



# Pension and Health Benefits Committee Agenda Item 10

September 20, 2016

**Item Name:** Prescription Drugs Utilization and Cost Trends

**Program:** Health Benefits

**Item Type:** Information

### **Executive Summary**

An analysis of claims data demonstrates that costs for prescription drugs continue to rise. The 2015 total prescription drug costs for all California Public Employees' Retirement System (CalPERS) plans were \$2.1 billion. Specialty drugs accounted for 28.8 percent (\$587 million) of the total prescription drug costs. Furthermore, costs for medical pharmacy (office-administered) drugs are rising. CalPERS staff will continue to explore options for controlling expenditures on prescription and medical pharmacy drugs while maintaining member choice and healthcare quality.

### **Strategic Plan**

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

### **Background**

This report evaluates outpatient drug utilization and cost trends for all CalPERS health plans. For the purposes of this agenda item, utilization and cost data were analyzed separately for prescription drugs versus medical pharmacy drugs. Prescription drugs are those dispensed at mail-order or retail pharmacies after being prescribed by physicians or other health care professionals; they are covered under the pharmacy benefit of the health plans. Medical pharmacy drugs are those typically administered in physician offices and infusion centers without the need for a prescription; they are covered under the medical benefits of the health plans. In past agenda items, the data has not been available to report medical pharmacy trend. Beginning with 2014 data, CalPERS staff has the ability to identify office administered drugs. The Health Care Decision Support System (HCDSS) data for medical pharmacy drugs are less specific than the HCDSS data on prescription drugs, causing limitations in reporting.

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\* Drugs covered under the pharmacy benefits adjudicate using National Drug Codes that identify precisely the drug, dosage, and package size of each drug. Drugs covered under the medical benefits adjudicate using Healthcare Common Procedure Coding System (HCPCS) J Codes. A J Code refers to the chemical name of a drug and different drugs are included in each J Code. J code is assigned to a drug 6 to 18 months after it enters the market. Until then, miscellaneous code is used for billing. J Codes do not identify the quantity dispensed and subject to coding variation.<sup>1</sup>

## **Analysis**

### Overall Prescription Drug Program Statistics

The 2015 total prescription drug costs for drugs obtained through mail-order and at retail pharmacies for all CalPERS plans were \$2.1 billion, which represented nearly a 10 percent increase over the costs of \$1.9 billion in 2014. The top ten non-specialty drugs accounted for \$213 million spending or 14 percent of the total non-specialty drug cost in 2015.

In 2015, 17.33 million prescriptions were filled for CalPERS members, with an average cost (allowed amount) per prescription of \$103.10, an annual increase of 6.62 percent. The average cost (allowed amount) per day supply was \$2.17 with an annual increase of 8.5 percent.

From 2010 to 2015, generic dispensing rates increased from 78.9 percent to 83.7 percent for Kaiser, from 75.4 percent to 85 percent for Blue Shield of California, and from 66.2 percent to 78.4 percent for the Preferred Provider Organization plan. From 2013 to 2015, generic dispensing rates for the new Health Maintenance Organization plans increased from 82.3 to 87.2 percent for HealthNet, from 82.3 to 84.4 percent for Anthem, from 80 to 84.6 percent for Sharp, and from 83 to 85.3 percent for United Health Care.

The CalPERS member cost share for all prescriptions in 2015 was 8.55 percent. Member cost share for generics was 16.72 percent, non-specialty multi-source brand was 7.76 percent, non-specialty single-source brand was 5.07 percent, and specialty was 1 percent. In comparison, the 2014 national average member cost share for all prescriptions for large employers was 20.4 percent.<sup>2</sup> The 2014 national average member cost share for specialty drugs was 15.1 percent.<sup>3</sup>

### Specialty Prescription Drug Statistics

Specialty prescription drug cost trends from 2012 to 2015 demonstrated a sharp increase from \$270 million to \$587 million. Although specialty drug prescriptions represented only 0.89 percent of all prescriptions in 2015, specialty drug allowed amounts accounted for 28.8 percent of total CalPERS drug costs. In comparison, Express Scripts reported that specialty drugs accounted for 37.7 percent of total U.S. drug spend in 2015.<sup>4</sup> The top ten specialty drugs accounted for \$329 million spending or 56 percent of the total specialty drug cost in 2015.

### Medical Pharmacy Drug Statistics

The current HCDSS vendor is able to provide information on medical pharmacy. This report is limited to drug claims submitted using the HCPCS J codes. The total medical pharmacy drug costs increased from \$257 million in 2014, to \$344 million in 2015. The annual percentage change for 2015 was 34 percent. In 2015, chemotherapy drugs accounted for 38.4 percent of the total medical pharmacy drug cost. The top ten medical pharmacy drugs accounted for over \$150 million spending or 42 percent of the total medical pharmacy drug cost in 2015.

Future reports will include time trends, as well as, examination of expenditures on other medical pharmacy drugs. Nationally, it is estimated that about half of specialty drug spend occurs under the medical benefit,<sup>3</sup> which can be harder to track and manage than specialty drug spend under the pharmacy benefit.<sup>1</sup>

## **Budget and Fiscal Impacts**

Not applicable.

## **Benefits and Risks**

Outpatient prescription drug costs continued to increase rapidly. The reasons for the rapid increase include lack of price control in the United States, limited competition, high cost generics, lack of major patent expirations and a continued "pipeline" of new innovative drugs coming to market. The use of generics, biosimilars, and evidence based pharmacy benefit management strategies are critical to staying ahead of rapidly increasing prescription drug costs.

## **Attachments**

Attachment 1 – Prescription and Medical Pharmacy Drug Utilization and Cost Trends

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## References

1. Cahn, L. (2009). Control Specialty Drug Cost By Making Your PBM Helpful. Available at <http://www.managedcaremag.com/archives/2009/8/control-specialty-drug-cost-making-your-pbm-helpful>. Accessed August 16, 2016.
2. Pharmacy Benefit Management Institute. 2015-2016 Prescription Drug Benefit Cost and Plan Design Report.
3. Pharmacy Benefit Management Institute. 2015 Specialty Drug Benefit Report.
4. Express Scripts. 2015 Drug Trend Report. Available at: <http://www.lab.express-scripts.com/lab/drug-trend-report>. Accessed August 8, 2016.

