December 19, 2017

Item Name: Prescription Drugs Utilization and Cost Trends

Program: Health Benefits

Item Type: Information

Executive Summary
An analysis of claims data demonstrates costs for drugs covered under Pharmacy Benefits and Medical Benefits (office-administered) continue to rise. The 2016 total drug costs paid under Pharmacy Benefits for all California Public Employees' Retirement System (CalPERS) plans were $2,153.16 million[1] ($1,286.09 million for Basic, $857.46 million for Medicare, and $9.61 million for Holding). Under Pharmacy Benefits, Specialty drugs as a percentage of the total prescription drug costs was 31.76 percent ($408.43 million) for Basic and 28.05 percent ($240.53 million) for Medicare. The 2016 total drug cost paid under Medical Benefits for all CalPERS plans were $500.66 million ($308.27 million for Basic and $192.39 million for Medicare). CalPERS staff continues to explore options for controlling expenditures on prescription drugs covered under Pharmacy and Medical Benefits while maintaining healthcare quality, choice and affordability.

Strategic Plan
This agenda item supports Health Care Affordability, by ensuring cost effective prescription drug utilization.

Background
This report evaluates outpatient drug utilization and cost trends for all CalPERS health plans, including association health plans. 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 Benefits of the health plans. Medical pharmacy drugs are those typically administrated in physician offices and infusion centers without the need for a prescription; they are covered under the Medical Benefits of the health plans. For the purposes of this agenda item, utilization and cost data were analyzed separately for drugs covered under Pharmacy Benefits versus Medical Benefits. Basic and Medicare populations were reported separately this year. Medical pharmacy claims data reporting started in 2016. New this year is the reporting of Place of Service as defined by Centers for Medicare and Medicaid Services.

[1]Total drug costs reported this year included Milliman's definition of Over the Counter (OTC) and unspecified drugs. Total drug costs reported in 2016 and earlier did not include OTC and unspecified drugs. Data is updated every month to include new claims, modifications, adjustments, and amendments to correct identified data issues by plans. Each data run is a snapshot of the data base at that moment in time. For example, 2014 total pharmacy cost extracted in 2015 would be different from those in 2016, or 2017.

The Health Care Decision Support System (HCDSS) data for medical pharmacy drugs are less specific than the HCDSS data for drugs covered under Pharmacy Benefits, causing limitations in reporting.[2]

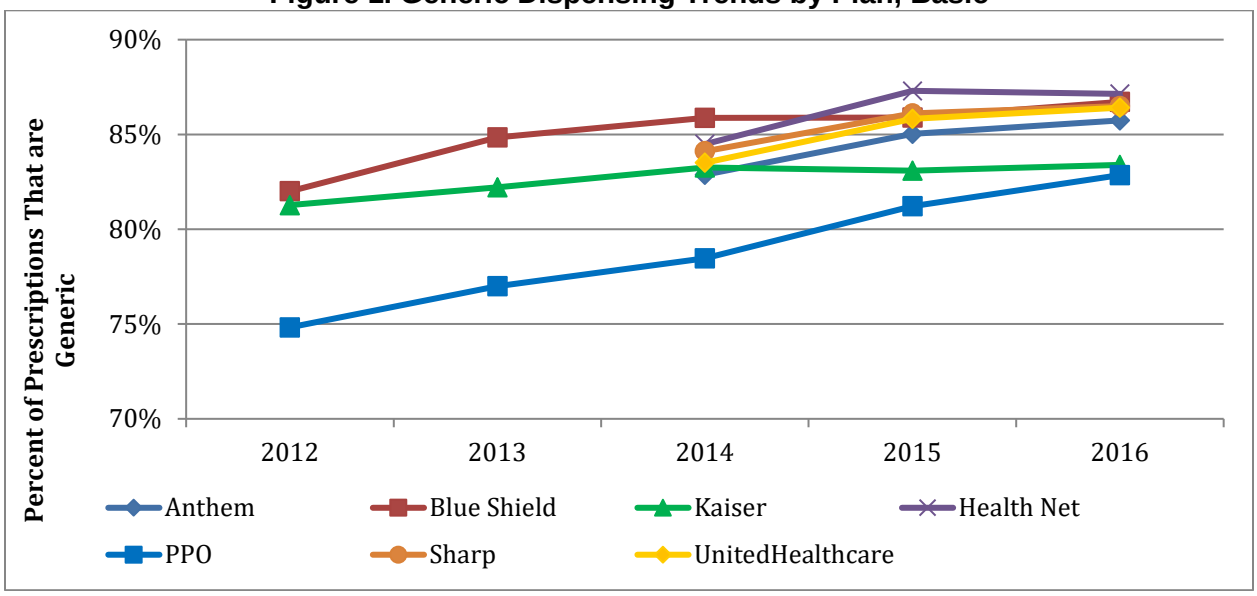
Basic, Overall 2016 Prescription Drug Program Statistics

The 2016 total prescription drug costs for all CalPERS Basic plans were $1,286.09 million for 10.86 million prescriptions, which represented a 2.14 percent increase over the costs of $1,259.19 million in 2015. The average cost (allowed amount) per prescription was $118.47, a 4.80 percent increase from 2015. The average cost per day supply was $2.89, a 3.82 percent increase from 2015. The top ten non-specialty drugs cost was $121.70 million and accounted for 13.87 percent of the total non-specialty drug cost.

The average member copay per prescription was $8.95 (7.55 percent), and for specialty was $24.20 (0.67 percent). For comparison, the 2016 average member copay per prescription for OptumRx Book of Business for State and Government Employers was $12.58 (11.5 percent), and for specialty was $102.88 (2.5 percent).

