



TOOLS & SUPPORT  
May 2019

# Attacking Waste through Formulary Management: Self-Insured Schools of California

In overhauling its pharmacy benefit, Self-Insured Schools of California relied on three key principles in its approach: attacking waste, lowest net cost, and transparent pricing.



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# Case Study

## Attacking Waste through Formulary Management

Established in 1979, **Self-Insured Schools of California (SISC)** is a public school Joint Powers Authority administered by the Kern County Superintendent of Schools Office and governed by a Board of Directors composed entirely of employees of school districts. Based on the philosophy of "schools helping schools," SISC pools resources across school districts to secure affordable and sustainable health benefits coverage for its members. According to SISC, "this keeps millions of dollars in the classroom that would have otherwise been paid out in premiums."

Growing steadily over the last 30 years, SISC provides health care benefits to staff and their families at over 400 school districts in 43 counties in California, covering 330,000 total members in its benefits plans. Of the total, 250,000 members are in either an Anthem Blue Cross or Blue Shield of California PPO or HMO and receive pharmacy benefits through a pharmacy benefits manager (PBM), Navitus Health Solutions (Navitus). The remaining 80,000 members receive health coverage through Kaiser Permanente.

This case study focuses on the pharmacy benefits SISC offers through Navitus. To understand the program, CPR interviewed John Stenerson, Deputy Executive Officer of Self-Insured Schools of California and Thomas Cordeiro R.PH. FASCP, President of Integrity Pharmaceutical Advisors LLC.

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### What is a Joint Powers Authority, or JPA?

Joint powers are exercised when government agencies formally agree to pool their resources to tackle a common problem or achieve a shared goal. In SISC's case, it works to keep health care coverage affordable for its member school districts.

## The Problem & Background

### Pharmacy costs were out of control

Every year, school districts have the option to continue their participation in the SISC health care purchasing pool, leave to participate in another pool or purchase benefits coverage independently. If SISC wants to keep its participants, it's imperative for SISC to control costs and innovate. Over the last 10 years, SISC has experienced relative stability in its health care costs, which have typically risen between 3-8% annually each year before benefit changes.

While managing to keep health care costs relatively stable, SISC was battling high pharmaceutical prices and needed to determine how to keep costs down, while balancing the desire to maintain access to drugs for patients. In 2003, SISC created a value-based insurance design with its prior PBM, featuring higher member co-pays for brand name drugs in therapeutic classes with generic equivalents (SISC discontinued this program in 2011). Then in 2005, SISC began waiving members' co-pays for generics at Costco after SISC saw significant cost differences between Costco and other pharmacies. To this day, SISC employs this tactic to support member awareness and use of generics. Finally, in 2012, SISC began excluding Walgreens from its pharmacy network due to higher costs.

Despite these efforts, pharmaceutical cost increases remained "out of control," with the pharmacy portion of the SISC renewals to members growing an average of 11.7% annually between 2010 and 2014. As a result, in 2014, SISC looked at its pharmacy program with fresh eyes seeking to build a new approach from scratch. SISC identified the following two challenges to address:

- 1) **Lowering net pharmacy cost instead of maximizing rebate income:** SISC questioned the logic of covering a more expensive drug with large rebates, rather than getting a drug at a lower cost without rebates, which could ultimately cost less. SISC found that while drug rebates are advantageous for PBMs, they aren't necessarily the best deal for the purchaser.
- 2) **Identifying a PBM that is not focused on driving usage of its own mail-order pharmacy:** SISC found PBMs that own a mail-order pharmacy strongly encourage the plan to incent members to move their prescriptions to mail. SISC was concerned that while the mail order pharmacy is a profit center for the PBM, it offers minimal savings to the plan.

While viewing PBMs through a critical lens, SISC realized that it didn't have the in-house expertise to deal with the complexity of the pharmaceutical market and looked to find a consultant partner to assist with its strategy.

