PBM/Pharmaceutical Industry Forecast: Prescription Drug Pricing and the Next Big Thing

NCCMP

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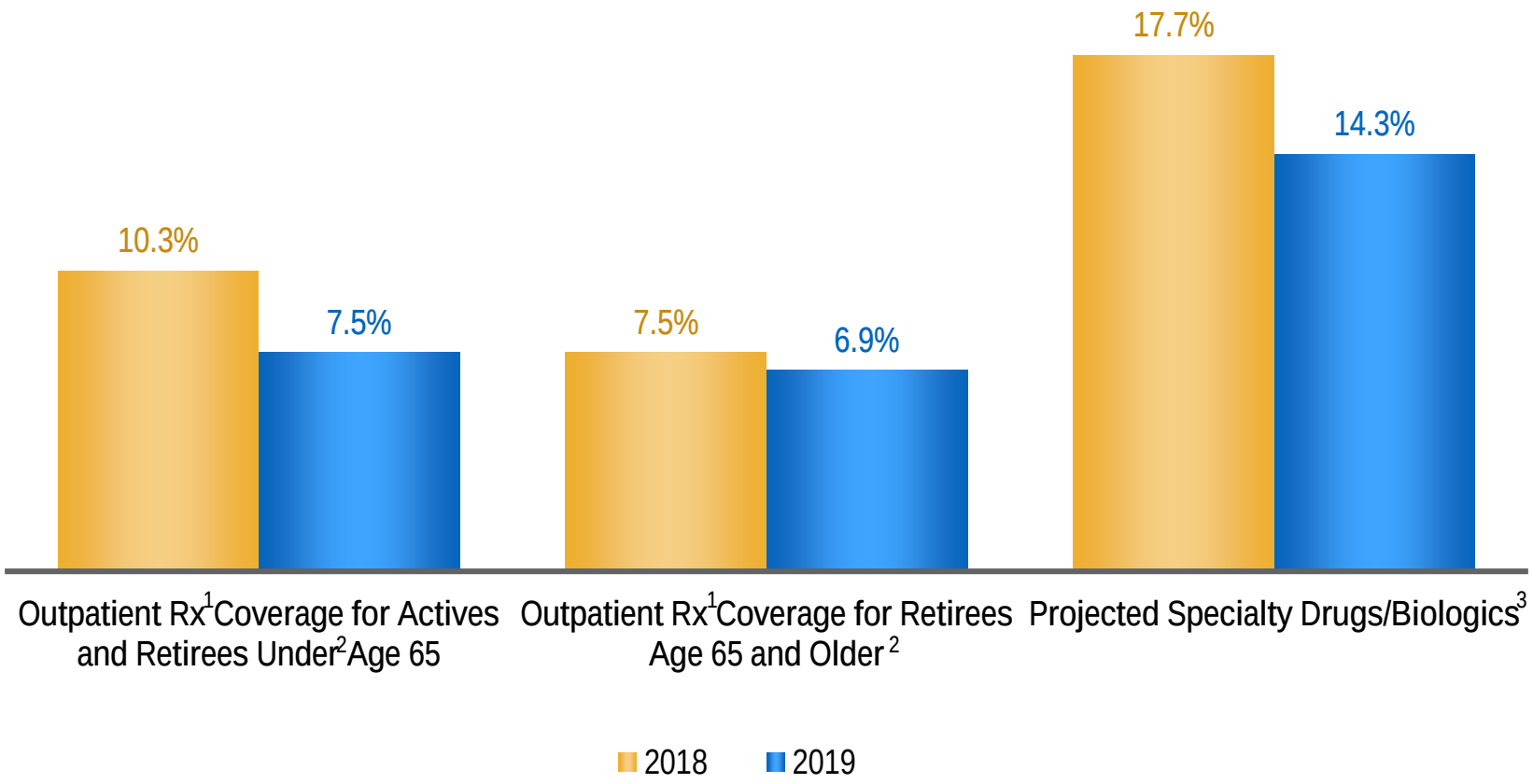
AGENDA

- Current State of Prescription Drugs Benefit Issues
- The Main Deterrents for Reducing Drug Prices
- Department of HHS Blueprint for Lowering Prescription Drug Prices
- The Push for More Transparency
- Effective New Plan Sponsor Tactics to Reduce Pharmacy Costs
  - Plan Design
  - PBM Contracting
  - Is a Purchasing Coalition worthwhile?
- Questions/Discussion

