



## Pension & Health Benefits Committee

# Agenda Item 7b

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**March 15, 2022**

**Item Name:** Pharmacy Benefits Manager Contract Extension

**Program:** Health Benefits

**Item Type:** Action

### **Recommendation**

Approve the extension of California Public Employees' Retirement System (CalPERS) Pharmacy Benefit Manager (PBM) contract with OptumRx for two additional years. This extension improves current drug pricing, increases drug pricing transparency, and enables CalPERS to provide continuity of pharmaceutical benefit management services during the unstable period caused by the COVID-19 pandemic.

### **Executive Summary**

CalPERS has an existing six-year contract with OptumRx to administer pharmacy benefits with an option to extend for an additional year, i.e., through 2023. Under this existing contract, OptumRx procures prescription drugs distributed through mail order and OptumRx's specialty drug pharmacy on an acquisition-cost basis. Under this arrangement, CalPERS compensates OptumRx for its actual costs associated with procuring and dispensing drugs through these channels. This limits OptumRx's ability to retain the difference between what it pays a drug manufacturer for drugs and what it charges customers for these drugs under an average wholesale price discount arrangement. The negotiated two-year contract extension will allow CalPERS to achieve best in market pricing. It will also provide CalPERS the opportunity to further evaluate the acquisition cost-based model without committing to a new five-year agreement.

### **Strategic Plan**

This item supports CalPERS High-Quality Affordable Health Care Strategic Goal.

### **Background**

CalPERS has long sought to reduce its pharmaceutical spend through a variety of innovative programs. This pharmaceutical innovation continued when the Pension & Health Benefits

Committee approved the transition of CalPERS' existing traditional rebate-driven contract with OptumRx to a market-leading acquisition cost-based contract in September 2020.

To realize the advantages that our current acquisition cost-based contract has, CalPERS will need a year-over-year comparison of the true cost of each drug that is reflected in the pricing before it can have the ability to tailor its formulary and cost-savings strategies based on actual drug pricing. This contract extension proposal includes a key provision to validate the acquisition price of mail order and specialty drugs. In addition, CalPERS was able to negotiate minimum price guarantees that ensure our pricing will be at or above best in market. CalPERS and external consultants project that the value of these price guarantees will save approximately \$94 million in 2022, \$131 million in 2023, and \$136 million in 2024 under the pricing terms in this proposal.

## **Analysis**

There are three options available:

1. Let the current contract expire on December 31, 2022;
2. Extend the current contract for an additional year, i.e., through December 31, 2023; or
3. Extend the current contract through December 31, 2024 that includes best in market pricing.

The current PBM contract is scheduled to expire on December 31, 2022. If the current contract is not extended, CalPERS would have to issue solicitation for a new PBM contract immediately. Implementing a new PBM contract is an extremely complex process that would burden CalPERS resources during a period of uncertainty, including the potential for interruptions in the pharmaceutical supply chain. Additionally, CalPERS has historically experienced member disruption when transitioning to a new PBM. If this were to occur, it could cause significant issues for CalPERS members and possibly delay their access to needed medication.

From the financial and transparency perspectives, the option to extend for an additional year is not as favorable as the option to extend for two years. The two-year extension provides improved pricing terms producing cost savings to CalPERS members and employers, increases drug pricing transparency, and prevents pharmacy benefit disruption. Letting the existing contract expire on December 31, 2022 or just extending for one additional year would neither improve pricing nor provide additional drug pricing transparency. Furthermore, it is highly unlikely that CalPERS could negotiate better terms than what has been negotiated under this two-year extension proposal.

## **Budget and Fiscal Impacts**

The administrative services fees for the two-year contract extension beginning January 1, 2023, through December 31, 2024 will be approximately \$38 million. This change to the overall cost of the contract will be reflected in the next Finance & Administrative Committee (FAC) Semi-Annual Prospective report.

## **Benefits and Risks**

The benefits of adopting the two-year contract extension include improved pricing, which produces cost savings to CalPERS members and employers, increased drug pricing

transparency, and little to no disruption for members receiving pharmacy benefits. The risks of not approving a two-year contract extension are that CalPERS may not achieve as favorable terms through a solicitation and may experience member disruption from implementing a new PBM contract. The risk of extending the contract for an additional year as opposed to two years is that CalPERS will not receive as favorable financial terms.

### **Attachments**

Not applicable.

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