



Pension and Health Benefits Committee

Agenda Item 7a

September 25, 2018

Item Name: Reference Pricing Prescription Drugs by Therapeutic Class Update

Program: Health Benefits

Item Type: Information

Executive Summary

This agenda item provides the Pension and Health Benefits Committee (PHBC) an update on options considered by the Health Plan Administration Division for administering a program of reference pricing pharmaceuticals by therapeutic class. The analysis explains the advantages and disadvantages of four options for managing the program: (1) the Pharmacy Benefit Manager (PBM) using its own resources; (2) a governmental entity working with the PBM; (3) a for-profit entity working with the PBM; and, (4) a governmental or for-profit entity chosen by means of a solicitation contracting directly with CalPERS.

Strategic Plan

This item supports the California Public Employees' Retirement System (CalPERS) 2017-22 Strategic Plan Goal to improve Health Care Affordability by transforming health care purchasing and delivery while providing the best value in health care to our members.

Background

At the June 19, 2018, PHBC meeting, the Committee recommended approval for CalPERS team members to move forward with reference pricing of pharmaceuticals by therapeutic class. At that time, the PHBC directed staff to include another vendor to assist in this pilot program. CalPERS team members researched four reference pricing administration options and is moving forward with Option 2 to allow the PBM to work with a governmental entity to implement and maintain the pilot.

Analysis

Reference pricing for pharmaceuticals is the program by which a price threshold is set for each drug within a therapeutic drug class allowing members to obtain therapeutically equivalent medications at or below the member's generic copay. Prescriptions written for targeted medications above the threshold price would require the member to either have the prescription changed to a preferred drug within the therapeutic drug class and pay a reduced copay; request

a medical exception and pay a reduced copay; or pay the full retail price of the medication prescribed.

PBM Tasks

This type of pricing model requires the PBM to perform the following tasks:

- Establish the therapeutic drug class lists. The lists include all appropriate medications to be included within each therapeutic drug class. Consideration would be placed on efficacy, safety, quality, and therapeutic equivalents, while noting drug price/savings opportunities.
- Program the claims adjudication system according to the selected price threshold for targeted therapeutic drug classes.
- Test the claims adjudication system to ensure that targeted therapeutic drug classes will process the claim according to program design.
- Develop marketing materials to educate members, pharmacies and prescribers. Examples would include reference pricing program overview and FAQs, formulary documents, member portal updates, retail pharmacy and physician training/education, and call center support. Multiple letters will be sent to members notifying them of this new program.
- Develop reporting capabilities to evaluate the effectiveness of the pricing model.
- Develop and conduct member satisfaction surveys.
- Evaluate therapeutic drug classes on a regular basis to ensure medication lists are up to date with regard to new medications entering the market, changing brand/generic classifications, and price fluctuations within the targeted drug classes which may impact their designation as being a preferred or targeted drug

While this reference pricing strategy is relatively new to the PBM industry, all the tasks listed above can be performed by any well-developed PBM in the market today. There are two companies that currently perform reference pricing of drugs by therapeutic class: EnvisionRx and OptumRx. The Kaiser model already incorporates a comparable reference pricing program. These companies develop their own pricing models and are not dependent on an external consultant's price lists.

Customer Facing Support

The success of a reference pricing program requires a thoughtful customer-focused approach. All key players that are involved in the administration of the reference pricing program will place strong emphasis on customer facing support. This support involves interacting with members, pharmacies, and physicians either face-to-face, via telephone or by fax or e-mail. Providing live outbound member calls, and call center readiness training are critical for providing the best possible member experience. Marketing materials designed to educate members, pharmacies and physicians is of key importance as well. Additionally, multiple mailers to members will be sent prior to launch.

Administration Options

In order to administer this program, CalPERS team members considered the following four options:

- Option 1: PBM administration only
- Option 2: PBM and government entity
- Option 3: PBM and for-profit entity
- Option 4: Solicitation leading to a direct contract between CalPERS and either a governmental or a for-profit entity.

The following table summarizes the advantages and disadvantages of each option.

	Option 1 PBM alone	Option 2 PBM and government entity	Option 3 PBM and for-profit entity	Option 4 Solicitation
Savings	\$3.5 million*	\$2.5 million*	Unknown	Unknown
Implementation Complexity	Least	Medium	Medium-high	Unknown
Go-Live 1/1/2019 Feasibility	Most likely	Likely	Not feasible – 1/1/2020 possible	Not feasible – 1/1/2021 possible
PBM/Vendor Coordination	Not needed	Necessary	Necessary	Necessary
Experience with Reference Pricing	Good	Good	Good	Unknown

*Source of savings estimates: OptumRx.

Balancing the factors considered, CalPERS team members have selected Option 2 as the one best meeting the needs of CalPERS and its members. A state-to-state agreement between CalPERS and the government entity will be put into place through the end of calendar year 2018, to be followed by a subcontract between the PBM and the government entity.

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 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
- Supports member savings
- Implementation timeline is not dependent on rate setting cycle

The risks include:

- Increase in member complaints and appeals with increased call volume to member services
- Member confusion to benefits since EOC language will not be updated
- Implementation could be delayed beyond 1/1/19 depending on implementation option selected.

Attachments

Attachment 1 – Reference Pricing Prescription Drugs by Therapeutic Class: Options for Administration PowerPoint

Attachment 2 – Possible Division of Labor for Reference Pricing Tasks

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