



# Prescription Drugs: Costs in Context

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# U.S. Health Care System Faces Significant Challenges

Aging population

Increased cost sharing for patients

Access restrictions, narrow networks

Rising insurance premiums

Greater prevalence of chronic diseases

Suboptimal health outcomes

# Medicines are Transforming the Treatment OF DEVASTATING DISEASES



## HEPATITIS C

The leading cause of liver transplants and the reason liver cancer is on the rise – is now curable in more than 90 percent of treated patients.\*



## CANCER

New therapies have contributed to a 23% decline in the cancer death rate since its peak in 1991. Today, 2 out of 3 people diagnosed with cancer survive at least 5 years.\*\*



## HIGH CHOLESTEROL

America's biopharmaceutical companies are currently developing 190 medicines to treat heart disease, stroke and other cardiovascular diseases. New PCSK9 inhibitors have revolutionized high cholesterol treatment. Between 1991 and 2011, the death rate from heart disease dropped 46%.\*\*\*

### The Washington Post

November 16, 2015

**Gov. Hogan's Cancer is in Remission, 30 Days After He Completed Chemo**

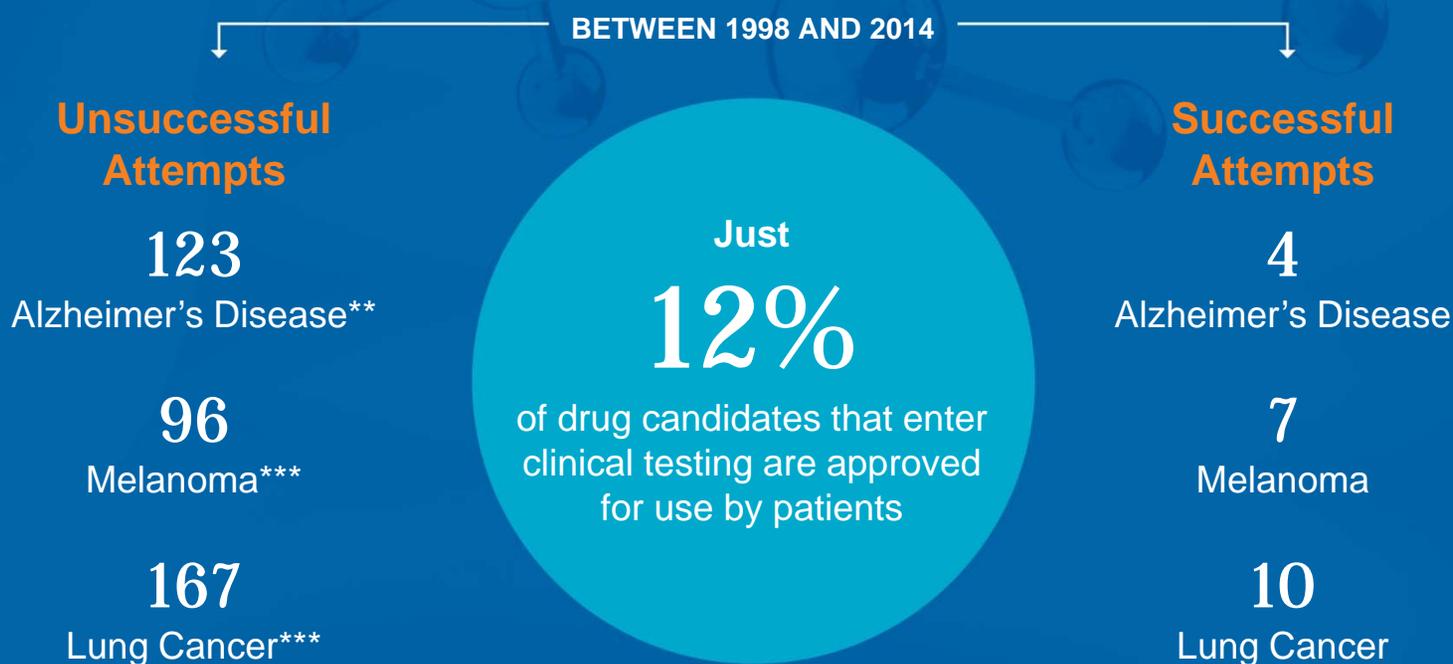
### The New York Times

December 6, 2015

**Former President Jimmy Carter Says He is Free of Cancer**

# Developing New Treatments and Cures IS A COMPLEX AND RISKY UNDERTAKING

On average, it takes more than  
**10 years and \$2.6B** to research and develop a new medicine.\*



