



## Pension and Health Benefits Committee Agenda Item 10

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February 13, 2018

**Item Name:** Pharmacy Pricing Strategies

**Program:** Health Benefits

**Item Type:** Information

### **Executive Summary**

This agenda item provides the Pension and Health Benefits Committee (PHBC) information concerning potential pharmacy pricing strategies for plan year 2019 and beyond to address rising prescription drug costs while maintaining quality and member choice.

### **Strategic Plan**

This item supports the California Public Employees' Retirement System (CalPERS) 2017-2022 Strategic Goal: "Transform health care purchasing and delivery to achieve affordability."

### **Background**

CalPERS spends more than \$2 billion per year on prescription drugs covered under the Pharmacy Benefits for its membership. CalPERS health team has been working on strategies to mitigate the rising cost of prescription drugs for the past several years. The CalPERS 2017-2022 strategic plan highlights a Pharmacy Benefit Manager Pilot and Reference Pricing Expansion initiatives as important steps toward achieving health care affordability. In January 2018, the CalPERS' health program convened a panel of experts to discuss strategies for achieving value and affordability in pharmacy benefits. The discussion also highlighted ineffective strategies that are not recommended for CalPERS, including the Narrow Formulary Strategy and Narrow Pharmacy Network. CalPERS is taking a multi-pronged approach to tackle the complex prescription drug pricing and contracting structure, which includes targeting cost, access, manufacturers and market.

### **Analysis**

The following table illustrates pharmacy cost reduction or containment strategies and the approximate timeframe associated with each strategy. A discussion on each strategy follows which provides further information on the approach and desired outcomes.

Table 1: Pharmacy Pricing Strategies

Pharmacy Pricing, Value and Affordability Strategies	Desired Outcome	2018	2019	2020
California Pharmaceutical Collaborative	Unified purchasing to negotiate better price for high cost/life-saving prescription drugs.	✓		
Academic Detailing	Improve cost effective use of prescription drugs thru prescribers' education.	✓		
Reference Pricing Pharmaceuticals by Therapeutic Class	Simplification of formulary management. Offer member choice and improve affordability.	✓		
Evaluate Value-Based Pharmacy Contracting	Guarantee financial remuneration for high cost drugs with ineffective outcomes.	✓		
Consider Additional Numerical Tiers	Increase administrative efficiency of formulary.	✓		
Institute for Clinical and Economic Review (ICER)	Negotiate better prices on new specialty drugs based on ICER benchmarks.		✓	
Carve-Out Select Pharmacy Benefit Manager (PBM) Tasks	Ensure consistent formulary coverage and PA requests during transitions.			✓

2018 Strategies

California Pharmaceutical Collaborative

CalPERS is currently a member agency of the California Pharmaceutical Collaborative (CPC). The CPC's mission is to coordinate the efforts of various state, local, and other governmental entities, as appropriate, to identify and implement opportunities for cost savings and quality improvement regarding pharmaceuticals. Where appropriate, the CPC will coordinate and align the development of clinical guidelines, oversee and optimize California's bulk drug procurement program, monitor California's purchasing of high cost prescription drugs, and provide coordination between California's major prescription drug purchasers. Within the CPC is the Drug Negotiation Panel, which is led by the California Department of General Services, and includes the following current major prescription drug purchasers: California Department of Public Health, California Veterans Affairs, California Department of Corrections and Rehabilitation, Covered California, California Department of Health Care Services, and California Department of Finance. The Drug Negotiation Panel is currently analyzing contracting strategies and viability for statewide purchasing for Hepatitis C Virus drugs.

**Desired Outcome:** To expand CalPERS' role as a member agency of CPC and join as a unified purchaser to negotiate a better price for life-saving therapies, such as, HCV drugs.

Academic Detailing

Academic Detailing is an outreach effort to encourage providers to prescribe drugs consistent with medical evidence, the specificity of the CalPERS formulary, as well as, the impact to members out-of-pocket costs when prescribing. Non-pharma sponsored clinicians educate physicians about the holistic benefit of drugs, including effectiveness and value.

**Desired Outcome:** Improve cost effective use of prescription drugs thru prescribers' education.



### Reference Pricing Pharmaceuticals by Therapeutic Class

The reference pricing strategy steers members to the lowest cost therapeutic alternative drug, but also gives the member a choice to pay more for a higher cost drug if desired. Consistent with the current pharmacy benefit design, a medical exception process will be available for members to request coverage of a targeted medication at the applicable tier copay if medically necessary.

