



Pension and Health Benefits Committee Agenda Item 8

March 15, 2016

Item Name: Pharmacy Benefit Manager Contract Evaluation Update

Program: Health Benefits

Item Type: Information

Executive Summary

This agenda item updates the Pension and Health Benefits Committee (PHBC) on the Pharmacy Benefit Manager (PBM) solicitation including the schedule of remaining activities. The Board of Administration (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. The goal of this solicitation is to procure a PBM that provides clinically sound strategies to stay ahead of rapidly increasing drug costs, agrees to CalPERS contractual terms and pricing, and sustains member choice.

Strategic Plan

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

Background

In the October 2015 PHBC meeting, CalPERS staff provided an update regarding the PBM solicitation strategy, structure, and process. Since this date, staff has received the solicitation responses whereby firms were required to complete specific plan worksheets demonstrating their technical understanding of CalPERS service requirements including any innovative or alternative methods. Firms were also required to provide all estimated pricing using a methodology that demonstrated transparency and cost-saving benefits.

Analysis

On November 13, 2015, firms submitted their response to PBM Solicitation 2015-7755. Since this date, staff has reviewed, evaluated and scored submissions, conducted on-site visits to each firm's headquarters, call centers, mail order facilities, and are completing client reference checks. Through this process, it has been confirmed that all firms have the overall ability to administer pharmacy benefit services to CalPERS members. The next step in this process will be as follows:

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 start negotiations with the firms later this month. In order for a firm's submission to move forward to the 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, with criteria as specified by CalPERS to ensure an effective and efficient start date of January 1, 2017. (Attachment 1)

Contract Award

The solicitation process concludes with a presentation by CalPERS staff to the CalPERS PHBC in May 2016 of the submissions that have met the requirements of the Solicitation. The presentation of a firm’s submission to the CalPERS PHBC, however, 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 and 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.

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.

Attachments

Attachment 1 – PBM Solicitation Schedule of Events

Kathy Donneson, Chief
Health Plan Administration Division

Doug P. McKeever
Deputy Executive Officer
Benefit Programs Policy and Planning

