MERCER
MAKE TOMORROW, TODAY

PREFERRED DRUG LIST AND SUPPLEMENTAL REBATE PROGRAM ANNUAL PUBLIC REPORT

STATE OF NORTH CAROLINA

JULY 20, 2015

MARSH & McLENNAN COMPANIES

CONTENTS

1. Executive Summary 2
   - Background 2
   - Summary of Results 3

2. Assessment of Beneficiaries' Access to the Preferred Drug List Program Medications 5
   - Beneficiaries Reverting to Non-Preferred Medications 5
   - Beneficiaries with a Denied Non-Preferred Claim Payment and No Subsequent Paid Claim 6
   - Preferred Drug List Compliance 7
   - Preferred Drug List Prior Authorization Requests for Non-Preferred Medications 8

3. Medical Services Utilization and Expenditures Analysis 9

4. Estimated Savings 12
   - Estimated Total Net Savings 12
   - Preferred Drug List Savings and Market Shift Savings 13
   - Administrative Costs 14
   - Supplemental Rebate Collections 14
   - Limitations of Analysis 14

Appendix A: Exhibits for Assessment of Beneficiaries' Access to Preferred Drug List Program Medications 16

Appendix B: Graphs of Medical Services Utilization 21
   - Lipotropics, Statins 22
   - Glucocorticoids, Inhaled 23
   - Hypoglycemics, Insulin and Related Agents 24

Appendix C: Graphs of Medical Services Expenditures 25
   - Lipotropics, Statins 26
   - Glucocorticoids, Inhaled 27
   - Hypoglycemics, Insulin and Related Agents 28

1

Executive Summary

The State of North Carolina (State) engaged Mercer Government Human Services Consulting (Mercer) to provide an annual report, as prescribed by the State's Centers of Medicare & Medicaid Services (CMS) state plan that evaluates the overall impact of the State's preferred drug list (PDL) and supplemental rebate program, which is enforced by clinical prior authorization (PA). Mercer assessed the following in this report:

- Access to pharmaceutical care for State Medicaid beneficiaries.
- Whether changes in expenditures or utilization in medical services, such as hospitalizations or physician services, have increased or decreased as a result of the PDL and associated multi-state pooling agreement.
- Aggregate cost savings associated with the PDL and the State's participation in the National Medicaid Pooling Initiative (NMPI) supplemental rebate program.

Background

In March 2002, the State implemented a clinical PA review program as a method to encourage prescribers to prescribe and dispense the most clinically appropriate and cost-effective medications. A state panel of clinical and academic pharmacists and physicians selected the prescription drugs that required clinical PA review and developed the clinical criteria for the program.

In March 2010, the State joined the NMPI supplemental rebate purchasing pool. NMPI is a multi-state Medicaid pharmaceutical purchasing pool administered by Magellan Medicaid Administration, Inc.

State Medicaid programs join multi-state pooled purchasing programs to combine their purchasing power to influence drug manufacturers to provide greater supplemental rebates. Manufacturers pay supplemental rebates if a state implements a PDL that requires PA review of non-preferred medications, which provides the manufacturers with a competitive advantage if their products are deemed "preferred." The benefit of joining a multi-state arrangement is typically a significant increase in program savings that are attributed to:

- Additional support with implementing and maintaining a PDL or expanding a state's PDL program in a short timeframe.
- Market share shift in drug utilization to therapeutically equivalent and typically less costly preferred medications.

- An increase in individual supplemental rebate collections due to purchasing power and contracts negotiated with pharmaceutical manufacturers.

Initially, the State did not establish a PDL when it joined NMPI, but only collected pharmaceutical manufacturer supplemental rebates through its participation with the purchasing pool. On September 15, 2010, the State implemented its PDL, enforced through its PA program, in order to encourage appropriate prescription drug utilization. The State originally established 88 PDL therapeutic drug categories that include preferred and non-preferred medications. Since then, the State has reviewed and modified the PDL. In state fiscal year (SFY) 2014 (July 1, 2013 through June 30, 2014), there were 97 PDL therapeutic drug categories. In SFY 2014, PDL changes were implemented in May 2014.

Summary of Results

Impact on Beneficiaries' Access to the Preferred Drug List Program Medications

Mercer assessed beneficiaries' access to PDL program medications in SFY 2014. Key findings for this part of the analysis included:

- Similar to SFY 2013, only a small percentage of individuals reverted to non-preferred medications during SFY 2014. The analysis suggests Medicaid beneficiaries who changed from a non-preferred medication to a preferred medication remained on the preferred medication regimen except for clinically necessary exceptions.
  - Of the 97 PDL therapeutic drug categories, there were 66 categories that were implemented or had significant changes (that is, drugs added to or removed from the PDL category and/or changes made to non-preferred or preferred drug status) during the study period.
  - Of these 66 categories, there were 56 PDL categories that had beneficiaries who reverted to a non-preferred medication. Only 0.3% (or 6,100) beneficiaries out of a total of 2.4 million continuously eligible Medicaid beneficiaries for these 66 drug categories reviewed switched back to a non-preferred medication after having a paid claim for a preferred medication.
- Relatively few Medicaid beneficiaries did not obtain a drug following a denied claim payment for a non-preferred medication within the same therapeutic drug category. This result is similar to last year.
  - Approximately 2.5% (or 73,000) of continuously eligible Medicaid beneficiaries in SFY 2014 had a denied claim for a non-preferred medication and did not receive a subsequent paid claim for another medication within the same PDL therapeutic drug category during the study period.
  - The overall PDL compliance rate in SFY 2014 was approximately 95.9%. The annual compliance rate decreased 0.6 percentage points compared to SFY 2013 (96.5%).

- The approval rate for PDL prior authorization requests was 98.8% in SFY 2014. This high approval rate may indicate prescribers are familiar with the PDL program process and quickly adapt and adhere to the PDL changes.

Impact on Beneficiaries' Medical Services Utilization and Expenditures

Mercer performed a time series comparative analysis of medical services utilization and expenditures for beneficiaries "impacted" by the PDL program to monitor whether the implementation of the PDL program resulted in changes in beneficiaries' use of medical services. Beneficiaries "impacted" by the PDL were compared to beneficiaries "not impacted" by the PDL program for select PDL therapeutic drug categories.

In general, the utilization and paid amount per beneficiary were similar in SFY 2014 by population and medical services categories.

Estimated Savings

Mercer estimates the total net savings realized for the clinical PA, PDL, and supplemental rebate program was *$97.3 million* (State share of $33.3 million) in SFY 2014.

- Of the total savings, approximately *$11.8 million* (State share of approximately $4.0 million) can be attributed to the clinical PA program.
- Approximately *$85.5 million* (State share of approximately $29.3 million) can be attributed to the State's PDL and supplemental rebate program.
- Estimated annual savings equates to an overall return on investment of *26:1*[1] for the PDL and supplemental rebate program.

The net PDL and supplemental rebate program savings include:

- $30.0 million attributed to the PDL program.
- $16,000 as a result of shifting medication utilization from non-preferred to preferred medications without the presence of a rejected claim (that is, market shift savings)[2].
- $58.8 million in supplemental rebate collections.
- $3.3 million in administrative costs that offset the gross savings.

[1] On July 1, 2013, North Carolina implemented NCTracks, a new claims adjudication platform managed by CSC. Under the new contract with CSC, some PDL expenses are no longer itemized and Mercer could not include them in the calculation of the SFY 2014 ROI.

[2] Market shift savings continue to decrease year-over-year as a result of a State-requested update made to the methodology in SFY 2013 to limit the amount of time Market Basket categories can realize savings as a result of the sentinel effect.

2

Assessment of Beneficiaries' Access to the Preferred Drug List Program Medications

To monitor the effect of the PDL program on beneficiaries' access to medications, Mercer evaluated the following:

- Number of beneficiaries who reverted to a non-preferred medication within the same therapeutic drug category for drug categories that were new or had significant changes during the study period.
- Number of beneficiaries who had a prescription claim payment denied that was subject to the PDL program with no subsequent paid claim within the same therapeutic drug category.
- PDL compliance based on prescription utilization.
- Frequency of PDL prior authorization requests for non-preferred medications and the percentage of approvals and denials.

Beneficiaries Reverting to Non-Preferred Medications

Mercer evaluated the number of Medicaid beneficiaries who received a non-preferred medication prior to the PDL category changes (implemented in May 2014), then received a preferred medication after the PDL program's changes, and finally reverted to a non-preferred medication all within the same therapeutic drug category. Exhibit 1 in Appendix A provides the results of this assessment for the top 10 therapeutic drug categories by beneficiary count that reverted to a non-preferred medication.

