Finding the Formula for Drug Savings

The Role of Pharmacy Benefit Managers in the Health Care System

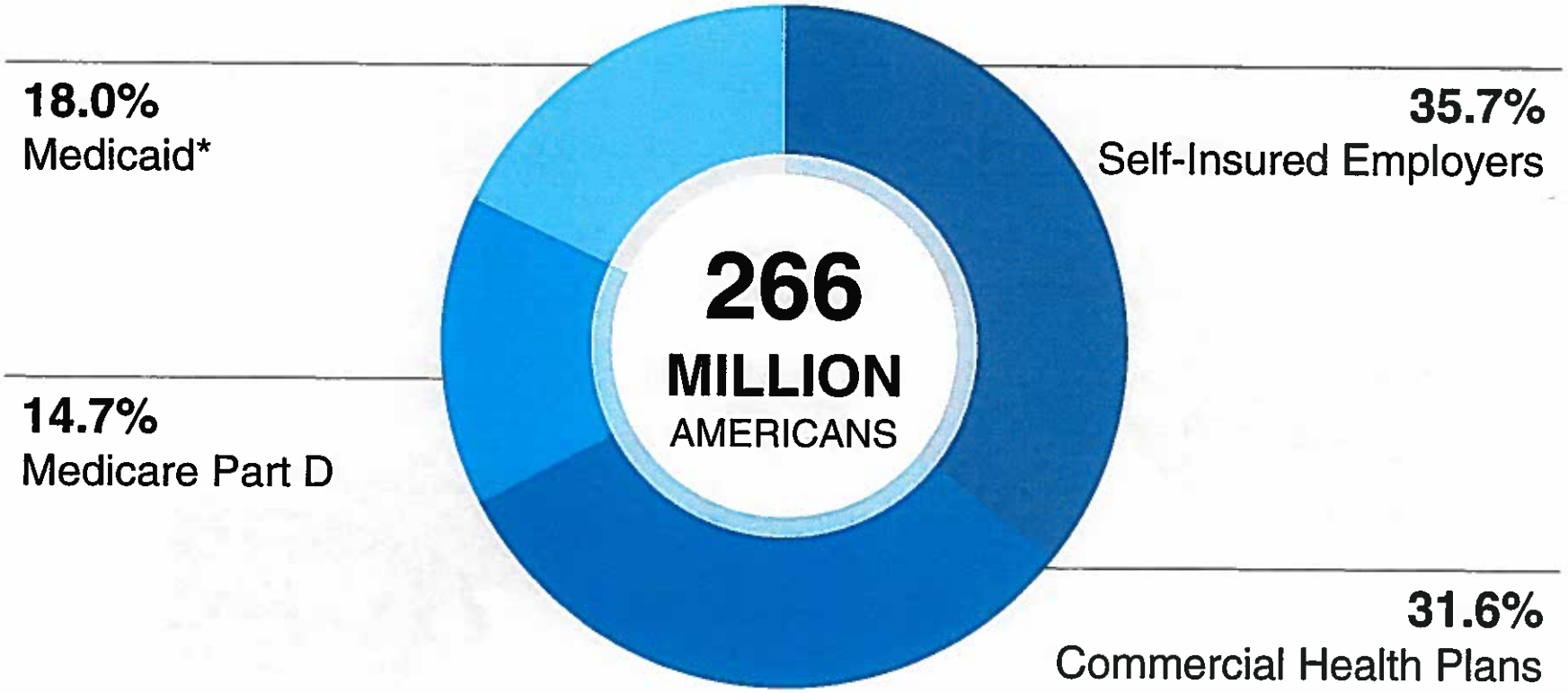
April Alexander, PCMA
Michigan House Health Care Committee
April 11, 2018

What Is a PBM?

- A pharmacy benefits manager (PBM) is a health care company that contracts with insurers, employers, and government programs to administer the prescription drug portion of the health care benefit
- PBMs work with insurers and employers to perform a variety of services to ensure high-quality, cost efficient delivery of prescription drugs to consumers
- PBMs aggregate the buying clout of millions of enrollees, enabling plan sponsors and individuals to obtain lower costs for prescription drugs.

PBMs' National Footprint

More than **266 million Americans** receive pharmacy benefits provided through PBMs



*Excludes Medicare-Medicaid Dual Eligibles where drugs are covered by Medicare Part D.
Source: Visante estimates prepared for PCMA, 2016.

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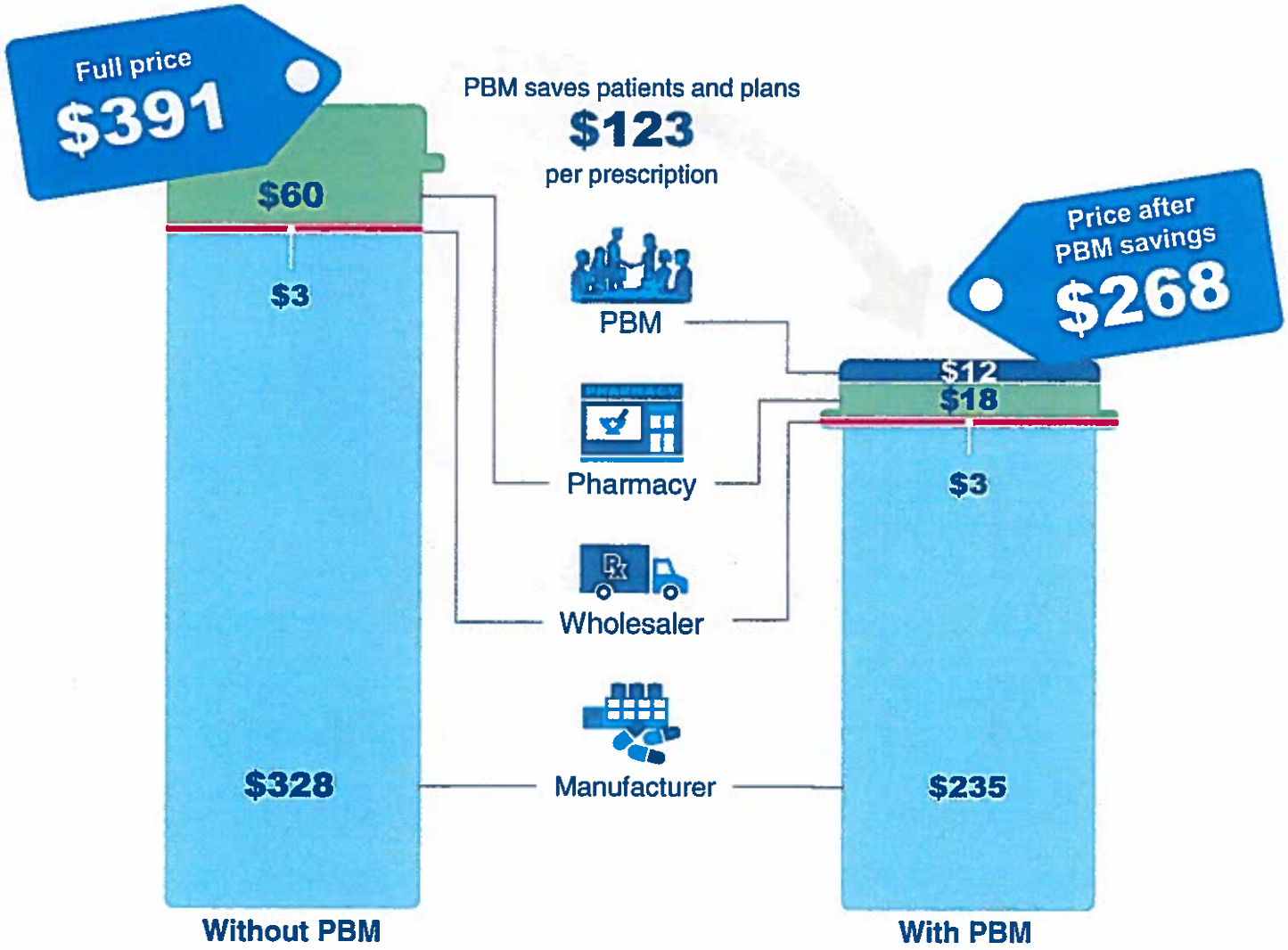
PBMs Save Patients and Plans $123 Per Rx



