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CORRESPONDENCE MEMORANDUM

DATE: October 21, 2015
TO: Group Insurance Board
FROM: Jeff Bogardus, Manager, Pharmacy Benefit Programs
Office of Strategic Health Policy
SUBJECT: Pharmacy Benefit Manager Contract Extension – Navitus Health Solutions

Staff requests the Group Insurance Board (Board) approve the final, one-year contract extension with Navitus Health Solutions, LLC (Navitus), the Board's current Pharmacy Benefit Manager (PBM), to extend the terms of the contract through December 31, 2017.

Background

The original contract term with Navitus ran from January 1, 2011 through December 31, 2013, and included an option to extend the contract for either two additional two-year periods, or one additional four-year period. In May 2013 the Board exercised the option to extend the contract for one two-year period, and in November 2014 the Board was asked to approve the final two-year contract extension provision. The Board instead directed staff to negotiate a one-year contract extension from January 1, 2016, through December 31, 2016, and to prepare a Request for Proposals for the contract year beginning January 1, 2017.

The renegotiated one-year contract extension included a provision that allows the Board, at its discretion and in agreement with Navitus, to extend the contract for one final year (January 1, 2017 through December 31, 2017). The administrative fees charged by Navitus since January 1, 2013, as approved by the Board, have remained at \$2.60 per member per month (PMPM) for the commercial coverage, and \$10.88 PMPM for the Medicare Part D employer group waiver plan (EGWP), and wrap benefit coverage. Navitus has proposed maintaining those administrative fees for the 2017 plan year as well.

Discussion

Navitus is the third party administrator of the pharmacy benefit programs for the State and Wisconsin Public Employer (WPE) group health insurance programs. Navitus administers the commercial coverage provided to active employees, continuants, early

Reviewed and approved by Lisa Ellinger, Director,
Office of Strategic Health Policy

Electronically Signed: 11/3/15

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retirees and each of their dependents; and the Navitus MedicareRx (PDP), Medicare Part D employer group waiver plan for Medicare enrolled retirees and their dependents.

Staff identified the opportunity to extend the terms of the contract through December 31, 2017 with the guidance of Segal Consulting (Segal), and after considering the analysis completed after the November 2014 Board meeting. As noted in Segal's March 25, 2015 report to the Board, "Our analysis indicates that the current contract with Navitus is providing competitive pricing." In addition to competitive pricing, the following considerations support the contract extension:

- Navitus has continued to successfully administer the pharmacy benefits in accordance with agreed-upon standards and the terms of the administrative agreement.
- Navitus has met or exceeded all performance standards related to member eligibility management, claims processing, pharmacy network administration, member communications, and other measurable customer service standards.
- Audit reports regarding Navitus compliance for the years 2007 through 2014 produced by TRICAST, Inc., the vendor contracted to audit the pharmacy benefit programs, revealed no significant shortcomings and indicated that Navitus is compliant with the administrative service agreement.
- Member complaints and grievances regarding Navitus are minimal, representing issues from less than 0.05% of our members.

While Navitus has expanded its client base -- bringing large groups of covered lives under their PBM administration -- it has continued to provide the State and WPE group health insurance programs, as well as the Board and staff, with the customer service, support and respect that we have come to expect through this partnership. Navitus continues to collaborate with the Board, Segal, staff and other interested parties and adapt to the Board's and group health insurance programs' changing needs. As an example, Navitus, working with participating health plans and ETF, currently manages accumulator files that track member medical and pharmacy out of pocket costs that apply to our plan deductibles and the Federal maximum out of pocket limits, and notifies health plans when those thresholds have been met by the member. The service Navitus provides reflects its continued commitment to the State and WPE programs.

Extending the contract through December 31, 2017, lends itself well to coordinating with the overall plan changes that Segal is proposing for 2017. In addition, the extension will also allow staff and Segal the opportunity to issue a Request for Information (RFI) for response from the PBM industry. An RFI would provide insight into current pharmacy benefit management trends and innovations specific to topics the group health insurance programs need to address. The results of the RFI would be used to inform the development of the PBM Request for Proposals (RFP).