Observations

- During the study period, 56 out of 66 therapeutic drug categories evaluated (approximately 85%) had beneficiaries with continuous Medicaid eligibility who reverted to a non-preferred medication after the PDL program changes implemented in SFY 2014.
- However, the overall percentage of beneficiaries switching back to a non-preferred medication after having tried a preferred medication was very small. The findings for SFY 2014 were similar to SFY 2013.
  - For beneficiaries continuously eligible for Medicaid, only 0.3% (or approximately 6,100) beneficiaries out of a total of 2.4 million beneficiaries from these 66 therapeutic drug categories reverted to a non-preferred medication.
    - In both SFY 2013 and SFY 2012, 0.1% of beneficiaries reverted to a non-preferred medication after having tried a preferred medication.
- The top five drug categories by beneficiary count that demonstrated potential beneficiary disruption were neuropathic pain (pain management), injectable narcotic analgesics (pain management), proton pump inhibitors (stomach ulcers), skeletal muscle relaxants (muscle

relaxation), and long-acting narcotic analgesics (pain management) with 2,997, 405, 349, 295, and 251 unique beneficiaries, respectively, who reverted to a non-preferred medication.
  - These five drug categories accounted for 71% of the total beneficiaries that reverted to a non-preferred medication following the PDL category changes implemented in SFY 2014.

Conclusion

A small percentage of individuals reverted to non-preferred medications following changes made to the PDL program's drug categories in SFY 2014. This finding suggests that Medicaid beneficiaries who changed from a non-preferred medication to a preferred medication remained on the preferred medication regimen except for clinically necessary exceptions.

Beneficiaries with a Denied Non-Preferred Claim Payment and No Subsequent Paid Claim

In Exhibit 2, Appendix A, Mercer summarized the top 10 drug categories with the greatest number of beneficiaries who had a denied claim payment for a non-preferred prescription and did not receive a subsequent non-preferred or preferred paid claim within the same therapeutic drug category in SFY 2014.

Observations

- Of the therapeutic drug categories evaluated, 84 had beneficiaries who had a denied claim payment for a non-preferred prescription and did not receive a subsequent paid claim for a non-preferred or preferred medication within the same therapeutic drug category during the study period.
- Overall, 2.5% (or approximately 73,000) of continuously Medicaid eligible beneficiaries had a denied claim payment and did not receive a subsequent paid claim within the PDL drug category.
  - These results are similar to SFY 2013, when 2.5% of continuously Medicaid eligible beneficiaries had a denied claim payment and did not receive a subsequent paid claim within the PDL drug category.
- The top 10 drug categories based on beneficiary counts and continuous Medicaid eligibility ranged from a low of 1.5% (minimally sedating antihistamines [seasonal allergies]) to a high of 35.1% (lipotropics, other [high cholesterol]) of beneficiaries not receiving a subsequent claim within the drug category following a denied claim payment.

Conclusion

Consistent with the previous year, relatively few Medicaid beneficiaries did not obtain a drug following a denied claim payment for a non-preferred medication within the same therapeutic drug category.

Preferred Drug List Compliance

A primary goal of the State's PDL program is to encourage prescribers to write prescriptions for preferred medications within designated therapeutic drug categories. Mercer compared the percentage of preferred prescriptions utilized (that is, PDL compliance) between SFY 2013 and SFY 2014 by PDL therapeutic drug category.

- Exhibit 3 in Appendix A represents the top 10 therapeutic drug categories that showed the greatest increase in PDL compliance in SFY 2014 compared to SFY 2013.
- Exhibit 4 in Appendix A represents the top 10 therapeutic drug categories that showed the greatest decrease in PDL compliance in SFY 2014 compared to SFY 2013.

Observations

- The overall PDL compliance rate in SFY 2013 was approximately 96.5%. In SFY 2014, the overall PDL compliance rate decreased to approximately 95.9%, a 0.6 percentage point decrease.
- The drug classes with the greatest percentage point decreases of preferred prescriptions utilized between SFY 2013 and SFY 2014 included:
  - Oral and Inhaled PAH agents (Pulmonary Arterial Hypertension) had the largest decrease in SFY 2014 (40.0 percentage points). Several drugs were added to the non-preferred category in May 2014.
  - Hepatitis C agents experienced a decrease of 21.8 percentage points.
  - Multiple Sclerosis agents decreased 16.8 percentage points. This drug category had several drugs added to the non-preferred category in May 2014.
  - Ulcerative colitis agents experienced a decrease of 8.4 percentage points in SFY 2014.
  - The remaining categories within the top 10 all decreased between 4 and 7 percentage points.
- The drug classes with the greatest percentage point increase of preferred prescriptions utilized between SFY 2013 and SFY 2014 included:
  - Injectable PAH agents (Pulmonary Arterial Hypertension) experienced a compliance increase of 40.5 percentage points.
  - Hypoglycemics, SGLT2 experienced a compliance increase of 28.6 percentage points.
  - Growth hormones experienced a compliance increase of 10.2 percentage points.
  - The remaining categories in the top 10 had compliance increases between 3 and 8 percentage points.

The overall PDL compliance rate in SFY 2014 was approximately 95.9%. This is comparable to SFY 2013 (96.5%) and SFY 2012 (96.1%).

Conclusion

The overall high compliance rate and the year-over-year stability of the rate suggests prescribers write prescriptions for preferred medications more frequently than non-preferred medications and adjust quickly to changes made to the PDL. .

Preferred Drug List Prior Authorization Requests for Non-Preferred Medications

Mercer summarized the number of PA approvals and denials for non-preferred medications during the study period that were processed by the State's PA vendor. The top 10 therapeutic drug categories by total approvals and denials are represented in Exhibit 5, Appendix A. These data include all approvals and denials processed by the call center, through automated PA, by facsimile, through the internet, and by mail.

Observations

In SFY 2014, there were 633,000 PDL prior authorization requests processed with an overall approval rate of 98.8% and an overall denial rate of 1.2%.

- Of the top 10 PDL therapeutic drug categories by the number of PDL prior authorization requests, the approval rate ranged from a minimum of 95.5% for the skeletal muscle relaxants (muscle relaxation), and a maximum of 100.0% for both macrolides/ketolides (infection) and antipsychotics (schizophrenia/bipolar disorder).

Conclusion

The high approval rate for PDL prior authorization requests may indicate prescribers have become more familiar with the PDL program and can quickly adapt and adhere to therapeutic drug category changes when implemented.

3

Medical Services Utilization and Expenditures Analysis

To monitor whether the PDL program resulted in changes in beneficiaries' use and cost of medical services, Mercer evaluated medical services utilization and expenditures for beneficiaries "impacted" by the PDL program as compared to beneficiaries "not impacted" by the PDL program for select PDL therapeutic drug categories.

The medical services utilization and expenditures evaluated included:

- Inpatient hospital admissions.
- Emergency room visits.
- Outpatient hospital visits.
- Physician office visits.

Mercer considered beneficiaries "not impacted" by the PDL program if they did not experience a change in drug therapy within a PDL therapeutic drug category. "Not impacted" beneficiaries were taking preferred medications within the same PDL therapeutic drug category. Mercer defined beneficiaries as "impacted" by the PDL program if they changed drug therapies within a PDL therapeutic drug category. "Impacted" beneficiaries were taking non-preferred medications then switched to preferred medications within the same PDL therapeutic drug category.

Mercer's criteria for selecting the PDL therapeutic drug categories included:

- PDL categories with a relatively large market shift from non-preferred medications before the PDL program's implementation to preferred medications after implementation.
- PDL categories used as long-term maintenance therapies for chronic disease treatment.

Based on these criteria, Mercer selected the following PDL categories to evaluate:

- Lipotropics and statins used to treat beneficiaries with high cholesterol.
- Inhaled glucocorticoids used to treat beneficiaries with asthma.
- Hypoglycemics, insulins, and related agents used to treat beneficiaries with diabetes.

Mercer has included the data and graphs referenced for this evaluation in the following appendices:

- Appendix B contains graphs of the selected PDL drug categories illustrating *utilization per beneficiary* for the selected medical services categories.

- Appendix C contains graphs of the selected PDL drug categories illustrating *paid amount per beneficiary* for the selected medical services categories.

Mercer performed a time series comparative analysis of the three selected PDL therapeutic drug categories. The pre-PDL implementation time period was March 15, 2010 through September 14, 2010. The study time period was SFY 2012 through SFY 2014 (July 1, 2011 through June 30, 2014). These time periods were aggregated and used as the data points on the graphs:

- Pre-implementation period:
  - March 15, 2010 to June 14, 2010
  - June 15, 2010 to September 14, 2010

- Study Period:
  - July 1, 2011 to September 30, 2011
  - October 1, 2011 to December 31, 2011
  - January 1, 2012 to March 31, 2012
  - April 1, 2012 to June 30, 2012
  - July 1, 2012 to September 30, 2012
  - October 1, 2012 to December 31, 2012
  - January 1, 2013 to March 31, 2013
  - April 1, 2013 to June 30, 2013
  - July 1, 2013 to September 30, 2013
  - October 1, 2013 to December 31, 2013
  - January 1, 2014 to March 31, 2014
  - April 1, 2014 to June 30, 2014

The vertical line on each graph indicates the date of the PDL program's implementation — September 15, 2010.

