

# City of Alexandria, Virginia

## MEMORANDUM

DATE: APRIL 18, 2005

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER *J*

SUBJECT: BUDGET MEMO # 54 : THE FEASIBILITY OF THE CITY IMPLEMENTING PRESCRIPTION DRUG BENEFITS SIMILAR TO MONTGOMERY COUNTY

This memorandum responds to Councilmember Gaines' request for information about the feasibility of Alexandria City implementing a prescription drug plan similar to the Montgomery County model.

Attachment 1 (provided by Montgomery County staff) reflects recent actions, including carving out prescription coverage from their insurance carriers (other than Kaiser Permanente). The cost savings for calendar year 2004 for 10,451 covered employees in non-Kaiser Permanente plans were approximately \$1.3 million and the estimated cost savings for calendar year 2005 are \$1.2 million. Montgomery County does not carve out prescription drugs from the Kaiser Permanente plan. They have determined it to be more cost effective to have Kaiser provide the prescription coverage as part of their insurance benefit.

1,071, or approximately 49%, of all City of Alexandria employees (2,200) who choose health insurance and are living or working within the service area participate in the Kaiser plan. The managed care options (both Kaiser and Optimum Choice) available in the City's plans seek to control prescription costs through negotiations with drug companies and through a three tier prescription drug plan with employee co-pays that range from \$10 to \$35 for drugs that are not mail ordered. Also, mail order prescription co-pays for maintenance drugs range from \$8 to \$18 for a 30 day supply and \$20 to \$70 for a 90-day supply. The savings that Montgomery County's prescription drug plan generated was mainly in conjunction with their Carefirst and Optimum Choice Point of Service (POS) health insurance plans. As a result, it would appear that (as noted by Montgomery County) the "embedded" prescription drug arrangements like the City has with Kaiser and Optimum Choice are more cost effective than a separate prescription drug plan.

We have asked the City Attorney to provide you with more information about any legal restrictions imposed in this area. He will provide an opinion at a later date, but we wanted to provide you this policy and fiscal information as soon as possible.

Attachment

cc: Ignacio Pessoa, City Attorney

**Recent actions taken by Montgomery County Government designed to contain rising medical and prescription costs**  
*(for calendar year 2004 initiatives, savings are annual estimates based on what calendar year 2004 costs would have been absent these initiatives)*

**2004 initiatives implemented**

**Medical Plan Funding Arrangements (effective 1/1/2004):**

Changed the funding arrangements for indemnity and POS plans from Minimum Premium to Self-insured =  
**\$272,630 annual savings due to lower fixed costs**

Changed the funding arrangement for HMO plan (Optimum Choice) from Fully-insured to Self-insured =  
**\$646,500 annual savings due to lower fixed costs**

**Rx drugs (current stand-alone plan with 600 participants) :**

Changed carriers effective 3/1/2004 via a partnering effort with the MCPS (calculated at a 2.5% savings) =  
**\$18,750 (annualized savings equal to \$22,500)**  
*Please note that this initiative provides a cost efficient platform for the 2005 initiative of carving prescription coverage from medical plans in cases where the County can save over current "embedded" arrangements*

Provided indemnity plan retirees with a network drug discount card effective 4/1/2004 (calculated at a minimum 15% savings) =  
**\$400,500 (annualized savings equal to \$534,000)**

**Total 2004 estimated savings due to 2004 initiatives = \$1,348,380**

**2005 initiatives implemented**

**Carving out prescription coverage from the Carefirst POS and Optimum Choice medical plans and contracting directly with a prescription drug vendor through an interagency RFP:**

*Based on 2004 estimated expenditures, savings are estimated at \$1.2M.*

Attachment 1, continued

**Adding a lower cost point-of-service plan to the County's medical plan offerings:**

*This plan will be approximately 7% less costly than the current point-of service plan, which will continue to be offered*

**Other initiatives planned to control rising prescription costs**

**Promote the use of generic over brand, where available**

**Where generic is not available, promote the use of cost effective brands**

**Promote the use of mail order Rx programs over retail for maintenance medications**

**Examine opportunities for providing County residents with Rx discount programs  
(Implemented 12/2004)**

**Continued use of cooperative procurement efforts across the 5 County agencies;  
perhaps looking at expanding such effort to include other jurisdictions, as well as  
private companies**