



Pension & Health Benefits Committee

Agenda Item 6b

September 17, 2024

Item Name: Pharmacy Benefits Overview and Inflation Reduction Act (IRA) Update

Program: Health Benefits

Item Type: Information

Executive Summary

This agenda item describes the current pharmacy benefits landscape and provides updates on the Inflation Reduction Act (IRA) and impacts to California Public Employees' Retirement System (CalPERS), proposed federal and state legislation impacting the pharmacy market, and information on CalPERS current pharmacy benefit.

Strategic Plan

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

Background

Over the past several years, the pharmacy benefits landscape and the provision of pharmacy benefits have changed significantly. There has been extensive vertical and horizontal consolidation in the pharmacy benefits manager (PBM) industry; specialty pharmacies have proliferated; and new, potentially disruptive, entrants have emerged into the marketplace. To control spending and consolidation, there are several proposed regulations at the state and federal level which may impact the way CalPERS delivers pharmacy benefits to its members. There are conflicting theories on what the impact of these market changes will have on competition, drug prices, access to pharmacy services, and the future of the industry.

Signed into law in 2022, the IRA constitutes a major legislative effort to address drug pricing and Medicare expenditures. Within the IRA, Part D redesign and direct negotiation of pharmaceuticals have the most potential to impact our Medicare members and our program. Part D Redesign caps out-of-pocket (OOP) drug costs for Medicare members at \$2,000 per year. To fund this redesign, the law shifts most of the financial liability from Medicare to payers. Direct negotiations grants Medicare the authority to negotiate drug prices directly with pharmaceutical companies. While the direct negotiation provision applies solely to the Medicare population, the resetting of prices could have a profound effect on drug prices for the commercial market as well.

In 2023, CalPERS spent over \$11.2 billion to purchase health benefits for our members. Of that, approximately 21 percent was for outpatient prescription drugs alone, which represents a 2 percent increase from 2022. CalPERS currently contracts with pharmacy plans that are fully insured for members enrolled in two of our contracted health maintenance organizations (HMOs), Kaiser Permanente and Blue Shield of California. Our current self-funded pharmacy vendor is OptumRx, which provides benefits to the remaining HMO and preferred provider organization (PPO) members. CalPERS' contract with OptumRx covers approximately 587,000 members, including 422,000 Basic and 165,000 Medicare members, and will end on December 31, 2025.

With an understanding of the evolving and complex pharmacy marketplace in mind, CalPERS is assessing its options for a pharmacy benefits contract starting January 1, 2026 for its members currently served by its self-funded prescription drug benefit. CalPERS' approach to its 2026-2030 self-funded pharmacy benefits strategy builds on our core objectives of improving healthcare quality, access, affordability, and equity. Integral to this effort is our desire to align CalPERS' objectives with the financial and programmatic goals of the pharmacy partner that we engage with for the coming years. Our three main objectives with our new contract are to foster affordability for CalPERS and its members, ensure access to safe and effective medications, and to ensure full transparency of the terms and arrangements between CalPERS and its pharmacy vendor. These objectives complement CalPERS' continued commitment to ensuring member choice, safety, and prescription drug access.

Analysis

Not applicable.

Budget and Fiscal Impacts

Not applicable.

Attachments

Attachment 1 - Pharmacy Benefits Overview and Inflation Reduction Act (IRA) Update

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