# COMPANIES RACE TO BE FIRST TO MARKET

*with a New Medicine*

**Competing brands generally launch within two years.**

**Time Between Approval of First and Second Medicines in a Pharmacologic Class Has Declined Dramatically**

10.2  
years

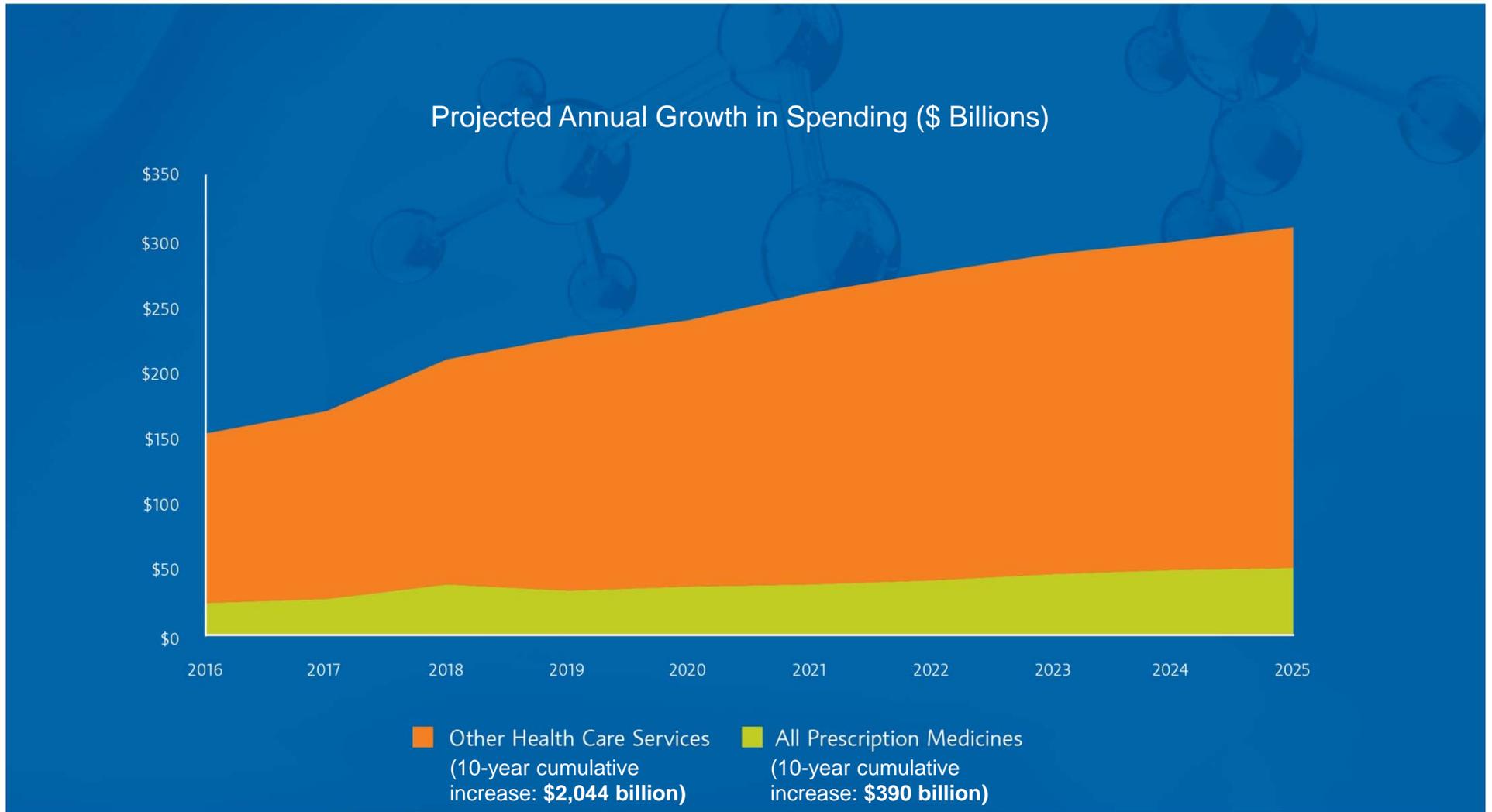
1970's

2.3  
years

2005-2011

**BRAND COMPETITION HELPS CONTROL COSTS**

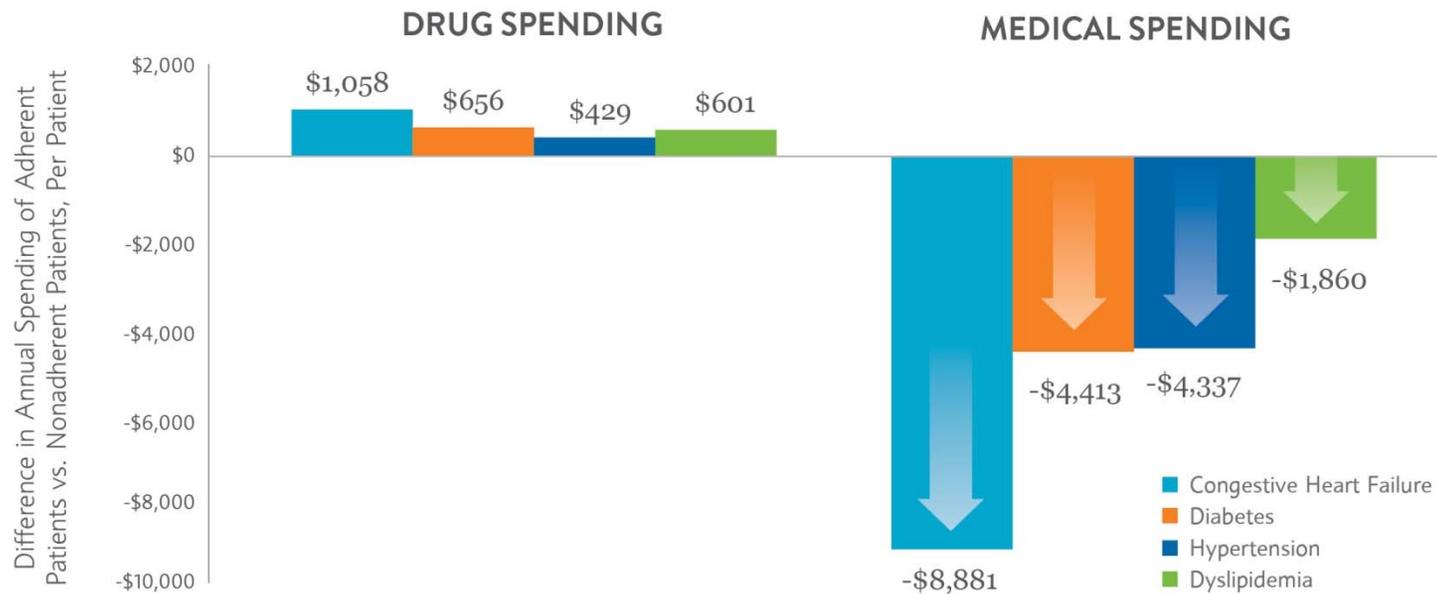
# GROWTH IN OTHER HEALTH CARE SERVICES WILL BE FIVE TIMES *Total Medicine Spending Growth Through Next Decade*



*Medicines Help Patients*  
**AVOID EXPENSIVE HOSPITAL SERVICES**

The U.S. health care system could save \$213 billion annually if medicines were used properly\*

Adherence to Medicines Lowers Total Health Spending for Chronically Ill Patients\*\*