Pharmacy Industry
Current State

- Spending on pharmaceutical therapies as health plan expense now average over 20% of total health plan spending
- For a growing number of health plan sponsors expenses for pharmacy claims now exceed Inpatient hospital claim expenses
- Pharma launching more high cost specialty drugs
- Mounting pressure on Pharma to find new sources of revenue and profit
  - Result – increased efforts to delay competition, protect patent extensions, etc.
- Price gouging by some drug makers continues
- Growth in Biosimilar. They are not priced like other generic drug
- Innovation continue for rare diseases
- FDA relaxed some approval rules—speeding up new launches to market (Cure Act)
- Opioid addiction is a growing concern for plan sponsors, leading to new solutions and approaches
- Tremendous fiscal pressures on federal and state budgets to take action on pricing policies

Projected Prescription Drug Trends: 2018 and 2019



Source: 2019 *Segal Health Plan Cost Trend Survey*

[1] These results do not include the impact of rebates from PBMs.

[2] This data is for all prescription drugs (non-specialty and specialty drugs combined).

[3] This data is for all coverage of specialty drugs and both age groups.

Pharmacy Benefit Manager Industry Today

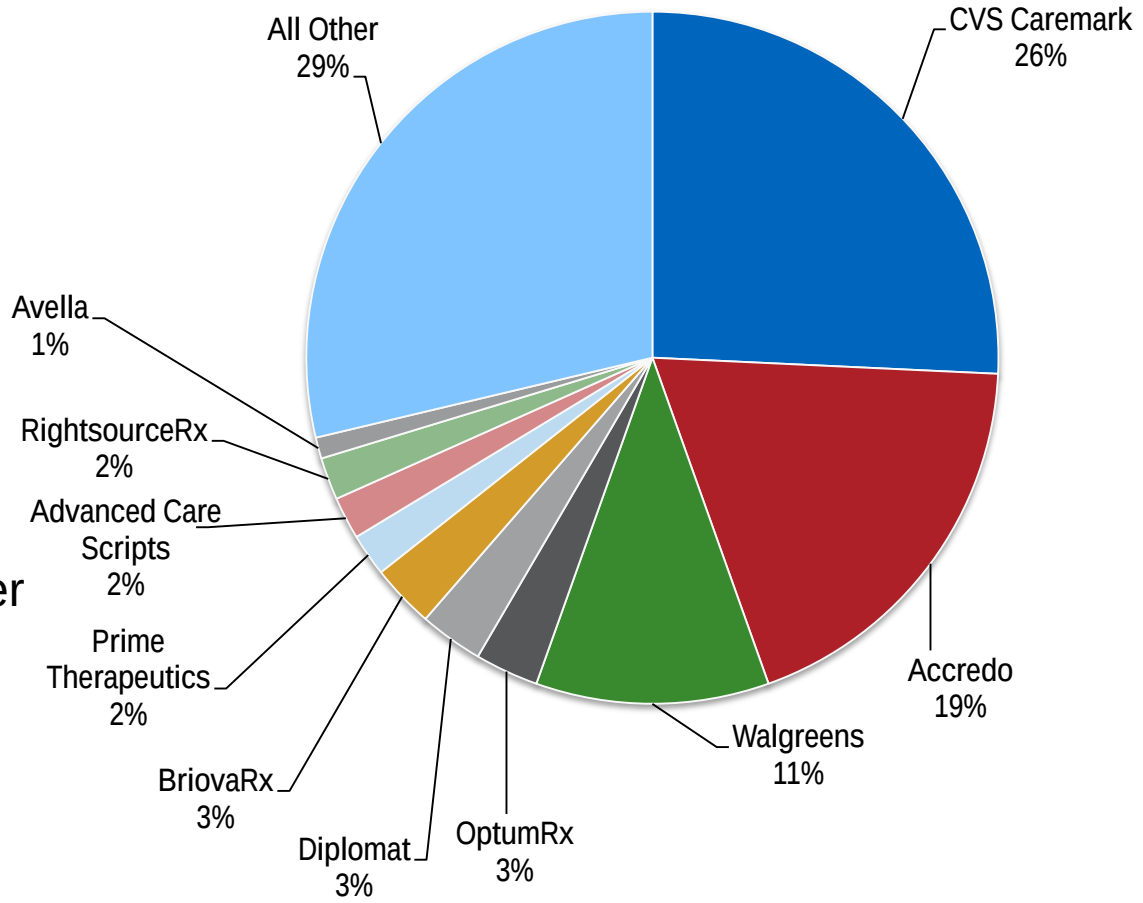
THE PBM MARKETPLACE

"Big Three"	Mid-Sized PBMs	Small PBMs	Very Small PBMs
Express Scripts	Prime Therapeutics	Pro-Act	BeneCard
CVS Health	MedImpact	Magellan	PerformRx
OptumRx (UHC)	Navitus	US Script	Welldyne
	Envision	Sav-Rx	30+ other niche PBMs

* Excludes Cigna, Aetna and Humana (mentioned next slide).

