



## Agenda Item 5

November 19, 2013

**ITEM NAME:** Extension of Pharmacy Benefit Program Manager Contract

**PROGRAM:** Health Benefits

**ITEM TYPE:** Action

### **RECOMMENDATION**

Extend the existing Caremark PCS Health, L.L.C. (CVS Caremark) Pharmacy Benefit Manager (PBM) contract to December 31, 2016.

### **EXECUTIVE SUMMARY**

The purpose of this agenda item is to request approval to extend the existing PBM contract under the provisions of Board Resolution No. 92-04B.

### **STRATEGIC PLAN**

This agenda item supports the objective "Ensure high-quality, accessible and affordable health benefits" in Strategic Goal A, "Improve long-term pension and health benefit sustainability."

### **BACKGROUND**

The California Public Employees' Retirement System (CalPERS) began contracting with CVS Caremark in 2012 to provide PBM services to CalPERS Preferred Provider Organization (PPO) health plans. The contract is structured as a three-year contract with an option to extend for two additional years. The initial three-year term expires on December 31, 2014. Beginning January 2014, CVS Caremark will also assume PBM responsibility for the new Health Maintenance Organization (HMO) Basic health plans, including Anthem Blue Cross, Health Net of California, UnitedHealthcare, and Sharp Health Plan, as well as, Sharp Health Plan's Medicare Supplement plan.

In January 2012, CVS Caremark assumed responsibility as the PBM for CalPERS PPO health plans, which serve approximately 350,000 members nationwide. Implementation and testing activities took nearly one year. At the same time, CalPERS implemented benefit changes, including member pays the difference on the cost of brand drugs when a generic equivalent is available and fifty-percent coinsurance on erectile dysfunction drugs. In 2013, CVS Caremark implemented the Employer Group Waiver Plan (EGWP) for more than 100,000 members in the Medicare PPO health plans. CVS Caremark and CalPERS staff worked to minimize member disruptions with the EGWP transition, ensuring the preferred drug list and utilization management criteria (prior authorization, step therapy, or quantity limit) closely mirrored with the current basic plan, mitigating network disruption by proactive member notification and strengthening the coordination of Medicare Part B benefits.

CalPERS has worked in partnership with CVS Caremark to ensure our program complies with Centers for Medicare and Medicaid Services EGWP requirements.

### **ANALYSIS**

Benefit Programs Policy and Planning (BPPP) staff and management are fully engaged in mission-critical activities related to health benefit plans offered by CalPERS. Extending the CVS Caremark contract for two additional years will allow CalPERS to effectively carry out the program and administrative functions of the BPPP Group and provide quality PBM services at a reasonable cost.

As part of ongoing innovation to control the rising cost of healthcare, on April 17, 2013, the CalPERS Board of Administration awarded HMO contracts to five HMO health carriers beginning January 1, 2014, which included carving-out the pharmacy portion of the health benefit offerings for Anthem Blue Cross, Health Net, UnitedHealthcare, and Sharp Health Plan. As a result, CVS Caremark was awarded the PBM responsibility for four of the six HMOs; Kaiser Permanente and Blue Shield of California retain pharmacy within their plans.

CalPERS, CVS Caremark, and the HMOs have been working diligently on implementation activities since the contracts were awarded in April 2013. Throughout the implementation, CVS Caremark has been engaged with CalPERS, the State Controller's Office and HMO partners to develop interfaces and test claims data files and data reporting requirements. Member communications, microsites and Evidence of Coverage booklets have already been developed. Additionally, pre and post implementation audits and existing contract requirements such as performance guarantees will allow CalPERS to effectively monitor the performance of CVS Caremark.

In 2014, CVS Caremark will implement a Specialty Preferred Drug Strategy for Rheumatoid Arthritis, Multiple Sclerosis, and Growth Hormone, that encourages clinically appropriate prescribing, lowers net cost without sacrificing clinical outcomes and provides significant savings to both CalPERS and members.

Establishing a new program requires a considerable amount of time and effort. As with any program, there have been challenges and some member disruption. CVS Caremark and CalPERS have been working to establish and improve the programs for more than 360,000 PPO and HMO members. If the contract extension is not approved, staff would need to release a PBM Request for Proposal (RFP). The RFP and potential transition to a new vendor would take a minimum of 18 months to fully execute. In this circumstance, staff would request a one-year extension to allow time for the procurement and implementation phases. However, based on the factors described above, staff recommend the approval of a two-year contract extension in order to best serve the interests of our members and their families.

If the two year extension is approved, staff will initiate development of the RFP in late 2014, with an anticipated contract award in late 2015.

### **BUDGET AND FISCAL IMPACTS**

Based on the current Administrative Services Fees, including EGWP and HMO services, extending the contract for two years would cost approximately \$29.5 million.

If CalPERS is required to procure a new PBM, the costs would be unknown, and may not be less than current fees for CVS Caremark. There is a potential for increased Administrative Services Fees, which would result in higher PPO and HMO premiums.

### **BENEFITS/RISKS**

If this recommendation for a two-year contract extension *is* approved:

- There would be no member disruption.
- Staff and CVS Caremark can focus on improving existing programs and providing continuity of services.
- Staff would not need to begin the PBM procurement process.
- CVS Caremark will continue to provide quality benefits at a reasonable cost.

If this recommendation for a two-year contract extension is *not* approved:

- Staff would need to immediately begin the PBM procurement process.
- Members who have become familiar with CVS Caremark operations may be adversely impacted.
- The new health plans that are using the current PBM would potentially need to change systems and interfaces.
- Potential increase in Administrative Services Fees as part of the RFP process, resulting in higher employer and employee contributions.

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