*Comparison based on non-specialty brands. PBM = Pharmacy Benefit Manager.
Source: PCMA based on Visante analysis. (2017).

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PBMs Improve Quality and Adherence

- PBMs help reduce medication errors through use of drug utilization review programs.
  - Over next 10 years, PBMs will help prevent 1 billion medication errors.

    (Visante estimates based on IMS Health data and DUR program studies).

- PBMs help improve drug therapy and patient adherence, notably in the areas of diabetes and multiple sclerosis.

  (Visante estimates based on CDC National Diabetes Statistics Report 2014 and studies demonstrating improved adherence by 10+%).

Who Are PBM Clients?

Private Sector Employers

Public Sector Employers

Commercial Health Plans/
Government Programs

Union Trusts/Taft-Hartley Plans
(ERISA-exempt)

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Pharmacy Benefit Management Services

Claims Processing

Price, Discount and Rebate Negotiations with Pharmaceutical Manufacturers and Drugstores

Formulary Management

Pharmacy Networks

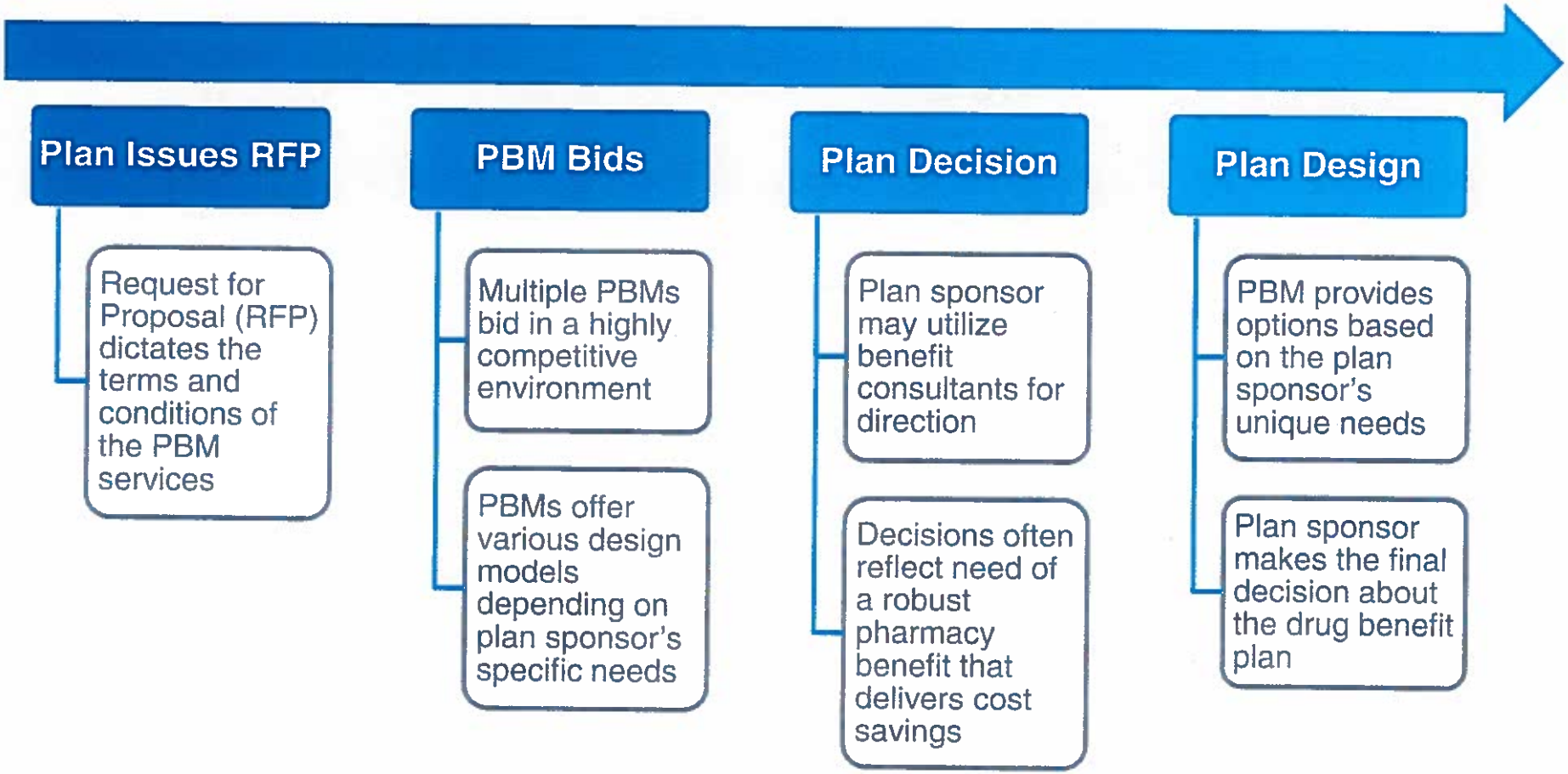
Mail-service Pharmacy

Specialty Pharmacy

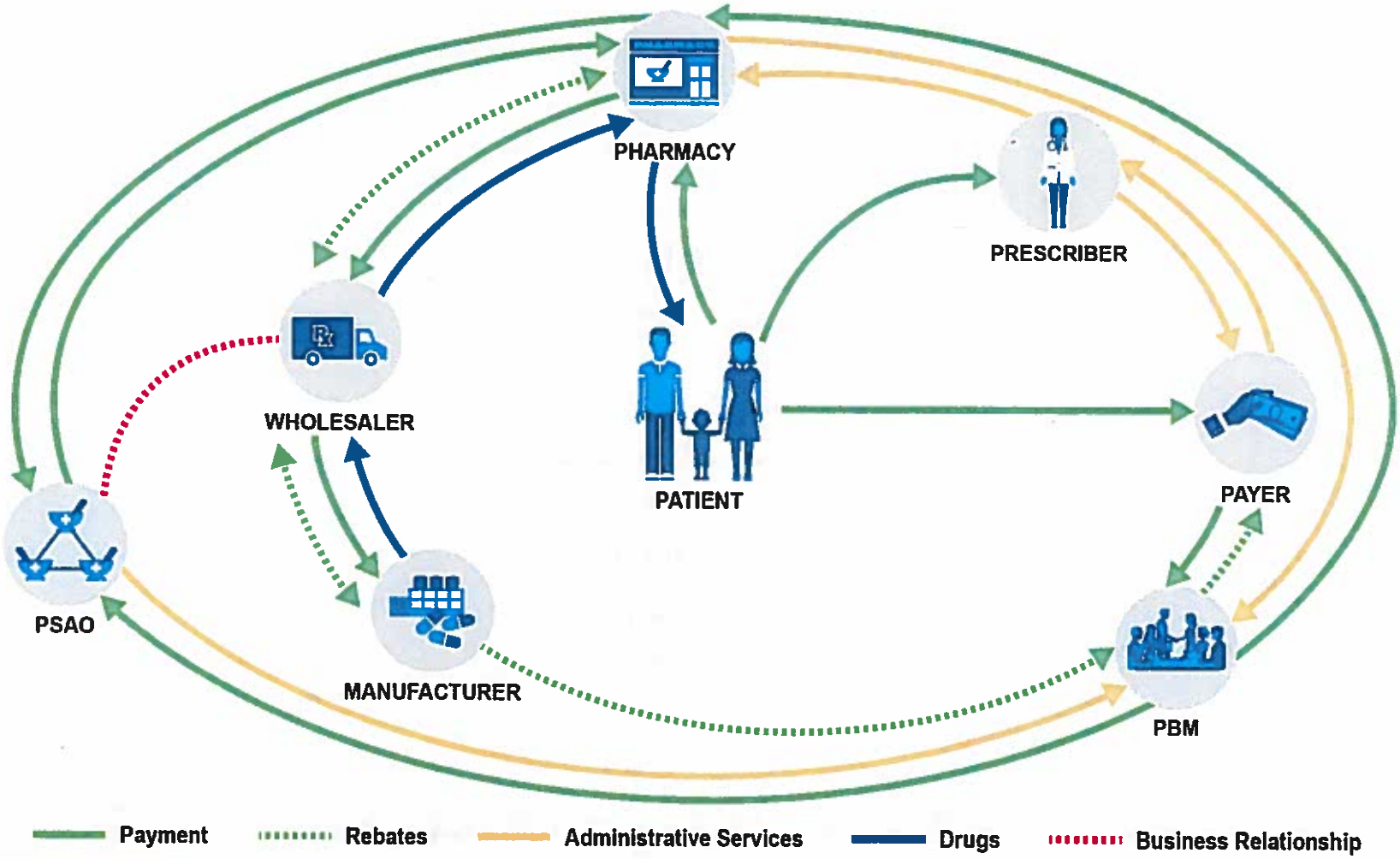
Drug Utilization Review

Disease Management and Adherence Initiatives

The Plan Sponsor RFP Process



Flow of Goods, Transactions & Services



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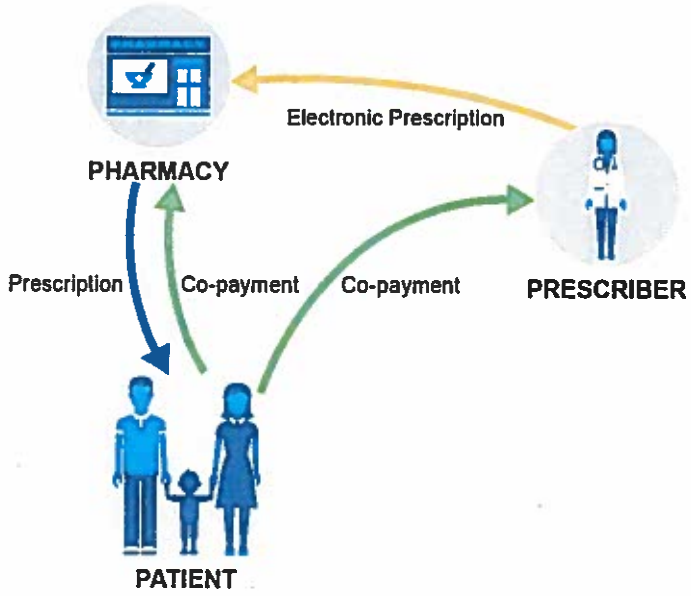
Patient-Prescriber-Pharmacy Interactions



Payment · Rebates · Administrative Services · Drugs · Business Relationship

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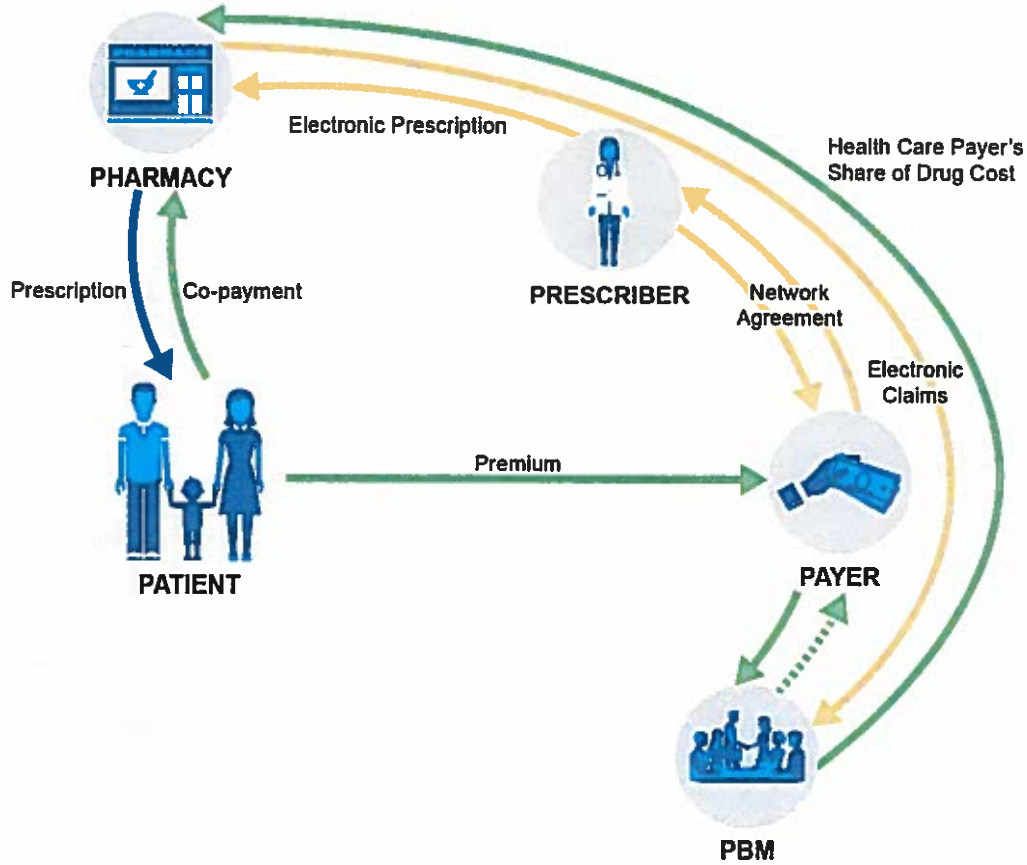
Prescription Drug Coverage