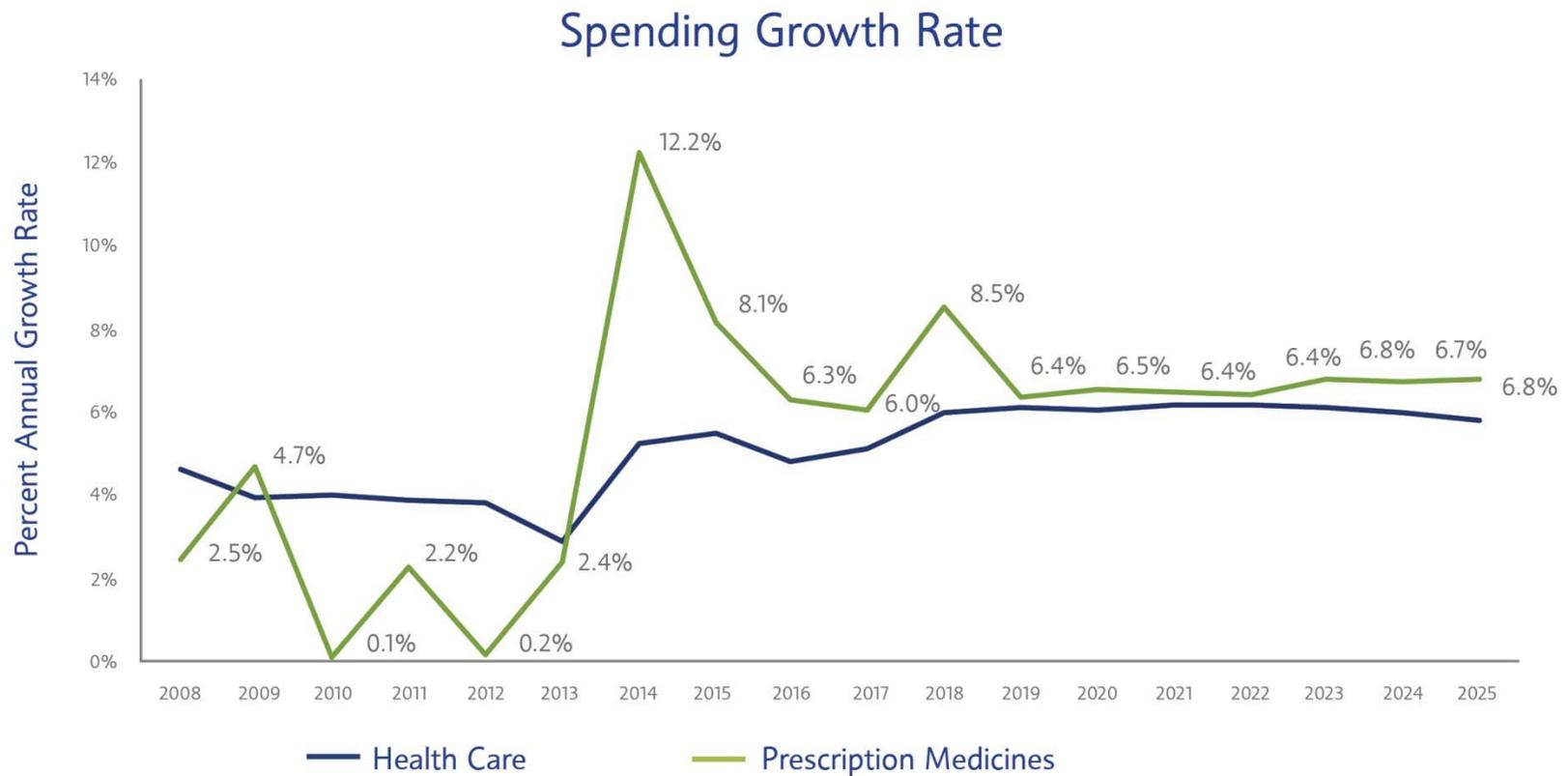


\*Source: IMS Institute for Healthcare Informatics, "Avoidable Costs in U.S. Healthcare: The \$200 Billion Opportunity from Using Medicines More Responsibly," June 2013.

\*\*Source: Roebuck M.C., et al. "Medication adherence leads to lower health care use and costs despite increased drug spending." Health Affairs. 2011;30(1):-99."