Specialty Pharmacy Industry Overview

- Specialty pharmacy industry is highly concentrated with top three companies controlling more than half the market
- Certain sub-agreements are in-place amongst specialty pharmacy firms due to manufacturer limited distribution arrangements
- Further consolidation and realignments within the industry are expected
- Walgreens is the largest player not PBM owned
- Is direct contracting possible for plan sponsors?
- Is exclusivity the best approach for plan sponsors?



PBM Recent Developments

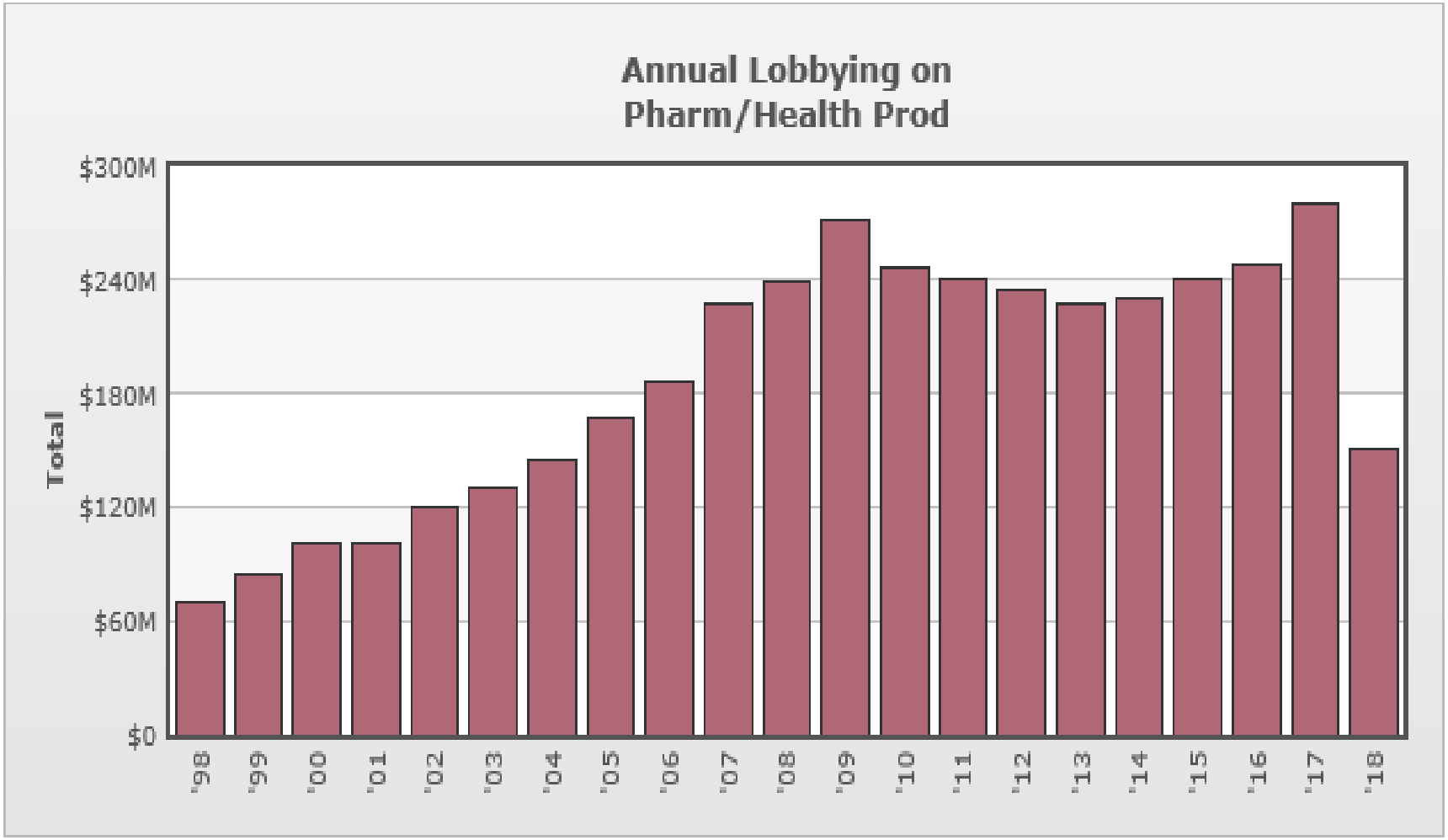
- **CIGNA Acquisition of Express Scripts**
- **CVS Health Acquisition of Aetna**
- **Anthem launching its own PBM**
- **United/OptumRx continue to gain market chare**
  - Acquisition of Catamaran PBM created new competition
  - Two marque new business wins for 2017 (CalPERS, ERS Texas)
- **Prime Therapeutics working with Walgreens**
  - Walgreens now majority owner of Prime. Walgreens is positioning to regain PBM market share?
- **HUMANA Partnership with WAL-MART**
- **Amazon/JPMorgan/Berkshire Hathaway**