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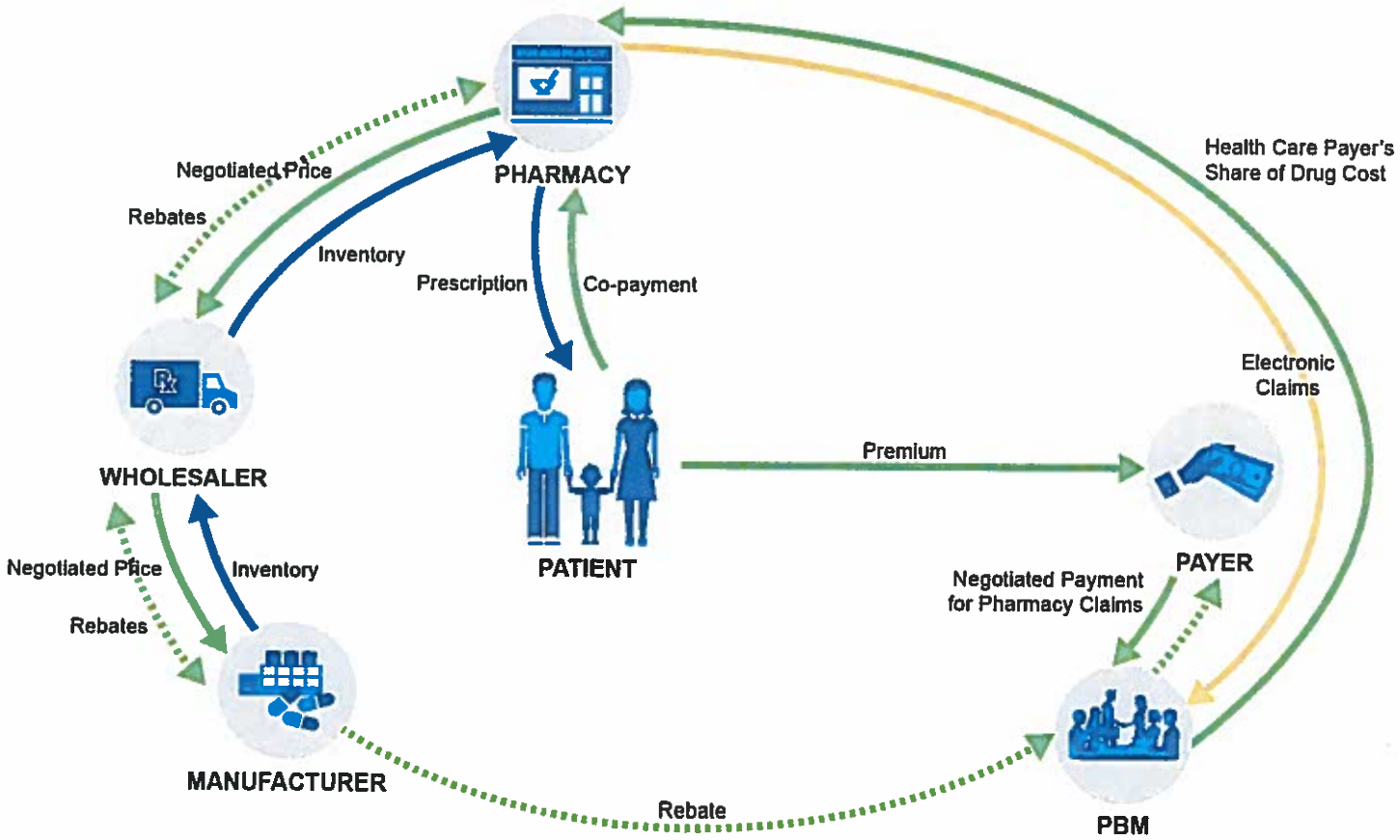
Drug Delivery and Reimbursement



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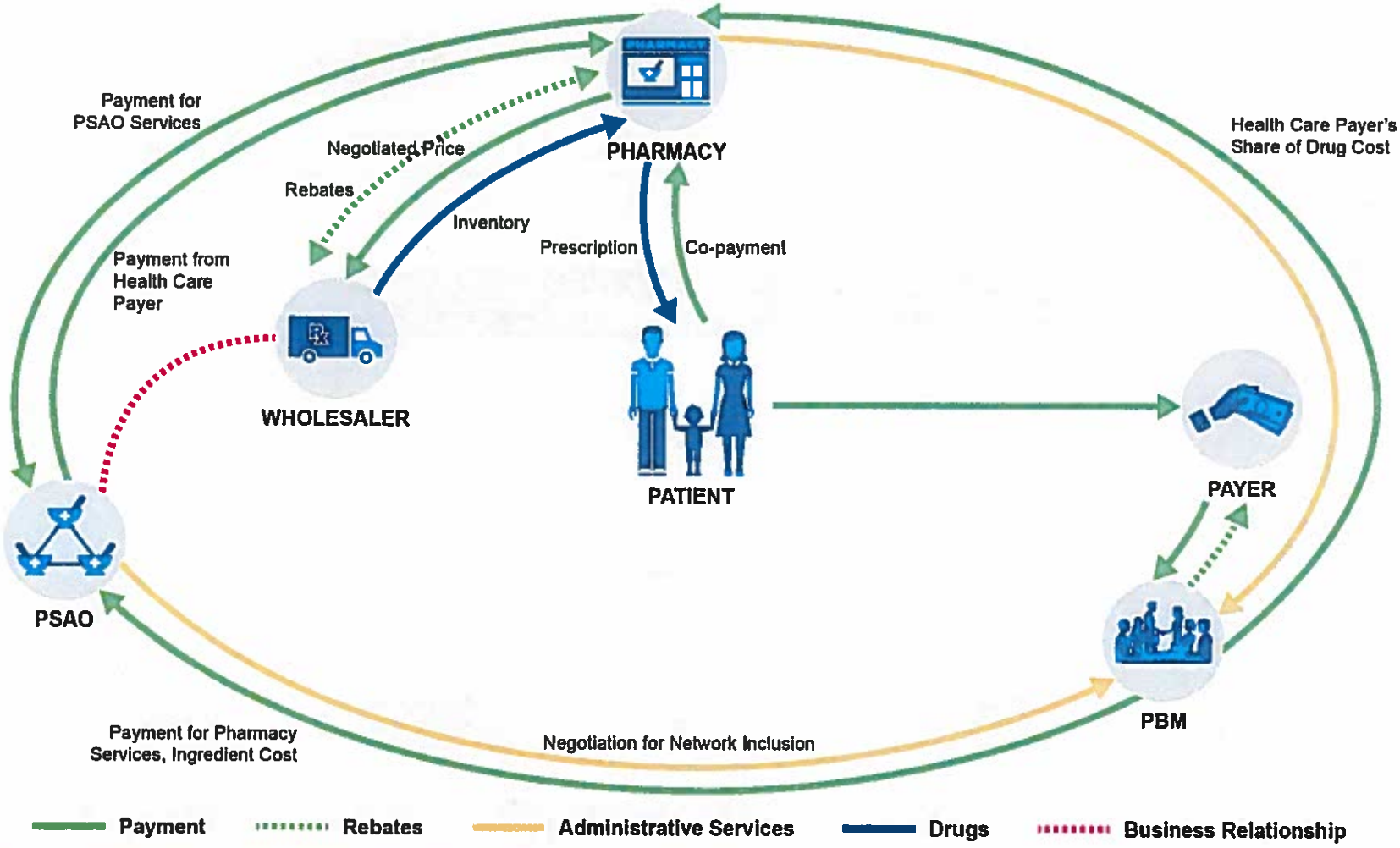
PSAOs