## Federal Government Projects

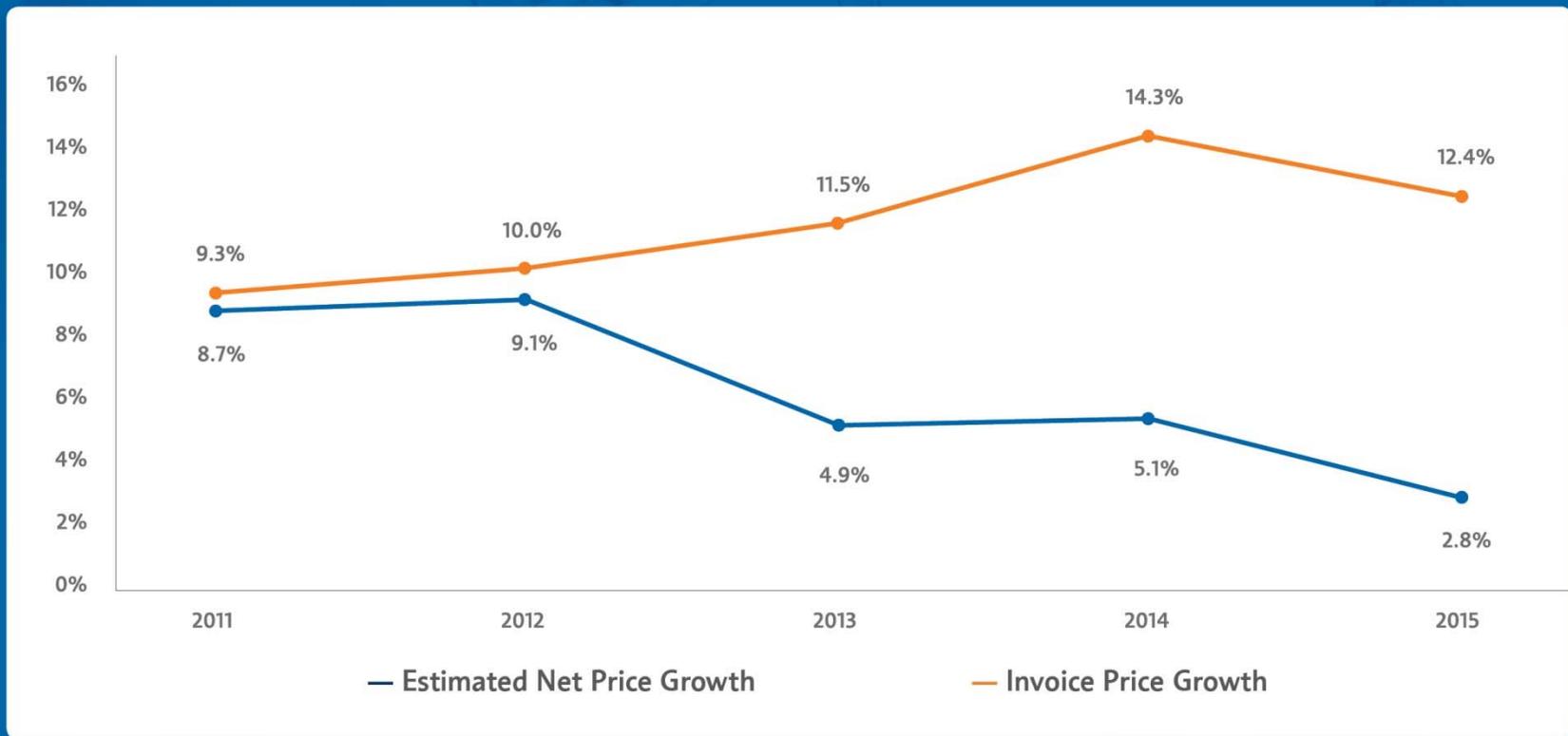
# MEDICINE SPENDING WILL GROW IN LINE WITH HEALTH SPENDING



NOTE: Total retail sales including brand medicines and generics

# BRAND MEDICINE NET PRICE GROWTH SLOWED IN 2015

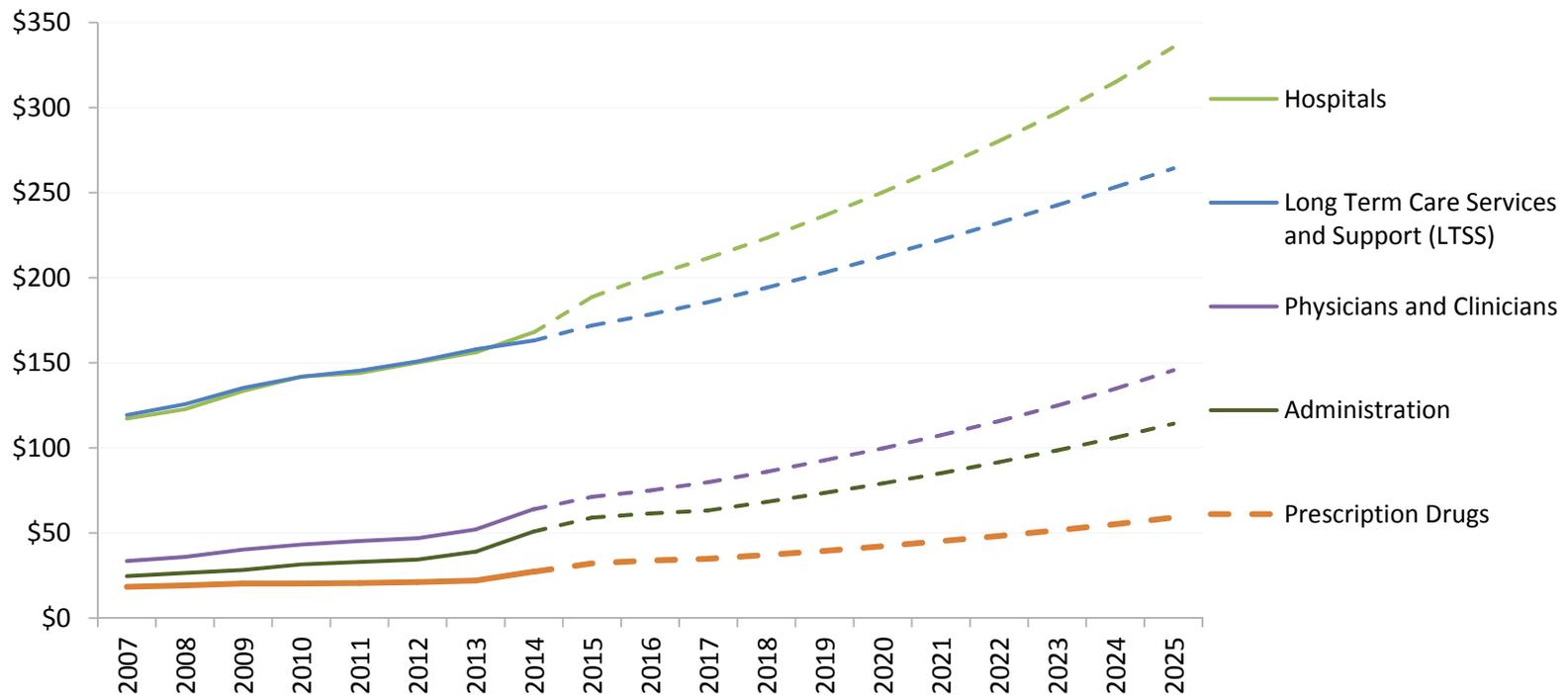
*as Discounts, Rebates Negotiated by Payers Rose Sharply*



# CMS Projects Prescription Drugs to Be a Small Share of Medicaid Spending Through 2025

In 2014, Medicaid retail drug spending, including brands and generics, was \$27.3 billion, while total Medicaid spending was \$495.8 billion.<sup>2</sup>