## Designing the Strategy

### Choosing a consultant

A highly self-sufficient organization, SISC has historically not worked with consultants to build or implement its programs. However, SISC recognized the need for a partner well-steeped in the nuances of the pharmaceutical market and, therefore, issued a request for proposals (RFP). Some key qualities SISC sought in a partner included:

- A smaller consulting firm specializing in pharmacy;
- A firm that did not have any preferred arrangements with PBMs;



- A firm that would bring a “fresh eyes” mentality to their strategy that didn't have preconceived notions that they had already figured out the best deal.

SISC gauged the consultant prospects by asking during informal interviews not only what they do but also how and why they do it. As a result of this competitive process, SISC selected Integrity Pharmaceutical Advisors (Integrity).

## Choosing a PBM

Learning from past experiences, SISC prioritized transparency in its search for a new PBM. To SISC and Integrity, this meant selecting a PBM that:

- Offers a pricing model focused on the lowest net cost drug versus maximizing rebates;
- Passes all rebates and administrative fees paid by the manufacturer to the purchaser through the PBM;
- Allows SISC and Integrity the ability to review pharmacy contracts between the PBM and manufacturer;
- Allows SISC and Integrity the ability to review contracts between the PBM and retailer;
- Is flexible and completely aligned with SISC.

In April 2014, SISC chose Navitus as its PBM. Navitus not only offered all these elements of transparency, but also scored high on customer surveys. In addition, Navitus did not own a mail-order pharmacy; it contracted with Costco.

## The initial plunge into formulary modification

With its prior PBM, SISC had used the PBM's standard formulary. When switching to Navitus, SISC wanted to minimize disruption for members who had grown accustomed to 14 years of the same services. Therefore, SISC asked Navitus to replicate the prior formulary. Only once they were over the initial administrative speedbumps, such as getting new ID cards out to members and familiarizing members with the name Navitus, did SISC and Integrity make some calculated changes. Between April 2014 and July 2015, they removed coverage for some drugs and customized the formulary around some classes based on existing utilization to minimize disruption. SISC estimates that these changes in coverage impacted over 100 drugs during this phase.

## Transition to Navitus' narrow formulary

After SISC successfully transitioned pharmacy management to Navitus and completed the first round of formulary customizations, it continued to look for ways to cut waste in its pharmacy benefits without sacrificing access to necessary medications. With Integrity's support, SISC decided to transition to the Navitus narrow formulary. As the name implies, this formulary is focused on removing low-value drugs and reducing net costs. This time around, SISC's move impacted roughly 60 drugs, representing a less significant transition from the member

perspective, especially as many of the drugs this time around were less commonly prescribed, high-cost medications.



## Attacking waste is key to this strategy

"We were very surprised with what we were uncovering and confident that we weren't cutting into effectiveness, just trimming waste. Clinical effectiveness and safety always came first."

### John Stenerson

Deputy Executive Officer of Self-Insured Schools of California

## The waste-free formulary

After observing SISC's commitment to pursuing high-value pharmacy coverage through the switch to the narrow formulary, Integrity proposed a third transition for SISC. Integrity had been working on a new formulary called the waste-free formulary. At the time, only one other client had adopted it. Going above and beyond the narrow formulary, the waste-free formulary eliminated significantly more waste and low-value drugs than had already been identified. In total, this formulary roots out 600 drugs that, from a clinical perspective, should not be on the formulary because they are wasteful and don't provide additional clinical value. For instance, Treximet, a migraine medication, is a "combination drug" composed of two very old drugs – 85 milligram (mg) sumatriptan and 500 mg naproxen sodium. After rebate, Treximet costs around \$219, while the individual ingredients prescribed separately cost \$7.31 total.

What makes the waste-free formulary unique is that it seeks to achieve savings by eliminating waste *throughout* the formulary by zeroing in on "me too" products and "may have drugs," as opposed to focusing on reducing costs in specific high-cost areas such as specialty pharmacy and drugs that treat conditions like cancer or multiple sclerosis. While the waste-free formulary sounded promising, making the change was a big decision for SISC, as it was hesitant about undergoing yet another formulary change and concerned how it would impact the satisfaction of its members with pharmacy benefits. However, as SISC and Integrity continued to dive deep and seek opportunities for savings, SISC agreed with the value-proposition and decided to transition to the waste-free formulary.

