

Pharmacy Benefits Overview and Inflation Reduction Act (IRA) Update

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Agenda

- Pharmacy Benefits Managers (PBMs) Overview
- Legislation and Inflation Reduction Act (IRA) Updates
- CalPERS Pharmacy Benefits

Exceptional Health Care



History of Pharmacy Benefits Managers (PBMs)

1965

1st PBMs founded by pharmacists in the U.S.

1970

Expansion of the PBM market through horizontal & vertical integration

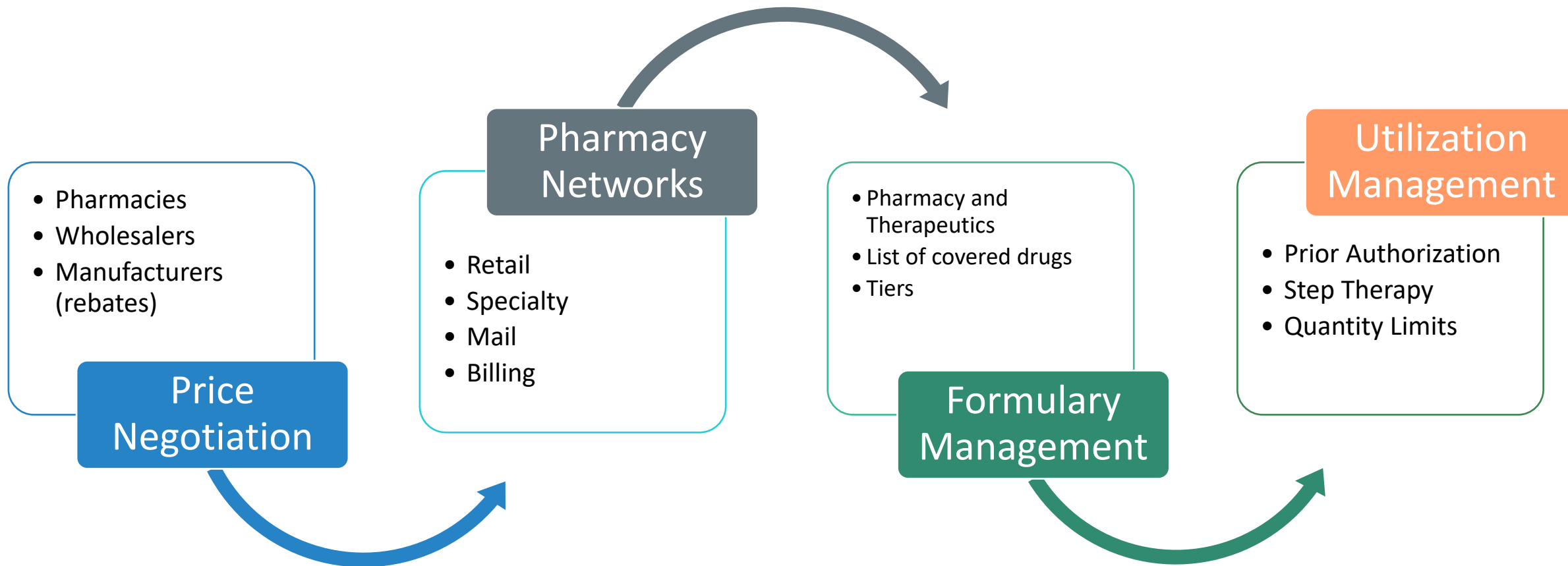
1990

Vertical integration between PBMs & drug manufacturers as well as pharmacy chains

2000

Increasing vertical integration between PBMs & health insurers

PBM 5 Core Functions



Vertical Integration

Vertical Business Relationships Among Insurers, PBMs, Specialty Pharmacy



PBM Legislation



Numerous federal investigations (Federal Trade Commission, Government Accountability Office, House Committee on Oversight and Accountability) into PBMs.



Several federal bills introduced in the last two years targeting PBMs including at least 5 with bipartisan support.



California passed legislation to increase monitoring and accountability of PBMs under fully insured contracts.

Inflation Reduction Act (IRA) Updates

IRA signed into law 2022

Intent is to provide meaningful financial relief for millions of people with Medicare by:

- Expanding benefits;
- Lowering drug costs; and
- Strengthening the Medicare program for the future.

Gradually phases in key amendments between 2022 and 2029

- Federal negotiation of drug prices
- New cap on Part D member cost sharing
- Penalties for manufacturers that raise prices faster than inflation

Timeline for Key Part D Milestones



- Insulin copay limits at \$35
- Eliminate vaccine copays



- Part D Benefit Redesign
- Cost smoothing

2023

2024

2025

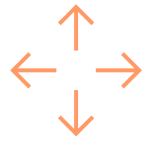


- Eliminate member cost share in the catastrophic phase



- Implementation of drug price negotiations

Part D Benefit Redesign for 2025



The most significant changes from the IRA will be seen in 2025 and later:

- The maximum out of pocket (MOOP) may be the most visible change for Medicare beneficiaries,
- Cost smoothing and the drug price negotiation program will have significant impact into 2030 and beyond.



Many Medicare beneficiaries will pay less in out-of-pocket costs for prescription drugs starting in 2025 than they do under the 2024 "standard" Part D benefit design.