Pharmacy Services Administrative Organizations



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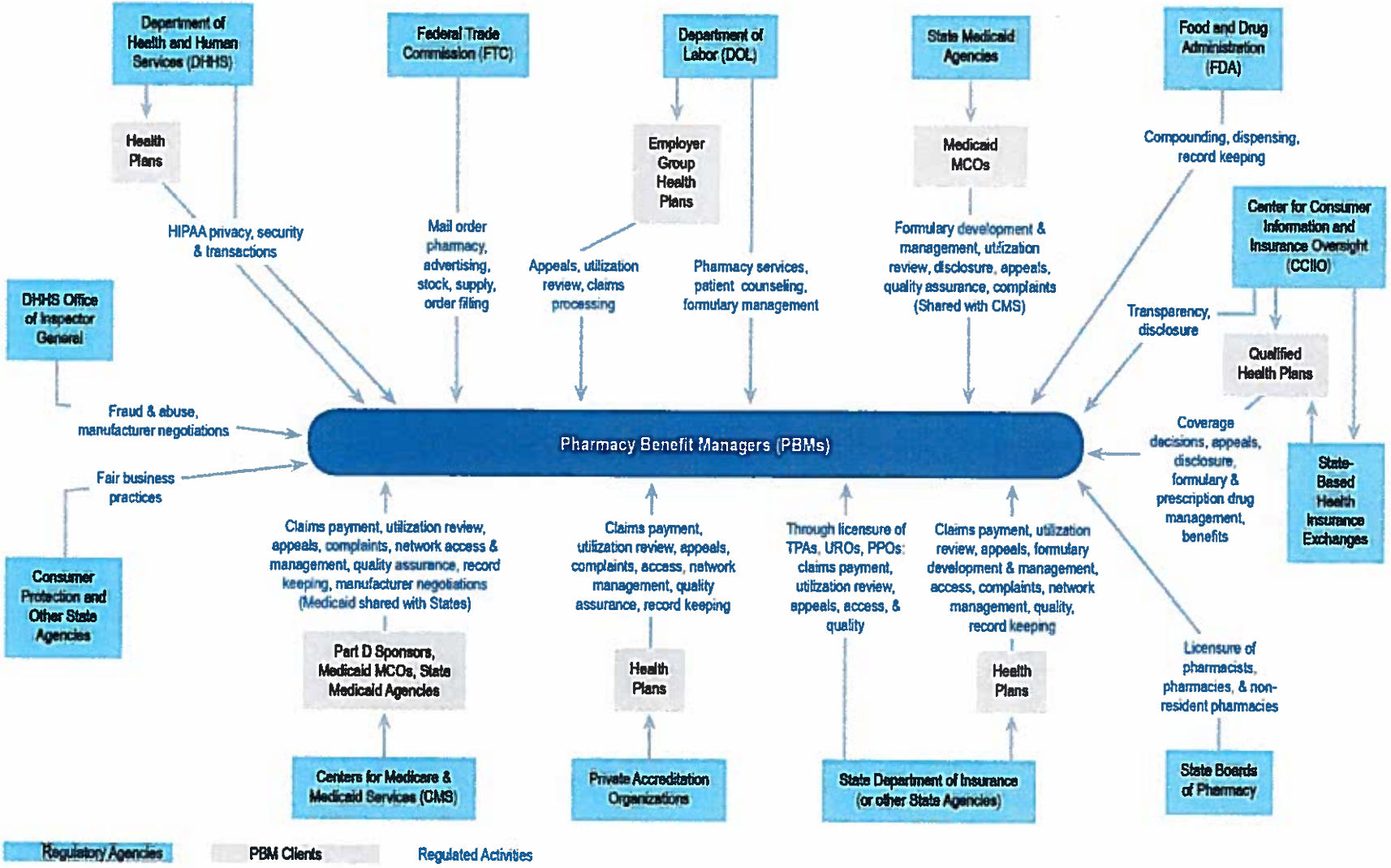
Regulation of PBM Activities



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Tackling High Drug Costs

- Patient cost-sharing often represents only a small fraction of the total cost of the drug.
- Brand drug manufacturers establish prices within a monopoly established by federal patent law.
- Until other drugs are approved for the same disease or condition, manufacturers have little incentive to reduce their prices.
- **Health plans and PBMs do not have any control over the price the manufacturer sets for a drug** — but PBMs have some tools to drive down drug costs.

Is Drug Pricing a Problem?

Modern Healthcare

The leader in healthcare business news, research & data

Drug prices rise as pharma profit soars

By Alex Kacik | December 28, 2017

(Updated on Dec. 29)

The amount of money people spend on prescription drugs has over the past three decades as pharmaceutical sales and profi ballooned, according to a povern[illegible] report.

STAT

Several drug makers just raised their prices by nearly 10 percent, and buyers expect more price hikes

By ED SILVERMAN @Pharmalot / JANUARY 2, 2018

Several drug makers celebrated the new year with substantial single-digit price hikes, while a new survey indicated that prices for bran[illegible] name medicines are expected to rise 3 percent [illegible]

The New York Times

Humira's Best-Selling Drug Formula: Start at a High Price. Go Higher.