# Rolling Out the Waste-Free Formulary

## Each step thoughtfully taken

Over the course of two years, starting in December 2016 through 2018, Integrity worked closely with SISC to transition slowly to the waste-free formulary. Integrity was in tune with SISC's concerns about disrupting its members care, and SISC trusted Integrity to determine the order in which to cut wasteful drugs out of the formulary. This was important because unlike the previous two changes, the waste-free formulary targeted drugs that were being heavily used by members – both the savings and the disruption would be significant.

SISC and Integrity held monthly conference calls to discuss Integrity's proposed formulary changes. The group would review safety and clinical effectiveness, explore what SISC would sacrifice in rebates, what it would gain in savings, the impact on members, and work through a transition plan. The group fixated on ensuring that any proposed changes would not negatively impact members' clinical outcomes, or, better yet, would improve them. A designated SISC employee responsible for handling member complaints and relations also participated in each meeting to understand the rationale for the change in order to communicate effectively back to members and address member inquiries. In the beginning, SISC and Integrity reviewed 2-3 therapeutic classes each month. Integrity then met with Navitus to discuss the agreed upon changes so Navitus could implement them in their claims adjudication system which interacts with the pharmacy at the point-of-sale.

## Minimizing member disruption

Once the parties agreed to a formulary change, they discussed how best to structure the transition process to minimize the impact on members. In some instances, a written notice or letter combined with a grace period were appropriate; in other instances, SISC deemed it more appropriate to change the formulary for members newly seeking the medication in the future, and "grandfather in" existing members to reduce disruption for some sensitive drug classes, such as psychotherapeutic drugs. In all cases, SISC allows for exceptions if a provider believes a patient needs certain drugs not on the formulary.

The typical process has Navitus sending letters 60-90 days in advance of the changes going into effect, alerting members to formulary changes and subsequent grace periods (typically 90



days). Navitus also works with members individually to help them transition from one drug to another.

## Staffing and Resources

While SISC has undergone a series of formulary changes, implementing the waste-free formulary has not required enormous resources from the team. SISC devotes three hours per month to calls with Integrity to review proposed formulary changes. After SISC decides on changes, Integrity has separate meetings with Navitus to review and operationalize the decisions. However, SISC has noted that making frequent changes to the formulary requires constant vigilance and review of the clinical evidence to ensure they identify and remove wasteful drugs. For instance, Integrity and SISC stay abreast of industry reports to learn about drugs that are new, rebranded, go off patent and/or are high cost.

