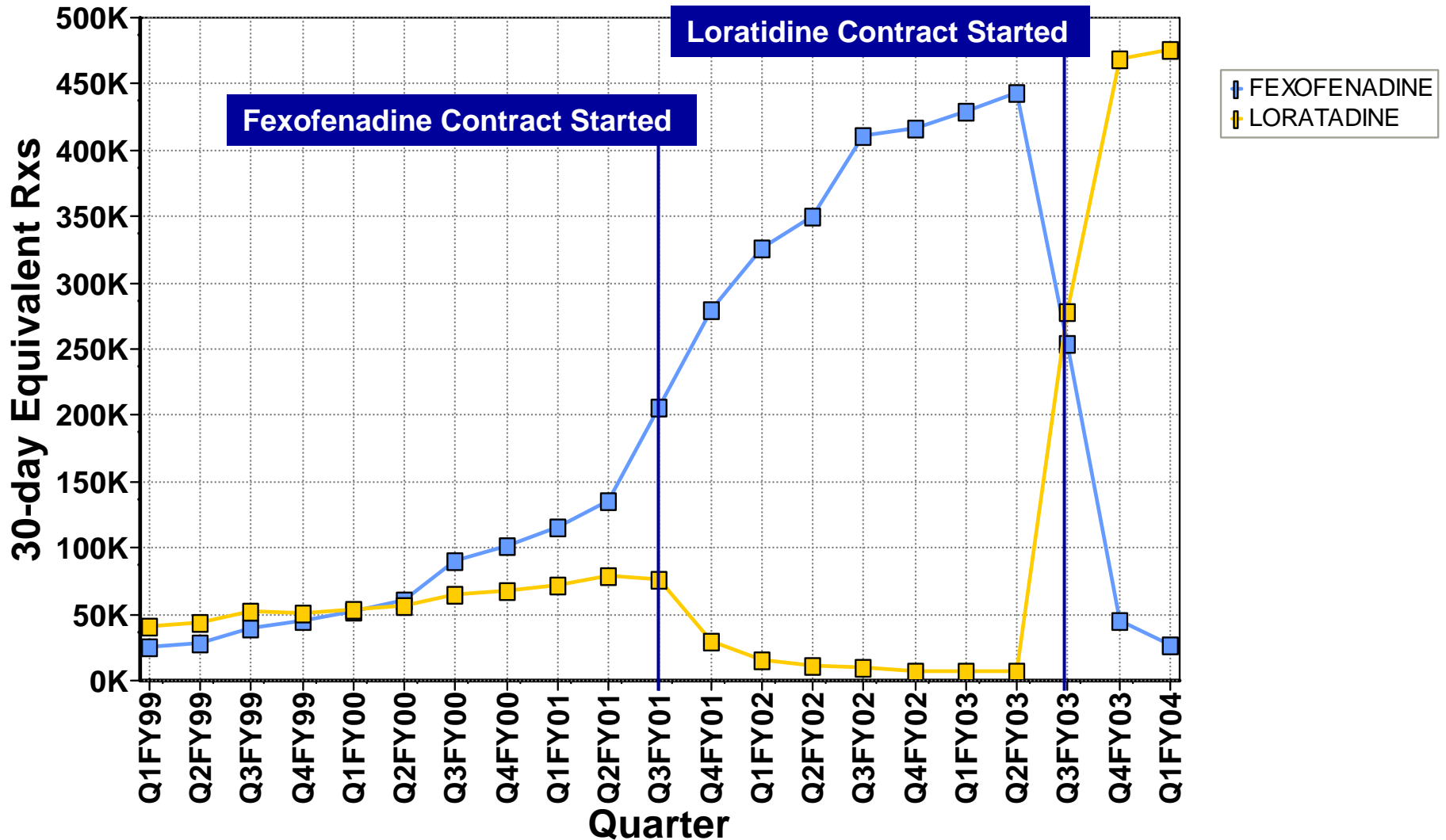
Statin 30-day Equivalent Rx's



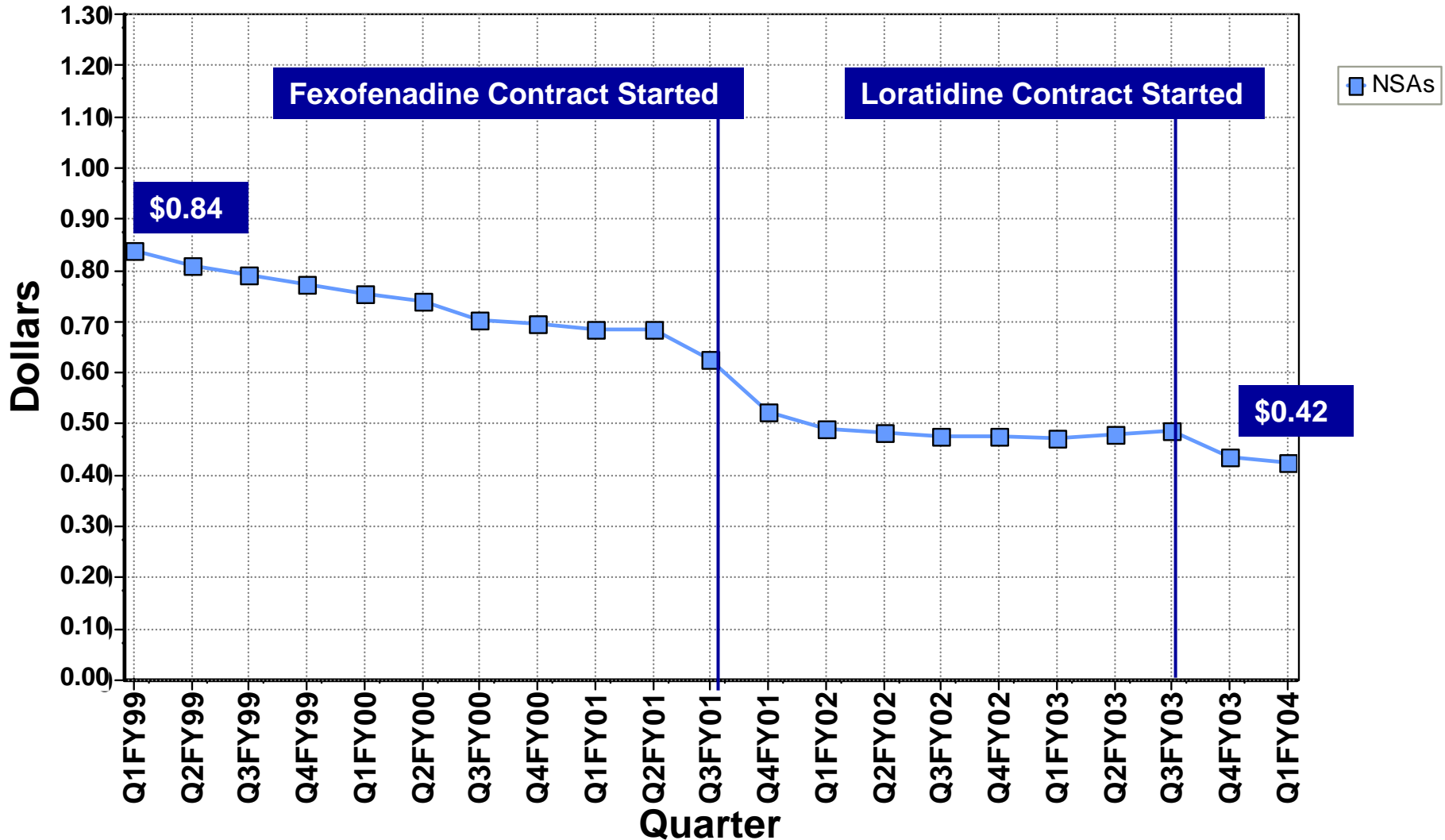
