



Pension and Health Benefits Committee Agenda Item 7

June 19, 2018

Item Name: Reference Pricing Pharmaceuticals by Therapeutic Class

Program: Health Benefits

Item Type: Action

Recommendation

Approve the Reference Pricing Pharmaceuticals by Therapeutic Class (Reference Pricing) program for Basic health plans serviced by OptumRx beginning plan year 2019.

Executive Summary

This agenda item provides the Pension and Health Benefits Committee (PHBC) information concerning a reference pricing proposal 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. The California Public Employees' Retirement System (CalPERS) team members seek approval of the proposal.

Strategic Plan

This item supports the CalPERS 2017-2022 Strategic Goal "Transform health care purchasing and delivery to achieve affordability."

Background

CalPERS has implemented reference-based programs on the medical benefit. These programs included hip and knee replacement surgeries performed at select hospitals, and colonoscopy, cataract surgery, and arthroscopy if the procedures were performed in a hospital outpatient setting instead of an ambulatory surgery center.

Between May 2017 and April 2018, CalPERS team members presented three agenda items to the PHBC concerning reference pricing of medications covered under pharmacy benefits administered by OptumRx. Reference Pricing is a suitable program to 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 lower cost therapeutic alternative drug. If a member is taking a targeted drug, he/she has a choice to switch to the Lowest Cost Alternative (LCA) drug paying the applicable copay. Consistent with the current pharmacy benefit design, members or prescribers may

request coverage of a targeted medication at the applicable copay if medically necessary as demonstrated through the established medical exception process.

CalPERS Reference by Therapeutic Class Pricing

CalPERS 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 Basic member currently uses a targeted prescription drug on the reference pricing list, the member can choose one of three options:

1. Ask their doctor to switch to the LCA
2. Ask their doctor to request a medical necessity exception
3. Continue to use their current prescription and pay the full discounted cost (100%)

CalPERS examined claims data from 2017-2018 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 determined that nasal corticosteroids, thyroid medications, and estrogens are most suited to pilot reference pricing. CalPERS selected these three therapeutic classes for the first phase of the program due to low generic utilization, compatibility with current formulary, low rebate impact, and minimal disruption to members.

Here is an example of reference pricing involving thyroid drugs for hypothyroidism, supposing that a member is currently taking Tirosint 50mcg (Tier 3 in 2018), which is a drug targeted for intervention. The drug costs \$109.19; of this amount, the member copay is \$50.00 and the plan cost is \$59.19.

- The generic equivalent is Levoxyl 50mcg (Tier 1 in 2018), which costs \$9.15. Of this amount, the member copay is \$5.00 and the plan cost is \$4.15.
- The LCA drug by therapeutic class is levothyroxine 50mcg, which costs \$5.77. The member copay is \$5.00 and the plan cost is \$0.77.
- If the member stays on Tirosint 50mcg after reference pricing, the member would pay the full cost of \$109.19.
- If the member switches to levothyroxine 50mcg, the plan would save \$58.42 (=\$59.19-\$0.77) for this fill and future refills.

Communication Strategy

The roll out communications of the Reference Pricing program will include member, pharmacy, and prescriber outreach. Members would receive communications explaining the program, including print and online versions of a general letter explaining the program and 60- and 30-day targeted member impact letters. Network pharmacies would receive educational resources (fax blasts of reference pricing pilot overview and FAQs). The pharmacy claims adjudication system will provide point of sale messaging that inform pharmacy staff of LCA drugs. These resources will direct the pharmacist/staff to educate members on program options. OptumRx will conduct proactive outreach to providers concerning members on targeted medications. These will include fax blasts and newsletter content to in-network prescribers. CalPERS staff will also provide program communications via articles in PERSpective Newsletter and in the Preferred Provider Organization Newsletter OnHealth. OptumRx and CalPERS staff will work closely with the CalPERS Call Center during and after the implementation of the program.

Measurement of Success

To evaluate pharmacy reference pricing by therapeutic class, CalPERS will follow the path led by past evaluations of procedure-based reference pricing and price transparency. CalPERS will



determine the pilot's impact by:

- Conducting a survey of members impacted to determine their satisfaction with the pharmacy reference-pricing process and self-reported adherence to the medication
- An economic study on the cost impact to the member and CalPERS
- If possible, a claims study on adherence to pharmaceuticals in the therapeutic class before and after implementation of the pharmacy reference-based program

The program will be considered a success if it reduces costs to members and CalPERS, while keeping member satisfaction and adherence at or above previous levels. In addition, CalPERS will explore other therapeutic classes to add based on its experience and findings from the evaluation efforts.

Budget and Fiscal Impacts

Outpatient prescription drug costs continue to increase. The reasons for the increase include lack of price control in the United States, limited competition, and high-cost generics. The use of generics, biosimilars, and evidence based pharmacy benefit management strategies are critical to staying ahead of increasing prescription drug costs. The proposed Reference Pricing Pharmaceuticals by Therapeutic Class program 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 – Reference Pricing Pharmaceuticals by Therapeutic Class

Kathy Donneson, Chief

Health Plan Administration Division

Liana Bailey-Crimmins

Chief Health Director

Health Policy and Benefits Branch

