



## Pension and Health Benefits Committee

# Agenda Item 5c

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**September 25, 2018**

**Item Name:** Prescription Drugs Utilization and Cost Trends

**Program:** Health Benefits

**Item Type:** Information Consent

### **Executive Summary**

An analysis of claims data demonstrates costs for drugs covered under Pharmacy Benefits and Medical Benefits (office-administered drugs) continue to rise. The 2017 total drug costs paid under Pharmacy Benefits for all California Public Employees' Retirement System (CalPERS) plans were \$2,146.89 million<sup>1</sup> (\$1,246.05 million for Basic, \$880.09 million for Medicare, and \$20.75 million for Holding with an annual percent change of -3.1 percent for Basic and 2.2 percent for Medicare). Under Pharmacy Benefits, Specialty drugs as a percentage of the total prescription drug costs was 41.5 percent for Basic and 35.4 percent for Medicare. The 2017 total drug cost paid under Medical Benefits for all CalPERS plans were \$521.69 million (\$317.28 million for Basic and \$204.41 million for Medicare with an annual percent change of 9.0 percent and 6.2 percent, respectively). CalPERS team members continue 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 item supports the CalPERS 2017-22 Strategic Plan Goal to improve Health Care Affordability by transforming health care purchasing and delivery, to make it affordable while providing the best value in health care to our members.

### **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

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<sup>1</sup> 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.

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. Medical pharmacy claims data were reported by Place of Service, as defined by Centers for Medicare, and Medicaid Services and utilization.

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.<sup>2</sup>

#### Basic, 2017 Prescription Drug Program Statistics

The 2017 total prescription drug costs for all CalPERS Basic plans were \$1,246.05 million for 10.88 million prescriptions, which represented a 3.1 percent decrease over the costs of \$1,285.71 million in 2016. The average cost (allowed amount) per prescription was \$114.49, a 3.3 percent decrease from 2016. The average cost per day supply was \$2.87, a 0.3 percent decrease from 2016. The top ten non-specialty drugs cost was \$114.42 million and accounted for 15.7 percent of the total non-specialty drug cost.

The average member copay per prescription was \$8.11 (7.1 percent), and for specialty was \$24.89 (0.8 percent).

Specialty prescription drug cost trends from 2013 to 2017, demonstrated a sharp increase from \$267 million to \$517 million. Although specialty drug prescriptions represented 1.5 percent of all prescriptions, specialty drug cost accounted for 41.5 percent of total drug costs. The top ten specialty drugs accounted for \$227.45 million spending or 44.0 percent of the total specialty drug cost. The annual generic dispensing percentage from 2013 to 2017 by plan is illustrated in Attachment 1.

#### Medicare, 2017 Prescription Drug Program Statistics

The 2017 total prescription drug costs for all CalPERS Medicare plans were \$880.09 million for 6.82 million prescriptions, which represented a 2.2 percent increase compared to the cost total of \$861.44 million in 2016. The average cost per prescription was \$128.98, a 0.6 percent decrease from 2016. The average cost per day supply was \$2.35, a 1.3 percent decrease from 2016. The top ten non-specialty drugs cost was \$124.96 million and accounted for 17.1 percent of the total non-specialty drug cost.

The average member copay per prescription was \$7.89 (6.1 percent), and for specialty was \$16.00 (0.4 percent).

Specialty prescription drug cost trends from 2013 to 2017, also demonstrated a sharp increase from \$120 million to \$311 million. Although specialty drug prescriptions represented only 1.1 percent of all prescriptions, specialty drug cost accounted for 35.4 percent of total drug costs. The top ten specialty drugs accounted for \$130.78 million spending or 42.0 percent of the total

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<sup>2</sup> 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.

specialty drug cost. The annual generic dispensing percentage from 2013 to 2017 by plan is illustrated in Attachment 1.

### Medical Pharmacy Drug Statistics

From 2016 to 2017, the total medical pharmacy drug costs increased from \$291.21 million to \$317.28 million for Basic and \$192.51 million to \$204.41 million for Medicare with an annual percentage change of 9.0 percent and 6.2 percent respectively. In 2017, chemotherapy drugs accounted for 39.2 percent of the total medical pharmacy drug cost for Basic and 42.7 percent for Medicare. Outpatient Hospital is one of the most expensive places of service. For Basic, Outpatient Hospital accounted for 4 percent of the total medical pharmacy place of service utilization and 32 percent of the total medical pharmacy cost. For Medicare, Outpatient Hospital accounted for 11 percent of the total medical pharmacy place of service utilization and 28 percent of the total medical pharmacy cost.

### **Budget and Fiscal Impacts**

Despite a decrease in Basic outpatient non-specialty drug costs, expenditures for medical pharmacy, outpatient specialty, and Medicare outpatient non-specialty drugs continue to increase. 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 drug utilization 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 - Generic Dispensing Trends by Plan

Attachment 2 - Prescription and Medical Pharmacy Drug Utilization and Cost Trend

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