Average Cost per Unit for Statins



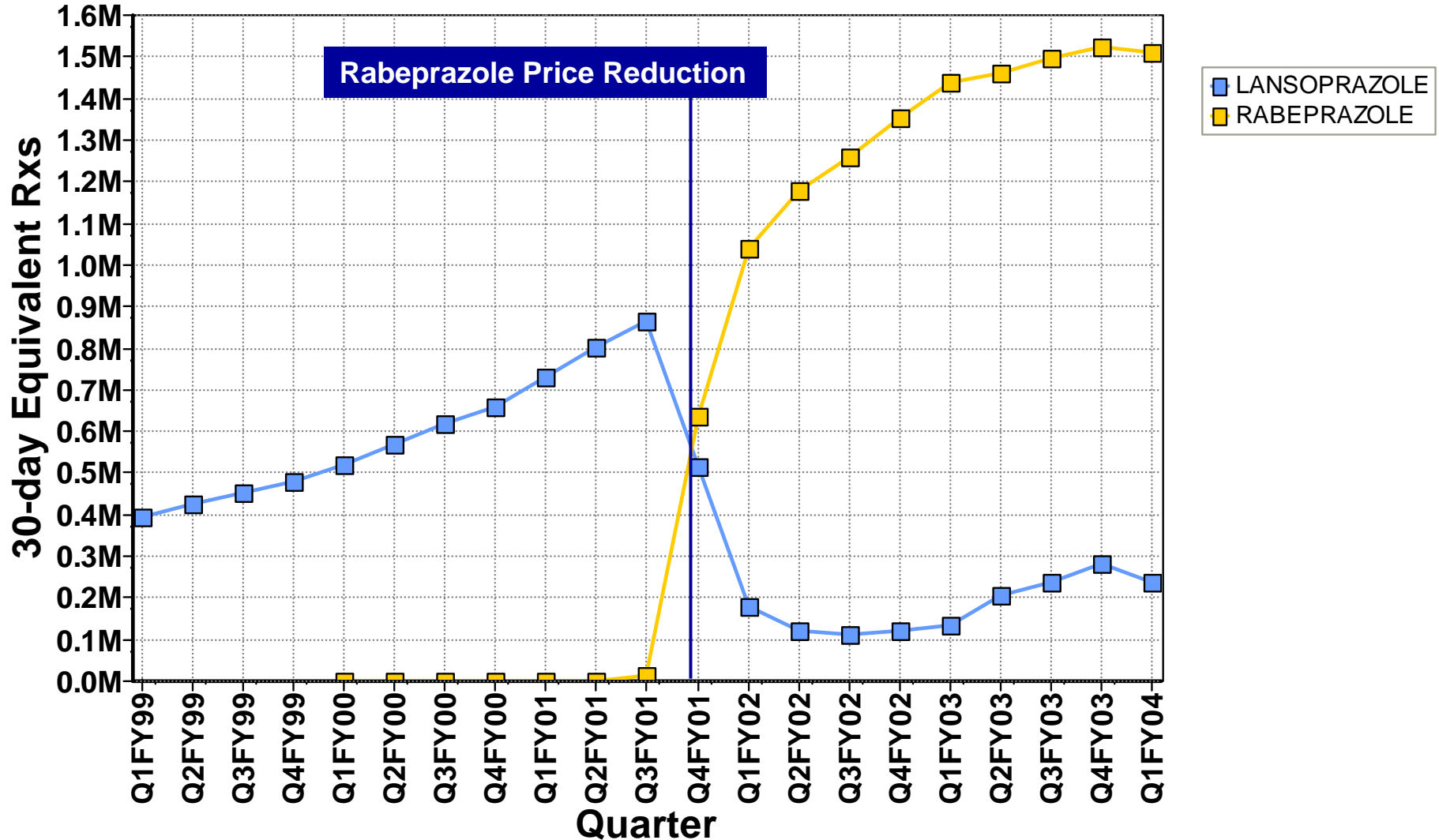
Non-Sedating Antihistamine 30-day Equivalent Rx's



