



Pension and Health Benefits Committee Agenda Item 6

April 17, 2018

Item Name: Strategy for Reference Pricing Pharmaceuticals by Therapeutic Class (Pilot)

Program: Health Benefits

Item Type: Information

Executive Summary

This agenda item provides the Pension and Health Benefits Committee (PHBC) information concerning a potential reference pricing pilot for medications covered under the Pharmacy Benefits for Basic health plans serviced by OptumRx for plan year 2019 and beyond to address rising prescription drug costs while maintaining quality and choice for our members.

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

At the February 13, 2018, PHBC meeting, CalPERS team members presented Reference Pricing Pharmaceuticals by Therapeutic Class (Reference Pricing) as one of the pharmacy pricing strategies. Today, CalPERS team members continue to evaluate and develop a pilot for Reference Pricing for medications covered under the Pharmacy Benefits. CalPERS has looked at the option for adding additional pharmacy tiers; however, as presented to the Committee in prior meetings the CalPERS team believes that reference pricing by therapeutic class may be a better pilot as it will replace Member Pays the Difference (MPD) benefit design for affected brand name drugs that have generic equivalents, and may eliminate most utilization management processes (such as prior authorization and step therapy) for targeted medications.

Analysis

Reference Pricing provides transparency to members in drug options and pricing by offering members the lowest cost therapeutic alternative drug. Members have a choice to switch to lower cost alternative paying the applicable copay or choose to pay the cost difference between a targeted medication and its lower cost alternative, plus the applicable copay. Consistent with the current pharmacy benefit design, members or prescribers may request coverage of a targeted medication at the applicable tier copay if medically necessary as demonstrated through the established exception process.

At the May 16, 2017, PHBC meeting, CalPERS team members presented information on The United Food and Commercial Workers (UFCW) Trust Fund implementation of a reference price by therapeutic class 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.

The RETA Trust (the Trust) Reference Pricing Initiative

In 2013, the RETA Trust implemented a reference price by therapeutic class program in partnership with RxTE. It established reference prices for 30 therapeutic classes. The Trust is a national association of 55 Catholic organizations that purchases health care for clergy, school teachers and other types of employees. The Trust switched from tiered pharmaceutical formularies to a reference-pricing program in 2013.¹

The methodology for determining the therapeutic equivalent (same drug) or therapeutic alternative (similar drug) options begins by identifying an effectiveness goal for a drug class.² A list of drugs and dosages is compiled to provide a similar effect or benefit by drug class. This list can then be used as a guideline to determine the most appropriate drug and dosage to treat the member's health condition. A reference price for each therapeutic drug class is established.

Here is how the RETA Trust program worked. The Trust grouped 1,302 drugs into 78 therapeutic categories, then limited payment to the price of the least costly drug in each category—except in cases where a physician offered a clinical justification for using a more expensive drug. Patients who chose a drug that was more expensive than the reference drug, absent a valid clinical reason, had to pay the difference.

This program was evaluated by James Robinson, Ph.D., and the results of that evaluation were published in The New England Journal of Medicine. In the first 18 months after the implementation of the program, the RETA Trust's spending on prescription drugs dropped by \$1.34 million of 144,520 prescriptions.

CalPERS Reference by Therapeutic Class Pricing Pilot

Using the RETA Trust methodology, CalPERS developed a similar approach to reference pricing. Reference Pricing is the next logical step in the evolution of the CalPERS MPD program. Reference Pricing is similar to CalPERS' current MPD benefit. If a member currently uses a prescription drug on the Reference Pricing List, the member can choose one of three options:

1. Ask their doctor to switch to a lower cost prescription
2. Ask their doctor to request a medical necessity exception
3. Continue to use their current prescription and pay the cost difference

CalPERS team members examined claims data from 2017 and identified the top 16 therapeutic classes with the highest saving opportunities. From the top 16 therapeutic classes, based on input from external partners, CalPERS team members believe that nasal corticosteroids, thyroid medications, and estrogens are most suited to pilot reference pricing. The reasons for the three pilot class selections were low generic utilization, compatibility with current formulary, and low rebate impact.

Here is an example of reference pricing involving nasal corticosteroid for allergic rhinitis:

- The drug targeted for intervention was Nasonex (Tier 3 in 2017), which cost \$123.70. Of this, the member copay was \$50.00 and the plan cost was \$73.70.
- The generic equivalent mometasone (Tier 1 in 2017), which cost \$97.41. Of this, the member copay was \$10.00 and the plan cost was \$87.41.

¹Robinson JC, Whaley CM, Brown TT. Association of Reference Pricing with Drug Selection and Spending. N Engl J Med. 2017 Aug 17;377(7):658-665.

² There are approximately 70 therapeutic drug classes (e.g., "anticonvulsants," "proton pump inhibitors") currently in use in the industry.

- The Lowest Cost Alternative (LCA) drug by therapeutic class was identified as fluticasone, which cost \$3.65. Since the cost is less than the copay, the member cost was \$3.65 and the plan cost was \$0.00.
- If the member taking the Nasonex stayed on the drug after reference pricing, the member would pay \$123.70 (list price) - \$3.65 (LCA).
- If the member taking Nasonex switched to fluticasone, the plan saved \$73.70.

The roll out communications of the Reference Pricing program include member, pharmacy and prescriber outreach. Members would receive communications explaining the program, including targeted member impact letters. The claims adjudication system provides point of sale messaging to inform pharmacy staff of the reference price program. A one-time courtesy copayment override will be available for the first fill to minimize therapy interruption. Pharmacy training materials will direct the pharmacist to educate members on program options. Proactive outreach would be made to physicians concerning members on targeted medications.

Budget and Fiscal Impacts

The proposed Reference Pricing Pharmaceuticals by Therapeutic Class pilot is expected to mitigate future years' prescription drug costs and is 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
- Implementation timeline is not dependent on rate setting cycle

The risks include:

- Increase in member complaints and appeals

Attachments

Attachment 1 – Strategy for Pilot of Reference Pricing Pharmaceuticals by Therapeutic Class

Kathy Donneson, Chief

Health Plan Administration Division

Liana Bailey-Crimmins

Chief Health Director

Health Policy and Benefits Branch

