



OFFICE OF THE UNDER SECRETARY OF DEFENSE  
4000 DEFENSE PENTAGON  
WASHINGTON, D.C. 20301-4000

PERSONNEL AND  
READINESS

DEC 13 2019

The Honorable James M. Inhofe  
Chairman  
Committee on Armed Services  
United States Senate  
Washington, DC 20510

Dear Mr. Chairman:

The enclosed report is in response to House Report 116-120, Page 167, accompanying H.R. 2500, the National Defense Authorization Act for Fiscal Year 2020, on TRICARE Specialty Drug Network Accessibility. The report responds to the House Armed Services Committee's (HASC) request for an evaluation of TRICARE pharmacy benefits management responsibilities and requirements, and outlines the process for consideration, evaluation, and admission of additional and new accredited pharmacies to the TRICARE specialty drug network. The HASC also requested a cost analysis for adding new entrants into the specialty drug network; however, this information is proprietary to Express Scripts, Inc., the contractor responsible for administering the TRICARE pharmacy benefit, and is not included in the report.

As stated in the report, from January 2018 to date, the Department of Defense received seven beneficiary inquiries concerning specialty drugs, none of which concerned access to a specialty pharmacy. An evaluation of TRICARE beneficiary feedback, along with external consultant review, found nothing to indicate that access to specialty pharmacies is impacting the ability of TRICARE beneficiaries to obtain specialty medications. The Department is committed to ensuring beneficiary access to clinically appropriate specialty medications wherever needed, while continuing to be a prudent steward of taxpayer money.

Thank you for your interest in the health and well-being of our Service members, veterans, and their families. A similar letter has been sent to the House Armed Services Committee.

Sincerely,

James N. Stewart  
Assistant Secretary of Defense for Manpower  
and Reserve Affairs, Performing the Duties  
of the Under Secretary of Defense for  
Personnel and Readiness

Enclosure:  
As stated

cc:  
The Honorable Jack Reed  
Ranking Member



OFFICE OF THE UNDER SECRETARY OF DEFENSE

4000 DEFENSE PENTAGON  
WASHINGTON, D.C. 20301-4000

PERSONNEL AND  
READINESS

DEC 13 2019

The Honorable Adam Smith  
Chairman  
Committee on Armed Services  
U.S. House of Representatives  
Washington, DC 20515

Dear Mr. Chairman:

The enclosed report is in response to House Report 116–120, Page 167, accompanying H.R. 2500, the National Defense Authorization Act for Fiscal Year 2020, on TRICARE Specialty Drug Network Accessibility. The report responds to the Committee’s request for an evaluation of TRICARE pharmacy benefits management responsibilities and requirements, and outlines the process for consideration, evaluation, and admission of additional and new accredited pharmacies to the TRICARE specialty drug network. The Committee also requested a cost analysis for adding new entrants into the specialty drug network; however, this information is proprietary to Express Scripts, Inc., the contractor responsible for administering the TRICARE pharmacy benefit and is not included in the report.

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Thank you for your interest in the health and well-being of our Service members, veterans, and their families. A similar letter has been sent to the Senate Armed Services Committee.

Sincerely,

A handwritten signature in black ink that reads "James N. Stewart". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

James N. Stewart  
Assistant Secretary of Defense for Manpower  
and Reserve Affairs, Performing the Duties  
of the Under Secretary of Defense for  
Personnel and Readiness

Enclosure:  
As stated

cc:  
The Honorable William M. “Mac” Thornberry  
Ranking Member

# **Report to Armed Service Committees**

**House Report 116–120, Page 167  
Accompanying H.R. 2500, the  
National Defense Authorization Act for Fiscal Year 2020**

**on**



## **The Department of Defense Pharmacy Benefit Management of TRICARE's Specialty Drug Network**

The estimated cost of this report or study for the Department of Defense (DoD) is approximately \$1620.00 in Fiscal Years 2019-2020. This includes \$0 in expenses and \$1620.00 in DoD labor.