Observations

- As shown by the graphs in Appendix B, the overall utilization for medical services was relatively low for the selected PDL categories and for each population group.
  - The utilization by population group followed similar experience patterns between the pre-implementation period and study period for the selected PDL categories that Mercer reviewed.
- In Appendix C, the paid amount per beneficiary was also generally similar across time periods by population group and medical services category.

Conclusion

In general, the utilization and paid amount per beneficiary experience were similar across time periods by population group and medical services categories. However, since the analysis was not a controlled randomized study, no direct statistical correlation should be made between

Medicaid beneficiaries' medical services utilization and expenditures and the impact of the PDL program's implementation.

4

Estimated Savings

Mercer calculated the estimated PDL program savings across all therapeutic drug categories effective during SFY 2014. The savings estimate calculation accounts for:

1. PDL savings, which are the cost benefit of denied point-of-sale outpatient pharmacy claims for non-preferred PDL medications, net of the CMS rebates. The PDL savings also includes offsets in savings due to alternative (that is, preferred) drug therapies dispensed.
2. Market shift savings, which is the savings, net of CMS rebates, achieved from the sentinel effect of beneficiaries switching from a non-preferred medication to a preferred medication without a denied payment claim at the pharmacy.
3. Supplemental rebates collected from manufacturers as reported by the State's supplemental rebate vendor.
4. Administrative costs.

In addition, Mercer estimated clinical PA savings realized during SFY 2014. The clinical PA program requires PA for certain drugs prescribed to Medicaid beneficiaries to ensure appropriate clinical criteria adherence, independent of the supplemental rebate program.

Estimated Total Net Savings

Mercer estimates the total net savings for the clinical PA, PDL, and supplemental rebate programs were *$97.3 million* (State share of $33.3 million).

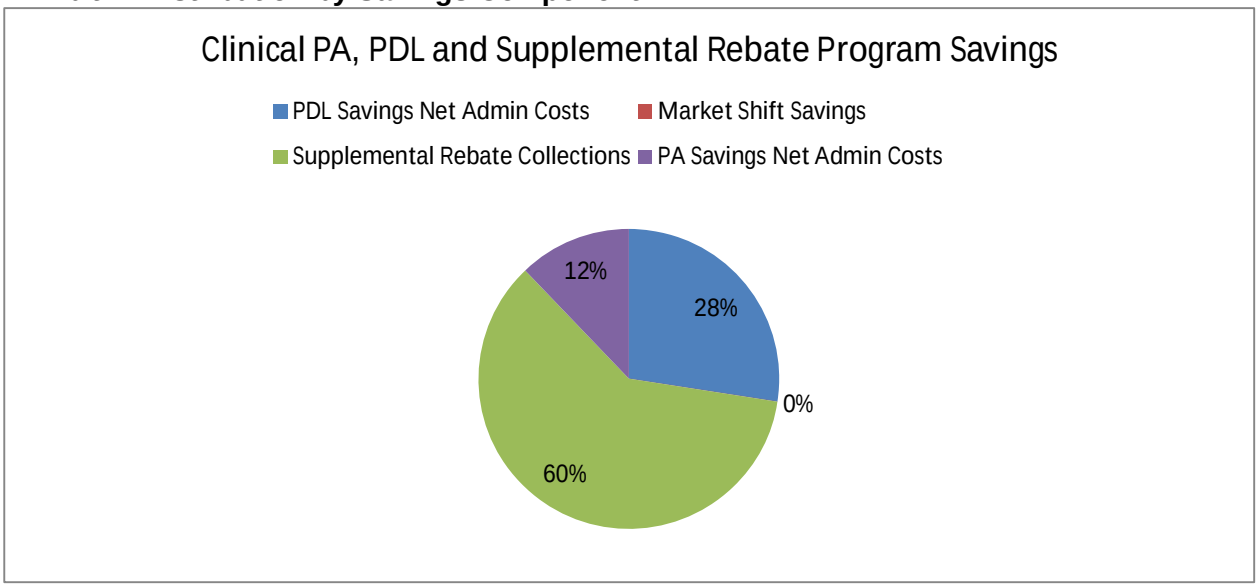
- Approximately *$11.8 million* (State share of approximately $4.0 million) can be attributed to the clinical PA program.
- *$85.5 million* (State share of approximately $29.3 million) can be attributed to the State's PDL and supplemental rebate program.
- Savings equate to an overall return on investment of *26:1* for the PDL and supplemental rebate program.

A breakout of the savings components, including both State and federal allocations, is represented in the table and exhibit below.

Table 1: Clinical PA, PDL, and Supplemental Rebate Program Net Savings

	Total	% of Total	State Share	Federal Share
PDL savings	$29,970,000	n/a	$10,276,000	$19,694,000
Administrative costs	($3,287,000)	n/a	($1,127,000)	($2,160,000)
PDL savings net admin costs	**$26,683,000**	**28%**	**$9,149,000**	**$17,534,000**
Market shift savings	$16,000	0%	$5,000	$11,000
Supplemental rebate collections	$58,770,000	60%	$20,151,000	$38,619,000
Net PDL savings	**$85,469,000**	**n/a**	**$29,305,000**	**$56,164,000**
Net clinical PA savings	$11,790,000	12%	$4,042,000	$7,748,000
Total net PDL and clinical PA savings	**$97,259,000**	**100%**	**$33,347,000**	**$63,912,000**

Exhibit 1: Distribution by Savings Component



Preferred Drug List Savings and Market Shift Savings

For SFY 2014, Mercer estimated the total PDL savings (item 1 described above) to be $30.0 million and the market shift savings (item 2 described above) to be $16,000 for a combined total of *$30.0 million* (State share of approximately $10.3 million), not including consideration for administrative costs.

The therapeutic drug categories with the largest combined PDL and market shift savings during the study period included:

- Hepatitis C Agents.
- Anticoagulants.

- Topical acne agents.
- Inhaled glucocorticoids.

Administrative Costs

In order to effectively administer the PDL program, the State incurs additional costs in the form of staff salaries and benefits, payments to contracted vendors, as well as Medicaid beneficiary PA hearings and appeals costs associated with the PDL program.

In SFY 2014, the State reimbursed their contracted vendors a total of approximately $3.3 million for creating point of sale edits related to the PDL as well as negotiating, invoicing, and collecting supplemental rebates from contracted pharmaceutical manufacturers[3]. In addition, the State's staff salaries and benefits related to PDL program operations for the study period were approximately $400,000. Lastly, the State incurred costs of approximately $60,000 as a result of Medicaid beneficiary hearings and appeals for denied payment for non-preferred prescription claims related to the PDL. Total administrative costs associated with the PDL and supplemental rebate program for the study period were *$3.3 million* (State share of approximately $1.1 million).

Table 2: Total PDL and Supplemental Rebate Program Administrative Costs

	Total	State Share	Federal Share
Staff salary and benefits	($400,000)	($137,000)	($263,000)
Hearings and appeals costs	($62,000)	($21,000)	($41,000)
Contracted vendor costs	($2,825,000)	($969,000)	($1,856,000)
Total administrative costs	**($3,287,000)**	**($1,127,000)**	**($2,160,000)**

Supplemental Rebate Collections

The supplemental rebates for preferred medications collected from pharmaceutical manufacturers in SFY 2014 were approximately *$58.8 million* (State share of approximately $20.2 million). The supplemental rebates for preferred medications dispensed during the study period continue to be collected and, as such, the total amount of supplemental rebates will continue to increase as those collections continue.

Limitations of Analysis

For our analysis, Mercer relied on data, information and other sources of data as described in this report. We have relied upon these data without an independent audit. Although we have reviewed the data for reasonableness and consistency, we have not audited or otherwise verified these data. It should also be noted that our review of data may not always reveal

[3] On July 1, 2013, North Carolina implemented NCTracks, a new claims adjudication platform managed by CSC. Under the new contract with CSC, some PDL expenses are no longer itemized and Mercer could not include them in the calculation as had been done in previous analyses.

imperfections. If the data or information are inaccurate or incomplete, our findings and conclusions may need to be revised.

All estimates are based upon the information available at a point in time, and are subject to unforeseen and random events. Therefore, any projection must be interpreted as having a likely range of variability from the estimate. Any estimate or projection may not be used or relied upon by any other party or for any other purpose than for which it was issued by Mercer. Mercer is not responsible for the consequences of any unauthorized use.