By DANNY HAKIM JAN. 8, 2018

[illegible] prescription drug in the world. You may have

[illegible]an with rheumatoid arthritis can wash her puppy [illegible]h colitis can stroll happily through a fair packed

The Washington Post

Pharma, under attack for drug prices, started an industry war

By Carolyn Y. Johnson

It's not easy to get Americans mad at a behind-the-scenes industry they've barely even heard of, but pharmaceutical companies have spent most of this year trying.

"Who decides what you pay for your medicines? Not who you [illegible] in a radio spot [illegible]

THE WALL STREET JOURNAL.

BUSINESS | HEALTHCARE

Cancer Drug Price Rises 1,400% With No Generic to Challenge It

Lomustine among 319 drugs with expired patents but no copies; FDA trying to boost competition

By Peter Loftus

Dec. 25, 2017 7:00 a.m. ET

Since 2013, the price of a 40-year-old, off-patent cancer drug in the U.S. has risen 1,400%, putting the life-extending medicine out of reach for some patients.

[illegible] and Hodgkin [illegible] [illegible]stine has no generic

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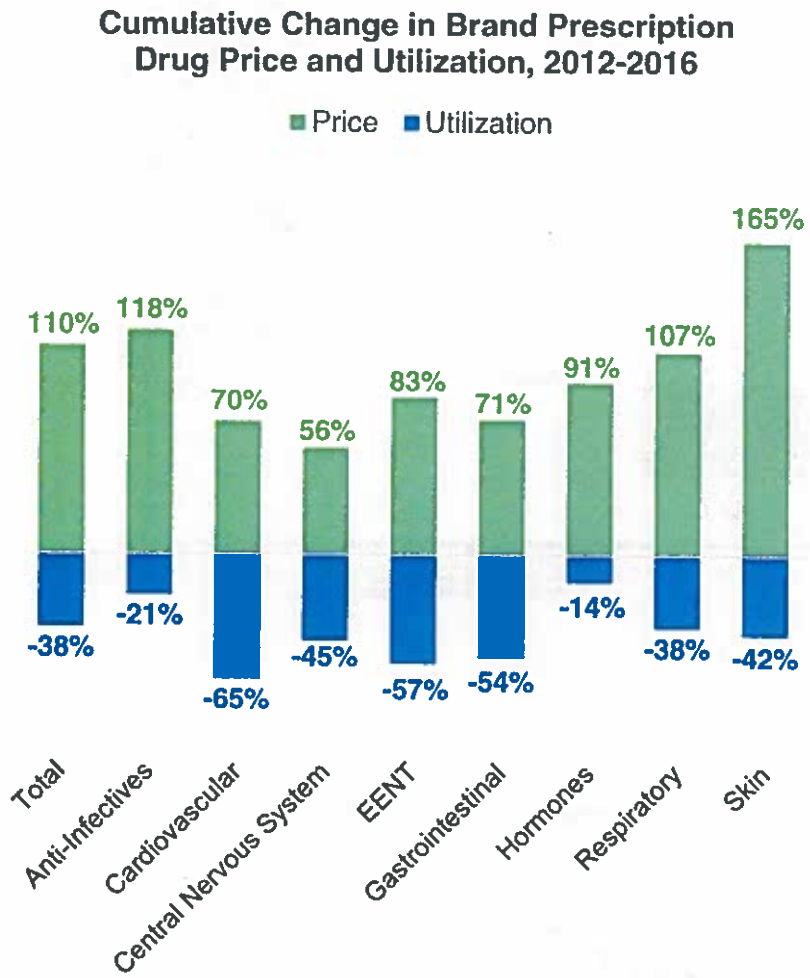
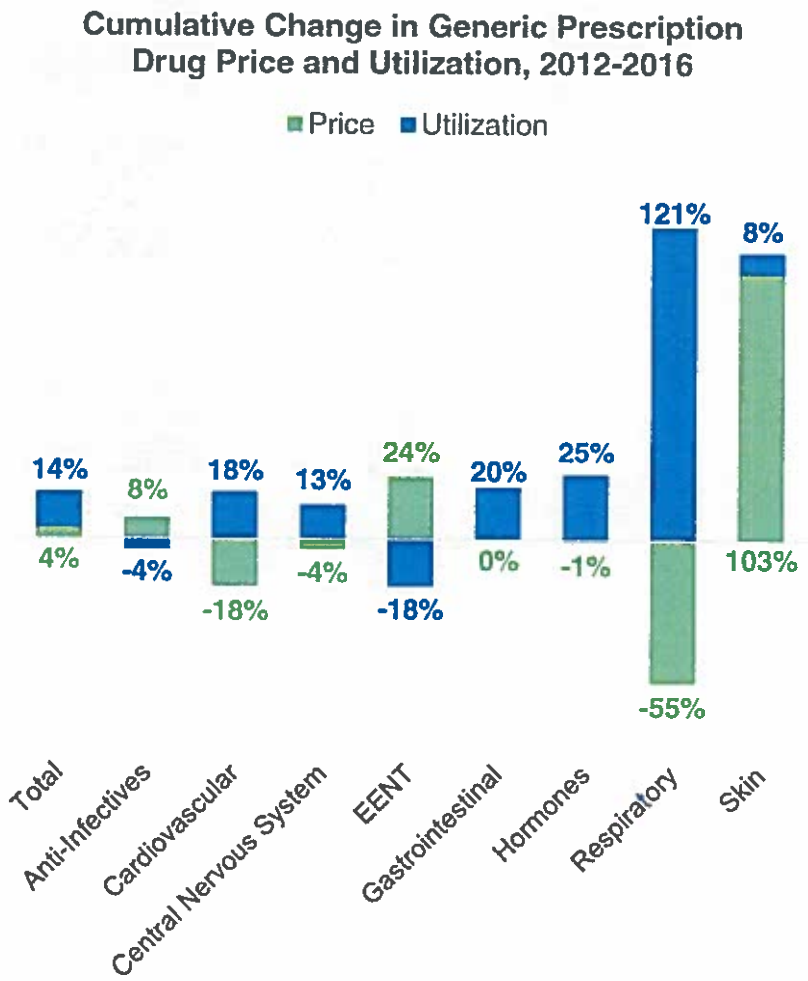
Is Drug Pricing a Problem?





Source: Health Care Cost Institute, *2016 Health Care Cost and Utilization Report.* (January 2018).

