Bulletin on the updated formulary tier definitions

Effective January 1, 2018, select high-cost drugs will begin moving to new tiers in accordance with the updated formulary tier definitions for large group Commercial plans. Members in plans that renew after January 1, 2018, will experience these drug tier changes upon their plan's renewal date.

Previously, drug tiers were categorized in the formulary by drug type: Generic Drugs, Formulary Brand Drugs, Non-Formulary Brand Drugs and Specialty Drugs. In the updated drug tier definitions, drugs are placed in tiers based on clinical value and cost-effectiveness, not simply on drug type (see descriptions in table below). This provides Blue Shield with greater flexibility in formulary management and the ability to achieve healthcare savings for our clients.

Tier	Previous tier definition	Tier definition
1	Generic Drugs	Typically generic drugs and some brand drugs.
2	Formulary Brand Drugs	Typically preferred brand drugs and some generic drugs.
3	Non-Formulary Brand Drugs	Typically non-preferred brand drugs and some generic drugs.
4	Specialty Drugs	Specialty drugs or select drugs priced greater than $600 per month.*

* All drugs are reviewed for clinical and therapeutic safety and effectiveness. Not all drugs priced greater than $600 will be placed in Tier 4.

Key highlights of updated formulary tier definitions

Feature	Benefits
Drugs will be placed in tiers based on clinical value and cost-effectiveness, not simply by drug type	• Can improve cost of healthcare savings • Serves as a tool to help clients manage rising drug costs
Tier structure alignment	• Achieve market alignment with competitors • Reduce confusion when comparing different plans in the marketplace

FAQs

Key takeaways

1. **What are the advantages of the formulary tier updates?**
   The majority of our large group competitors (i.e., Aetna, Anthem, Cigna, Health Net and UnitedHealth) have already moved to this tier-based formulary structure. This change will support Blue Shield's high-cost generic management strategy. By updating the formulary tier structure, Blue Shield will have the additional flexibility to place drugs in any tier based on clinical value and cost-effectiveness. This structure is useful for Blue Shield and our clients as it will help address and manage rising drug costs.

2. **What other changes resulted from the formulary tier updates?**
   For plans with a calendar-year Brand Drug Deductible, the "Brand Drug Deductible" terminology was replaced by "Pharmacy Deductible." Drugs in Tiers 2, 3 and 4 apply to the Pharmacy Deductible, while drugs in Tier 1 do not apply to the deductible. However, for PPO Savings plans, the combined medical/pharmacy deductible applies to all tiers.

3. **Which formulary is affected?**
   This updated tier structure impacts the *Blue Shield Plus Drug Formulary*, which Core and Premier groups will continue to use. This tier structure has been in place for the *Blue Shield Standard Drug Formulary* (IFP and Small Business) since 2016.

Implementation approach

4. **When will high-cost drugs begin moving to new tiers?**
   Select high-cost drugs will begin moving to new tiers effective January 1, 2018. Members in plans that renew after January 1, 2018, will experience tier-based formulary changes upon their plan's renewal date.

   Existing Blue Shield Pharmacy & Therapeutics Committee formulary management processes, which are based on evaluating a drug's clinical value, safety and effectiveness, will continue to apply.

5. **Will Blue Shield notify affected members that their drug will be moved to a higher tier and that their copays/coinsurance will increase?**
   Affected members will receive notification letters in advance of the changes.

If you have additional questions or receive inquiries, please contact your Blue Shield account manager.