APPENDIX A

Exhibits for Assessment of Beneficiaries' Access to Preferred Drug List Program Medications

Exhibit 1 – Top 10 PDL Drug Categories by Count of Beneficiaries Who Reverted to Non Preferred Drug

PDL Therapeutic Drug Category	Count of Beneficiaries with Continuous Eligibility who Reverted to Non Preferred	Total Beneficiaries with Continuous Eligibility	% of Continuously Eligible Beneficiaries
Neuropathic pain	2,997	64,206	4.7%
Analgesics, narcotic injectable	405	184,212	0.2%
Proton pump inhibitors	349	73,544	0.5%
Skeletal muscle relaxants	295	55,891	0.5%
Analgesics, narcotics long	251	11,917	2.1%
Antihistamines, minimally sedating	212	220,074	0.1%
Hypoglycemics, insulin and related agents	210	16,255	1.3%
COPD agents	188	12,831	1.5%
Lipotropics, other	176	6,701	2.6%
Glucocorticoids, inhaled	138	68,342	0.2%
Total for Top 10 PDL Categories	**5,221**	**713,973**	**0.7%**
Total for All PDL Categories	**6,073**	**2,365,138**	**0.3%**

Exhibit 2 – Top 10 PDL Drug Categories by Total Beneficiary Count Who Had Prescription Claim Payment Denied and No Subsequent Paid Claims

PDL Therapeutic Drug Category	Count of Continuously Eligible Beneficiaries with a Denied Claim Payment and No Subsequent Claims	Total Beneficiaries with Continuous Eligibility	% of Continuously Eligible Beneficiaries
Proton pump inhibitors	5,357	75,173	7.1%
Bronchodilators, beta agonist	4,670	175,948	2.7%
Neuropathic pain	4,297	65,732	6.5%
Skeletal muscle relaxants	4,261	57,503	7.4%
Antihistamines, minimally sedating	3,446	232,968	1.5%
Intranasal rhinitis agents	3,354	103,569	3.2%
Analgesics, narcotics long	3,288	12,494	26.3%
Acne agents, topical	2,677	19,880	13.5%
Lipotropics, other	2,574	7,338	35.1%
Steroids, topical medium	2,198	89,435	2.5%
Total for Top 10 PDL Categories	**36,122**	**840,040**	**4.3%**
Total for All PDL Categories	**73,118**	**2,963,631**	**2.5%**

Exhibit 3 - Top 10 PDL Drug Categories by Percentage Point Increase in Compliance

PDL Therapeutic Drug Category	Preferred % SFY 2013	Preferred % SFY 2014	Percentage Point Difference Between SFY 2013 and SFY 2014
PAH agents, injectable	59.5%	100.0%	40.5%
Hypoglycemics, SGLT2	0%	28.6%	28.6%
Growth hormone	84.5%	94.7%	10.2%
Anticonvulsants	91.5%	99.8%	8.3%
Antipsoriatics, topical	78.9%	85.7%	6.8%
Pancreatic enzymes	91.2%	95.3%	4.1%
Bone resorption suppression and related agents	89.7%	93.6%	3.9%
Lipotropics, statins	90.8%	94.2%	3.4%
Intranasal rhinitis agents	92.4%	95.6%	3.2%
Antiarrhythmics oral	87.2%	90.2%	3.0%
Total Compliance for All PDL Categories	**96.5%**	**95.9%**	**-0.6%**

Exhibit 4 - Top 10 PDL Drug Categories by Percentage Point Decrease in Compliance

PDL Therapeutic Drug Category	Preferred % SFY 2013	Preferred % SFY 2014	Percentage Point Difference between SFY 2013 and SFY 2014
PAH agents, oral and inhaled	100.0%	60.0%	-40.0%
Hepatitis C agents	93.4%	71.6%	-21.8%
Multiple sclerosis agents	77.8%	61.0%	-16.8%
Ulcerative colitis agents	91.5%	83.1%	-8.4%
Irritable bowel syndrome	92.4%	84.2%	-8.2%
Opiate dependence treatments	87.2%	80.1%	-7.1%
Analgesics, narcotics long	74.2%	68.4%	-5.8%
Hypoglycemics, incretin mimetics/enhancers	87.4%	82.6%	-4.8%
Lipotropics, other	81.1%	77.2%	-3.9%
H. pylori treatment	88.9%	85.1%	-3.8%
Total Compliance for All PDL Categories	**96.5%**	**95.9%**	**-0.6%**

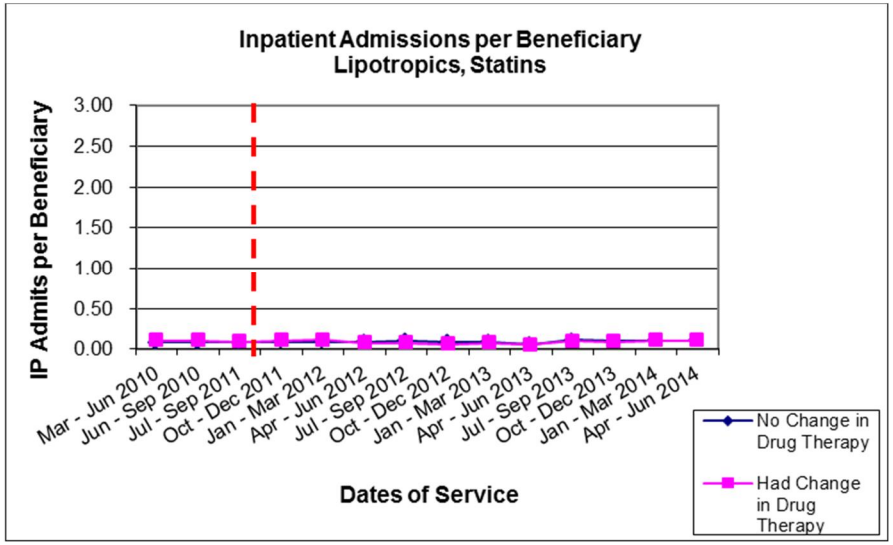
Exhibit 5 – Top 10 PDL Categories by PDL Prior Authorization Requests

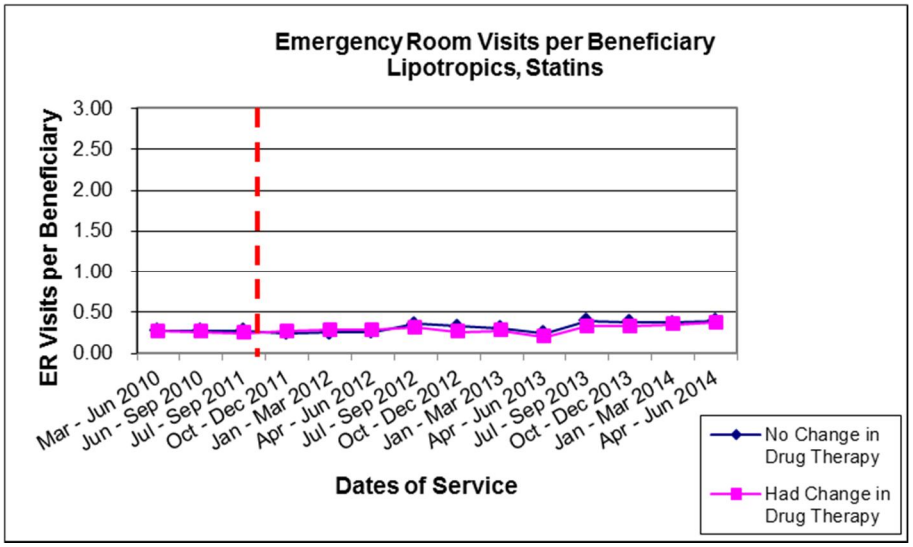
PDL Therapeutic Drug Category	PDL Prior Authorization Requests	Approved	Denied	Approval %	Denial %
Macrolides/ketolides	181,650	181,642	8	100.0%	0.0%
Antipsychotics	79,903	79,903	0	100.0%	0.0%
NSAIDS	77,305	77,082	223	99.7%	0.3%
Proton pump inhibitors	64,629	63,404	1,225	98.1%	1.9%
Analgesics, narcotic injectable	40,057	39,487	570	98.6%	1.4%
Neuropathic pain	32,942	32,729	213	99.4%	0.6%
Antifungals, oral	20,079	20,035	44	99.8%	0.2%
Antidepressants, other	16,031	16,008	23	99.9%	0.1%
Skeletal muscle relaxants	12,201	11,650	551	95.5%	4.5%
Anticoagulants	11,089	11,064	25	99.8%	0.2%
Total for Top 10 PDL Categories	**535,886**	**533,004**	**2,882**	**99.5%**	**0.5%**
Total for All PDL Categories	**632,502**	**625,117**	**7,385**	**98.8%**	**1.2%**

