



Pension & Health Benefits Committee

Agenda Item 6b

March 14, 2023

Item Name: Pharmacy Benefits Manager Contract

Program: Health Benefits

Item Type: Action

Executive Summary

California Public Employees' Retirement System (CalPERS) maintains an existing contract to administer pharmacy benefits with OptumRx that will end December 31, 2024. This item requests the Board to approve extending the Pharmacy Benefit Manager (PBM) contract with OptumRx for one additional year to run through December 31, 2025, and discusses the benefits and risks of such action.

Strategic Plan

This item supports CalPERS' 2022-27 Strategic Goal: Exceptional Health Care: Ensure our members have access to equitable, high-quality, affordable health care.

Background

CalPERS entered a five-year contract with OptumRx to administer pharmacy benefits beginning January 1, 2017, through December 31, 2021. In this agreement, CalPERS compensated OptumRx largely by acquisition price spread and increasing rebates. In 2020, CalPERS transitioned to an innovative acquisition cost-based contract so that CalPERS could compensate OptumRx for its costs associated with procuring and dispensing mail order and specialty drugs, rather than on the margins they profit from through drug manufacturer rebates and acquisition price spread.

The transition to the acquisition cost-based contract included a one-year extension and an option for a second year at CalPERS' discretion. In 2022, CalPERS extended the contract with OptumRx for two additional years, ending December 31, 2024. This extension further improved our drug pricing, increased drug pricing transparency, and enabled CalPERS to provide continuity of pharmaceutical benefit management services during the unstable period caused by the COVID-19 pandemic.

Analysis

Under the current acquisition cost-based contract, CalPERS worked to achieve best in market pricing, which will continue through to this contract extension.

There are two options available:

- Immediately begin solicitation activities for another PBM;
- Extend the current contract for an additional year through December 31, 2025.

CalPERS has long sought to reduce its pharmaceutical spend through a variety of innovative programs. To best understand the advantages that our current acquisition cost-based contract has, CalPERS needs a year-over-year comparison of the true cost of each drug reflected in the pricing before it can have the ability to tailor its formulary and cost-savings strategies. Further, the previous contract extension proposal included a key provision to audit the acquisition price of mail order and specialty drugs, which is currently underway.

Lastly, CalPERS completed its annual market check for contractual financial guarantees for CalPERS Basic and Medicare plans with a favorable outcome to CalPERS. The market check resulted in OptumRx reducing their pricing by an additional \$17.1 million.

Budget and Fiscal Impacts

The administrative services fees for the one-year contract extension beginning January 1, 2025, through December 31, 2025, will be approximately \$15 million. The next Finance & Administrative Committee (FAC) Semi-Annual Prospective Report will reflect the change to the overall cost of the contract.

Benefits and Risks

The benefit of pursuing a one-year contract extension would allow CalPERS to gain a better valuation of market pricing and current pharmacy savings programs. Additionally, this would give CalPERS the ability to further validate the existing acquisition cost-based model without committing to a new long-term agreement. Lastly, negotiating a one-year contract extension would improve current pricing and ensure the continuity of pharmaceutical benefit management services for members. The risks of not pursuing a one-year contract extension are potentially less-favorable pricing and the potential disruption that comes with switching vendors.

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