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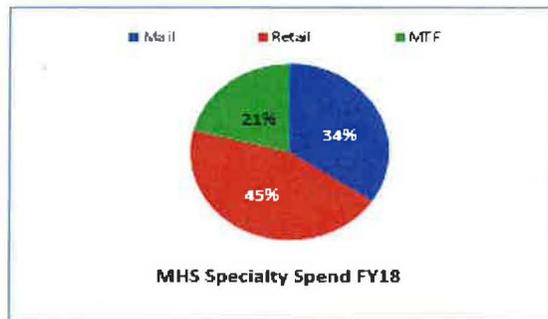
## Department of Defense TRICARE Specialty Drug Pharmacy Network

This report is in response to House Report 116–120, page 167, accompanying H.R. 2500, the proposed National Defense Authorization Act for Fiscal Year 2020. The Secretary of Defense is requested to submit a report by February 1, 2020, on TRICARE Specialty Drug Network Accessibility; to evaluate TRICARE pharmacy benefits management responsibilities and requirements; and outline the process for consideration, evaluation, and admission of additional and new accredited pharmacies to the TRICARE specialty drug network. The Committee also requests a cost analysis for adding new entrants into the specialty drug network. However, this information is proprietary to Express Scripts, Inc. (ESI), the contractor responsible for administering the TRICARE pharmacy benefit.

The integrated TRICARE Pharmacy Benefits Program offers pharmacy services through military medical treatment facilities located at military bases, a retail network of pharmacies, including those that provide specialty medications, and the TRICARE Mail Order Pharmacy (TMOP). TRICARE’s pharmacy benefit is available to all eligible beneficiaries worldwide. The Department of Defense (DoD) provides the pharmacy benefit to 9.5M beneficiaries at an average annual cost of approximately \$10B.

As the fastest-growing sector in the pharmaceutical industry, the specialty drug market has grown exponentially in recent years and is becoming a larger percentage of pharmacy expenditures across the country, including TRICARE’s pharmacy program. In calendar year (CY) 2018, specialty pharmaceuticals accounted for 33 percent of total net costs for TRICARE pharmacy despite accounting for only 2 percent of utilization.<sup>1</sup> This is up from 2016 and 2017, in which specialty pharmaceuticals accounted for an average of 27 percent total net costs for TRICARE pharmacy and 0.66 percent utilization.<sup>2</sup> Figure 1 provides the distribution of Military Health System specialty spend by point of service. Like other large health plans, DoD faces the challenge of using available funding to ensure access to specialty drugs that cost thousands of dollars per month, per patient, while still providing current levels of access to non-specialty medications used by the majority of patients.

**Figure 1:**



<sup>1</sup>The Johns Hopkins University Applied Physics Laboratory (JHU/APL). (July 2019). TRICARE Pharmacy Program 5th Generation Evaluation Summary.

<sup>2</sup> The Johns Hopkins University Applied Physics Laboratory (JHU/APL). (26 March 2019). TPharm5 Evaluation Weekly Update.

With many new specialty drugs on the horizon, some costing over \$1M per patient, TRICARE continually monitors the market and emerging strategies to accommodate specialty medications. To that end, TRICARE has adopted business practices and industry standards in providing access to specialty medications. These include smaller networks of select retail pharmacies that provide specialty medications and use of the mail program when possible; channeling volume and allowing for a more cost-effective acquisition and distribution of specialty medications. TRICARE has developed requirements for its pharmacy contractor, ESI, to ensure access to specialty medications and to those drugs designated by the pharmaceutical manufacturers or the Food and Drug Administration (FDA) as “limited distribution” due to their safety profile, availability, complexity to distribute, administer, and monitor, or indications for use.

ESI administers the pharmacy benefits management functions, which include performing claims adjudication, establishing and maintaining a retail pharmacy network including pharmacies who have access to, and can provide, specialty medications, providing prescription home-delivery services through TMOP, and providing clinical services for dispensed specialty pharmaceuticals.

The contractor is required to provide specialty pharmaceuticals through the TMOP and a network of retail specialty pharmacies. TMOP is the preferred venue for specialty pharmaceuticals, since the medications provided at TMOP are at Government-negotiated rates and the quality of clinical services administered through the specialty program can be validated. In cases where limited distribution channels established by the pharmaceutical manufacturer and/or the FDA prevent the contractor from obtaining the medication at TMOP, the contractor ensures that beneficiaries have access to these limited-distribution pharmaceuticals through the network of retail specialty pharmacies. The contractor is also responsible for ensuring appropriate clinical services and support are provided with all specialty pharmaceuticals dispensed through the network of retail specialty pharmacies.

