

May 16, 2017

**Item Name:** Medical and Pharmacy Benefit Strategies**Program:** Health Benefits**Item Type:** Information**Executive Summary**

This agenda item provides the Pension & Health Benefits Committee (PHBC) information concerning potential medical benefit and pharmacy benefit strategies. For plan year 2018, the potential self-funded Preferred Provider Organization (PPO) plan medical benefit strategies include: adding twelve procedures to the Value Based Purchasing Design (VBPD) program (Basic plans); adding a site of care management program for medical pharmacy (Basic plans); adding an educational program designed to reduce the unnecessary use of emergency rooms (Basic and Medicare plans); continuing the Castlight tool (Basic plans); expanding the Welvie tool from Basic to Medicare plans; and adding the SilverSneakers program (Medicare plans). For plan year 2019 and beyond, four potential pharmacy benefit strategies are presented to address rising prescription drug costs.

**Strategic Plan**

This agenda item supports Goal A: “Improve long-term pension and health benefit sustainability by ensuring high quality, accessible, and affordable health benefits.”

**Background**

At the March 14, 2017 PHBC meeting, the California Public Employees’ Retirement System (CalPERS) team presented nine health initiatives for 2017-2022 that were grouped into three overarching strategic areas. One of those strategic areas, “Restructure Benefit Design,” encompassed four initiatives: Value-Based Insurance Design, Site of Care Management, Pharmacy Benefit Manager Pilot, and Reference Pricing Expansion. At the April 18, 2017 PHBC meeting, the CalPERS team identified four potential benefit design changes for 2018 that aligned with the CalPERS 2017-2022 Strategic Plan and the CalPERS 2017-2022 health initiatives.

**Analysis**

Consistent with a focus on affordable, sustainable, high quality health care, the CalPERS Health Benefits Program encourages the use of affordable care without compromising quality or safety. This approach is consistent with the “Let’s Get Healthy California” Triple Aim for:

- **Better Health:** Promote population health through prevention
- **Better Care:** Patient centered, high quality, value-based, whole person health care
- **Lower Costs:** Reduce health care expenditures regionally and statewide to improve access, achieve savings, and advance transformation.

## Potential PPO Medical Benefit Strategies for Plan Year 2018

### 1. Expand VBPD for use of Ambulatory Surgery Centers (ASCs)

Experience shows the value of promoting ASCs over outpatient hospital facilities. Therefore, we have been working with Anthem Blue Cross to evaluate opportunities to expand the VBPD to other procedures. This program is intended to encourage the use of appropriate and cost-effective care settings by members and dependents. These benefit modifications apply to self-funded Basic plans only and will be accomplished by establishing the following benefit limits for PPO plan members who receive the following services in an outpatient hospital setting instead of an ambulatory surgery center:

	Upper GI Endoscopy with Biopsy	Laparoscopic Gall Bladder Removal	Upper GI Endoscopy	Esophagoscopy	Sigmoidoscopy	Hysteroscopy Uterine Tissue Sample (with Biopsy, with or without D&C)	Nasal/Sinus - Submucous Resection Inferior Turbinate	Tonsillectomy and/or Adenoidectomy, Under Age 12	Nasal/Sinus - Corrective Surgery - Septoplasty	Lithotripsy - Fragmenting of Kidney Stones	Hernia Inguinal Repair (Age 5+, Non-Laparoscopic)	Repair of Laparoscopic Inguinal Hernia
<b>Ambulatory Surgery Center</b>												
Highest Cost	\$5,846	\$15,586	\$4,131	\$4,247	\$3,766	\$7,277	\$7,623	\$7,638	\$12,069	\$14,267	\$10,491	\$13,557
Lowest Cost	\$721	\$2,661	\$530	\$1,079	\$403	\$1,398	\$1,564	\$1,550	\$2,123	\$3,916	\$2,311	\$1,942
<b>Outpatient Hospital Facility</b>												
Highest Cost	\$18,589	\$78,822	\$9,652	\$9,030	\$9,907	\$60,818	\$22,695	\$20,990	\$22,014	\$25,759	\$20,129	\$43,612
Lowest Cost	\$786	\$3,082	\$703	\$1,786	\$449	\$1,601	\$4,591	\$1,934	\$4,950	\$3,734	\$2,152	\$3,924
<b>Recommended Reference Price</b>	\$2,000	\$5,000	\$1,500	\$2,000	\$1,000	\$3,500	\$3,000	\$3,000	\$3,500	\$7,000	\$5,500	\$5,500
<b>CalPERS Annual Projected Savings</b>	\$608,102	\$560,857	\$109,775	\$21,137	\$24,683	\$112,468	\$108,900	\$94,505	\$125,637	\$96,731	\$99,711	\$76,737
<b>TOTAL ANNUAL PROJECTED SAVINGS</b>												\$2,039,242

Assumes 10% increase in ASC use

In response to the PHBC's question regarding access to the potential ASCs for PPO Basic plan member, Anthem Blue Cross evaluated its Basic plan membership and provided the following:

Member Distance to an ASC by PPO Basic Plan		
	Percent of PERSCare Basic Members	Percent of PERS Choice & PERS Select Basic Members
Urban areas – within 15 miles of an ASC	100%	100%
Suburban areas – within 15 miles of an ASC	99%	99%
Rural areas – within 30 miles of an ASC	93%	89%

### 2. Site of Care Management for Medical Pharmacy

Medical pharmacy refers to drugs that a provider administers in an outpatient hospital facility site, physician's office, ambulatory infusion center, or home infusion, which are paid under the medical benefit.