CalPERS Pharmacy Benefits

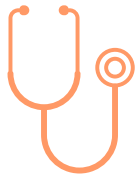
CalPERS Pharmacy Benefits



Pharmacy vendors

OptumRx (self-insured), Blue Shield and Kaiser (fully-funded)

Primarily patient or caregiver administered drugs covered under the pharmacy benefit




Medical pharmacy vendors

Our HMO and PPO health plans

Primarily provider administered drugs (e.g., infusions, some injections, etc.) covered under the medical benefit

Total Outpatient Pharmacy Spend



	2020	2021	2022	2023
Total spend	\$1.76 billion	\$1.91 billion	\$2.01 billion	\$2.39 billion
Total spend as % of premium	18%	19%	19%	21%

CalPERS Pharmacy Benefit Design

Optum Rx

Retail (30 Day Supply)

- Tier 1: Generic (copay \$5)
- Tier 2: Preferred Brands (copay: \$20)
- Tier 3: Non-preferred Brands (copay: \$50)
- No deductible or co-insurance

Mail Order

- Only applies to maintenance medication
- 90-day supply for two co-pays (rather than 3)

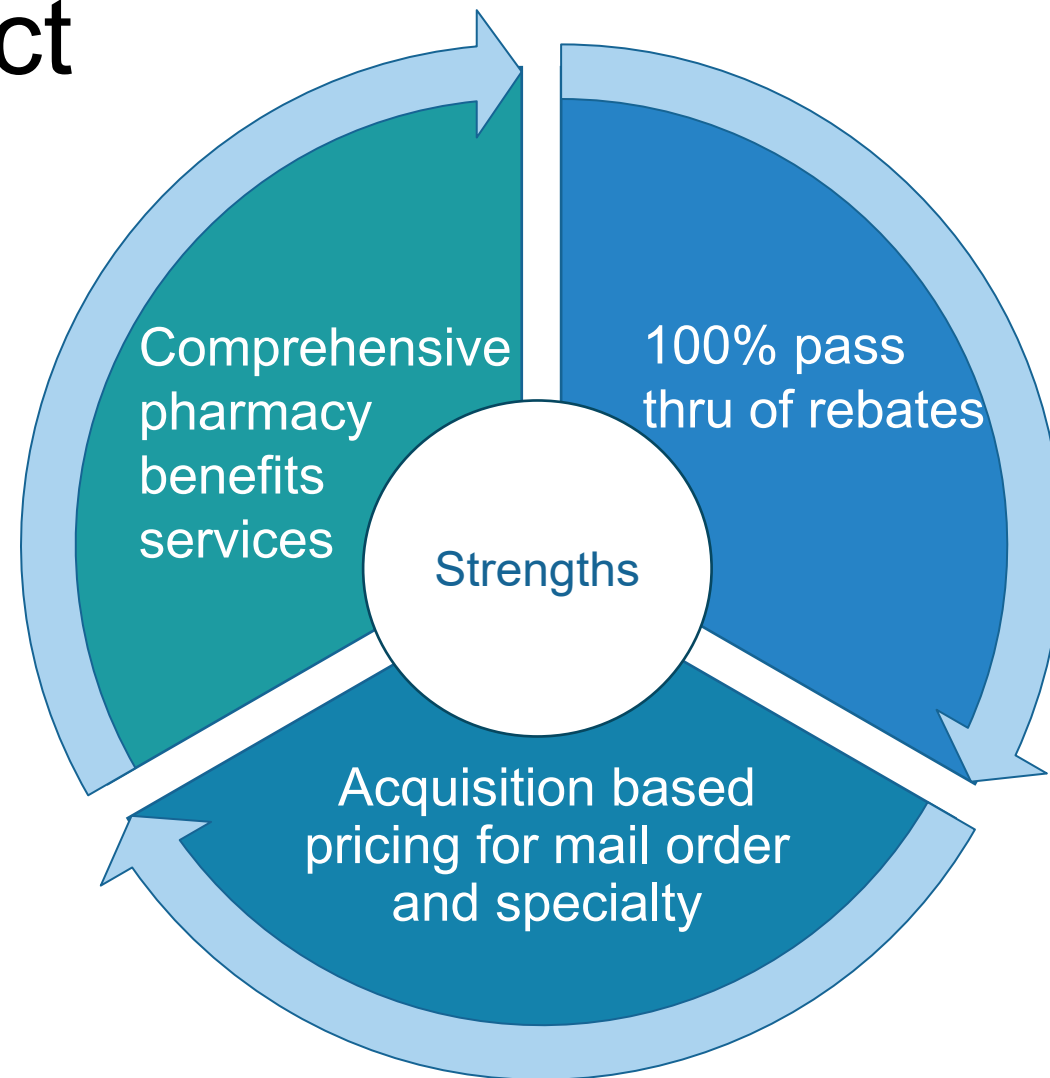
Specialty

- Typically, Tier 2 or 3

BSC and KP have similar benefit designs

CaIPERS PBM Contract

Optum Rx: Original 5-year contract with two extensions, ending December 2025



Objectives for new Pharmacy Benefits Contract



Affordability

- Pricing arrangement that ensures stability for CalPERS and its members.
- Measure and assess pharmacy and medical spend.



Quality & Access

- Substantial performance guarantees linked to timely access, safety & exceptional customer service.
- Foster member access to low-cost, high-quality pharmacy benefits.



Transparency

- Full transparency of all relevant financial information.
- Ensure integrity of administrative, clinical and payment services.

Questions and Discussion