To achieve continuity of therapy and minimize the impact of removing pharmacies from the retail network, the contractor is required to provide the Government, no later than 60 days prior to the effective date of the change, a list of pharmacies to be removed and of all beneficiaries impacted by the removal of these pharmacies. Additionally, to ensure the continuity of therapy and minimize the impact of network changes on beneficiaries using retail network pharmacies designated as specialty pharmacies by ESI, the contractor is responsible for beneficiary outreach. The contractor is required to contact all beneficiaries using specialty medications who are impacted by the network change to ensure these beneficiaries are aware of the change and understand where they can obtain subsequent refills of their specialty medications. The contractor is also responsible for assisting in the movement of a beneficiary’s prescriptions to a network specialty pharmacy capable of providing the specialty medication(s) in question.

As with other large-healthcare-plan pharmacy programs, ESI negotiates on behalf of the DoD to provide specialty pharmacy medications to TRICARE beneficiaries at a guaranteed discounted price when those medications are dispensed from a network of specialty pharmacies. By implementing a select specialty network of pharmacies, ESI is able to negotiate deeper discounts on reimbursement rates with the pharmacies, which results in greater savings passed directly to the Government. It is standard business practice for ESI to continually monitor market

conditions and renegotiate rates on behalf of the DoD on a regular basis as part of its contractual obligation in administering the TRICARE pharmacy program. While ESI does consider a number of different criteria when evaluating whether pharmacies should or should not be included in its networks, the DoD cannot dictate those criteria, other than to maintain access to all covered specialty medications. Criteria ESI considers include: price, quality and accuracy of claim submission, dispensing volumes, ease of doing business, etc. However, the specific criterion, including the cost-analysis methodology used in determining an addition or deletion of a single pharmacy for a particular network, including the TRICARE specialty drug network, is confidential and proprietary in nature.

Acting as consultants, the John Hopkins University Applied Physics Laboratory evaluated 2 years of TRICARE pharmacy and medical data in conjunction with industry articles and studies, qualitative interviews with payers, TRICARE costs relative to other Government programs, and commercial best practices in order to provide DoD a definitive analysis of alternative pharmacy benefit structures for consideration during the development of the next generation TRICARE pharmacy contract. The analysis noted that “the [current] retail network may be underutilized as 50 percent of pharmacies account for 90 percent of utilization” suggesting “the size of the retail network should be reduced, while maintaining access.”<sup>3</sup> Specific to the current TRICARE specialty pharmacy network, the consultant “suggests that the current retail specialty network has adequate capacity to provide access for the number of beneficiaries in that region” and in those areas of the country without retail network specialty pharmacies “over half ... do not currently have any TRICARE beneficiaries who are using specialty medications.”<sup>3</sup> For those beneficiaries living in regions without specialty pharmacies and using specialty medications, the consultant concludes “that [these beneficiaries] are filling their medications at mail order rather than retail, in which case retail specialty pharmacy access is less critical. ... assuming [these] beneficiaries... continue to use non-retail points of service to fill their specialty medications, adding a retail specialty pharmacy to these areas would not impact TRICARE beneficiary access to specialty medications.”<sup>3</sup> In CY 2018 and to date in CY 2019, the Department received 476 beneficiary inquiries concerning the TRICARE pharmacy benefit. Only 7 of the 476 inquiries were related to specialty drugs and none of the seven was concerned with access to a specialty pharmacy.

After evaluating TRICARE beneficiary feedback along with external consultant review, there is nothing to indicate that access to specialty pharmacies is detracting from the ability of TRICARE beneficiaries to obtain specialty medications. Based on TRICARE requirements, ESI determines the addition and removal of pharmacies from the TRICARE retail network, ensuring TRICARE beneficiaries have access to covered specialty medications. As such, a cost analysis for adding new entrants into the specialty drug network is not included as it is proprietary to ESI. The Department is committed to ensuring beneficiary access to clinically-appropriate specialty medications wherever needed while continuing to be a prudent steward of taxpayer’s money.

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<sup>3</sup> The Johns Hopkins University Applied Physics Laboratory (JHU/APL). (July 2019). TRICARE Pharmacy Program 5<sup>th</sup> Generations Evaluation Summary.