The Anthem Specialty Drug Solution focuses on precertification clinical review and appropriate site of care for PPO Basic plans. The site of care program steers members from non-clinically indicated higher cost sites of care (such as outpatient hospital) to lower cost sites of care



(physician’s office, ambulatory infusion center, and home infusion). The clinical site of care review applies to select drugs and excludes oncology diagnoses, end stage renal disease, and hemophilia products, which are managed under a separate CalPERS program that Anthem administers.

Members may be treated at higher-level sites of care (outpatient hospital facility) if medically necessary. The clinical site of care review provides alternative sites of care within 30 miles of the member’s home when a higher cost site of care is not medically necessary. Anthem rolled out its site of care management program to its fully insured book of business in July 2016 and they are experiencing a 75 percent redirection rate. Anthem has not experienced a high level of complaints or grievances due to the program implementation. This may be attributed to the program’s consideration for use of higher cost sites of care when clinical criteria are met for medical necessity.

Estimated First Year Savings from Implementing the Site of Care Management for Medical Pharmacy Program (excludes Sutter network)		
	Total (millions)	PPO Basic Plans (PMPM)
Estimated Savings Before Program Cost	\$4.03	\$0.92
Program Cost	\$0.87	\$0.30
<b>Estimated Net Savings</b>	<b>\$3.16</b>	<b>\$0.62</b>

3. Reduce Use of Emergency Room for Urgent Care

Anthem Blue Cross conducted a pilot study of emergency room use for CalPERS PPO Basic plan members and a control group during the third and fourth quarters of 2012 and 2013. Anthem’s analysis of the pilot study showed that 9 percent of CalPERS PPO Basic members ER visits were non-urgent.

Anthem Blue Cross Quick Care Options educational product to helps members find non-ER care where members will save time and have lower copays. The Quick Care Options mobile application enables members to quickly identify nearby in-network retail health clinics, walk-in doctors’ offices, and urgent care centers that provide the care they need. The 24/7 NurseLine is also available to members to find alternate care locations.

2018 Estimated Savings for PPO Plans from Reducing Use of Emergency Room for Urgent Care			
	Total	PPO Basic Plans (PMPM)	PPO Medicare Supplement Plans (PMPM)
Estimated Savings Before Program Cost	\$689,671	\$0.23	\$0.16
Program Cost	\$208,729	\$0.06	\$0.06
<b>Estimated Net Savings</b>	<b>\$482,000</b>	<b>\$0.17</b>	<b>\$0.10</b>

4. Continue and Expand PPO Purchasing Tools

**Castlight:** Staff recommends that CalPERS continues to offer this tool to PPO Basic plan members in 2018. Originally offered as a pilot in 2014, this tool educates users about price variation across medical procedures with an intuitive, easy-to-use online application with



expanded cost transparency based on CalPERS claims data. The administrative cost for Castlight is \$0.62 PMPM for PPO Basic plans.

**Welvie:** Staff recommends continuing the program in 2018 for the PPO Basic plans due to the utilization by the PPO Basic plan members since it was implemented in 2016, and expanding it to the PPO Medicare Supplement plans. This online tool helps educate members on preference sensitive surgeries and places more power in their hands when it comes to minimizing unnecessary and inappropriate surgeries. In 2012, the Center for Medicare & Medicaid Innovation (CMMI) awarded Welvie a three-year grant to apply its approach to a group of Anthem Blue Cross Medicare enrollees in Ohio. An independent evaluation of the project identified that the Welvie intervention significantly lowered surgical and medical expenditures while improving surgical outcomes and decreasing readmissions and ER visits. Staff is evaluating the cost structure and will provide additional information to the PHBC at a future meeting.

5. SilverSneakers

SilverSneakers is a community fitness program specifically designed for older adults that provides members with regular exercise (strength training, aerobics, and flexibility) and social opportunities at more than 13,000 locations nationwide. This is the same program that is provided to CalPERS UnitedHealthcare Medicare Advantage plan members. Anthem Medicare Supplement plan members would receive the following benefits without any additional fees:

- Memberships at multiple gyms
- FLEX classes held at parks, community centers, and other venues for fitness workouts beyond the gym
- Exclusive SilverSneakers yoga, strength training, flexibility, cardio, and movement classes

Trivity Health, the company administering the SilverSneakers program, would contract with Anthem for three years and include the ability for CalPERS to opt out once a year during open enrollment. The administrative services fee for the program is \$0.80 PMPM with a program fee of \$4.25 per member visit. The total administrative service and program fees are capped at \$5.14 PMPM. The estimated annual base cost of the program is \$1.7 million with an estimated maximum annual cost of \$8 million. Anthem states that these costs could be partially offset by CalPERS members' better health and per visit cost is based on the actual number of members who have visits.

