



Agenda Item 7

December 17, 2013

ITEM NAME: Specialty Drug Cost Management

PROGRAM: Health Benefits

ITEM TYPE: Information

EXECUTIVE SUMMARY

Despite the high cost of specialty drugs, the California Public Employees' Retirement System (CalPERS) health plans currently charge the same copayment for all approved brand name drugs, regardless of cost. This generates little incentive for members and providers to try less expensive therapies first, and results in a significantly lower member cost share for specialty drugs – just 1 percent on average compared to 12 percent for non-specialty brand name and 24 percent for generic prescription drugs.

In an effort to encourage appropriate use of less expensive drug therapies, staff is exploring cost mitigation strategies for 2015 for health plans whose pharmacy benefit is managed by CVS Caremark. Some possible strategies include prior authorization for specialty drugs under medical management; improved clinical support for selected rare, chronic conditions; copayment incentives for choosing lower-cost sites of care; a fourth copayment tier for specialty drugs; the adoption of coinsurance instead of copayments for specialty drugs; and, increased cost transparency. The review will include an analysis of current industry practice for specialty drug benefits, as well as, solicitation of constituent feedback in order to provide an informed set of options for the Pension and Health Benefits Committee to consider during rate negotiations.

STRATEGIC PLAN

This agenda item supports Goal A, "Improve long-term pension and health benefit sustainability," by ensuring cost effective prescription drug utilization.

BACKGROUND

As reported to the Pension and Health Benefits Committee in October 2013, specialty drug cost trends from 2009 to 2012 demonstrated a steady increase from \$146 million to \$254 million. Although the number of specialty drug prescriptions represented only 0.49 percent of all prescriptions, specialty drugs accounted for 17.3 percent of total CalPERS drug costs. Specialty drug costs are expected to reach 50 percent of total drug costs by 2018.

The CalPERS member cost share for all prescriptions in 2012 was 13.1 percent, an increase from 12.5 percent in 2009. The CalPERS member cost share for specialty

drugs in 2012 was 0.87 percent, a decrease from 0.92 percent in 2009. In contrast, the 2011 national average member cost share for specialty drugs was 15.3 percent.

In January 2014, we will implement the Board approved Specialty Preferred Drug strategy for growth hormones, rheumatoid arthritis (RA), and multiple sclerosis (MS) in our Preferred Provider Organization (PPO) and new Health Maintenance Organization health plans whose pharmacy benefit is managed by CVS Caremark. Real time, evidence-based protocols and claims history are used for approval, with a 24 month look-back period. Members and prescribers may request medical necessity clinical exception review for non-preferred drugs. Non-preferred drugs are covered if the member qualifies for a clinical exception or has tried preferred drugs. Grandfathering will be adopted for RA and MS patients.

ANALYSIS

For our PPO population, members can currently obtain specialty drugs either from CVS Caremark Specialty Pharmacy (prescription benefit) or from physicians (medical benefit). Specialty drug claims obtained through the pharmacy are adjudicated and paid through CVS Caremark. Specialty drugs that are administered by physicians, in infusion centers or other outpatient settings, are paid by Anthem Blue Cross. This claims adjudication process is referred to as: specialty pharmacy programs under medical management. In anticipation of the 2015 rate renewal, staff will be examining three sets of methods to reduce specialty drug costs: improved clinical management, benefit design changes, and increased cost transparency.

Potential Clinical Strategies for 2015

- Prior authorization of drugs billed and paid for under the medical benefit. This would avoid costs by ensuring that drug utilization is evidence-based.
- Proactive, whole-person support for individuals with selected rare, chronic conditions through a specialty pharmacy program that provides clinical management, patient counseling, and dispensing of specialty drugs and all related ancillary products.

Potential Benefit Design Strategies for 2015

- Specialty Drug Carve-Out from Medical Benefit: Identification of specialty drugs billed/paid under the medical benefit that could be dispensed by the Pharmacy Benefit Manager.
- Site of Care Alignment: Redirect members on clinician-infused medications to clinically appropriate, cost effective sites of care or dispensing channels. For example, costs are generally lowest for home infusion with a visiting nurse; higher at an ambulatory infusion clinic; and highest at physician offices or outpatient hospital settings.

- Fourth tier copayment or coinsurance benefit which varies by site of care which may incentivize members to seek care in the most appropriate setting.

Potential Cost Transparency Strategy for 2014 (Castlight Pilot)

One member tool that could be instrumental to any specialty pharmacy benefit design changes is the Castlight Health Consumer Tool. In a 2014-15 pilot project, CalPERS PPO members will be able to use Castlight on the Internet to help determine the cost and quality of providers as well as drugs. Castlight has the resources to engage hard-to-reach populations and important member organizations with targeted campaigns to increase awareness of variations in the cost of care to both the member and the health plan.

The tool can actively educate members and prescribers to support compliance with clinically appropriate medications and guide them to more cost-effective options. Castlight is designed to provide targeted outreach to clearly communicate benefit design changes, savings options and prior authorization process for members and prescribers. It is our intent to use the two-year Castlight pilot to support programs the Board might approve, such as a High Performance Generic Step Therapy program or benefit design strategies for specialty drugs.

At the February 2014 Pension and Health Benefits Committee meeting, staff and members of the Castlight team will provide an overview of the Castlight pilot project, along with a demonstration of the Castlight tool.

Next Steps

During the rate setting process in early 2014, staff will provide the analysis of industry practices, share the feedback from our constituents, and provide recommendations for the Board's consideration for the 2015 plan year.

BUDGET AND FISCAL IMPACTS

Not Applicable.

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