Specialty prescription drug cost trends from 2012 to 2016, demonstrated a sharp increase from $185.76 million to $408.43 million. Although specialty drug prescriptions represented only one percent of all prescriptions, specialty drug cost accounted for 31.76 percent of total drug costs. The top ten specialty drugs accounted for $218.02 million spending or 53.40 percent of the total specialty drug cost. The annual generic dispensing percentage from 2012 to 2016 by plan is illustrated by Figure 1.

Figure 1. Generic Dispensing Trends by Plan, Basic



[2]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.

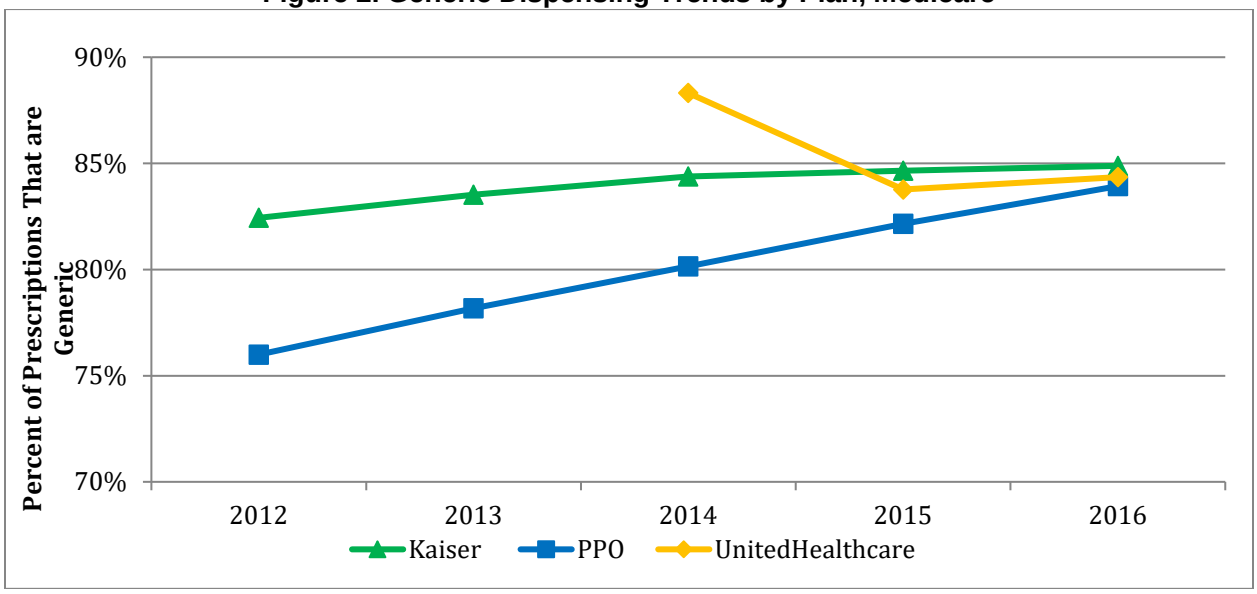
Medicare, Overall 2016 Prescription Drug Program Statistics

The 2016 total prescription drug costs for all CalPERS Medicare plans were $857.46 million for 6.54 million prescriptions, which represented a 12.07 percent increase compared to the cost total of $765.09 million in 2015. The average cost per prescription was $131.06, a 10.05 percent increase from 2015. The average cost per day supply was $2.41, a 10.60 percent increase from 2015. The top ten non-specialty drugs cost was $117.81 million and accounted for 19.10 percent of the total non-specialty drug cost.

The average member copay per prescription was $9.52 (7.26 percent), and for specialty was $24.73 (0.57 percent). For comparison, the 2016 average member copay per prescription for OptumRx Book of Business for Medicare was $27.13 (26.1 percent), and for specialty was $407.39 (8.3 percent). Member copays are typically set by the individual health plans, and are not set by the Pharmacy Benefit Manager.

Specialty prescription drug cost trends from 2012 to 2016, also demonstrated a sharp increase from $82.43 million to $240.53 million. Although specialty drug prescriptions represented only 0.85 percent of all prescriptions, specialty drug cost accounted for 28.05 percent of total drug costs. The top ten specialty drugs accounted for $114.72 million spending or 47.69 percent of the total specialty drug cost. The annual generic dispensing percentage from 2012 to 2016 by plan is illustrated by Figure 2.

Figure 2. Generic Dispensing Trends by Plan, Medicare



Medical Pharmacy Drug Statistics

From 2015 to 2016, the total medical pharmacy drug costs increased from $221.95 million to $308.27 million for Basic and $129.08 million to $192.39 million for Medicare with an annual percentage change of 38.9 percent and 49 percent respectively. In 2016, chemotherapy drugs accounted for 38.7 percent of the total medical pharmacy drug cost for Basic and 43.8 percent for Medicare. Outpatient Hospital is one of the most expensive places of service. Outpatient Hospital accounted for 4 percent of the total medical pharmacy place of service utilization for Basic, and 13 percent for Medicare. Outpatient Hospital accounted for 30 percent of the total medical pharmacy cost for Basic and 28 percent for Medicare.

Budget and Fiscal Impacts
Medical pharmacy and outpatient prescription drug costs continued to increase in specialty drugs. The reasons for the 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 increasing prescription drug costs.

Benefits and Risks
The benefits of cost containment methods for prescription drugs include health care cost savings and support of the CalPERS 2017-2022 Strategic Goal of health care affordability. Possible risks include inability to achieve targeted savings and potential increase in member appeals.

Attachments
Attachment 1 – Prescription and Medical Pharmacy Drug Utilization and Cost Trend

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