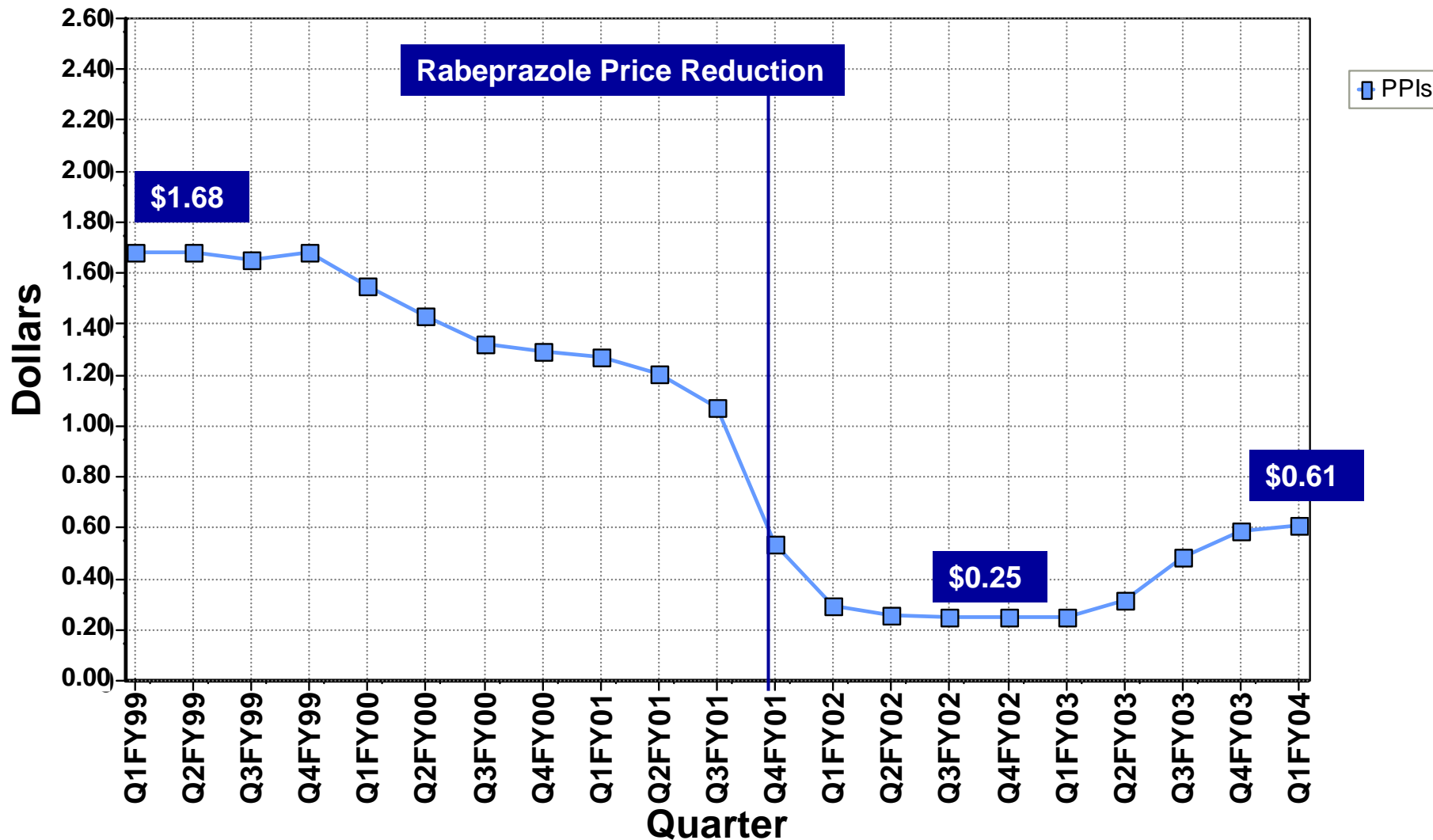
Average Cost per Unit for Non-Sedating Antihistamines