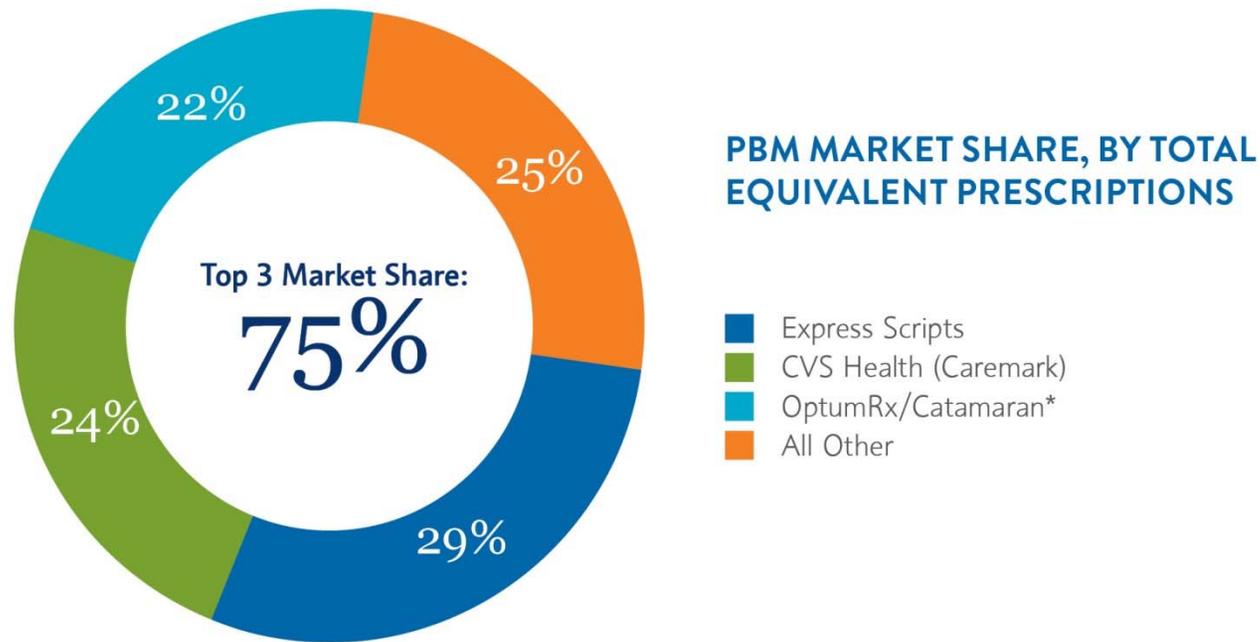
*Total Medicaid Spending and Spending by Selected Service, 2007-2025 (in Billions)\**



- Years 2015 and beyond are projections. Long Term Care Services and Support (LTSS) includes nursing and continuing care facility expenditures, home health care expenditures, and other health, residential and personal expenditures.
- Prescription drug spending includes brand and generic ingredients, pharmacy, and distribution costs.

# POWERFUL PURCHASERS NEGOTIATE DRUG PRICES

Negotiating power is increasingly concentrated among fewer pharmacy benefit managers (PBMs), with the **TOP THREE PBMS ACCOUNTING FOR THREE QUARTERS OF THE MARKET.**



NOTE: OptumRx and Catamaran merged in 2015. Their 2014 shares are shown combined.

# CASE STUDY

## *Critics Proven Wrong on High Cholesterol Medicine Spending*

### What payers claimed would happen

“These drugs are not only expensive but they present a financial challenge to the health care industry.”

– HARVARD PILGRIM HEALTH CARE (SEPTEMBER 2015)

“While these drugs are being viewed as breakthroughs, they also have the potential to wreck financial havoc on clients who do not proactively manage.”

– EXPRESS SCRIPTS (JULY 2015)

“Given the number of people potentially eligible for treatment with PCSK9 will number in the millions, the potential overall expenditures by payers are huge.”

– CVS HEALTH (JULY 2015)

### What actually happened

“We are in a situation where we can bargain with the drug manufacturers to get a significant discount in return for an exclusive deal.”

– CVS HEALTH (NOVEMBER 2015)

“We were able over the course of tough negotiations to get good economics on both products.”