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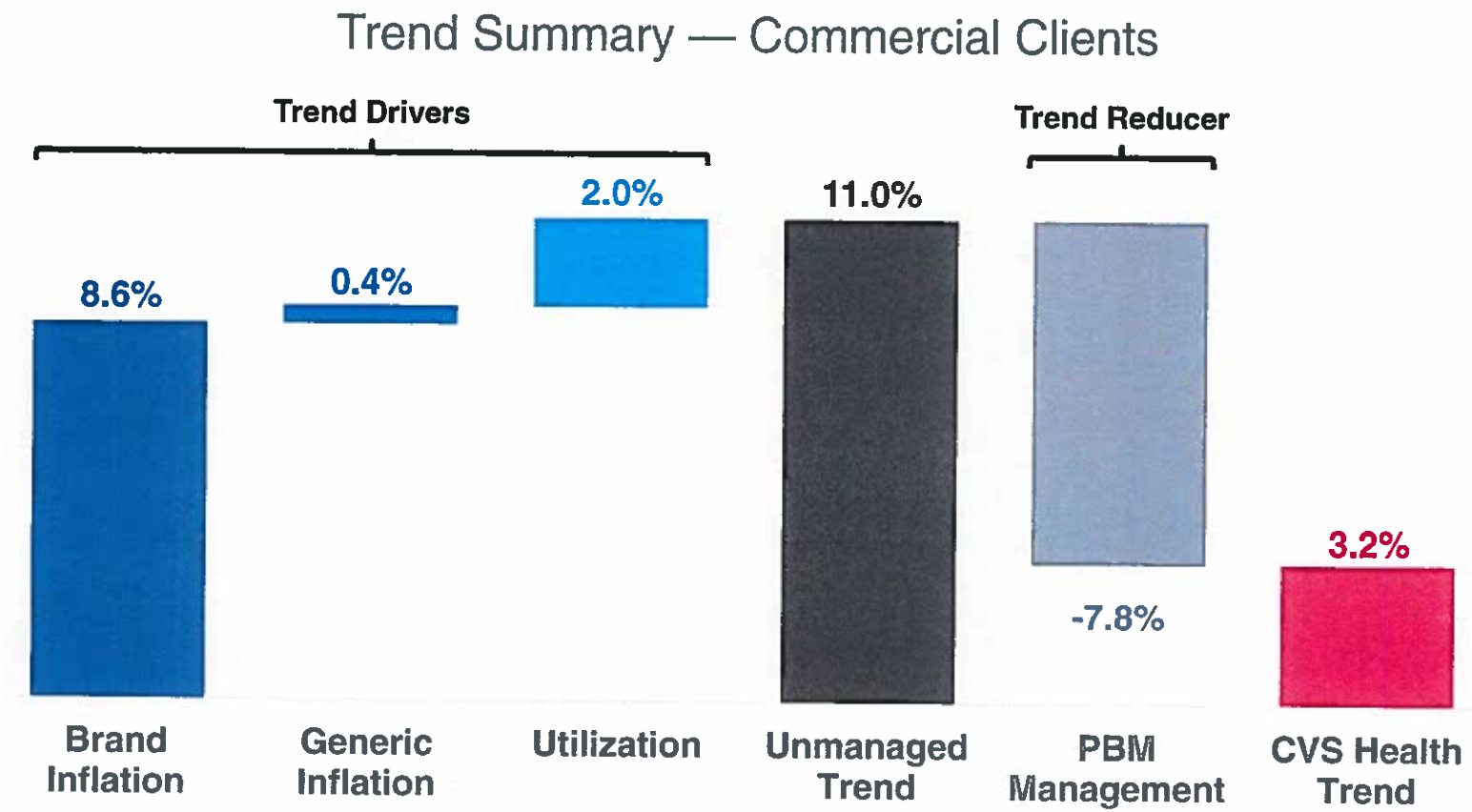
Drug Trend Reports: A Look Under the Hood

Example 1: Drug trend declined from 5.0% in 2015 to 3.2% in 2016, for CVS Health commercial PBM clients. Per-member-per-month out-of-pocket costs also dropped 3%.



Source: CVS Health, *Insights: Executive Briefing.* (March 2017).

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Drug Trend Reports: A Look Under the Hood

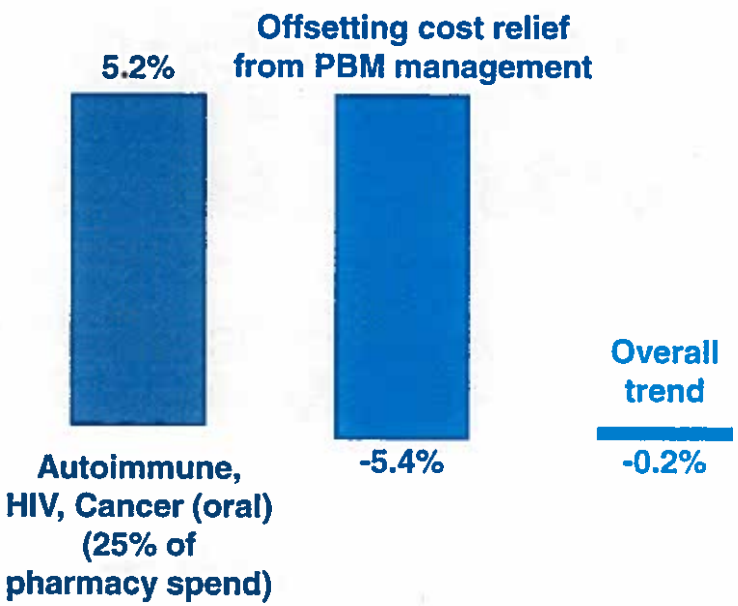
Example 2: Prime's commercial clients experienced an *overall decrease* in prescription drug expenditures in 2017 despite ongoing price inflation in some of the most expensive drug categories.

Double-digit trends continue in the most expensive categories

Drug Category	% of Spend	Trend	Unit Cost
Autoimmune	14.0%	23.1%	$4,785
HIV	5.6%	22.0%	$1,814
Cancer (oral)	5.3%	19.3%	$8,594

25% of pharmacy spend

High-cost categories exert upward pressure on overall trend



Source: Prime Therapeutics, *Focus on Trend: Commercial.* (Spring 2018).

