



# Pension and Health Benefits Committee Agenda Item 10

May 17, 2016

**Item Name:** Pharmacy Benefit Manager Contract Award

**Program:** Health Benefits

**Item Type:** Action

### **Recommendation**

Staff recommends that the Pension and Health Benefits Committee (PHBC), consider the cumulative results for all Firms that participated in Solicitation No. 2015-7755, and from such results select the Firm whose submission response best demonstrates the ability to offer Pharmacy Benefit Manager (PBM) services in terms of customer service, pricing, and ability to fulfill contractual terms and conditions for calendar year 2017-2021. Five-year cost projections for each firm will be provided at the meeting.

### **Executive Summary**

This agenda item provides information to the PHBC regarding the 2015-7755 PBM Solicitation evaluation results. The California Public Employees' Retirement System (CalPERS) solicited proposals for a 5-year agreement beginning January 1, 2017, and ending December 31, 2021. The Solicitation process resulted in three finalists: CVS Health, Express Scripts, Inc., and OptumRx. The evaluation review process determined that all Firms offer high-quality PBM services demonstrating their ability to meet CalPERS needs.

### **Strategic Plan**

This agenda item supports the objective "Ensure high-quality, accessible and affordable health benefits" in Strategic Goal A, "Improve long-term pension and health benefit sustainability."

### **Background**

To improve its ability to deal with the high cost of prescription drugs, CalPERS, through this Solicitation, sought proposals from Firms committed to develop clinically sound pharmacy benefit management strategies to combat rapidly increasing drug costs while maintaining member choice and healthcare quality. These strategies have the potential to improve healthcare and pharmacy services delivery through innovation, sustained affordability, improved member health outcomes, and advancement of quality, safety, and wellness efforts, particularly when supported by strong electronic health records and data analytics infrastructure. CalPERS believes these strategies will positively transform the delivery of healthcare and pharmacy services for our members. The expected outcomes for the Solicitation included identification of top PBM proposals, agreement by proposers to contractual terms desired by CalPERS, and best and final financial offers for Board of Administration (Board) consideration.

### **Analysis**

In May 2015, the PHBC approved the PBM Solicitation strategy, structure, timeline and process (Attachments 1, 2, and 3). The outlined Solicitation and competitive negotiation approach is

consistent with Government Code Section 22850. The PBM Solicitation was released in a two phased approach. Phase I was released on July 2, 2015, and required Firms to meet the minimum qualifications in order to participate in Phase II. Phase II was released on September 10, 2015, and consisted of written questions and responses, confidential discussions held separately with each Firm, various addenda, submission of proposals, evaluations, on-site visits, technical discussions, reference checks, and competitive negotiations.

On November 13, 2015, Solicitation submissions were received. The Solicitation submissions were evaluated verifying each 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. Each evaluator judged each response equally, without bias, and based their scores solely on the merit of the information presented using the 1-5 ratings of inadequate, barely adequate, adequate, more than adequate, and excellent or outstanding. Each team then determined consensus scores that were aggregated, scaled, and translated into 1-5 star ratings for each section of the five categories (Attachment 4 and 5).

The information contained within Attachment 5 is based on information gathered in the last seven months. The information includes evaluation of submissions, November 2015 through January 2016; on-site visits by CalPERS staff in February 2016; technical discussions in March 2016; confidential negotiations in March-April 2016; and, various email exchanges between CalPERS and potential vendors requesting clarifications. These documents emphasize various aspects of each firm that may differentiate it from the other competitors based evaluation results for the Firms' Capabilities, Management, Work, Staffing and Financial Plans and the best and final pricing offers. Five-year cost projections for each firm will be provided at the meeting.

At the conclusion of the competitive negotiations staff finalized the qualitative and quantitative evaluation results. Consensus scoring was used through each step of the Solicitation process, and team leads continued to update the scores as information from each firm came to CalPERS.

### **Budget and Fiscal Impacts**

The five-year contract agreement may result in an increase of the administrative services fees beginning January 1, 2017, through December 31, 2021.

### **Benefits and Risks**

This Solicitation allowed CalPERS the opportunity to conduct comparative pricing through competitive negotiations; have a completed contract at the end of the Solicitation process; obtain transparency into the PBM-pharmaceutical manufacturer agreements; obtain more cost-effective means for dispensing prescription drugs; and, explore tactics that better influence physician practice to use evidence-based medicine and consumer prescription drug choices.

Risks include less than desirable pricing, innovations and outcomes due to industry consolidation, 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 Structure

Attachment 2 – Pharmacy Benefit Manager Solicitation Timeline

Attachment 3 – Pharmacy Benefit Manager Solicitation Process

Attachment 4 – Proposal Evaluation Criteria

Attachment 5 – Comparison of Solicitation Proposals

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