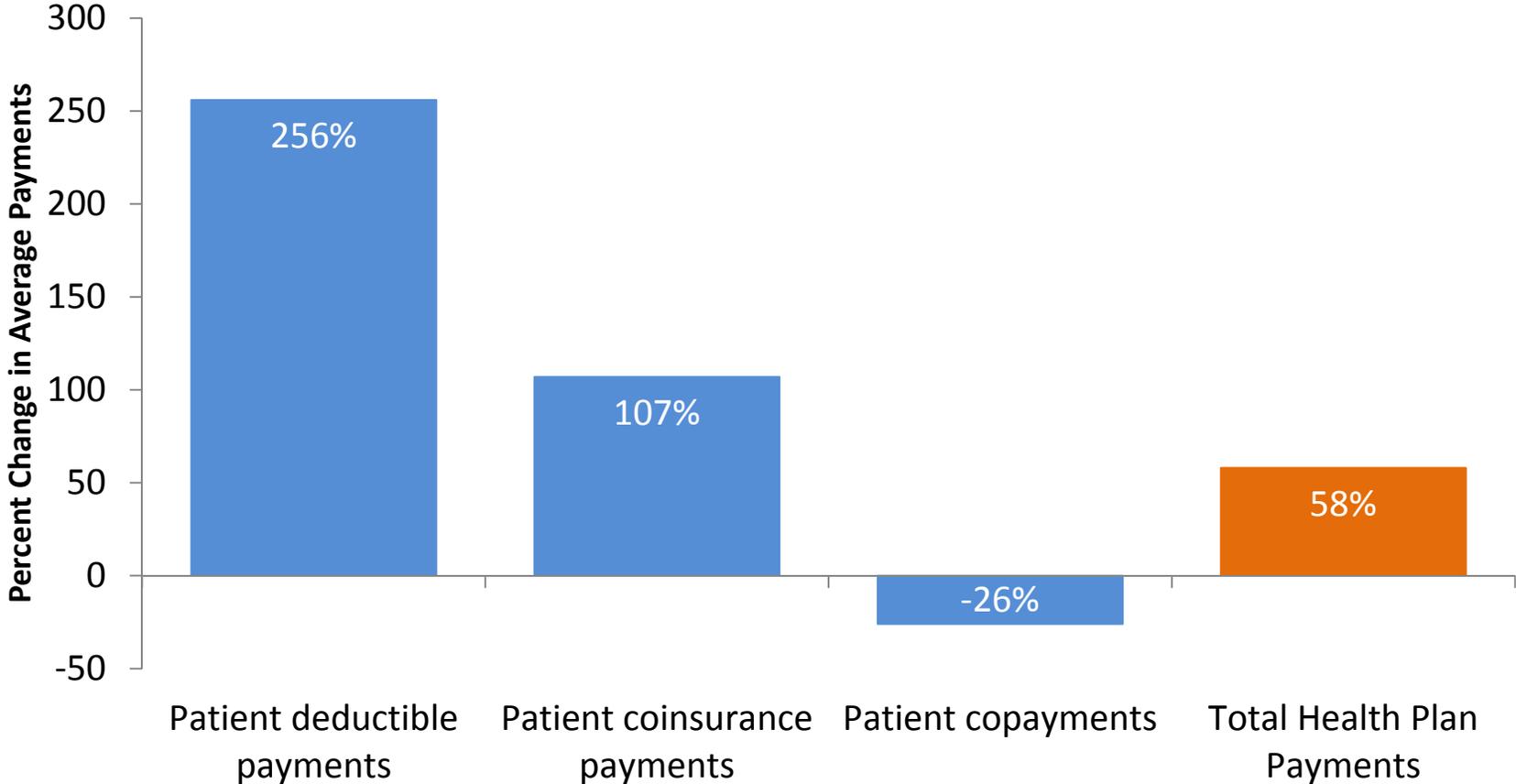
– EXPRESS SCRIPTS (OCTOBER 2015)

“We feel very confident we can manage this and this won't mess up our clients' budgets in 2016.”

– EXPRESS SCRIPTS (OCTOBER 2015)

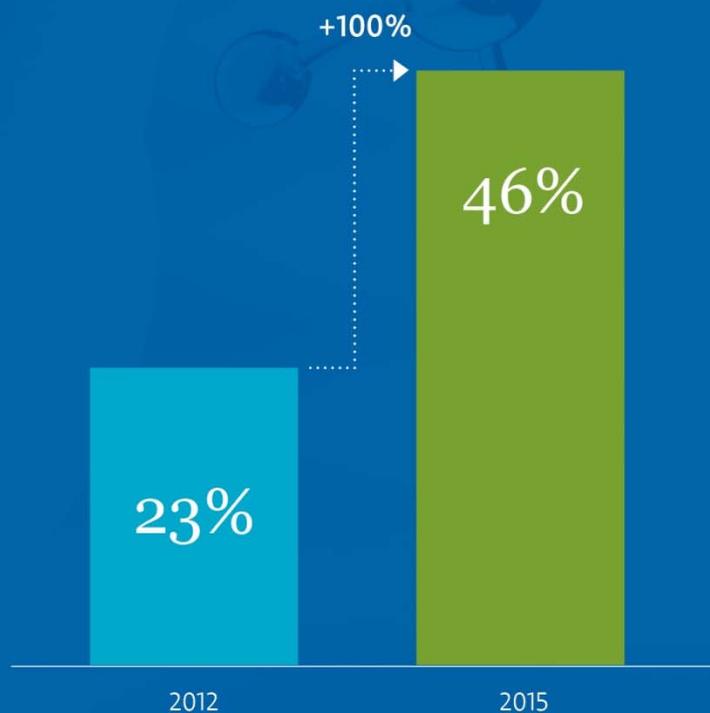
# Cost Sharing is Rising More Rapidly than Health Plan Costs

Change in Enrollee Cost Sharing & Health Plan Payments  
for Individuals with Large Employer Health Plans 2004-2014



## Share of Commercial Plans with a **PRESCRIPTION DRUG DEDUCTIBLE IS INCREASING**

PERCENT OF PLANS WITH DEDUCTIBLES  
ON PRESCRIPTION DRUGS\*



*Cost sharing for patients is shifting from copayment to less predictable deductibles\*\**

*Increasing Provider Accountability for Cost of Care and Pathway Compliance is*  
**INFLUENCING PRESCRIBING DECISIONS**

	THEN	NOW
Patients in health plans that incentivize providers to prescribe certain treatments*	<b>37%</b> 2014	<b>88%</b> 2016 (Projected)
Hospital participation in accountable care organizations responsible for cost of care**	<b>6%</b> 2011	<b>25%</b> 2014
Medicare payments tied to alternative payment models which include cost or quality incentives***	<b>0%</b> 2009	<b>30%</b> 2014
Commercial market payments where provider is at-risk for cost of care****	<b>6%</b> 2013	<b>21%</b> 2014

\*Source: EMD Serono, "Specialty Digest: Managed Care Strategies for Specialty Pharmaceuticals, 12th Edition."