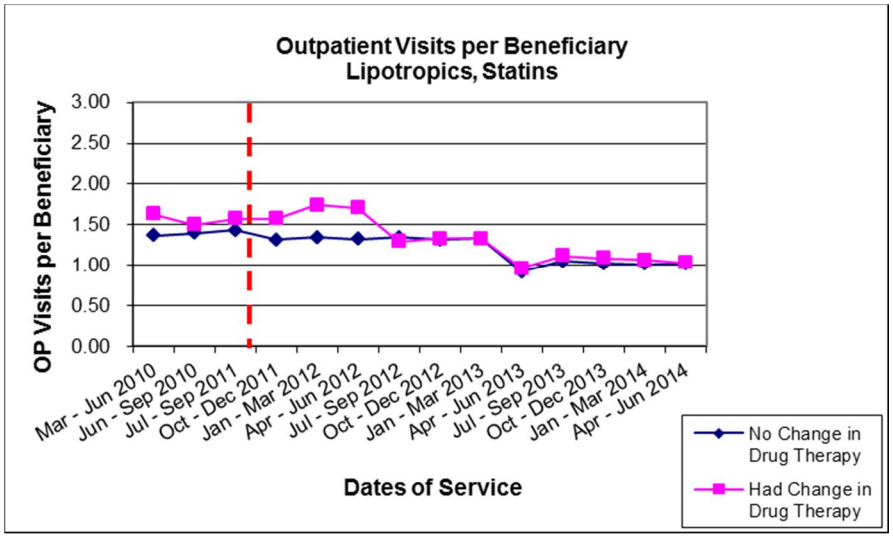
APPENDIX B

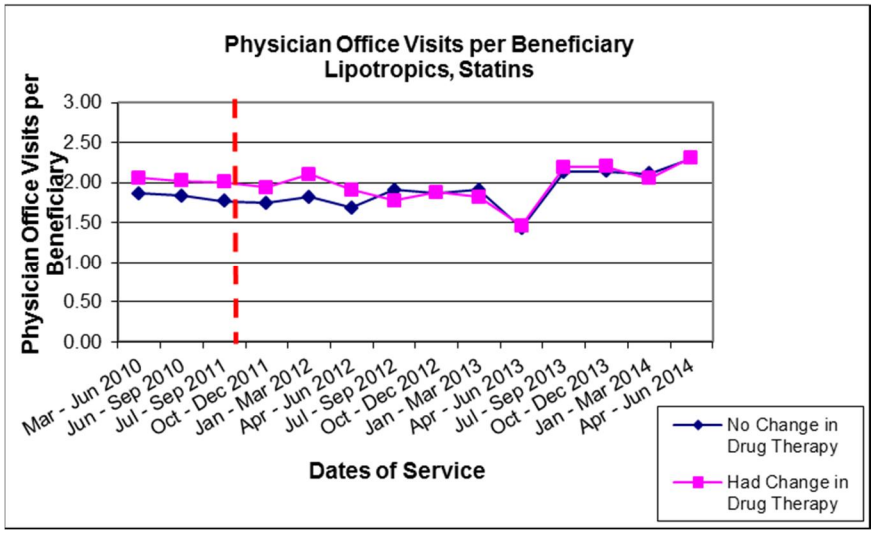
Graphs of Medical Services Utilization

Lipotropics, Statins

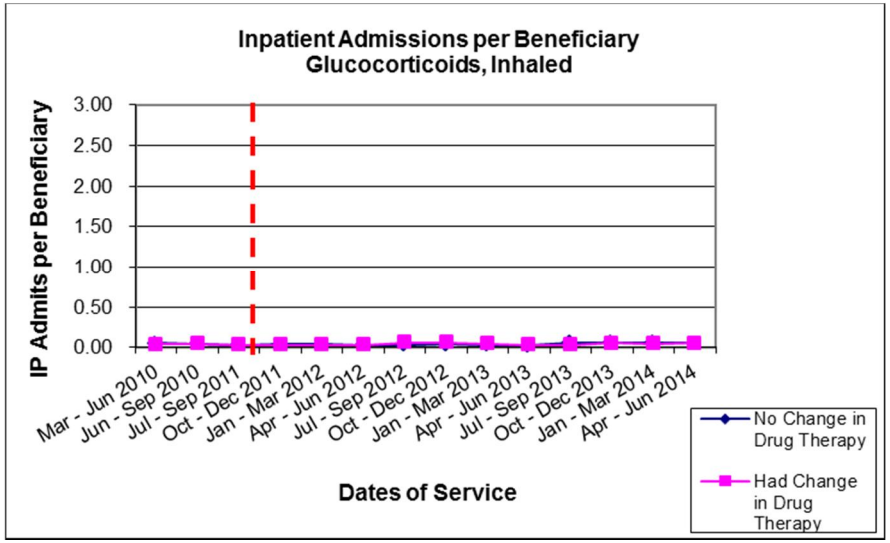


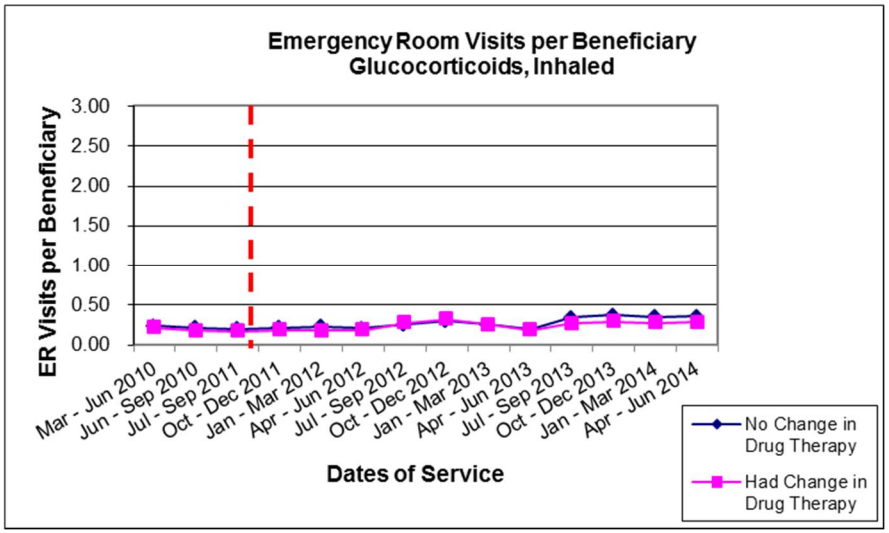


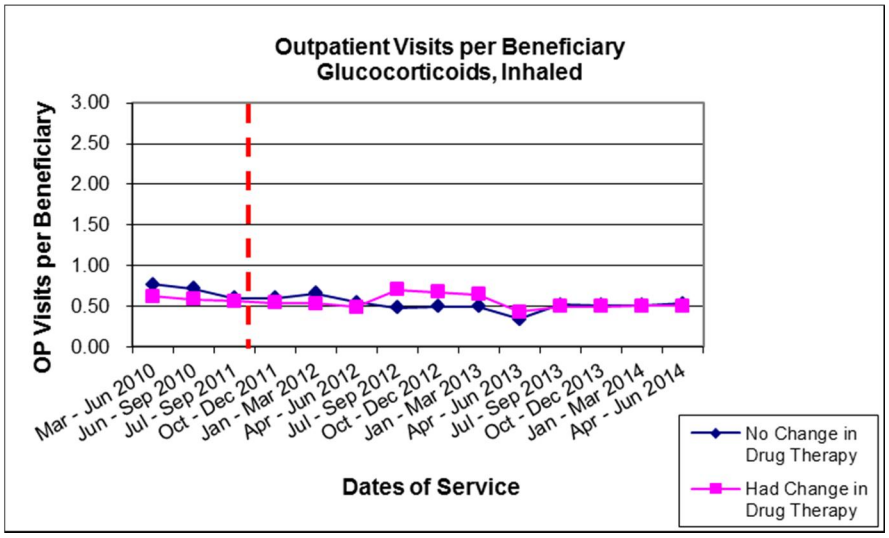


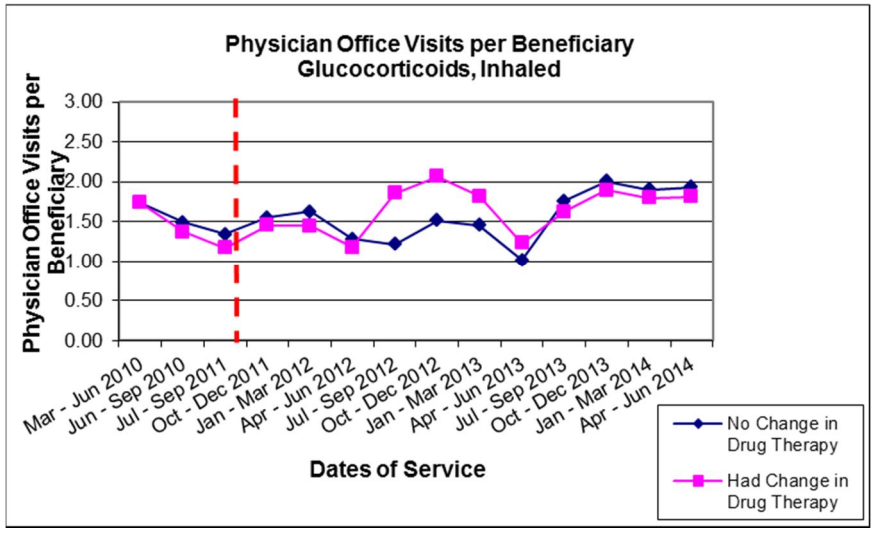