PPI 30-day Equivalent Rx

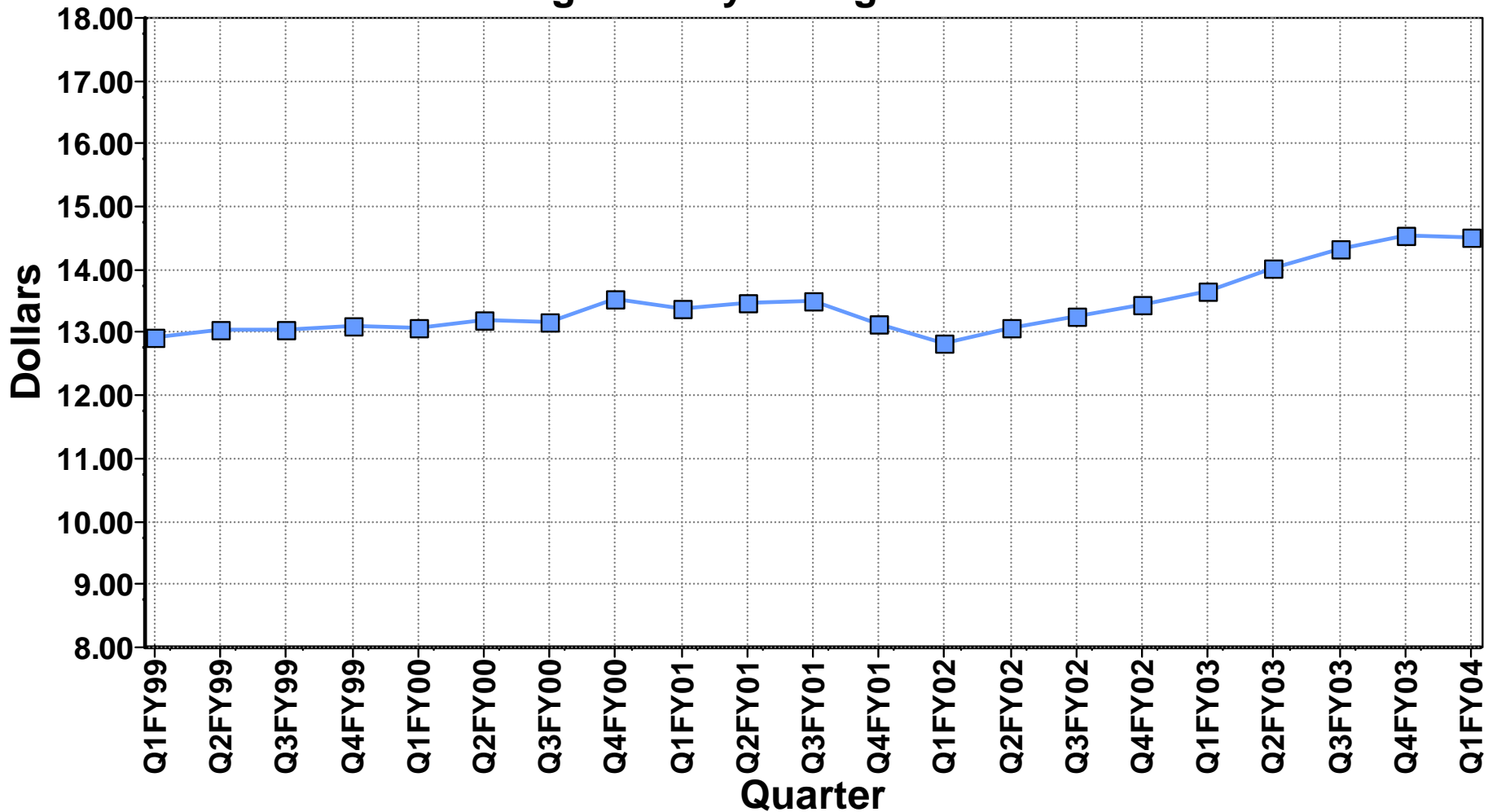


Average Cost per Unit for PPIs

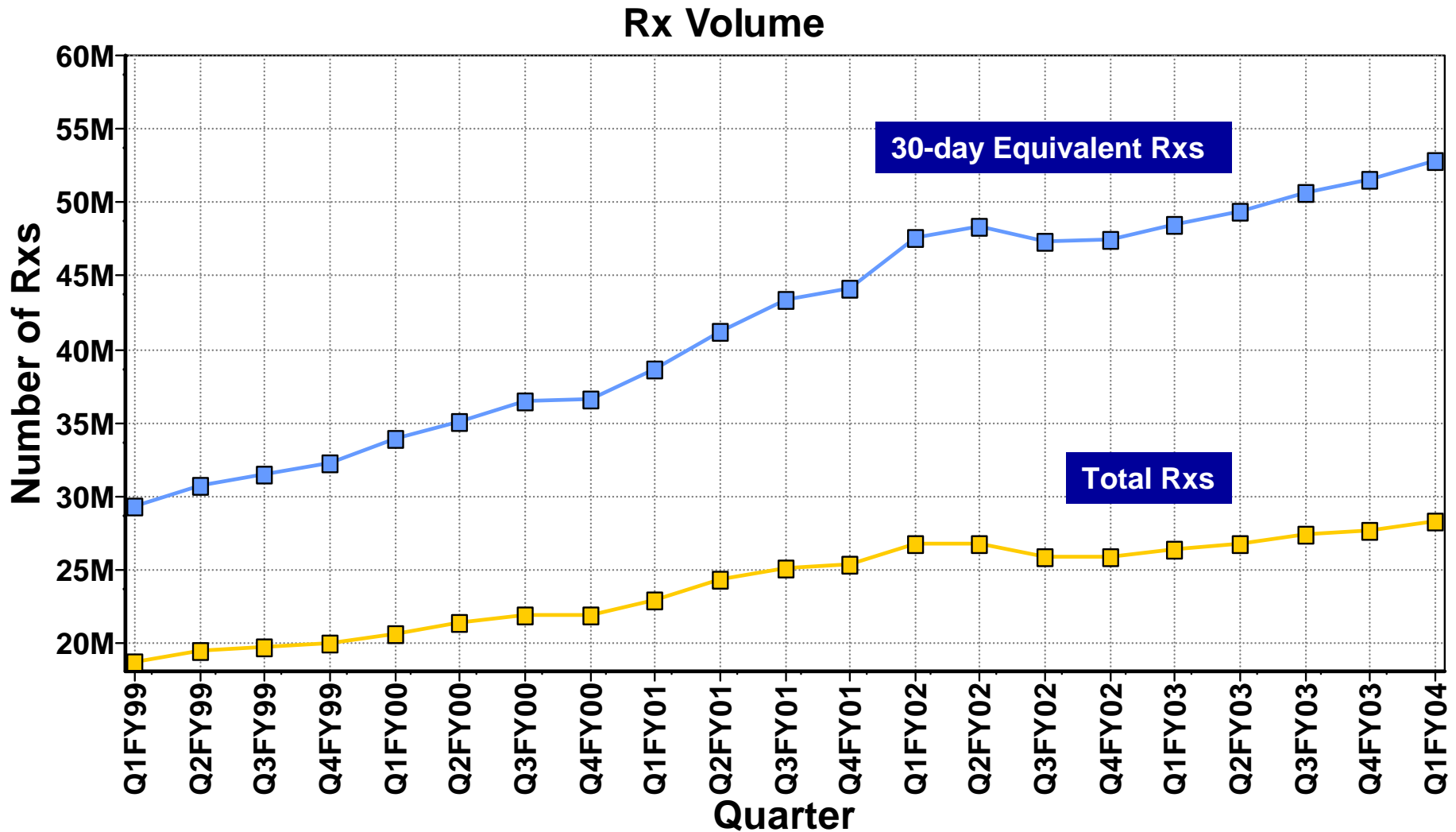


DRUG DISPENSING TRENDS

VA Average 30-Day Rx Ingredient Cost

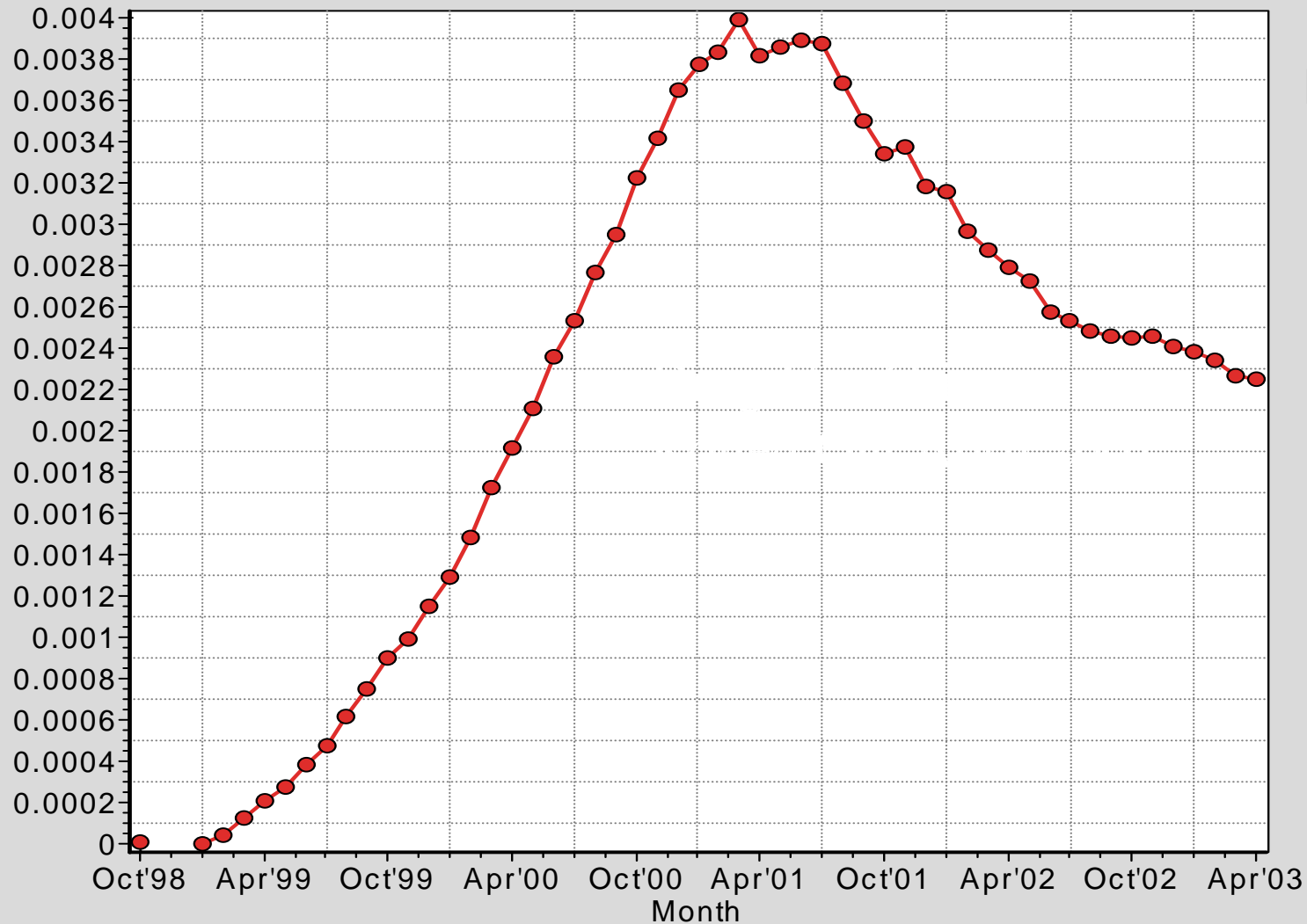


DRUG DISPENSING TRENDS



Utilization Management

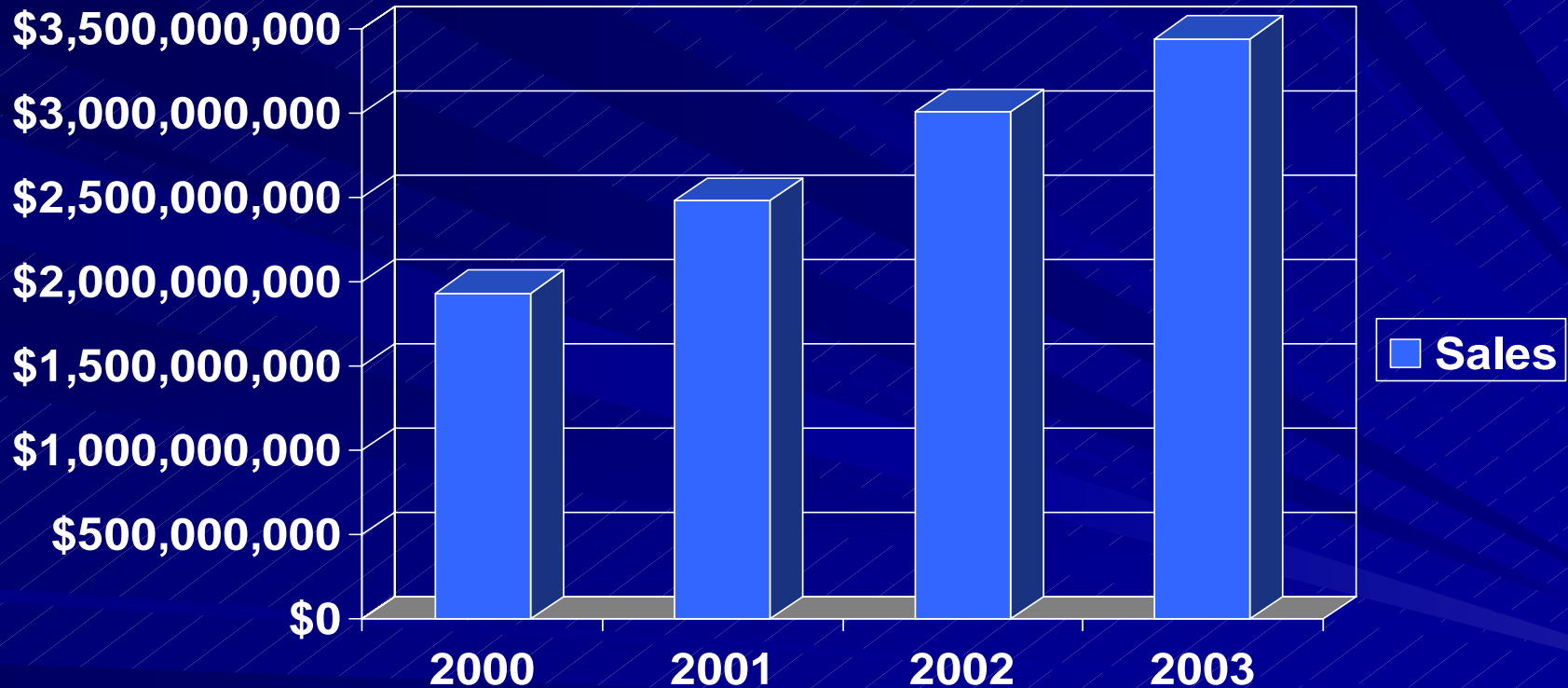
30-Day Equiv RXs / All RXs for COX-IIs



PHARMACEUTICAL PRIME VENDOR CONTRACT

- ****PARTNERSHIP****
- Distribute pharmaceutical and medical/surgical supplies to VA, IHS, BOP, CMOPs, State Veterans Homes
- Electronic order entry
- Next day delivery
- 97% fill rate
- Accurate product pricing and invoicing
- Negative Five Percent (-5%) distribution fee

