



Agenda Item 08

June 17, 2014

ITEM NAME: Potential Prescription Drug Plan Change for 2015

PROGRAM: Health Benefits

ITEM TYPE: Information

EXECUTIVE SUMMARY

In an effort to encourage appropriate use of cost effective drug therapies, staff explored various utilization management strategies for 2015 for the Preferred Provider Organization (PPO) Basic Plans and Health Maintenance Organization (HMO) Basic Plans whose outpatient prescription drug benefit is managed by pharmacy benefit manager (PBM) CVS Caremark. One strategy that was explored was High Performance Generic Step Therapy. Staff projected \$6 million in savings for this strategy. At the request of the Board of Administration, this agenda item explores two modifications to the High Performance Generic Step Therapy proposal: Selective Grandfathering and Full Grandfathering. Savings in 2015 are expected to be reduced to \$1.5M under the Selective Grandfathering option, and there is an anticipated cost in 2015 of \$1.8M under the Full Grandfathering option.

STRATEGIC PLAN

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

BACKGROUND

On April 15, 2014, CalPERS staff presented a proposal to implement the CVS Caremark customized High Performance Generic Step Therapy benefit design. Kaiser and Blue Shield of California, as they do not use CVS Caremark, and Medicare health plans are excluded.

High Performance Generic Step Therapy (HPGST) focuses on specific brand drugs and requires the use of cost effective generic alternative(s) within the same therapeutic class first before certain targeted brands are covered. It encourages clinically appropriate evidence based prescribing by steering members to more cost effective first-line generics. The HPGST program is an important tool to promote the safe, effective, and evidence-based use of medications. Drugs subject to HPGST are used for chronic conditions such as acid reflux, high cholesterol, high blood pressure, and allergies. This strategy ensures evidence-based use of medications, counter

manufacturer couponing, and manage future costly new Food and Drug Administration (FDA) approved medications.

CalPERS staff met with stakeholders multiple times to address concerns regarding member disruption and communication. As a result, staff added a transition fill enhancement, which would provide a 30-day supply of the targeted brand medication in case the member arrives at the pharmacy without an approved prior authorization for the targeted brand drug.

At the May 20, 2014, Pension and Health Benefits Committee meeting, Committee members asked staff to gather information on how Blue Shield of California and Kaiser increase generic prescription drug use, to explain how savings from HPGST accrue to CalPERS (not CVS Caremark). In addition, the Board of Administration directed staff to present a strategy for grandfathering some of the members currently taking any of the targeted brands.

ANALYSIS

In 2013, CalPERS spent an estimated \$7.51 billion in health care premiums, approximately \$1.13 billion (15%) of which was spent on pharmacy. The CalPERS CVS Caremark average drug costs per script and dispensing rates for 2012 and 2013 are shown in the table below.

	2012	2013
Average Drug Cost/Script for Generics	\$ 30.13	\$ 29.99
Average Drug Cost/Script for Multi-Source Brand	\$ 115.26	\$ 107.26
Average Drug Cost/Script for Single Source Brand	\$ 371.47	\$ 419.34
Generic Dispensing Rate	75.3%	77.5%
Multi-Source Brand Dispensing Rate	1.5%	1.4%
Single Source Brand Dispensing Rate	22.8%	21.1%

CalPERS staff believes that our members will gain many benefits from the HPGST program, including direct pharmacy cost savings, better prescriber engagement, and improvement of medication adherence. In general, HPGST drugs are outpatient medications for which the immediate initiation of therapy is not required and that are interchangeable within therapeutic class - from brand to generic, brand to another brand, or generic to brand.

Blue Shield of California and Kaiser

Programs similar to HPGST are currently in place for Blue Shield of California and Kaiser HMOs for CalPERS members.

- Blue Shield of California has the Generic Smart program. This program targets members who are currently on a brand medication with a generic alternative.

A letter is sent to both the member and provider informing them that the generic may be as effective as the brand, but at a reduced cost.

- Kaiser physicians are encouraged to prescribe generic medications. If a member does not want a generic, the member's physician determines if the brand drug is appropriate. Kaiser reports a 90% generic dispensing rate.

Disposition of Savings from HPGST

CalPERS pays CVS Caremark an administrative fee to serve as a PBM for CalPERS members. Provisions of the CalPERS contract with CVS Caremark include:

1. 100% rebate pass through
2. Annual Market Checks that return any excess savings to CalPERS

Therefore, savings from HPGST (and any other CalPERS programs, such as Member Pays the Difference) do not accrue to CVS Caremark. Instead, the savings lead to reduced premiums for all CalPERS members enrolled in relevant plans.

HPGST with Grandfathering: Definition and Financial Consequences

Upon reviewing the literature on grandfathering, and in consultation with CVS Caremark, CalPERS staff has developed the following grandfathering procedure:

- A member in any CalPERS health plan serviced by CVS Caremark with a targeted brand prescription filled between October 1, 2014, and December 31, 2014, to not be subject to HPGST for that prescription.
- A new prescription for the targeted brand with a different dose, or any new prescription for a different targeted brand, is subject to HPGST.

Grandfathering a drug has adverse financial consequences to CalPERS members. To achieve savings, PBMs contract with pharmaceutical manufacturers to purchase large quantities of drugs. These contracts contain provisions concerning rebates that limit the implementation of utilization management programs. If a PBM imposes certain types of utilization management on a medication (such as step therapy) for a client (such as CalPERS), the pharmaceutical manufacturer may remove the rebate for that medication for that client.

Therefore, under grandfathering, it is possible that the loss of rebate for a targeted brand drug will cause net costs to CalPERS instead of savings. As members receive new prescriptions for targeted brand drugs over time, the savings from members moving to generic medications should gradually overcome the loss of rebates for grandfathered members.

Staff presents the following two options for grandfathering: Selective Grandfathering for 6 classes of drugs that may require lab tests or doctor visits, and Full Grandfathering for all 15 therapeutic classes. Attachment 1 describes the estimated 2015 member impact with no grandfathering, Selective Grandfathering, and Full

Grandfathering by drug class. Attachment 2 outlines provider and member communications, and member experience, with grandfathered and non-grandfathered drug classes.

Grandfathering Option 1: Selective Therapeutic Class Grandfathering

Description: Under this program, current utilizers of targeted brand names in six therapeutic classes would be grandfathered in categories where there could be additional testing or doctor visits needed. There are six categories that would fall under this program: Serotonin Norepinephrine Reuptake Inhibitors for depression, Selective Serotonin Reuptake Inhibitors for depression, Prostaglandin Analogs for glaucoma, Angiotensin Converting Enzyme Inhibitors and Angiotensin II Receptor Blockers for high blood pressure, Fibrates for high cholesterol, and Statins for high cholesterol.

Members taking any of the other nine targeted brand drugs would be moved into the HPGST in 2015. Please refer to Attachment 2 for a full description of that process.

Pros: Less member disruption than original proposal. Addresses concern about cost for additional lab tests or monitoring for those who are stabilized on a targeted brand.

Cons: Grandfathered members are not proactively redirected to lower cost alternatives at the point of filling the prescription and may be unaware of lower cost alternatives. If some current users are grandfathered without verifying medical necessity and adherence to evidence-based clinical practice, program savings are lost; i.e., approximately \$4.5 million less in savings than the original proposal.

Savings in 2015: \$1.5M.

Grandfathering Option 2: Full Therapeutic Class Grandfathering

Description: Under this program, all utilizers that met the above grandfather definition would be grandfathered until such time as the prescriber changes the medication or dosage. CVS Caremark would also do a targeted mailing to these utilizers and prescribers letting them know of the alternatives available and cost reduction benefits to them.

Pros: Least member disruption. Addresses concern about all members who are currently on a targeted brand. No transition fill required.

Cons: Grandfathered members are not proactively redirected to lower cost alternatives at the point of filling the prescription and may be unaware of lower cost alternatives. If all current users are grandfathered without verifying medical necessity, adherence to evidence-based clinical practice and program savings are lost.

Estimated new cost to CalPERS of \$1.8 million due to loss of rebates. Savings projected for original proposal also do not materialize.

Savings in 2015: None

BUDGET AND FISCAL IMPACTS

Adopting the staff-recommended Option 1 (Selective Grandfathering) will help reduce pharmacy costs for CalPERS members with CVS Caremark as a PBM. Under the option for Selective Grandfathering, there would be immediate and continued savings. For the six grandfathered drug classes, any increased costs in 2015 would be partially or completely offset in future years as new prescriptions for targeted brand drugs become subject to HPGST.

ATTACHMENTS

Attachment 1 - Customized CalPERS High Performance Generic Step Therapy (HPGST) Proposal: Estimated 2015 Member Impact with No Grandfathering, Selective Grandfathering, and Full Grandfathering for 15 Drug Classes

Attachment 2 - Customized CalPERS High Performance Generic Step Therapy (HPGST) Proposal: Provider and Member Communications, and Member Experience, with Grandfathered and Non-Grandfathered Drug Classes

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