Glucocorticoids, Inhaled

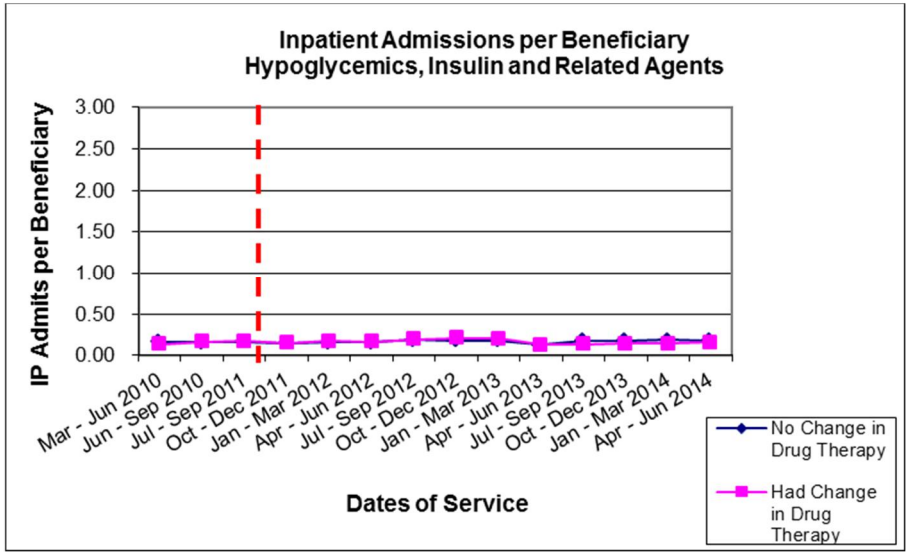


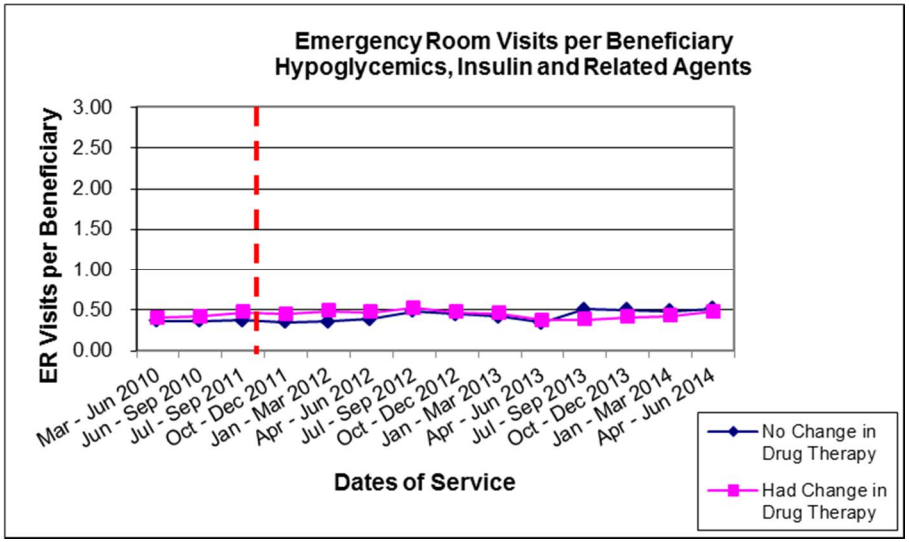


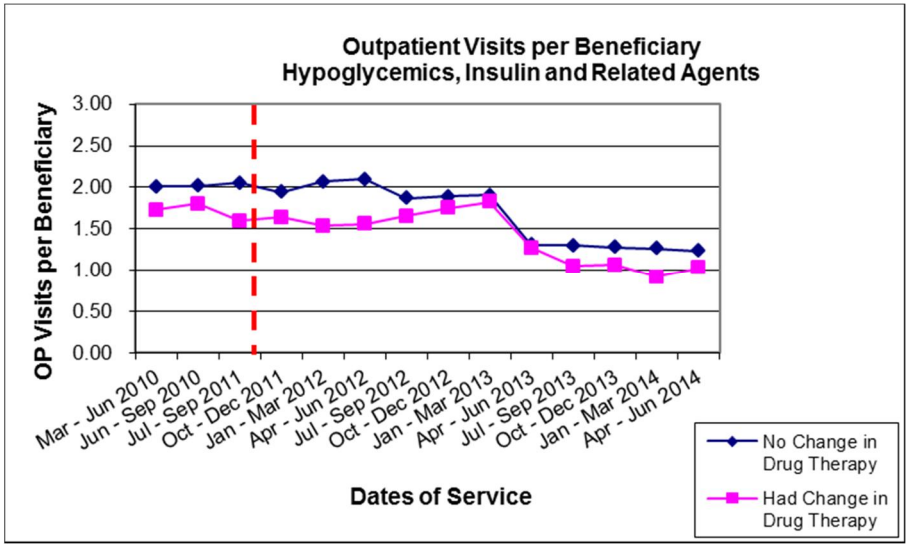


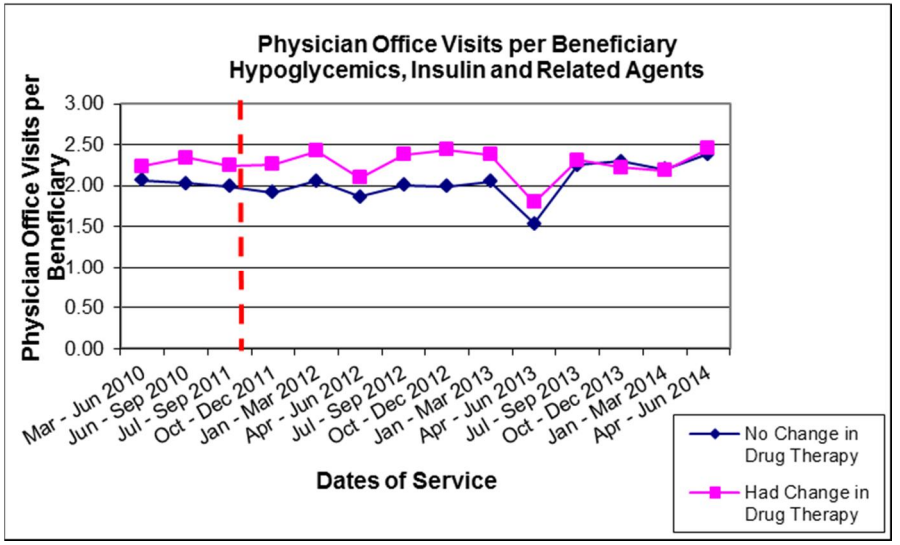


Hypoglycemics, Insulin and Related Agents





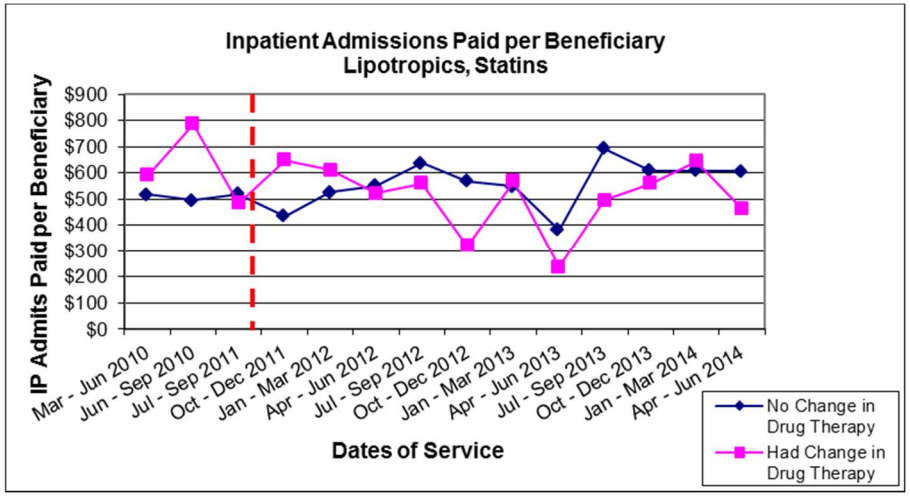


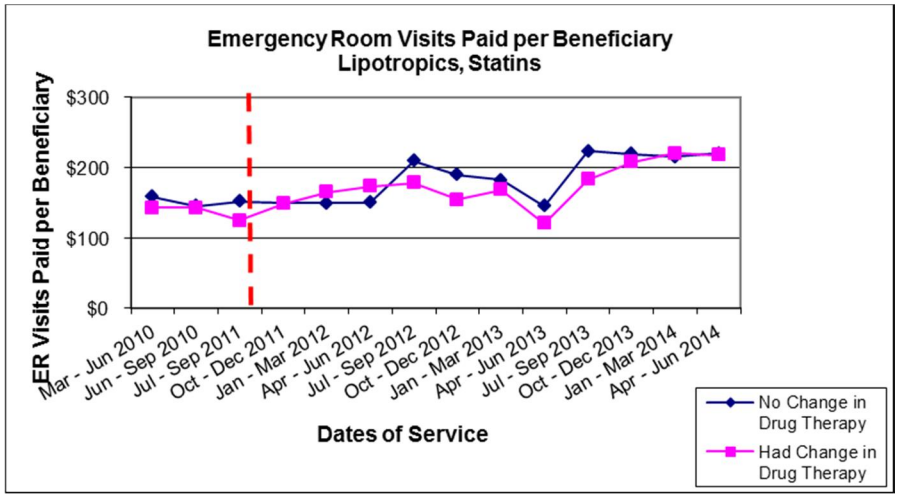


