



Pension & Health Benefits Committee

Agenda Item 6b

June 17, 2025

Item Name: Pharmacy Benefit Manager Contract Negotiations

Program: Health Benefits

Item Type: Information

Executive Summary

This agenda item provides the Pension and Health Benefits Committee (PHBC) with an update on the status of the California Public Employees' Retirement System's (CalPERS) contracting efforts to provide outpatient pharmacy benefits for our preferred provider organization (PPO) Basic and Medicare Supplement plan members and many of our health maintenance organization (HMO) Basic and Medicare Advantage plan members starting January 1, 2026. CalPERS' approach builds on our core objectives to improve healthcare quality, access, affordability, and equity. This agenda item provides an overview of the objectives and approach, strategic considerations, and status updates of the contracting process.

Strategic Plan

This item supports the CalPERS 2022-27 Strategic Goal: Ensure our members have access to equitable, high-quality, affordable health care.

Background

The Health Policy and Benefits Branch (HPBB) is engaged in contract negotiations with vendors to provide outpatient pharmacy benefits to members in our PPO Basic and Medicare Supplement plans and many of our HMO Basic and Medicare Advantage plans starting January 1, 2026.

CalPERS is nearing the end of a contract with OptumRx (Optum), its current pharmacy benefits manager. This contract was originally for five years (2017-2021) but has been extended twice for a total of nine years. This contract is a self-funded arrangement where Optum administers pharmacy benefits for approximately 587,000 of our members, including 422,000 Basic members and 165,000 Medicare members. Almost 400,000 of our members receiving pharmacy benefits through Optum are PPO members, including 153,000 Medicare Supplement plan members.

Our three main objectives for the 2026-2030 pharmacy contract are to: 1) foster affordability for CalPERS and its members, 2) ensure access to safe and effective medications, and 3) provide full transparency regarding the terms and arrangements between CalPERS and its pharmacy benefits provider. These objectives reinforce CalPERS' ongoing commitment to member choice, safety, and prescription drug access. HPBB intends to build on what has been adopted for the HMOs and PPOs to align pharmacy benefit vendors with CalPERS' financial and quality goals in providing the best possible care while controlling health care costs.

Analysis

HPBB conducted a nationwide market scan of pharmacy benefits vendors in the fall of 2024 to assess the landscape of potential vendors and chose twelve entities with whom to enter contract discussions. These discussions centered around their scope, approach, and capacity to provide pharmacy benefits for our members. The twelve entities included all of the 'Big 3' pharmacy benefits managers (PBMs), several mid-sized and smaller PBMs, a coalition and a health plan. Through multiple discussions with these vendors regarding pricing and financials, clinical aspects such as formulary and utilization management, and operational aspects such as transparency, auditing and data capabilities, HPBB narrowed the list of vendors to enter contract negotiations.

As part of these negotiations, HPBB is considering the best and final financial offers from a narrow list of vendors. This includes assessing the credibility of their financial offers, comparing the net value of each offer and assessing their cost trend guarantees. In addition, HPBB is negotiating important contractual terms such as auditing rights, transparency, and clinical issues such as formulary and utilization management. Lastly, HPBB is analyzing the impact of member disruption should a transition to a new vendor occur. We will bring a final recommendation for our next outpatient pharmacy benefits contract to the July Board Offsite. Implementation activities will begin immediately after the Board's decision, with the contract beginning on January 1, 2026.

Budget and Fiscal Impacts

Not Applicable

Benefits and Risks

Benefits:

- Secure the most competitive pharmacy benefits pricing and establish strong financial contract terms for CalPERS
- Implement innovative programs to better serve members
- Align CalPERS strategic objectives with pharmacy benefit contractor's financial and programmatic goals
- Improve sustainability of the health program

Risks:

- Member abrasion due to program changes

- Member disruption due to formulary and utilization management changes with potential new vendor
- If CalPERS selects a new vendor, there may be implementation challenges, challenges to fulfill contractual obligations, or both

Attachments

Attachment 1-Pharmacy Benefits Contracting Update PowerPoint

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