FOLLOW THE MONEY!!!

Deterrents for Reducing Drug Prices

- Manufacturers employ anti-competitive tactics
  - Delay tactics to extend patents (pay generic makers to not make generics)
  - Suit to protect product life
- Complex pricing schemes
- PBM Shell Game
- Industry consolidation may be reducing competition
  - Manufacturers acquire generic companies
- Manufacturers Influence Supply Chain
  - Limited Distribution Drugs
- Most Importantly – Manufacturer Lobby and Spending is Unmatched
  - Congress has no will for material changes

Pharma Lobbying is Enormous (Approaching $300 Million/Year)



Source – Senate Office of Public Records (7/24/18)

HHS BluePrint – Four Challenges Identified

- **High List Prices for Drugs**
- **Seniors and Government Overpaying for Drugs**
- **High Out of Pocket Cost for Seniors**
- **Foreign Government Free-riding of US Investment and Innovation**

HHS BluePrint – Four Key Strategies for Reform

- **Improve Competition**
- **Better Negotiations**
- **Incentives for Lower List Prices**
- **Lowering Out of Pocket Costs**

HHS BluePrint – Four Key Strategies for Reform

Improve Competition

- Prevent Manufacturer Gaming
- Promote innovation and competition for biologics
- Develop proposals to stop Medicaid and ACA programs for raising prices on the private market
- Encourage sharing of samples needed for generic drug development
- Additional efforts to promote the use of biosimilars

HHS BluePrint – Four Key Strategies for Reform

Better Negotiations

- Experiment with value based purchasing in the federal programs
- Allow for more substitutions in Medicare Part D
- Give Medicare Part D plan sponsors more power when negotiating with manufacturers
- Considering negotiating lower Part B pricing by negotiated through Part D plans.
- Assess the problem of foreign buyer free-riding
- Require site neutrality in payment

HHS BluePrint – Four Key Strategies for Reform

Incentives for Lower List Prices

- Require Manufacturers to include list price in ads
- Updating Medicare drug pricing dashboard to make price increases more transparent
- Set measures to restrict use of manufacturer rebates (revisit safe harbor under Anti-Kickback statue for rebates)
- Create incentives to discourage price increases in Part B and D plans.
- Create Fiduciary status for PBMs
- Reform 340B drug discount programs
- Change regulations related to drug copay discount card programs

HHS BluePrint – Four Key Strategies for Reform

Lower Out-of-Pocket Costs

- Remove all pharmacy gag orders for Part D contracts
- Improve Part D Explanation of Benefits statements
- More education to Part B and D members about lower cost options
- Provide better/more cost information to Part D beneficiaries

The Need for Greater Transparency

- List Price and Net Price gaps continue to grow
  - **IQVIA estimates that in 2017, pharmaceutical manufacturers received only 56% of the list price of protected brand-name drugs. In other words, gross-to-net reductions lowered revenues at list prices by 44%.**
- Side deals between manufacturers and middle men (PBMs, distributors and retails) are complex and potentially misaligned with plan sponsors
- PBMs and Manufacturers refuse to provide drug specific rebates, limiting the ability to see to true head to head prices for honest competition
- Plans may need to apply rebates before member copays are applied
- Better head to head comparisons of therapeutic competing drugs regarding side effects and efficacy limits informed prescribing
- Prohibit Gag Order Contracts with Pharmacies

Plan Sponsor Strategies

What characterizes plan sponsors who are more effectively managing drug trend?

