



Agenda Item 16

February 20, 2013

ITEM NAME: 2012 Health Benefit Changes – Update on Impacts

PROGRAM: Health Benefits

ITEM TYPE: Information

EXECUTIVE SUMMARY

Blue Shield and CVS Caremark's preliminary analyses of the two pharmacy benefit changes implemented in 2012 found the savings generated are less than anticipated. So far, the two pharmacy benefit changes generated a preliminary total savings of \$15.6 million, with \$12.2 million from Blue Shield and \$3.4 million from the Preferred Provider Organization (PPO).

In June 2011, Blue Shield estimated its savings to be \$13.1 million, and Medco estimated PPO savings to be \$26.4 million. PPO savings may be higher than reported, but currently hidden due to coding issues resulting from the transition of Pharmacy Benefit Management (PBM) services from Medco to CVS Caremark on January 1, 2012.

STRATEGIC PLAN

This item supports CalPERS Strategic Goal A, Improve long-term health benefit sustainability by implementing new approaches and expanding efforts already proven to reduce health care costs and improve health outcomes.

BACKGROUND

Consistent with a focus on affordable, high quality health care, the CalPERS Health Benefits Program implemented two pharmacy benefit modifications in 2012. These benefits were designed to encourage members and providers to use generic medications.

- a) A "member pays the difference" requirement when a doctor prescribes a drug as Dispense as Written, and for members who select brand name drugs when a Federal Drug Administration approved generic equivalent is available.
- b) An increase in the prescription drug copay of \$5 at retail for brand medications, and the standardization of 90-day mail order prescriptions to double the copay of a 30-day retail prescription.

ANALYSIS

Pharmacy Benefit Changes – Initial Analysis

Analyses from CVS Caremark and Blue Shield illustrate the preliminary impacts of the 2012 pharmacy benefit modifications. It appears the pharmacy benefit changes are encouraging members to increase their use of generic prescription drugs.

The proportion of generic prescriptions increased significantly after January 2012. From July 2011 to October 2012, the percentage of generic prescriptions for Blue Shield plans increased from 79 percent to 84 percent; from July 2011 to November 2012, PPO plans increased from 71 percent to 77 percent. Additionally, the dispensing rates for multi-source brand (MSDR) medications continued to decline over the same time periods. The MSDR for Blue Shield plans fell from 1.3 percent to 1.0 percent while PPO plans decreased from 1.6 percent to about 1.2 percent.

The higher generic dispensing rates coupled with lower MSDRs show that members are switching from brand medications and using more generic medications. These behavior changes resulted in the following preliminary savings estimates for Blue Shield and the PPO plans:

- Overall, the two pharmacy benefit changes generated a preliminary total of \$15,644,200 in savings. The total savings include \$3,446,200 in the PPOs from January to November 2012, and \$12,198,000 in Blue Shield from January to December 2012.
- The “member pays the difference” benefit change generated a preliminary total of \$3,999,200 in savings. The savings include \$633,400 in the PPOs from January to November 2012, and \$3,365,800 in Blue Shield from January to December 2012.
- The “brand co-pay increase” benefit change generated a preliminary total of \$11,645,000 in savings. The savings include \$2,812,800 in the PPOs from January to November 2012, and \$8,832,200 in Blue Shield from January to December 2012.

PPO savings may be higher than reported, but currently hidden due to coding issues resulting from the transition of PBM services from Medco to CVS Caremark on January 1, 2012. Staff are investigating this issue and potential workarounds, and will report on final savings (including Kaiser's savings) when complete data is available.

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