COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
HEALTH INSURANCE DIVISION
TELEPHONE (888) 773-7748; EXT. 4859
LOCAL (717) 720-4859
FAX (717) 783-8760
E-MAIL: MSCHAFER@STATE.PA.US

To: Health Care Committee

From: Mark F. Schafer, Health Insurance Administrator

RE: Pharmacy Plan Design Change for 2006

Date: September 5, 2006

Effective January 1, 2007, participants of the Enhanced and Basic Medicare Rx Options will be able to obtain most brand name drug with a generic equivalent (known as a "multi-source" brand drug) by paying the difference between the cost of the brand name drug and the generic. The differential paid by participants counts toward meeting their true out-of-pocket (TrOOP) expense for catastrophic coverage. For example, if a member wishes to obtain a brand name drug costing \$45 when there is a generic equivalent costing \$18, the member would pay \$34[1] instead of the brand name co-pay of \$25. The \$34 payment made by the member would count toward meeting the \$3,850 TrOOP limit for catastrophic coverage.

A number of popular single-source brand name drugs[2] (brand without generic equivalents) become multi-source brand name drugs between now and January 1, 2007. Under the current benefit design, participants will not receive any plan payments for the multi-source brand name drug and 75% coverage[3] for the generic drug. Since we are changing the plan design effective January 1, 2007, to allow members to continue to use brand name drugs (provided they pay the cost differential) we could institute this plan design feature now. This action would avoid having our members who are willing to pay the cost differential now, waiting until January 1, 2007 to take advantage of the design change. The Enhanced and Basic Medicare Rx Options would not be adversely affected by this change as the member would pay the differential and increases to their TrOOP would not result in a significant cost to the Options.

Another method to avoid disruption would be to keep the brand name drugs on the formulary until January 1, 2007. CMS and our members, however, would view this approach, as a benefit reduction effective January 1, 2007.

We recommend that we now institute the brand name and generic drug differential benefit for prescription drugs that move from single-source to multi-source from the date of adoption of this change through the end of calendar year 2006.

---

[1] \$45 (the cost of the brand) *minus* \$18 (the cost of the generic) *plus* \$7 (the generic co-pay) *equals* \$34 (the member's cost of opting for the brand name drug).
[2] Pravachol, Zocor, Flonase, Zoloft, Mobic, Proscar and Amaryl
[3] Assuming a participant has met their \$250 deductible and is in the 1st coverage tier.