\*\*Source: American Hospital Association, "AHA Hospital Statistics: 2016 Edition."

\*\*\*Source: U.S. Department of Health & Human Services. HHS reaches goal of tying 30 percent of Medicare payments to quality ahead of schedule.

\*\*\*\*Source: Catalyst for Payment Reform. 2013 / 2104 National Scorecard on Payment Reform."

# Policies to Advance a Value-Driven Healthcare System



Better quality measurement  
and value assessment  
tools

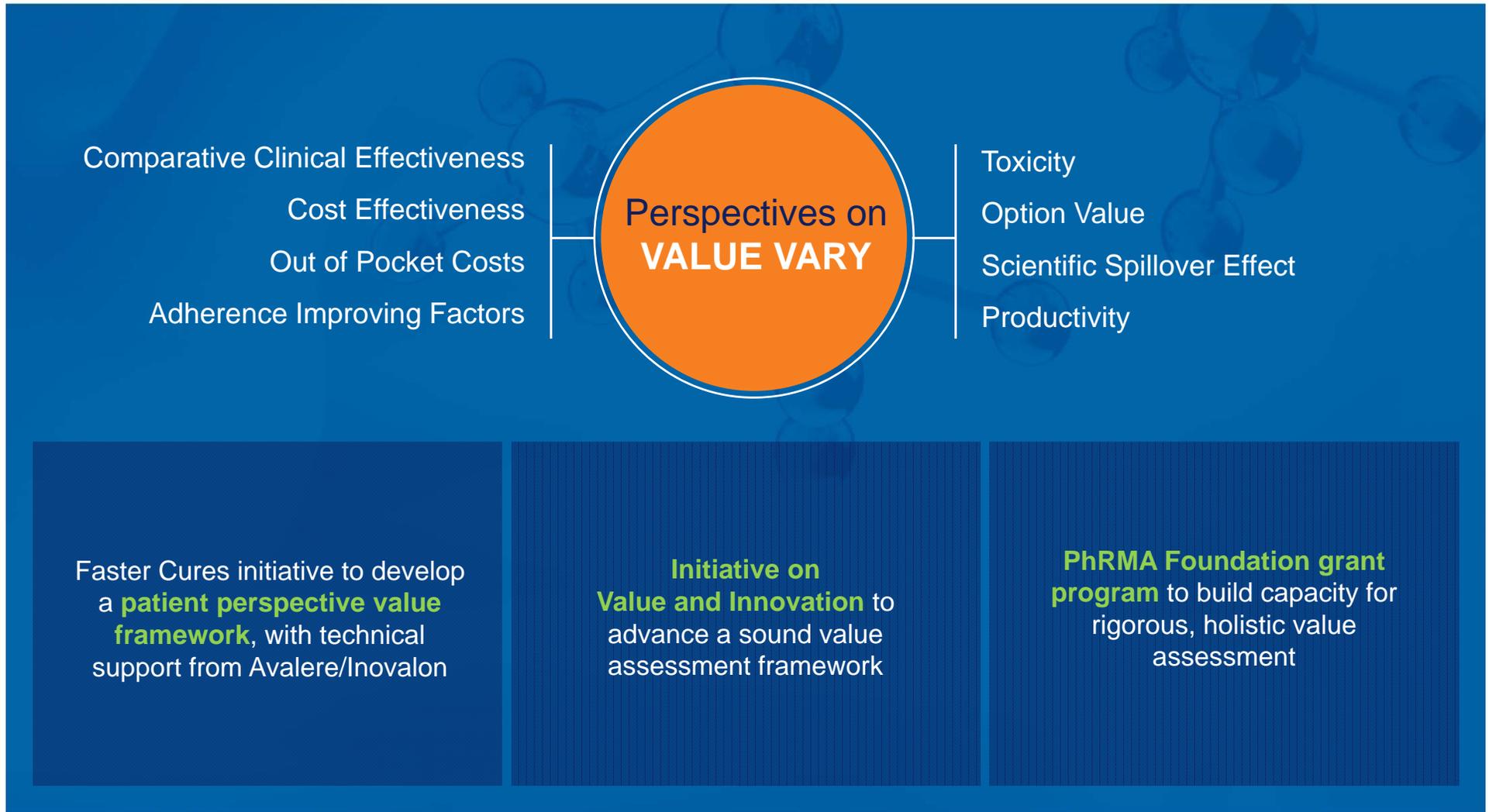


Appropriate use of  
medicines



Enabling value-based  
contracts with health plans

# PhRMA Is Supporting Development of Patient-centered Value Frameworks And Tools



# Addressing Barriers to Value-Based Contracts with Plans and Providers

- Seeking a clear FDA safe harbor that allows biopharmaceutical companies to proactively share information about their pipelines and real world data
- Seeking to modernize the safe harbors to the anti-kickback statute
- Price reporting clarity may also be needed

PHARMACEUTICAL  
COMPANIES

REGULATORY  
BARRIERS

PAYERS/PROVIDERS

