



TEACHERS' RETIREMENT SYSTEM of the State of Kentucky

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Sarah Levin
House Ways and Means Committee Health Subcommittee
Washington, DC 20510

Dear Ms. Levin:

The Teachers' Retirement System of the State of Kentucky (TRS) purchases health care and prescription services for approximately 38,000 Medicare eligible retired teachers from Kentucky's public school system and five Kentucky universities. The prescription services are offered through a standalone Medicare Part D Employer Group Waiver Plan (EGWP) that relies on a pharmacy benefit manager (PBM) for negotiation of prescription drug prices, formulary development, claims administration and network management.

This use of a PBM is essential in ensuring these retired teachers, almost 90% of whom still live in Kentucky, are able to afford out-of-pocket health and prescription costs. Ensuring this affordability is crucial because TRS is a Social Security replacement plan for Kentucky's retired teachers, so most depend entirely on their TRS pension in retirement as they did not contribute to Social Security while in the classroom.

As an integral part of the health care that TRS offers Kentucky's retired teachers, pharmacy benefits currently are self-funded. In 2022, TRS retirees obtained more than 2.3 million prescription drugs, and the 2023 prescription ingredient cost is estimated at \$226 million after nearly 50% in PBM negotiated discounts. Then, an additional \$54 million in rebate cost reductions and \$65 million in Part D Medicare subsidies off the \$226 million are made possible by TRS's PBM. Without those savings, instead, these would be costs passed on to retired teachers. The PBM contracts with local and national pharmacies to ensure our retired Kentucky teachers have access to their prescriptions at more than 60,000 pharmacies, both chain and independent, nationwide. The PBM is able to use the buying leverage of representing millions of lives – something TRS alone couldn't do negotiating for 38,000 people. As importantly, the PBM contracts directly with Medicare and complies with its myriad administrative and legislative requirements. By engaging a quality PBM, TRS is able to meet the needs of retired teachers, bringing the net lowest per person per month (PPPM) premium cost, which benefits both the retired teachers and their health insurance trust.

The retirees can have confidence in all this because the PBM is vetted and hired in a competitive request for proposals (RFP), periodic market checks are made, and independent audits are conducted annually. Since 2005, the TRS and PBM contract has achieved more transparent pricing, with 100% pass-through of retail spread, 100% pass-through of brand formulary national and international rebates and 100% pass-through of contractual discount pricing subject to guarantee. All these savings and Part D subsidies are applied directly to TRS members as reduced pharmacy premiums every year plus allowing a more valuable benefit design to be

maintained. This transparency was maintained even when the current PBM was horizontally integrated with an insurance company in 2018 without any negative impact to TRS's retired teachers or TRS as a whole.

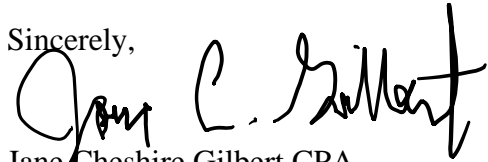
With the use of a PBM and the savings provided, TRS retirees maintain affordable access to a wide range of generic and brand medications using the PBM's Medicare-approved formulary at a reasonable mail order copay. PBM rebates add brand drugs to the formulary, increasing options for prescribers.

Specialty drugs are managed using prior authorization that aims to direct prescribers to lower-cost, first-line therapies that are accepted as standard of care. Retirees are incentivized to use generic drugs where possible. Very few medications are out of a retiree's financial reach. The TRS plan's \$150 annual retail deductible and no annual deductible for mail order keeps retirees' copayments predictable and reasonable, with, by mail, a \$10 copayment for a 90-day supply of a preferred generic and \$20 copayment for 90-day supply of a preferred brand. Retirees embrace incentivized mail order and generic use. Incentivizing mail order, which has been done for three decades now, spares Kentucky's retired teachers and their health insurance trust from an additional cost of \$22 million annually.

If a retiree's prescriber determines that a drug not on the formulary is needed, the prescriber or retiree can request coverage based on clinical need. PBMs also provide clinical review, another service TRS couldn't do alone.

For all the foregoing reasons, to meet retirees' needs and provide choice to their prescribing physicians, TRS depends on a PBM and relies on the PBM's expertise to manage the complex world of prescription pricing. In the current environment, no other solution adequately serves TRS retirees' prescription drug needs. Until there is such a solution, and it has Medicare's approval, TRS uses a PBM to secure millions in discounts plus \$54 million annually in rebate cost reductions, \$65 million per year in Medicare Part D subsidies, and \$22 million annually in mail order savings. Limiting any of these tools used by TRS's PBM on behalf of Kentucky's retired public school teachers will increase costs to retired Kentucky educators unless drug manufacturers who set original list prices guarantee net neutral or better price concessions. Disrupting the drug supply chain of Kentucky's retired teachers who rely on TRS without price savings is just that — disruption.

Sincerely,



Jane Cheshire Gilbert CPA
Director of Retiree Health Care
Teachers' Retirement System of Kentucky