



# Pension & Health Benefits Committee

California Public Employees' Retirement System

---

## Agenda Item 10

May 19, 2015

**ITEM NAME:** Pharmacy Benefit Manager Procurement Strategy

**PROGRAM:** Health Benefits

**ITEM TYPE:** Information

### **EXECUTIVE SUMMARY**

This agenda item provides the Pension & Health Benefits Committee (PHBC) with information about the Pharmacy Benefit Manager (PBM) solicitation strategy, structure and process.

The outlined solicitation and competitive negotiation approach is consistent with Government Code Section 22850 and Public Contract Code section 6611. The expected outcomes for the solicitation include identification of top PBM proposals, agreement by proposers to contractual terms desired by the California Public Employees' Retirement System (CalPERS), and best and final offers for Board of Administration (Board) consideration.

### **STRATEGIC PLAN**

This item supports Strategic Goal Plan A "Improve long-term pension and health benefit sustainability."

### **BACKGROUND**

In accordance with Government Code section 22850, CalPERS PHBC directed staff in December 2014, to initiate work on a solicitation to procure a new PBM contract effective January 1, 2017. On February 19, 2015, a Request for Information (RFI) for PBM (RFI 2015-001) was released to solicit information from PBMs about the services they plan to provide for the next three to five years, in addition to any innovations they currently employ or are contemplating employing in providing these services.

Nine companies responded to the RFI. The responses cover the following items:

- formulary control;
- networks;
- revenue and cost;
- member, provider, stakeholder and pharmacy manufacturer engagement strategies;
- innovations;
- flexibility;
- market strategies; and,
- strategic vision for the next three to five years.

**ANALYSIS:**

Staff summarized the responses to the RFI. Many responses were common across the nine responding PBMs.<sup>1</sup> The responses to the RFI are used to help staff draft requirements that address today's needs and set aggressive customer service and cost control strategies for the future.

RFI Results:

The RFI solicited ideas and responses in 11 areas of focus identified by CalPERS.

1. **Formulary Control** – Flexibilities to leverage the PBM's extensive pharmaceutical expertise to drive formulary decisions and customize to CalPERS needs.

Summary of Responses:

- Flexible and customizable formulary – including generic value, specialty and non-specialty formulary. Staff believes that although formularies can achieve savings, a formulary must be customizable for CalPERS to reduce member dissatisfaction.
- Value-based plan designs for targeted, chronic disease states

2. **Network Drivers** – Innovations in retail, mail and specialty programs to enhance pricing and savings. Promote the use of network pharmacies to optimize plan designs.

Summary of Responses:

- Client-specific narrow networks with discounted rates resulting in reduced costs.
- Closed compounding pharmacy network
- Live video consultations with pharmacist for patients
- Web portal between pharmacist and provider
- Generic Copayment Waiver Program to increase adherence and potentially decrease medical cost
- 90 Day maintenance drugs at retail pharmacies

---

<sup>1</sup> The nine responding PBMs were Anthem Blue Cross, Argus, Blue Shield of California, Catamaran, CVS/caremark, EnvisionRx, Express Scripts, Navitus, and Optum.

3. **Strategic Vision** – Strategies that promote greater flexibility with pharmacy benefit programs, while maintaining member choice and healthcare quality.

Summary of Responses:

- Integrated pharmacy and medical benefits should lower cost of health care, increase administrative efficiency, and promote member ease, self-service and care coordination
- Retail clinics. These allow our members greater convenience in both rural and urban areas.
- Real time claims adjudication audit

4. **Pharmaceutical Revenue and Cost** – Gross and net cost models that promote transparency, market cost savings and rebates.

Summary of Responses:

- Transparent pharmacy pricing. This would allow CalPERS to learn the true cost of drugs.
- Require manufacturers to pay 100% of the drug costs if therapy fails to achieve the desired outcomes for costly conditions
- Network Compound Credentialing Program establishes guidelines for dispensing of specified Active Pharmaceutical Ingredients
- Limited Specialty drug dispensing like partial fills on initiation of therapy
- Allow CalPERS full audit rights to Pharmaceutical Manufacturers contracts.

5. **Member Engagement Strategies** – Educate CalPERS members on the value of therapy adherence in managing their conditions.

Summary of Responses:

- Proactive programs for drug non-adherence and tailored proactive intervention
- Targeted communications
- Retrospective claims analysis to identify members for adherence or non-adherence
- Remote patient monitoring for asthma and diabetes

- Methods for members to improve adherence to their prescription and over-the-counter drugs (e.g., mobile apps, putting all drugs to be taken at the same time in one package)

6. **Prescriber Engagement Strategies** – Educate prescribers on the value of evidence-based prescribing.

Summary of Responses:

- Electronic Prior Authorization connectivity to the Electronic Medical Record. This would facilitate value based prescribing.
- Integrated authorization systems that connect medical, pharmacy, and vendor decisions
- Daily Retrospective Drug Utilization Reviews

7. **Stakeholder Engagement Strategies** – Provide meaningful information and education to all CalPERS stakeholders in a timely manner.

Summary of Responses:

- Online access for CalPERS staff to run standard and customizable reports. This function would allow CalPERS staff to run *ad hoc* queries.
- Ad hoc meetings and stakeholders communications (i.e. newsletters, e-mail blast)
- Online portal access for CalPERS staff to access member information

8. **Innovation Strategies** – Programs and services that PBMs envision developing and/or implementing in the next 3 – 5 years.