In February 2015 the California Public Employees' Retirement System (CalPERS) issued an RFI and received responses from nine PBMs, including the top PBMs in the industry. A copy of the CalPERS RFI is attached to this memo. According to CalPERS,

the responses they received addressed PBM services currently provided or being contemplated for the future, including innovative strategies and programs being developed or implemented in the next three to five years. This included topics such as:

- Strategies to provide plan flexibility and control, while also offering quality services and member choice based on formulary and network management.
- Formulary and network management of specialty medications.
- Revenue and cost models (gross and net) that promote transparency, market cost savings and rebates.
- Member and prescriber engagement strategies that enhance adherence as well as evidence-based prescribing.
- Strategies to manage external factors such as the impacts pharmaceutical manufacturers have on cost and transparency, as well as federal and state policy/legislation.

Additional information staff would like to obtain through an RFI would include:

- Strategies to assess the evidence-based value of high-cost prescription drugs, and quality-of-life enhancements the drugs may offer.
- The long-term medical costs that may be the direct impact of adverse events associated with certain drugs to aid in formulary development.
- Revenue and cost models that align with full financial and administrative transparency, full revenue pass-through, and lowest net cost concepts.

Issuing an RFI in January 2016 would allow Segal and staff the time to evaluate responses, report to the Board by May 2016, and integrate the findings into an RFP for PBM services to be effective January 1, 2018.

Alternative to Staff Recommendation

If the Board chooses to not exercise this final contract extension option with Navitus, another alternative is to issue an RFP for PBM services to be effective January 1, 2017. Staff has been working with ETF's Budget/Procurement office and is prepared to issue an RFP before the end of 2015. Following is the projected timeline for managing the RFP process:

December 1, 2015	RFP Solicitation Issued
January 14, 2016	Vendor Proposals Due
January 15, 2016–March 14, 2016	Evaluation Committee Review & Recommendation
March 15, 2016.....	Board Decision on Recommendation
March 16, 2016.....	Intent to Award Issued
March 17, 2016–April 29, 2016.....	Contract Negotiations
May 2, 2016	Award Contract

With the understanding that more benefit changes and challenges will likely present themselves for the 2018 plan year, issuing an RFP before the end of 2015 and having a new PBM contract in place for January 1, 2017, would allow staff the time to focus on the likely benefit plan changes for 2018. However, the same argument can be made for

postponing the RFP, which will free up more time for staff to manage the impacts of 2017 plan year benefit changes and develop an even more robust RFP for later deployment. Delaying the RFP deployment is especially compelling since a PBM is currently in place that has proven their ability to administer our benefits and partner with the Board, and that is proposing to not increase administrative fees for the final year of the contract.

Conclusion

Staff recommends approval of the one-year extension of the contract with Navitus, to run from January 1, 2017 through December 31, 2017. Staff further recommends the solicitation of a PBM RFI, in order to incorporate results into the RFP for PBM services to be effective January 1, 2018, which would be solicited in late 2016.

Staff will be at the Board meeting to answer any questions.

Attachment: CalPERS Request for Information No. 2015-001



**Request for Information No. 2015-001
February 19, 2015**

Pharmacy Benefit Manager

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
PHARMACY BENEFIT MANAGER
REQUEST FOR INFORMATION 2015-001**

A. Background:

The California Public Employees' Retirement System (CalPERS) is the third largest purchaser of healthcare in the nation, providing benefits to more than 1.4 million State and contracted local public and school employees, retirees and their families. The CalPERS Health Benefits Program offers three types of health plans: Health Maintenance Organizations (HMO), Preferred Provider Organizations (PPO) and Exclusive Provider Organizations (EPO) with separate Medicare plans. CalPERS currently contracts with a Pharmacy Benefit Manager (PBM) to provide pharmacy benefit services for some of our HMO plans and all of our PPO and EPO plans. For more information on the program, visit CalPERS On-Line at www.calpers.ca.gov.