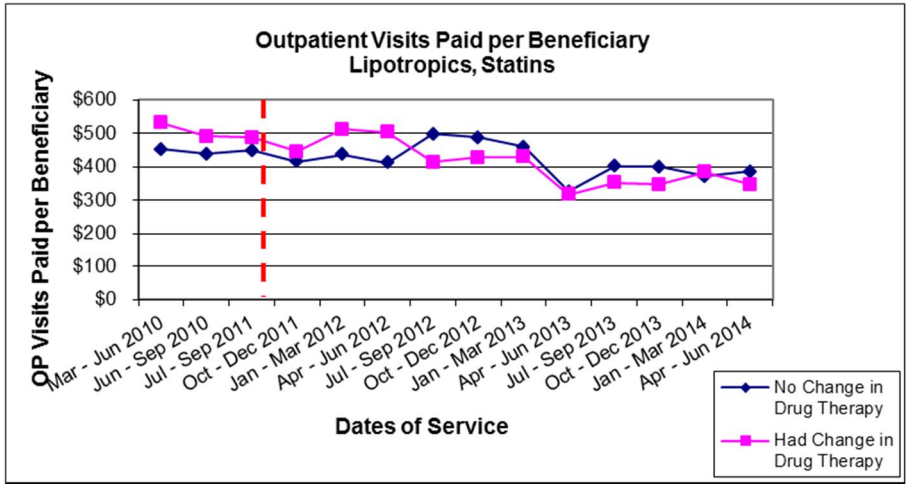
APPENDIX C

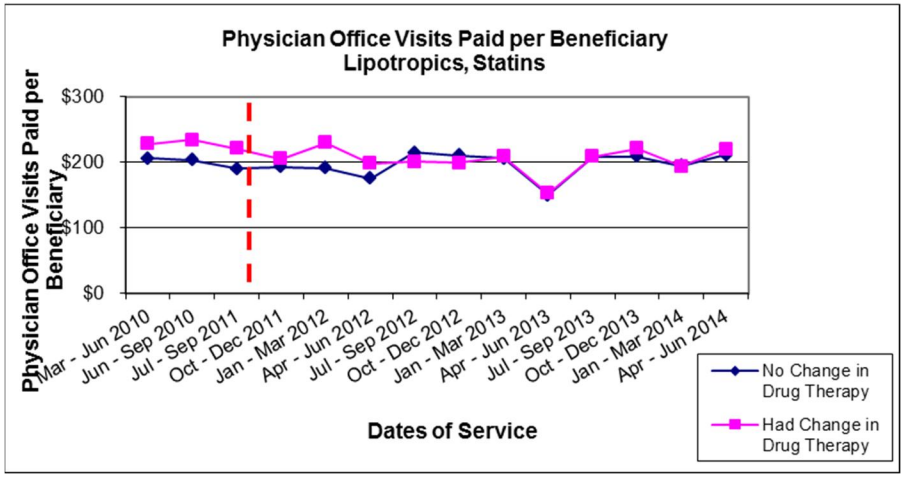
Graphs of Medical Services Expenditures

Lipotropics, Statins

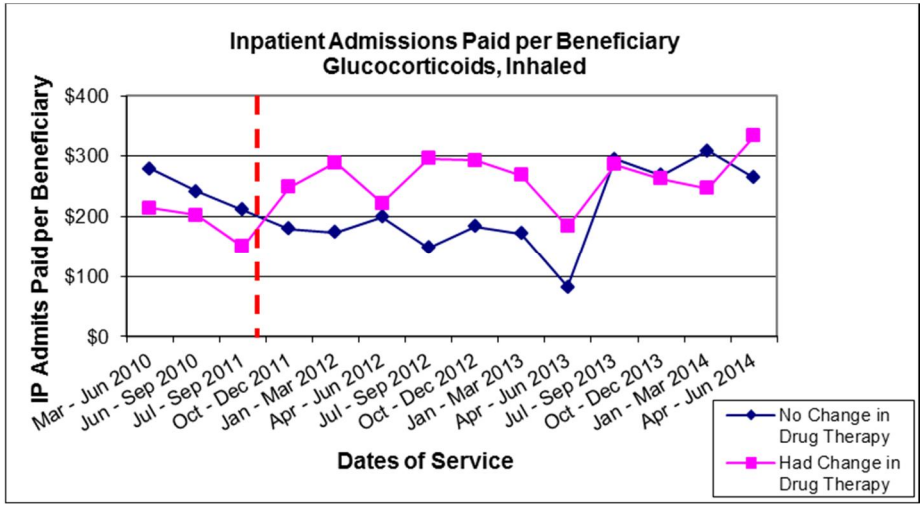


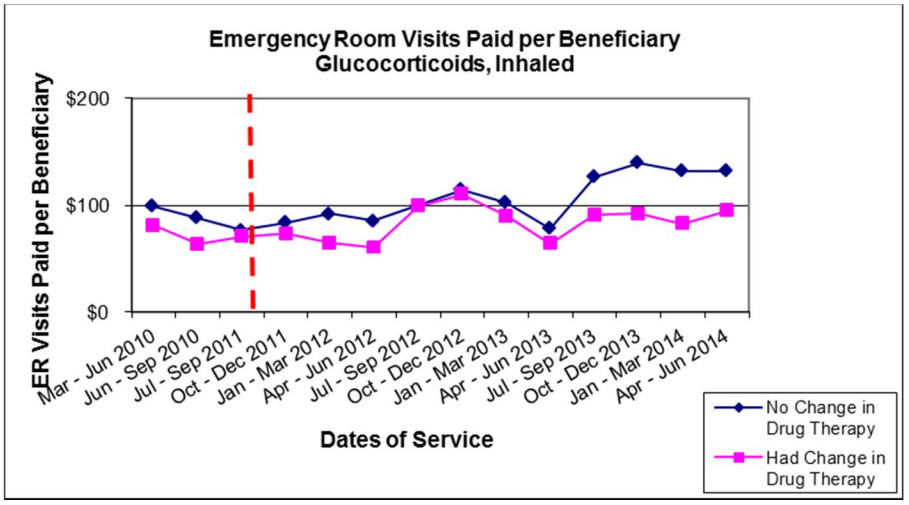


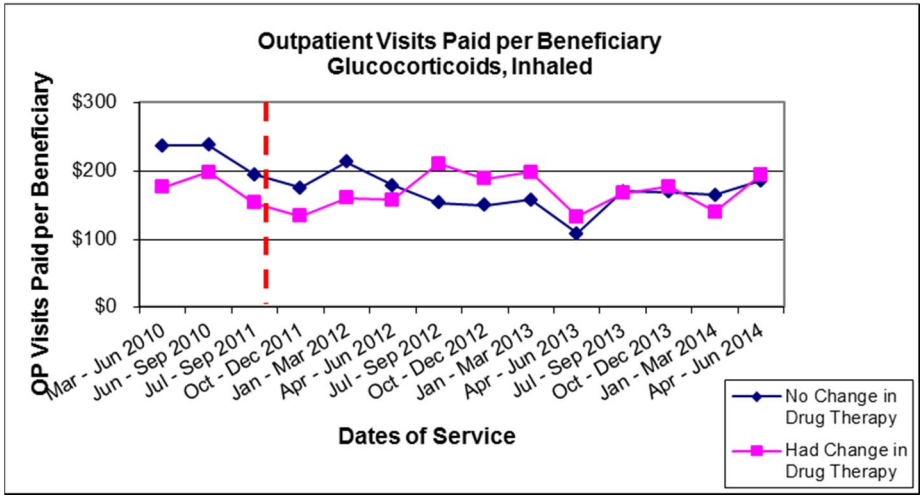


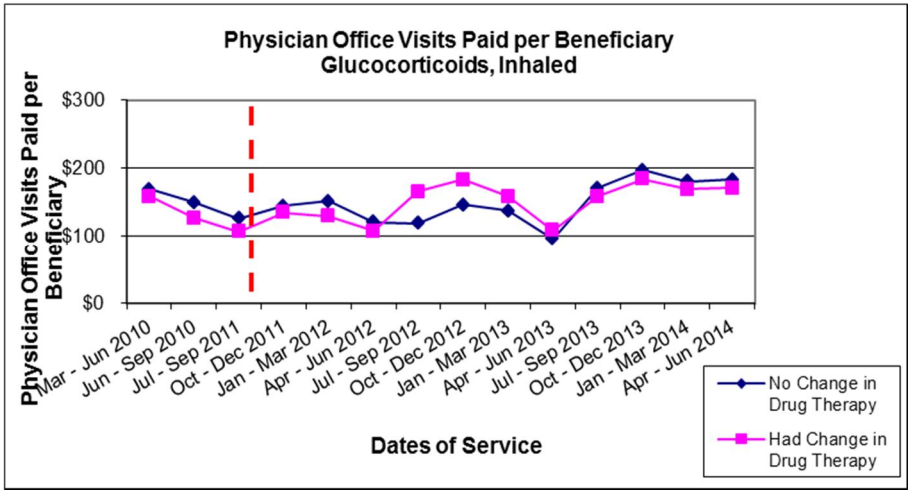