- **Smart Plan Design**
  - Meaningful member cost sharing that meets plan goals
  - Incentives to choose lower cost options
- **Comprehensive Utilization Management**
  - Prior authorization
  - Step therapy
  - Drug exclusions
  - Quantity limits
- **PBM Contract Aligned with Plan Objectives**
  - Lowest net cost
  - Performance guarantees
  - Plan flexibility
  - Continued Vigilance (must watch the Fox)
- **Purchasing Coalitions**

Rethink Pharmacy Benefit Plan Coverage

1. Apply percentage copays where possible—creates greater patient consumerism
2. Limit member out-of-pocket expenses for major therapies
3. Meaningful cost share for non-critical therapies with low ample cost generic and OTC options

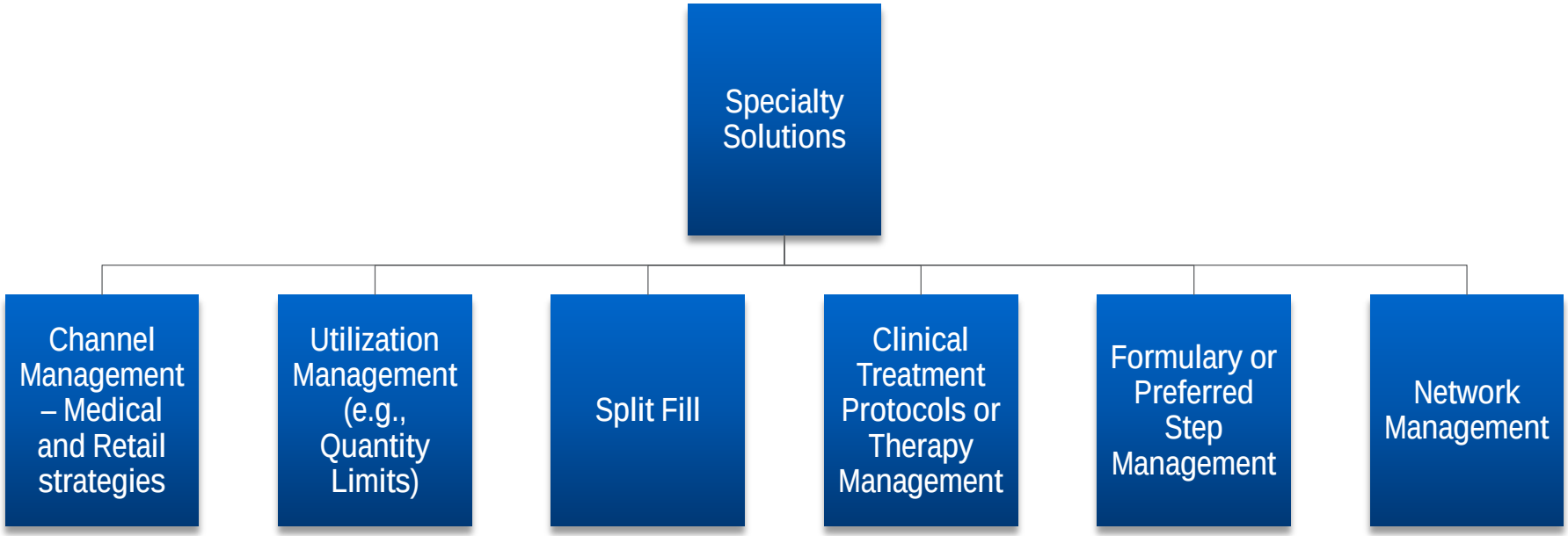
Drug Type	Retail	Retail 90/Mail Order
Major Therapies (Lifesaving/Life extending) • Heart, Diabetes, Cancer, Asthma, MS, RA Antibiotics, Antiviral, HepC, etc.	20% copay preferred with $75 max copay per 30-day supply, 15% generics (10% penalty non-preferred)	20% copay preferred with $150 max copay per 90-day supply, 15% generics (10% penalty non-preferred)
Minor Therapies (non-life threatening) Example Categories include: • Cough and Cold (example Sudavent) • NSAIDs (e.g., Ibuprofen, Naproxen) • Antihistamines (e.g., Claritin, Zyrtec) • Select GI (Nexium, Prilosec, Pepcid) • Erectile Dysfunction (e.g., Cialis, Viagra) • Other	30% copay preferred brand and generic only with no copay maximum	30% copay preferred brand and generic only with no copay maximum
ACA **Preventive Therapies**	$0 member copay	$0 member copay
Annual Member Out-of-Pocket Maximum	$2,000 per individual per year	

- Therapy Classes should be periodically updated to keep pace with market changes
- **Substantial savings over traditional designs** as a result of better utilization patterns
- Easier to understand for participants than 4 tiers, 5 tiers, 6 tiers, etc.