Summary of Proposed Savings and Fees for Medical Benefit Strategies

The table below shows the net savings and the administrative fees for the aforementioned five medical benefit strategies. The estimates are conservative to allow for program startup.

2018 Net Savings* (millions)			
Medical Benefit Strategies	Basic	Medicare	Combined
Expand VBPD for use of ASCs	\$2.04		\$2.04
Site of Care Management for Medical Pharmacy (excluding the Sutter Network)	\$3.16		\$3.16
Reduce Use of Emergency Room	\$0.33	\$0.15	\$0.48
PPO Purchasing Tool – Castlight only			
SilverSneakers			
<b>Total</b>	<b>\$5.43</b>	<b>\$0.15</b>	<b>\$5.68</b>

\*Net Savings = Gross Savings minus Administrative Fees

PMPM Administrative Fees for 2018*	
Basic	Medicare
\$0.30 PMPM	
\$0.06 PMPM	\$0.10 PMPM
\$0.62 PMPM	
	\$0.80 PMPM
<b>\$0.98 PMPM</b>	<b>\$0.90 PMPM</b>

\*If CalPERS Board adopts proposed health benefits

### Pharmacy Benefit Strategies for 2019-2022

The CalPERS team identified four potential pharmacy benefit strategies for 2019 and beyond that will address rising prescription drug costs and are consistent with the CalPERS 2017-2022 Strategic Plan.

#### 1. Reference Pricing for Selected Therapeutic Classes

This strategy would replace Member Pays the Difference benefit design for brands with generic equivalents. The reference pricing strategy steers members to the lowest cost therapeutically equivalent drug. The exception process allows members to request coverage of targeted medication at the applicable tier copay for medical necessity.

The reference pricing design for selected therapeutic classes will provide transparency to members in drug options, formulary, and pricing and may eliminate most utilization management processes such as prior authorization and step therapy for targeted medications. Additionally, the reference price design offers saving opportunities for CalPERS and its members while maintaining quality and member choice.

The United Food and Commercial Workers (UFCW) Trust Fund implemented a reference price design when it needed to reduce its pharmaceutical expenditures to meet collective bargaining agreement terms and without cost shifting to its membership or making benefit changes. This resulted in a total savings of \$30.25 per prescription for an annual savings of \$15.7 million, and allowed the UFCW to continue offering a high value, low cost drug benefit to its membership, while meeting the collective bargaining terms.

#### 2. Evaluate Value-Based Insurance Designs for Pharmacy Benefits

The CalPERS team will evaluate expanding value-based insurance designs for pharmacy benefits including strategies that support evidence-based use of drugs and value-based contracting.

#### 3. Modify Prescription Drug Copayment Structure

This strategy would modify the prescription drug copayment structure to redefine the current generic/preferred brand/non-preferred brand tiers to numerical tiers, such as tier 1, 2, and 3 instead of specific names, and are based on drug prices. Blue Shield has asked CalPERS to approve this approach in 2019.

Additionally, this strategy would set 30-day supplies for one copay as the standard across all plans (currently, PERSCare members receive 34-day supplies for one copay), and eliminating partial copay waivers. This approach reduces administrative and formulary complexity.

4. Carve-out Selected Pharmacy Benefit Management Tasks in Next Five-Year Contract

This strategy would ensure consistent formulary coverage and prior authorization requests during transitions.

**Budget and Fiscal Impacts**

The five proposed medical benefit strategies for 2018 would increase PPO third party administrative fees by \$0.98 PMPM for Basic plans and by \$0.90 PMPM for Medicare plans, but produces savings of \$5.68 million the first year. The proposed pharmacy strategies for 2019 and beyond are expected to mitigate future years' prescription drug costs and are consistent with the CalPERS 2017-2022 Strategic Plan; however, specific budget and fiscal impacts are unknown at this time.

**Benefits and Risks**

The benefits include:

- Health care costs savings of \$5.68 million in the first year
- Lower or stable prescription drug costs
- Supports the CalPERS 2017-2022 Strategic Goal to transform health care purchasing and delivery to achieve affordability
- Consistent with the "Let's Get Healthy California" Triple Aim for Better Health, Better Care, Lower Costs by directing members to the lowest cost site of care without compromising quality of care

The risks include:

- The PPO Basic plans may not realize the identified savings
- Potential increase in member appeals

**Attachment**

Attachment 1 – Medical and Pharmacy Benefit Strategies

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