CalPERS is issuing this RFI to solicit information from PBMs about the services they will provide for the next 3 to 5 years, in addition to any innovations they currently employ or are contemplating employing in providing these services.

The services should be consistent with CalPERS Guiding Principles at <https://www.calpers.ca.gov/index.jsp?bc=/about/strategic-business/values-principles.xml>.

B. Areas of Interest:

For each of the areas below, please provide your perspective and insight on market-leading practices and evolving innovations.

1. **Formulary Control** – Describe flexibilities to leverage the PBM's extensive pharmaceutical expertise to drive formulary decisions and customize to CalPERS needs.
2. **Network Drivers** – Describe innovations in retail, mail and specialty programs to enhance pricing and savings. Promote the use of network pharmacies to optimize plan designs.
3. **Strategic Vision** – Describe strategies that promote greater flexibility with pharmacy benefit programs, while maintaining member choice and healthcare quality.
4. **Pharmaceutical Revenue and Cost** – Suggest gross and net cost models that promote transparency, market cost savings and rebates.
5. **Member Engagement Strategies** – Educate CalPERS members on the value of therapy adherence in managing their conditions.

6. **Prescriber Engagement Strategies** – Educate Prescribers on the value of evidence-based prescribing.
7. **Stakeholder Engagement Strategies** – Provide meaningful information and education to all CalPERS stakeholders in a timely manner.
8. **Innovation Strategies** – Provide innovative programs and services that you envision developing and/or implementing in the next 3 – 5 years.
9. **Pharmaceutical Manufacturers** – Provide strategies on influencing federal and state policies that promote meaningful reform to increase transparency and cost management.
10. **Flexibility** – Provide operational IT systems, and customize member messaging to promote new plans, networks, and tiers with an expedited timeframe.
11. **External Factors** – Provide strategies for managing global pharmaceutical trends, e.g., the cost of Sovaldi in India verses in the United States.

C. Submission Requirements:

It is desirable that respondents have extensive experience in providing pharmacy benefit management services to very large diverse populations. For each area of interest, responses should include examples that illustrate your firm's ability taking into account your firm's current capabilities, size and resources. Please include Page 4 of this RFI with your submitted response.

Please submit responses in **MS Word** via email with reference [RFI 2015-001](#) in the subject line to:

HPAD_Solicitations@CalPERS.CA.GOV

Please submit responses to CalPERS no later than 5:00 p.m. PST, March 20, 2015.

Although CalPERS is seeking as much information as possible, responses are not required for every area of interest. CalPERS may request clarification of the intent and content of a respondent's responses. Such requests may be conducted in person, or by video or telephone conferences.

The information provided may be used at the discretion of CalPERS.

D. Respondent's Costs:

Responding to this RFI is completely voluntary. Any work performed by a respondent in responding to this RFI will be at the respondent's sole discretion and expense. CalPERS will not reimburse a respondent for any costs associated with responding to this RFI, including, but not limited to, travel expenses for in-person meetings. CalPERS appreciate respondents' willingness to participate in the process.

This RFI does not represent a commitment to purchase or lease services and shall not be construed as a request or authorization to perform work on CalPERS behalf.

E. Confidentiality:

Upon submission, all responses become the property of CalPERS and will be regarded as public records and may be subject to public inspection or disclosure. If the respondent seeks to exempt certain pages or items from public inspection or disclosure, respondent should clearly mark them as "PROPRIETARY INFORMATION." CalPERS will use reasonable efforts to exempt such pages or items from public disclosure pursuant to various disclosure requirements under State and Federal Law, but makes no representations or warranties that such efforts will be successful. **Please note that the entire response cannot be considered proprietary information.**

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
PHARMACY BENEFITS MANAGER**

REQUEST FOR INFORMATION 2015-001

1. Respondent Information

A. Respondent Name:

Address:

City, State, Zip

Company Type:

Publicly-Traded or Private

Company Size (total
number of employees):

B. Primary Contact:

Name:

Title:

Address:

City, State, and Zip

Phone:

FAX:

E-mail:

Website: