STATEMENT OF
NANCY H. KICHAK
ASSOCIATE DIRECTOR FOR
STRATEGIC HUMAN RESOURCES POLICY
U.S. OFFICE OF PERSONNEL MANAGEMENT

before the

SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE
AND THE DISTRICT OF COLUMBIA
UNITED STATES HOUSE OF REPRESENTATIVES

on

FEHBP'S PRESCRIPTION DRUG BENEFITS

June 24, 2009

Chairman Lynch, Ranking Member Chaffetz, and Members of the Subcommittee:

I am here today on behalf of John Berry, Director of the Office of Personnel Management (OPM), to discuss the oversight of prescription drug benefits within the Federal Employees Health Benefits (FEHB) Program.

The FEHB law provides OPM with authority to offer competitive health benefits products for Federal workers by contracting with private sector health plans, much like other large employers. OPM currently contracts with 111 health plans which provide 269 health plan options nationwide from which employees and retirees may select the option which meets their needs. Approximately 8 million Federal employees, retirees, and their dependents are covered under this program.

The FEHB is an almost $35 billion dollar program and drugs represent about 29 percent of claims expenditures in the program. Many large private sector employers use Pharmacy Benefit Management (PBM) arrangements in their health benefit programs and many FEHB plans also use PBMs. In 2003, the U.S. Government Accountability Office (GAO)[1] found that FEHB plans' private sector PBM partners helped them to provide affordable drug benefits that meet our enrollees' needs and help keep costs down.

The FEHB negotiates annually with its plans to provide benefits, rates, and administrative actions that are beneficial to our enrollees. To improve the administration of the drug benefits, OPM issued regulations in August 2003 that established requirements for FEHB experience-rated carriers' large provider agreements, including agreements with pharmacy benefit managers. The regulations became final July 1, 2005, and provide the OPM's Office of Inspector General (OIG) all the authority needed to conduct complete reviews of carriers' PBM arrangements. Also in 2005, OPM issued new contract

[1] Then General Accounting Office

requirements that included standards for FEHB carriers to use in contracts with vendors for retail and mail order pharmacy. The carriers are required to use these standards which provide for PBM transparency, integrity and performance.

We negotiate with individual carriers to deliver a package of health insurance benefits to plan members. Within the FEHB, carriers compete for enrollment by offering the benefits and providing services they believe Federal employees, retirees, and their families want to purchase. This competition requires controlling for the cost of enrollee benefits. Many carriers use formularies which are periodically updated to include all FDA-approved drugs placed in tiers based on clinical effectiveness and cost. Carriers also use pre-authorization to determine medical necessity for certain drugs and drug utilization reviews to check for excessive use, duplication and frequency. Many carriers promote generic drug awareness and dispense generic equivalents, if available, unless a physician requires a brand name be dispensed. FEHB benefit plans also have monetary incentives, such as lower copays for generic drugs.

Next, I would like to address the specific questions raised in your invitation to this hearing.

1. You inquired about lack of transparency in the pricing of prescription drugs and OPM's ability to evaluate the overall value of these PBM-provided benefits. First and foremost to OPM is providing information so that enrollees understand the benefits they are purchasing and the options they have. Therefore, many carriers provide drug transparency tools on their secure member websites. These tools allow enrollees to compare costs of generic vs. brand name drugs for prescriptions filled at retail and mail order pharmacies. Users can input the name of the drug and the dosage and the tool provides the actual cost of the drug and coverage information, such as whether preauthorization is required. Users can also access the entire formulary list or search for certain medications. And, the formulary provides information on what tier the drug falls under (e.g. generic, brand, or brand non-formulary) as well as information regarding drug alternatives. FEHB consumers are price sensitive, so health plans make every effort to offer their total benefit packages at affordable prices.

It is also true that the relationships between drug manufacturers, PBMs, health plans, and pharmacies (mail order and retail) are quite complex. As a result, the determination of actual prices and costs after the various discounts and rebates are applied is difficult. OPM expects contracting health plans to obtain the best possible products and prices using their provider contracting experts and other resources. Whether increasing transparency alone will lead to lower pharmacy costs is unclear. In June 2008, the Congressional Budget Office (CBO) addressed the potential effect of more transparency on the price of healthcare goods and services, total health care spending, and the Federal budget and found the answer ambiguous. Factors such as consumer behavior, market concentration of providers and variation in prices would make it difficult to determine which forces would outweigh the others.

2. You asked how prescription drug benefits are priced, delivered, and analyzed in other Government agencies, such as Department of Defense, Veterans Affairs (VA), and

Health and Human Services. We would point out that each of these Federal agencies operates under its own statutory framework. In addition, the methods for delivery of service may be different with Federal employees relying on the private market place while both TRICARE and VA undertake direct delivery of health care as a significant part of their service to their constituencies.

We have met with TRICARE representatives and continue to be committed to learning lessons from our sister organizations to improve the management of the FEHB Program.

3. You asked how prescription drug benefits are priced and delivered in the private sector. Private sector employers operate in competitive environments and many directly contract with PBMs to manage their drug programs and to process and pay prescription drug claims. PBMs are also used to develop drug formularies, contract with pharmacies, and negotiate discounts and rebates with drug manufacturers. This can be done either through direct contracting or through the health plan. Since there are over 200 pharmaceutical companies, PBMs can provide significant administrative support for employer companies and health plans. FEHB carriers rely on PBMs to manage drug cost and utilization for their enrolled population. OPM, in turn, negotiates with carriers on benefit design and program administration to encourage the efficient use of prescription drugs.

4. You asked if OPM should consider alternative pricing and contracting methods for the FEHB Program's prescription drug benefits. OPM is committed to studying all options that may improve the delivery of benefits. We want the best and most affordable product and are looking for procedures that could be of assistance. We also understand that optimal solutions for the delivery of health care services, including dispensing prescription drugs, can be different for different populations and plan types within the FEHB structure.

The cost of drugs is of great concern to OPM as it is to private companies and other Government purchasers. At present, drug costs account for almost 30 percent of FEHB costs, compared to about 15 percent in the private sector. Much of that difference is due to the large share of retirees in the FEHB system and the different pattern of drug usage among these individuals. Given the share that drug costs make up of pharmacy benefits, there is concern that the cost of drugs could crowd out other needed benefits.

To address these concerns, we are exploring a broad range of options from improving our current contractual procedures to completely redesigning how prescription drug services can be delivered if our legislative framework is modified.

Mr. Chairman, I appreciate this opportunity to testify before the Subcommittee on this very important issue. I will be glad to answer any questions you or other Members may have.