



Agenda Item 10

October 20, 2015

ITEM NAME: Pharmacy Benefit Manager Procurement Strategy

PROGRAM: Health Benefits

ITEM TYPE: Information

EXECUTIVE SUMMARY

This agenda item provides an update to the Pension & Health Benefits Committee (PHBC) on the Pharmacy Benefit Manager (PBM) solicitation (Solicitation), including the evaluation approach and schedule. The Board has broad discretion in entering into contracts with PBMs in order to best meet the needs of the California Public Employees' Retirement System (CalPERS) and its members. CalPERS seeks submissions from firms with the vision to develop clinically sound PBM strategies that are critical to staying ahead of rapidly increasing drug costs while maintaining member choice and healthcare quality.

The expected outcomes for the Solicitation include identification of top competitive PBM submissions, successful negotiations of a contract, and firms' commitment to an implementation plan.

STRATEGIC PLAN

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

BACKGROUND

In May, 2015, staff presented the PBM solicitation strategy, structure, and process. Since this date, staff have developed and released the Solicitation, which is being conducted in a two-phased approach.

On July 2, 2015, CalPERS released Phase I of the Solicitation, which set forth the minimum qualifications each firm was required to meet in order to move to Phase II of the Solicitation. Established to meet the PBM needs of CalPERS and its members, the minimum qualifications, which applied equally to all firms, included having provided PBM services to employers with at least 300,000 covered lives, having current mail order capacity for at least 300,000 covered lives and 1.5 million prescriptions annually, having at least two continuous years of Medicare Part D Employer Group Waiver experience, and being based in the United States. Each firm certified in writing that it met all of the minimum qualifications and was required to provide evidence of how each qualification was met. CalPERS staff members were available during every step of the Phase I minimum qualification submittal process to assist firms and answer any questions. If a firm failed to demonstrate that any of the

above minimum qualifications were met, that firm did not move on to Phase II of the Solicitation.

ANALYSIS

On September 10, 2015, CalPERS commenced with Phase II of the Solicitation. In this phase, firms must demonstrate their capabilities, management philosophy, including commitment to cross-organizational resources, and technical understanding of the required services needed to operationally support CalPERS and its Plan members.

In the Phase II submissions, firms are instructed to complete specific Plan worksheets (i.e., Firm's Capabilities, Work Plan, Management Plan and Staffing Plan). Completion of these documents requires firms to demonstrate a thorough technical understanding of CalPERS service requirements, and ability to meet them, by providing a detailed accounting of how their organization will operationally support the pharmacy benefit management services as described in the Solicitation. Firms are asked to include any innovative or alternative methods that may more efficiently and cost-effectively achieve CalPERS required goals and objectives for its Pharmacy Benefit Program.

The "Financial Plan" requires firms to provide all estimated pricing and/or percent of guarantee amounts as prescribed in the Solicitation. Certain pricing methods are required in order to standardize dollar for dollar comparisons, and alternative pricing may also be submitted. Any alternative pricing method must demonstrate transparency, methodology and cost-saving benefits.

On November 13, 2015, Phase II submissions are due to CalPERS. The following are key milestones forthcoming upon receipt of the submissions:

Preliminary Reviews

CalPERS staff will conduct preliminary reviews of each firm's Phase II submission. These reviews will be conducted by various staff throughout the CalPERS organization that will be responsible for determining the completeness and responsiveness to the Solicitation's prescribed requirements. CalPERS will enlist the use of subject matter experts from within the enterprise, as well as, evaluation team representation from the State Controller's Office. The information obtained from the reviews will be used to determine those firms who qualify to participate in this stage of the process.

Evaluation Process

CalPERS will evaluate Phase II submissions and anticipates completing its evaluation by late winter 2016. The evaluation process will verify the proposing firm's ability to meet the Solicitation's prescribed requirements, as well as, their proposed fees for administering the contract and pricing for prescription drugs. It will also include on-site visits that will verify, through observation and interview, a firm's ability to assure compliance with the requirements based on its responses regarding its

capabilities, as well as, the Work Plan, Management Plan and Staffing Plan. CalPERS evaluation teams will be comprised of subject matter experts throughout the enterprise.

Upon completion of the evaluations, only those firms who are deemed to be in the “competitive range” will be qualified to participate in competitive negotiations.

Competitive Negotiations

The competitive negotiation process considers price, technical experience, operational performance, and management in selecting the highest quality, cost-effective submissions to present to the CalPERS PHBC. Staff will enter into negotiations with the most qualified firms during which performance, technical standards, or other criteria may be discussed in order to secure the firm that best meets the needs of CalPERS and its members. In order for a firm’s submission to move forward to the Board of Administration (Board) for consideration, the firm must sign a letter agreeing to enter into the contract that has been negotiated during this phase of the Solicitation. In addition, as part of the letter, the firm must agree to an Implementation Plan, as specified by CalPERS to ensure an effective and efficient start date of January 1, 2017.

The results of the competitive negotiation process will allow for the following: greater interaction with firms; flexibility and transparency; ability to provide and obtain more accurate information; and, a completed contract at the end of the process prior to the finalization of the 2017 health plan rates in June 2016.

Contract Award

The solicitation process concludes with a presentation by CalPERS staff to the CalPERS PHBC of the submissions that have met the requirements of the Solicitation. However, a presentation of a firm’s submission to the CalPERS PHBC may not be construed as an award of a contract. The awarding of a contract lies solely with the CalPERS Board.

BUDGET AND FISCAL IMPACTS

The five-year contract agreement may result in a change in administrative services fees beginning January 1, 2017, through December 31, 2021.

BENEFITS/RISKS

This Solicitation is intended to 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 a limited number of proposals for CalPERS to choose; less than desirable innovations and outcomes due to industry consolidation; delays in the

Solicitation schedule; and, protracted contract negotiations. Although CalPERS is seeking to obtain more cost-effective and efficient services as a result of this Solicitation, it is unclear what impact these efforts will have on pharmaceutical prices, which are anticipated to increase over the next five years.

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