The reference pricing design for selected prescription drug therapeutic classes will provide transparency to members in drug options, formulary, and pricing. It will replace Member Pays the Difference benefit design for brand name drugs that have generic equivalents, and may eliminate most utilization management processes, such as, prior authorization and step therapy for targeted medications. Attachment 1, includes further details about Reference Pricing for Pharmaceuticals.

**Desired Outcome:** Simplification of formulary management. Member engagement and choice to switch to lower cost alternative, pay the reference price or choose to pay more for a different drug; offer drug price transparency and saving opportunities for CalPERS and its members while maintaining quality and member choice.

### Evaluate Value-Based Pharmacy Contracting

The CalPERS team will evaluate pilot strategies with OptumRx that support evidence-based use of drugs through value-based contracting with drug manufacturers. Value-based contracting of prescription drugs is a formulary contracting effort aimed at linking drug prices with metrics such as adherence or total cost of care. OptumRx is making progress in obtaining manufacturer agreements that focus on how a drug performs in a member population. In these agreements, the manufacturers guarantee effective outcomes through financial reimbursement of drug costs or rebates if the drug did not perform as promised. A few of the value-based contracting agreements that are being considered for CalPERS' population are for drugs that treat obesity, diabetes, Multiple Sclerosis, and Cardiovascular -related disease.

**Desired Outcome:** Guarantee financial remuneration for high cost drugs with ineffective outcomes.

### Consider Additional Numerical Tiers

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 respectively, and are based on drug prices. The numeric system has become an industry standard for Medicare Part D plans, Covered California plans, and PBMs. Additionally, this strategy would set 30-day supplies for one copay as the standard across all plans, and eliminate partial copay waivers. This approach reduces administrative and formulary complexity as additional tiers might be added for higher cost generics and Specialty drugs. Blue Shield proposed restructuring its formulary to numerical tiers in late 2016. CalPERS is evaluating this numerical tiered formulary design for implementation in 2019 for Blue Shield and CalPERS PBM health plans.

**Desired Outcome:** Increase administrative efficiency of formulary management and information system changes. Additional numerical tiers such as a higher cost generic category or specialty drug category could be added.

### 2019 Strategy

The CalPERS team is exploring the ICER model approach to open and transparent engagement with interested stakeholders to develop a value based purchasing program or pilot for reference pricing specialty drugs. ICER compares the effectiveness and risk of new drugs and identifies differences of drugs in the same or similar therapeutic classes. In this model, the reference price

is set based on a cost, quality and comparative effectiveness. The ICER model provides lower prices and fewer barriers to battle (e.g. prior authorizations) when obtaining prescription drugs. **Desired Outcome:** Negotiate better prices on new specialty drugs based on ICER benchmarks.

### 2020 Strategy

Carving out selected PBM tasks would ensure consistent formulary coverage and prior authorization requests during transitions.

**Desired Outcome:** Ensure consistent formulary coverage and prior authorization requests during transitions

### Seeking Solutions

In addition to the strategies discussed, there are numerous challenges and initiatives that CalPERS can seek to address independently or through collaborative partnerships. These include:

- Avoiding shortages and limiting price increases on Drug Efficacy Study Implementation (DESI)<sup>1</sup> drugs, such as Colchicine;
- Group purchasing of drugs directly from manufacturers;
- Greater supply chain transparency;
- Common coding sets for medical pharmaceuticals;
- Affordability of high priced cures;
- Patent extensions that delay generic or over-the-counter drug releases;
- Alternatives to rebate driven drug pricing;
- Marketplace repricing of lifesaving drugs (i.e. EpiPen);
- Importation of FDA approved drugs from outside United States;
- Medicare direct contracting with manufacturers;
- Impact of direct consumer advertising on consumer demand; and,
- Cost increases of existing drugs higher than the rate of health care inflation.

### Next Steps

The CalPERS team will lead the effort to lower and/or stabilize CalPERS prescription drug costs by working with the PBM, Health Plans, and Stakeholders on the 2018 strategies and continue to plan on how best to execute future strategies and seek solutions. The team will periodically provide an update to the PHBC.

### **Budget and Fiscal Impacts**

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:

- Lowers or stabilizes CalPERS prescription drug costs
- Supports the CalPERS 2017-2022 Strategic Goal to transform health care purchasing and delivery to achieve affordability
- Provides greater transparency of drug cost to members

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<sup>1</sup> DESI was a program by the Food and Drug Administration (FDA) in the 1960s and subsequently amended that required all drugs be efficacious as well as safe.

The risks include:

- Increase in member complaints and appeals

**Attachments**

Attachment 1 – Reference Pricing Pharmaceuticals by Therapeutic Class

Attachment 2 – Pharmacy Pricing Strategies Presentation

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