Summary of Responses:

- First-fill trigger reports for high cost therapy medications
- Patient video conferencing
- ePrescribing capabilities including plan-specific copayment information
- Opioid Overutilization Based on Morphine Equivalent Dosing identifies members who are using multiple doses of controlled pain medications
- Fixed cost for high price therapy treatment programs
- Negotiated cap on inflation with the Pharmaceutical Manufacturers

- Transitional Care Medication Management
- Fraud, Waste and Abuse monitoring program

9. **Pharmaceutical Manufacturers** – Strategies on influencing federal and state policies that promote meaningful reform to increase transparency and cost management.

Summary of Responses:

- Lobby the federal government to make changes favorable to CalPERS.
- A dedicated public policy group to track and influence federal and state legislation which will impact the pharmacy benefit management
- Participate in National Council for Prescription Drug Programs

10. **Flexibility** – Operational Information Technology systems, and customize member messaging to promote new plans, networks, and tiers with an expedited timeframe.

Summary of Responses:

- Customizable point-of-sale messaging
- Ability to respond member inquiries within a reasonable timeframe (i.e. two business days)
- Ability to customize messaging and other operational features to CalPERS needs
- Member self-service tools for members and CalPERS staff (e.g. drug pricing, drug classification, Evidence of Benefits, drug knowledgeability, claims history)

11. **External Factors** – Strategies for managing global pharmaceutical trends, e.g., the cost of Sovaldi in India versus in the United States.

Summary of Responses:

- Work with all partners in the supply chain to evaluate all alternatives
- Continuously monitor drug pipeline so members can get access to the latest drugs at affordable prices
- Ability to leverage the power of placing the manufacturer's product on preferred status

#### PBM Solicitation and Competitive Negotiation Approach

Staff is currently working with the Operations Support Services Division (OSSD) and the Legal Office on the solicitation approach based on competitive negotiation.

A competitive negotiation process permits the consideration of price, technical experience, past performance, management or other factors in selecting the most cost-effective proposal. The process includes negotiations with the most qualified proposers during which performance, technical standards, or other criteria may be discussed in order to secure proposals most advantageous to CalPERS. Staff has determined that the competitive negotiation process is necessary in order to permit greater flexibility to consider:

- qualitative differences in proposers' experience and qualifications;
- the appropriateness of proposed technical and financial solutions; and,
- performance reliability.

The competitive negotiation process also allows for:

- greater interaction on an ongoing basis with potential vendors throughout the solicitation;
- flexibility and transparency of process for the Board;
- an ability to obtain more accurate information on best offers; and,
- a completed contract at the end of the solicitation.

#### Proposed Solicitation Structure

The proposers will be required to submit an offer, providing evidence of their ability to meet solicitation requirements including, but not limited to:

- Qualifications Requirement: Proposers must demonstrate that they meet specified minimum qualifications.
- Technical Requirements: Proposers must describe their services, capabilities, management, and staffing plans and agree to contract provisions desired by CalPERS.
- Financial Requirements: Proposers must include estimated third party administrative costs to perform the services for the five year contract. In addition to the administrative and clinical program fees, proposers would have to provide pricing sources, general pricing guarantees, drug Maximum Allowable Cost, Average Wholesale Price discounts,

drug pricing assumptions, rebates and rebate guarantees, subsidy and trend guarantees, incentives and credits.

A full description of the structured approach is found in Attachment 1.

#### Solicitation Process

The anticipated release date of the solicitation is mid-July 2015. In response to the solicitation, proposers will be required to agree to specific security agreements and certify qualifications in order to receive CalPERS de-identified pharmacy data. Initial solicitation offers will be due by October 2015, and evaluations will be conducted between November and December 2015.

Competitive negotiations will occur between January and February 2016, and it is anticipated that the top best and final offers will be presented to the Board in March 2016. (Attachment 2 and Attachment 3)

CalPERS staff is working with Mercer consultants to further refine the solicitation approach and to develop the solicitation evaluation tools.

#### **BUDGET AND FISCAL IMPACTS**

OSSD reported in the April 2015, Perspective Report that the budgetary and fiscal impacts related to the five-year contract agreement will likely result in an increase of the administrative services fees beginning January 1, 2017, through December 31, 2021.

#### **BENEFITS/RISKS**

This solicitation will allow CalPERS the opportunity to conduct comparative pricing through competitive negotiations; have a completed contract at the end of the solicitation process; increase transparency into the PBM pharmaceutical agreements; obtain a more cost-effective means of dispensing pharmaceuticals and explore tactics that better influence physician practice to evidence-based medicine and consumer pharmaceutical choices.

Risks include: possible decreased competition with only a few proposals; less than desirable innovations and outcomes due to industry consolidation; delays in the solicitation schedule; and, difficult contract negotiations. Although CalPERS is seeking to obtain more cost-effective and efficient services as a result of this competitive solicitation, it is unclear to what extent increasing drug trends might be mitigated over the next five years.

**ATTACHMENTS**

Attachment 1 – Pharmacy Benefit Manager Solicitation Strategy Outline

Attachment 2 – Pharmacy Benefit Manager Solicitation Process Outline

Attachment 3 – Pharmacy Benefit Manager Solicitation Timeline

---

KATHY DONNISON, Chief  
Health Plan Administration Division

---

ANN BOYNTON  
Deputy Executive Officer  
Benefit Programs Policy and Planning