## Results

### Few complaints from members

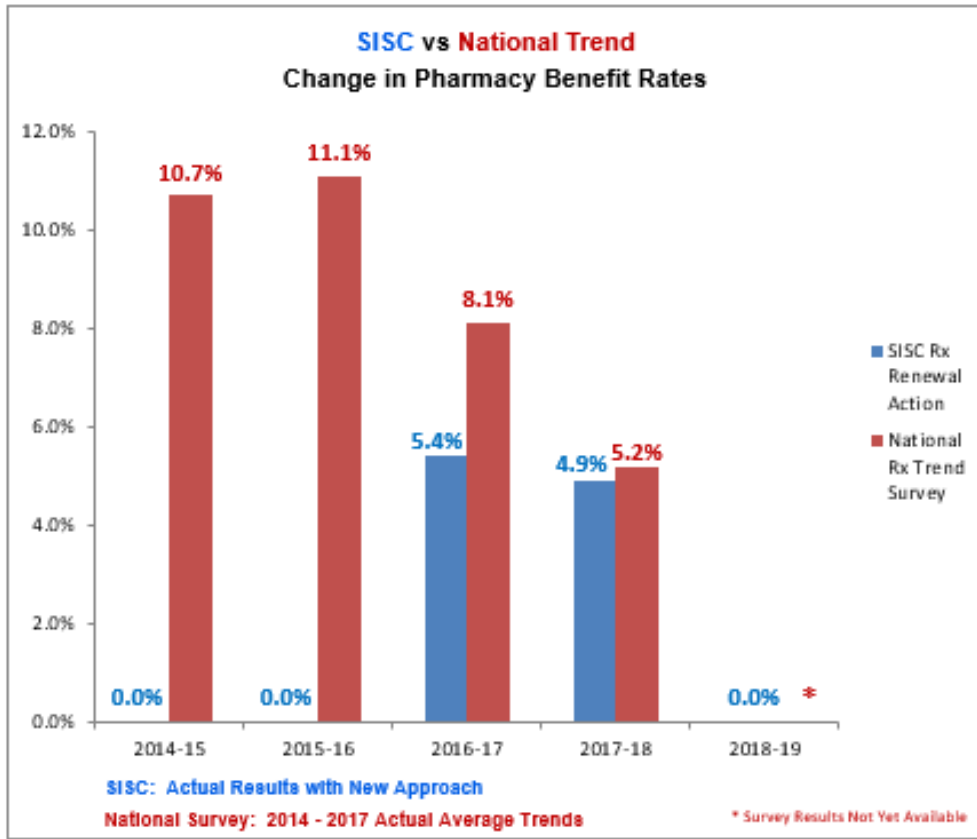
As SISC pools resources across school districts, it needs to be cognizant of and sensitive to its member districts' ability to leave SISC if they are unsatisfied with any changes. SISC balances this concern with doing what it believes is right and the best option for member districts – attacking waste in the system. Despite the level of formulary changes over the past few years, SISC has had limited complaints from members and no districts have left as a result of the changes. SISC attributes this to the vast majority of physicians being comfortable with making the prescription changes because the alternative drugs are safe and just as effective. In addition, SISC does not mandate co-pay changes for its benefits plans. If a member district wants to change plans or co-pay structure, it can do so through collective bargaining with their labor groups.

### Ingredients for Success

- Overall reduction in net spending while maintaining clinical integrity.
- Don't look at the amount of rebates. The goal is to get people on lowest cost, effective drugs.
- Identify and remove wasteful drugs from formulary.
- Monitor days in treatment and who is on the drugs to assess whether any member disruption occurred.

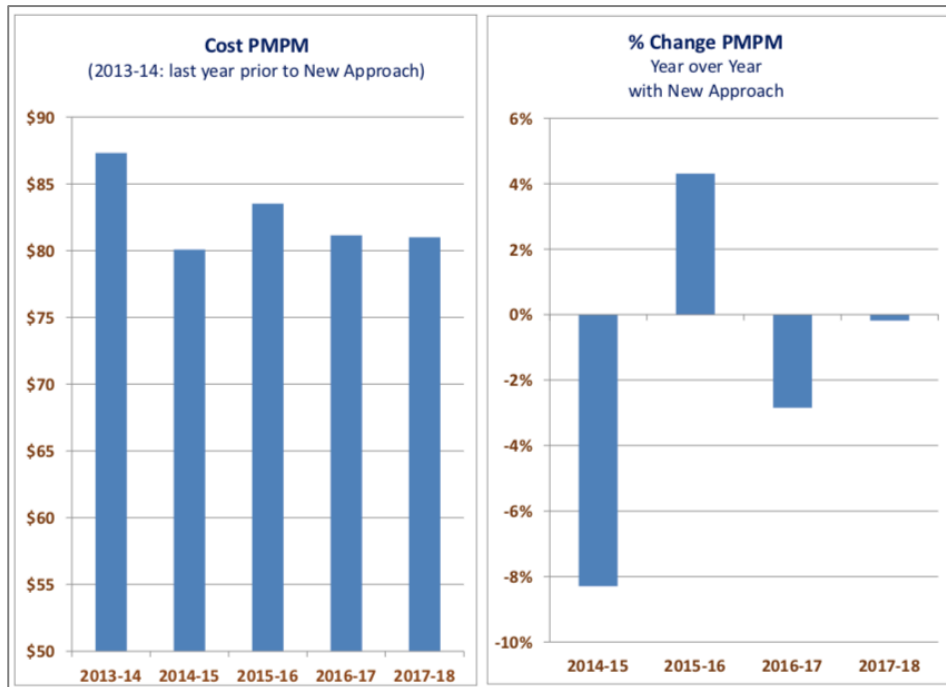
### Significant reduction in the cost trend and PMPM savings