Strategies for Specialty Management

Overview of Specialty Solutions

- Minimizing the cost and maximizing care



Other Solutions (which includes awareness) but Not Limited to:

- Pipeline Management, Benefit design analysis and consultation, Integrated medical and pharmacy data analysis, Full service specialty pharmacies, Reimbursement services, Physician service support, Targeted communication strategies, Integrated reporting

Specialty Focus: Clinical Landscape

Biosimilars

- Biosimilars are less costly copies of drugs known as biologics, which are typically considered specialty drugs.
- Biosimilars have no clinically meaningful difference from the original product however are not considered generic versions of the original product.
- A Biosimilar requires prescriber approval before pharmacist can substitute the brand version of a drug with a Biosimilar. Prescriber must write for Biosimilar
- First Biosimilar, Zarxio which is a Biosimilar of Neupogen, was approved in March of 2015
  - FDA approved to treat all indications of Neupogen
- 9 Biosimilars currently on the market with more on the way:
  - Neulasta, Humatrope, Nutropin AQ, Humalog, Lantus

Biosimilars will likely behave more like brands than traditional generics and will be managed through plan design incentives and utilization management strategies.

PBM RFP/Contracting Best Practices

- Have a strategy to maintain competitive pricing throughout the contract term
  - Clear Termination rights
  - Frequent Competitive bids and market checks
- Understand how guarantees are calculated
  - Single-source generics
  - Other exclusions/inclusions
  - Offsets
- Rebates should be 100% pass-through
  - Avoid flat dollar only guarantees
  - Make sure specialty drugs are included
- Ensure clients have reasonable audit rights
- Be strategic about RFP vendor lists

New Approaches to PBM Contracting

- **Require PBMs to set lowest net cost by therapy class contracts**.
  - All-in price ceilings per patient per month or year by specific treatments
  - Annual stop loss attachment points. PBM pays the excess
  - Accounts for Discounts, GDRs, formulary impact, rebates, day supply and fees
  - Example:

Therapy	Current Yr. Allowed Per Patient/Yr	Maximum Discounted Allowed Cost Per Patient/Yr	Minimum Rebates credited per Patient /Yr	Maximum Dispensing Fees per patient/Yr	Maximum Allowed Per Patient Per Year*
Diabetes	$6,500	$7,000	$1,500	$150	$5,650
Cancer					
RA					
HIV					
Hypertension					

- ✓ **PBM and Plan Sponsor Incentives are better aligned**
- ✓ **New targets set each plan year**
- ✓ **Easier to measure and audit PBMs on apples to apples basis**

PBM Industry Future Takeaways

- More mergers and acquisitions should be expected
- Major health insurers are back into PBM business:
  - After outsourcing PBM several years ago, Anthem, Aetna and Cigna refocusing resources on regaining PBM market share
  - Could have significant impact on Express Scripts and CVS
- Scale remains critical for PBMs in order to negotiate effectively with pharmaceutical manufacturers and wholesalers
- More complex PBM contracts and financial guarantees, include more fully insured or reinsurance type policies
  - We need to move beyond rebate chasing and drive towards best value contracts
- Pay for performance specialty pharmacy management guarantees
- Continued game of whack a mole!
- Will the government act?

Future State of Pharmaceutical Industry

1. Continued scrutiny of pricing gouging by some drug makers (policy makers like Sen. Sanders, Media, hyper-inflation alerts)
2. Greater self-policing of more consumer friendly pharma:
   a. Novo-Nordisk: single digit price increase commitments
   b. GSK: stop paying docs to promote their products)
3. Genome Sequencing: help predict which patients will have best outcomes or severe side effects.
4. Growth in use of Immuno-therapy cancer treatments (Opdivo)
5. New players enter the health technology market, collaborations with Pharma (Amazon, Google, Zuckerberg Health Institute)
6. Growth in wearable devices to track vitals and drug results (EKG on your wrist)
7. Acceleration of new drug therapies to market (CURE Act, Technology innovation such as 3D printing and AI will speed up drugs to market)
8. Nano-technology: lead to more implantable drug delivery devices

Discussion

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