Glucocorticoids, Inhaled

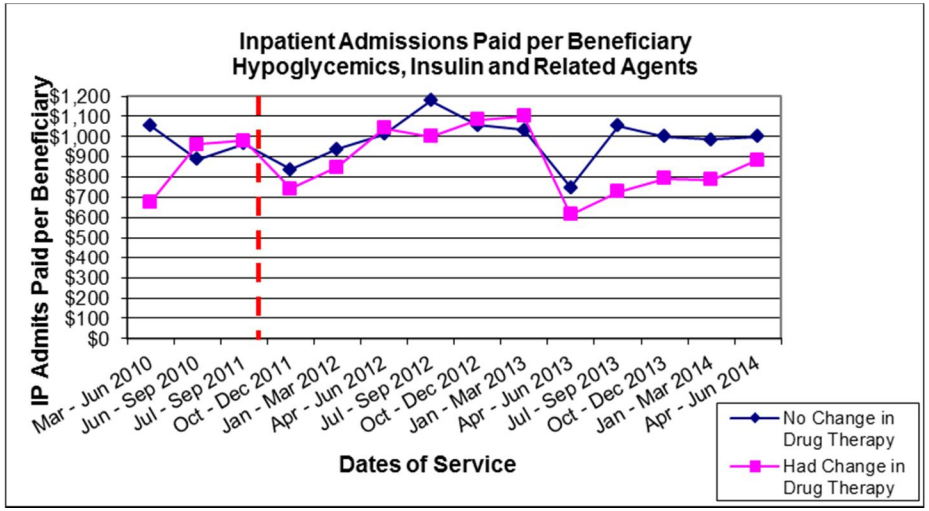


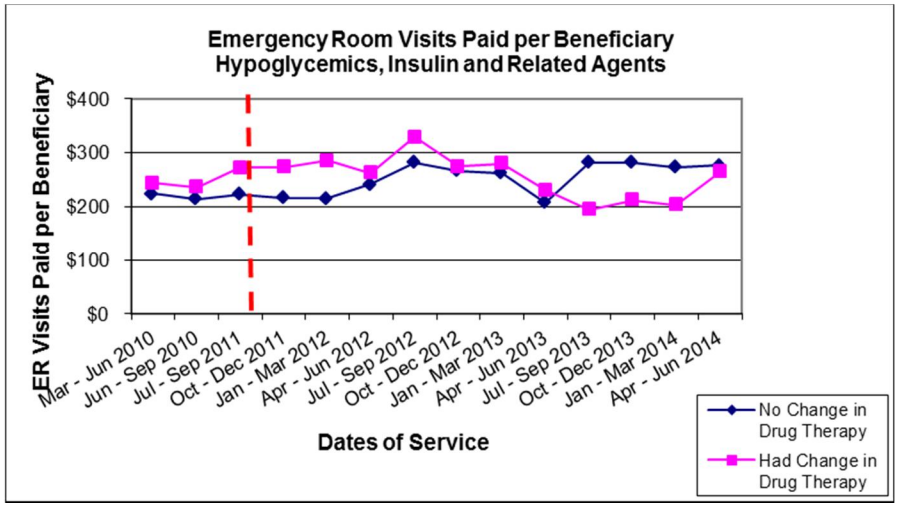


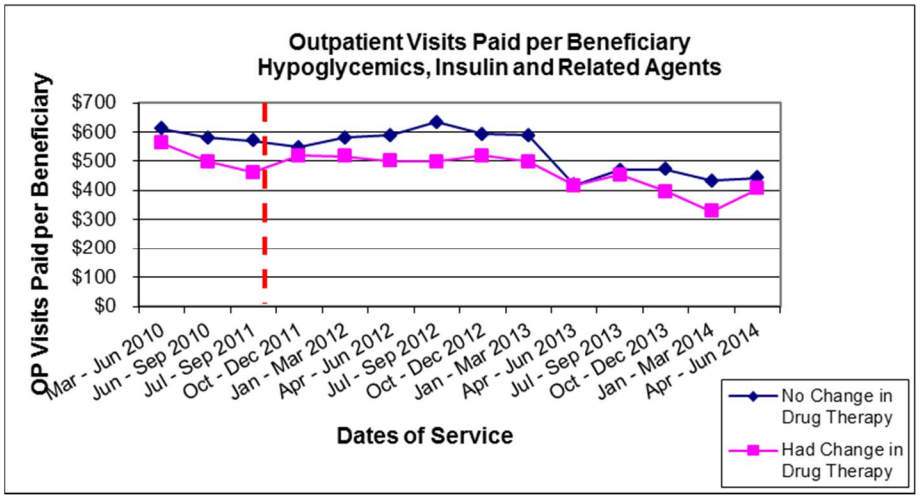


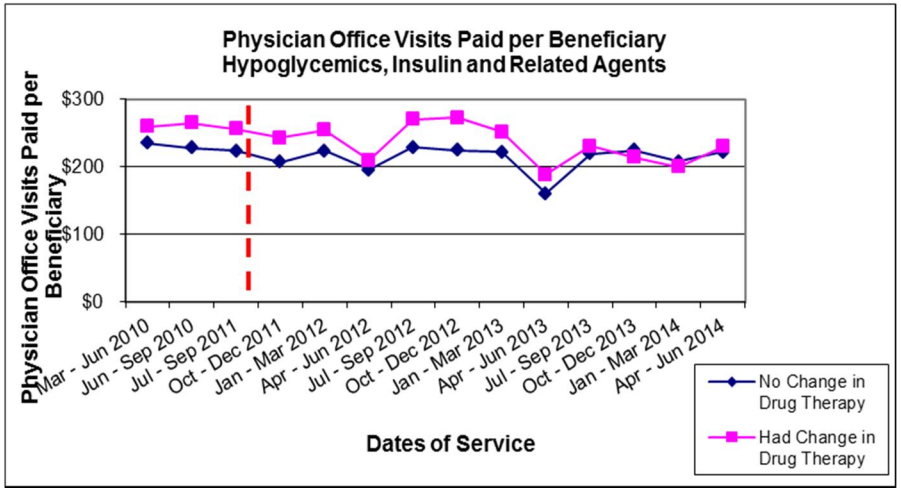


Hypoglycemics, Insulin and Related Agents









Mercer (US) Inc.
333 South 7th Street
Suite 1400
Minneapolis MN 55402
+1 612 642 8600