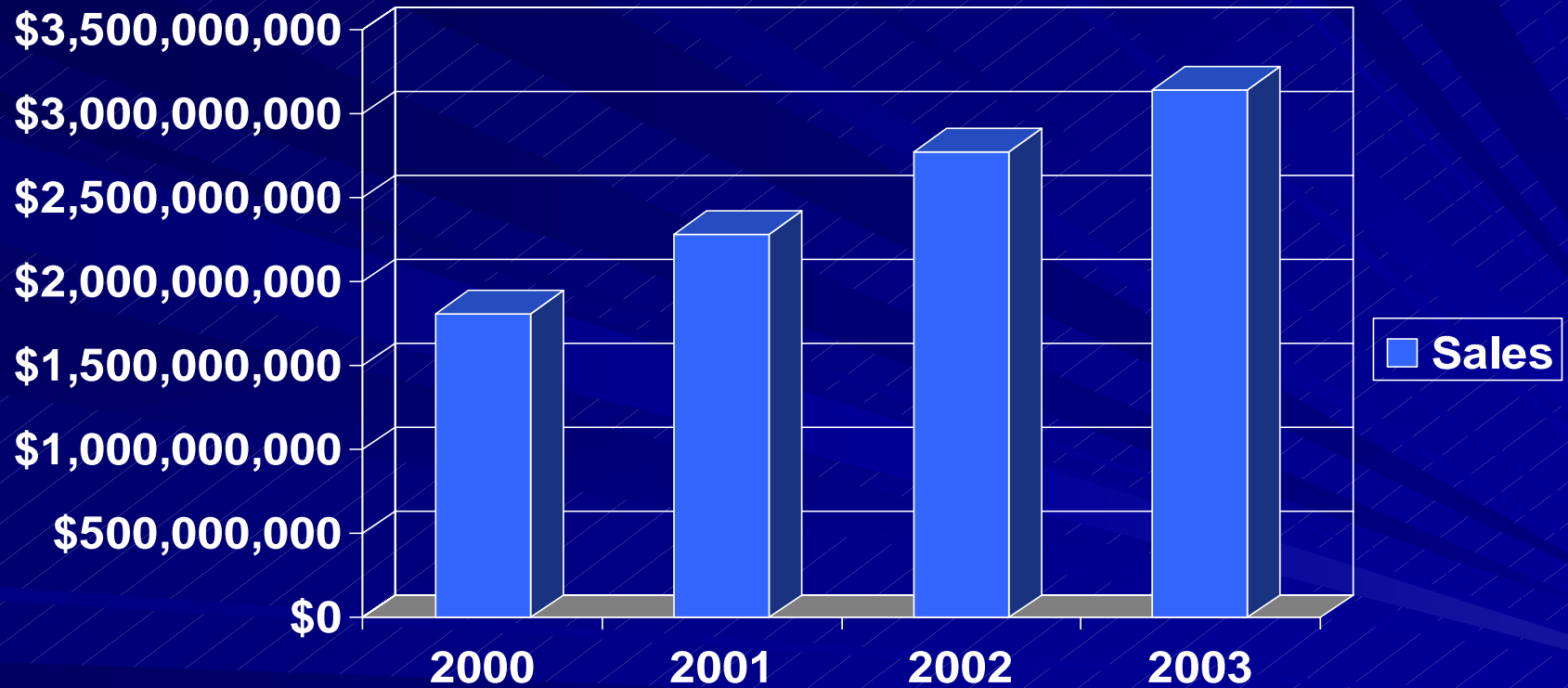
PHARMACEUTICAL PRIME VENDOR SALES



PURCHASING METHODS USED BY VA

- Federal Supply Schedule (FSS)
- Blanket Purchase Agreement (BPA)
- National Contracts
- Basic Ordering Agreement (BOA)
- Open Market Purchase

VA SALES



RECAP/GOALS

- Decrease open market purchases
- Minimize back-orders
- Review rebates on BPAs
- High quality products at low prices (standardization)
- Pharmaceutical Prime Vendor implementation
- Medical/Surgical Prime Vendor
- Repackaging
- Equipment and automation

NATIONAL POLICY ON MANUFACTURER'S REPRESENTATIVES

MANUFACTURER'S POLICY

Purpose is to establish clear, consistent and uniform rules governing product manufacturer's activities within the Department

- 1st draft completed in August 2002
- Conference call with industry representatives September 16th, 2002
- Meeting with VA and industry representatives for October 4th to develop 2nd draft
- VA Office of General Counsel comments incorporated and sent to VAHQ March 2003
- 10th draft will be reviewed by VA Health Systems Council in May 2003.
- Final draft will be put into the concurrence process in VAHQ in June 2003
- Directive will be issued.....? (July 2003?)

MANUFACTURER'S POLICY

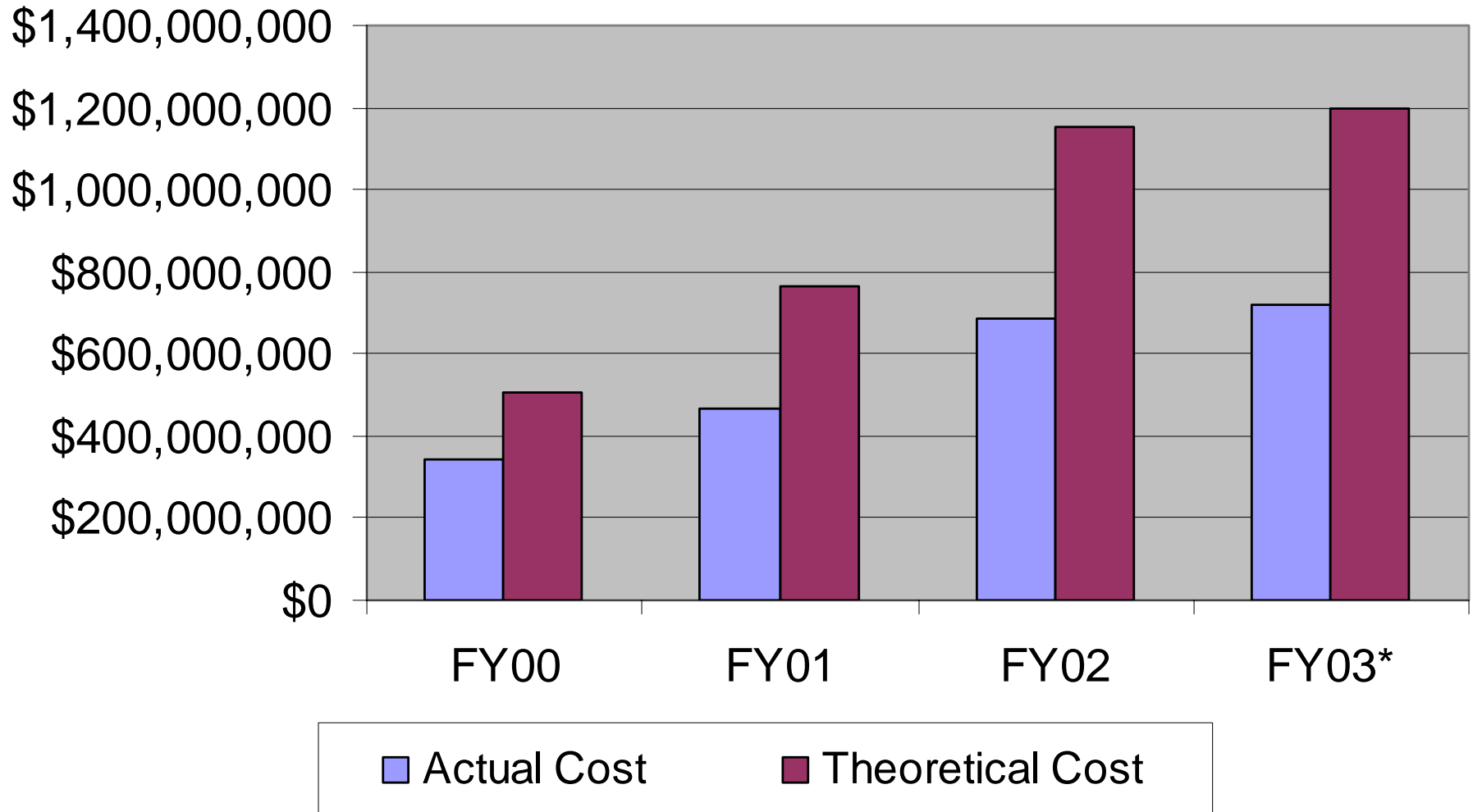
Possible Final Policy Elements:

- Consideration of VA staff time constraints
- Guidance on drug samples / gifts
- Promotional materials / literature
- Product promotion consistent with the VANF goals
- Patient privacy
- Policy non-compliance

Tools Used to Achieve Cost Avoidance

- Utilization Management Pharmacologic Management Guidelines:
 - PBM-MAP
 - PBM-MAP Drug Use Criteria
 - Formulary Design (generics, formulary status)
- Contracting:
 - Public Law 102-585 (24% off Non-Federal Average Manufacturer Prices)
 - FSS (prices negotiated below Federal Ceiling Price)
 - Blanket Purchasing Agreements (additional 5 to 15% off FSS)
 - National Contracts (additional 10 to 60% off FSS)
- Distribution Systems
 - Pharmacy Inventory Management
 - Pharmaceutical Prime Vendor (3 to 4% discount off contract price)
 - CMOP Dispensing

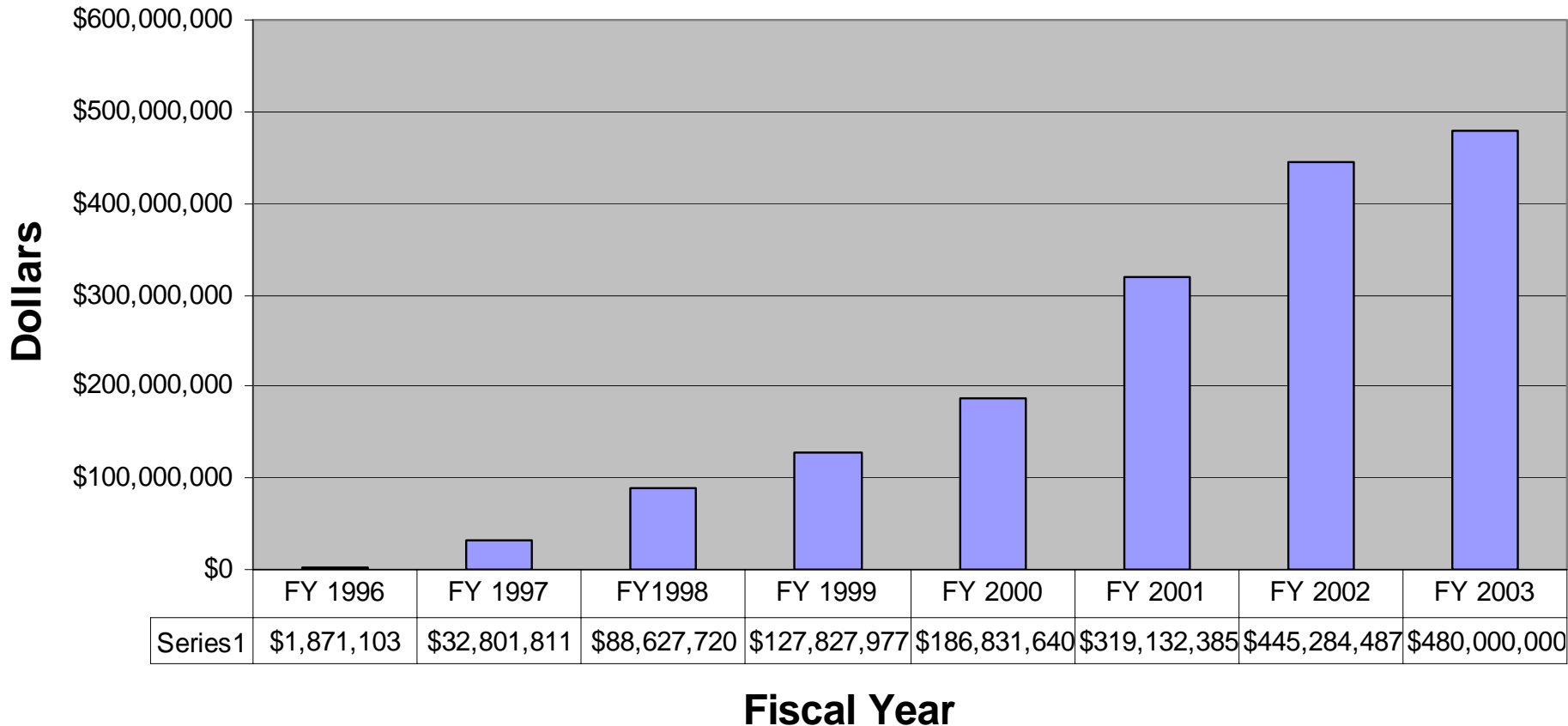
Annual Cost Avoidance



* Based on 1st & 2nd QTR FY 2003 data and pending contract awards. Cost avoidance calculation methodology endorsed by GAO health economist and management staff representatives

Cumulative Cost Avoidance

National Contract Cost Avoidance History



FY 1996 through FY 2003 estimated cost avoidance is \$1,681,452,985
(Cost Avoidance = Theoretical Cost – Actual Cost)

**FILLING RXs WRITTEN
BY NON-VA
PROVIDERS**

NON VA RXs

- Four draft Bills in the U.S. House of Representatives
 - HR 240 (Mica)
 - HR 372 (Lynch)
 - HR 709 (Wicker)
 - HR 1309 (Evans)
- Requirements, financial impact, and impact on VA pharmacy capacity vary across all Bills