From a cost perspective, SISC considers its formulary program to be very successful. As illustrated in the graph below, in a time of increasing costs (e.g., new specialty drugs started coming to market in 2014 and 2015, including \$84,000 Hepatitis C drug treatment), the SISC pharmacy benefit rate increases totaled 10.6% compared to a nationwide trend that totaled 39.9%. For three of the past five years, SISC's year-over-year pharmacy benefit rate renewals have been flat.



Data and chart sourced from Self-Insured Schools of California (SISC). National Rx Trend Survey data from 2019 Segal Health Plan Cost Trend Survey.

In addition, the charts below illustrate that SISC was able to achieve savings in per member per month (PMPM) costs. Showing two sides of the same coin, the chart compares both dollars saved in PMPM costs and the percent change in PMPM costs year over year.



Data and chart sourced from Self-Insured Schools of California (SISC).



# Key Insights and Lessons Learned

## Hindsight is 20/20

In the course of designing, implementing, and refining their program, both SISC and Integrity gained valuable insights. From SISC's perspective, the following takeaways could help other purchasers looking to solve the same problem or implement a similar solution:

- All PBMs, large and small, provide similar discounts and rebates;
- Formulary changes focused on maximizing rebates are not effective;
- Tiered co-pays do little to change the drugs prescribed (patients take what their provider prescribes or don't get the drug if it's too expensive – few people talk with doctors about generics)
- It is ideal to work with partners that are free from conflicts of interest.
- Numbers aren't the whole story. All RFPs will look similar in terms of the numbers. While it's easy to stay with what you know, if two RFPs are close when it comes to numbers, choose the option that is more honest and transparent. It makes a difference.
- There is value in the "transparent" PBM model; however, this is not always evident in the traditional "spreadsheets method" of selecting a PBM.

## Disruption for employees in new member districts

SISC has encountered a particular challenge when a new school district joins SISC. The members in the new district are often accustomed to a less restrictive formulary under their previous benefits and often have been on that formulary for a long time. When they transition to the waste-free formulary, it can be a big change for them and confusing as to why a drug is suddenly not covered at the same level. To ease their transition to the new formulary, SISC is working with Navitus to allow these members to receive a one-time fill exception, which triggers a notice to be sent alerting them to the change and to the clinical effectiveness of other drugs available. They have until the next refill to have their physician make the change or provide documentation to stay on their current drug.

## Ask more questions

From Integrity's perspective, the key is for employers to challenge their consultants by asking specific, pointed questions. For example, "Are there wasteful drugs on the formulary?" and "Why do we still have that on the formulary?" While employers and other health care purchasers may not have historically asked these types of questions, making such inquiries can help root out waste, find value, and help align next steps between the purchasers and their consultants.

Integrity also notices that employers often have preconceived notions, or even misconceptions, about member disruption. While no employer wants to create a bad experience for its members, fear of disruption should not impede progress toward value. There are always ways to help move members to a more cost-effective product while minimizing disruption and confusion. A good communications strategy can go a long way.

## Next Steps

In 2017 and 2018, SISC met with Integrity each month to discuss its recommendations for changes to the formulary. Now, they have reduced the discussions to every other month. SISC is always seeking ways to cut waste. Effective October 1, 2018, SISC implemented reference pricing on PPO plans with limits to the benefit amount for five procedures, including arthroscopies and colonoscopies. The limits were set at rates that would easily be covered at ambulatory surgery centers, but not in expensive hospital outpatient departments.

In SISC's view, the health care system is constantly changing and always seems to find new ways to increase costs without adding value. The system fights to keep the status quo. Government talks about making changes, but seldom takes action. It doesn't look like change will occur unless the purchasers of health care push for it. SISC believes part of its role as an administrator of health plans for public schools is to be vigilant and diligent about promoting value and attacking the waste in the system.