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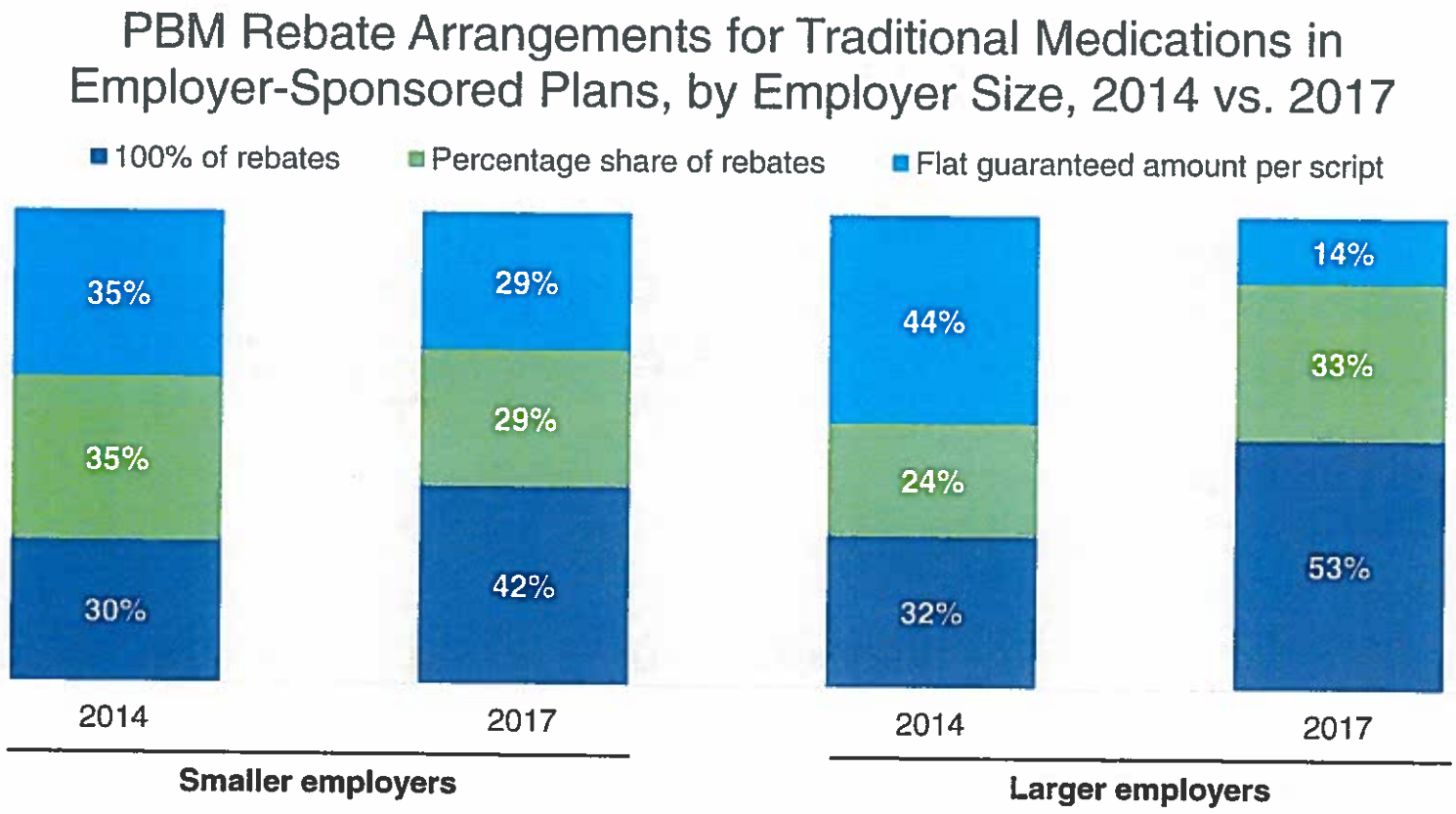
Plan Choice on Flow of Rebates



Smaller employers = 5,000 or fewer covered lives; Larger employers = more than 5,000 covered lives.
Number of covered lives includes employees and dependents.

Source: Drug Channels Institute analysis of Trends in Drug Benefit Design, PBMI, various years. Data include only responding firms that receive rebates. 2014 figures recomputed to exclude those who were not sure about their company's rebate arrangements. Published on January 17, 2018.

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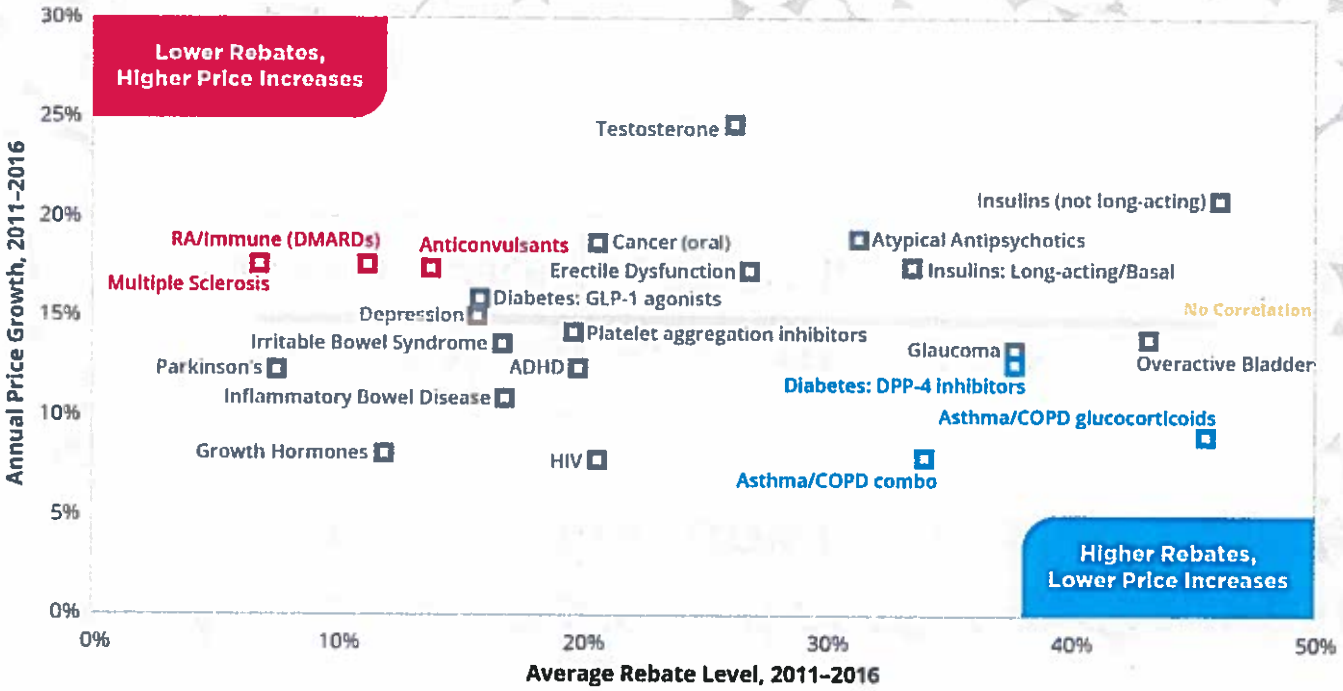
STUDY SHOWS NO CORRELATION BETWEEN DRUG REBATES AND PRICE INCREASES



Major Findings:

- **No correlation** between drug prices and PBM/payer rebates
- Cases exist of higher-than-average price increases with relatively low rebates
- Cases exist of lower-than-average price increases with relatively high rebates
- Drugmakers are **increasing prices regardless of rebate levels**

Study: Top 200-self-administered, patent-protected, brand-name drugs. 23 major drug categories examined.

Source: Visante, *No Correlation Between Increasing Drug Prices and Manufacturer Rebates in Major Drug Categories.* (April 2017).

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Conclusion

- Drug list prices for both brands and generics are going up.
- PBMs play a unique and central role in **driving adherence**, **holding down costs**, and **increasing quality**.
- PBM tools **deliver savings** for plan sponsors and consumers, underscoring the success of the competitive marketplace.