Specialty Drugs: Managing Costs & Ensuring Access

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The Pew Charitable Trusts
Macro Trends in US Healthcare

• Intensifying need to demonstrate the value of drugs
• Rapid evolution of the healthcare payment & delivery landscape
• Shifting balance of medical decision-making
• Use of Real-World Evidence matures & expands
• ACA being implemented & early impact being assessed
Rising healthcare costs

Median household income

$52,250

Cost of family’s healthcare

$22,030

Employer premium contribution

$12,866

Employee premium contribution

$5,544

Employee expenses (e.g. deductible, copays)

$3,600

http://www.deptofnumbers.com/income/us/#household; 2013 Milliman Medical Index
Why are pharmaceuticals an issue?

• Drug Spending Increases
  – 13.1% in 2014

• Increasing share of specialty drugs
  – 1% of all prescriptions but 32% of drug spending
  – Est. 50% of prescription drug spending by 2020

• Pipeline drugs heading to market
  – Approximately 700 specialty drugs under development

Pharmaceutical Costs

• $374B in pharmaceutical spending in US (2014)

• Public Programs (before rebates):
  – Medicare: $88B (2016 estimated [CBO])
  – Medicaid: $36B (2012)

Sources: IMS (2015), OIG (2012)
Increased Spending on Drugs

All Drugs

2015-2017 TREND FORECAST

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL OVERALL</td>
<td>6.8%</td>
<td>10.6%</td>
<td>11.2%</td>
</tr>
</tbody>
</table>

Specialty Drugs

TREND FORECAST FOR KEY SPECIALTY THERAPY CLASSES

<table>
<thead>
<tr>
<th>THERAPY CLASS</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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</thead>
<tbody>
<tr>
<td>Inflammatory Conditions</td>
<td>21.6%</td>
<td>21.6%</td>
<td>21.1%</td>
</tr>
<tr>
<td>Multiple Sclerosis</td>
<td>11.3%</td>
<td>6.5%</td>
<td>3.0%</td>
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<tr>
<td>Oncology</td>
<td>21.6%</td>
<td>20.4%</td>
<td>19.8%</td>
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<tr>
<td>Hepatitis C</td>
<td>66.5%</td>
<td>55.4%</td>
<td>44.3%</td>
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<tr>
<td>HIV</td>
<td>17.3%</td>
<td>16.6%</td>
<td>16.2%</td>
</tr>
<tr>
<td>Miscellaneous Specialty Conditions</td>
<td>31.1%</td>
<td>29.7%</td>
<td>28.2%</td>
</tr>
<tr>
<td>Growth Deficiency</td>
<td>12.5%</td>
<td>10.4%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Hemophilia</td>
<td>3.9%</td>
<td>3.3%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Pulmonary Arterial Hypertension</td>
<td>12.5%</td>
<td>12.0%</td>
<td>12.1%</td>
</tr>
<tr>
<td>Transplant</td>
<td>-5.8%</td>
<td>-1.3%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Hereditary Angioedema</td>
<td>22.5%</td>
<td>24.2%</td>
<td>20.7%</td>
</tr>
<tr>
<td>Other Specialty Classes</td>
<td>6.7%</td>
<td>6.7%</td>
<td>6.4%</td>
</tr>
<tr>
<td>TOTAL SPECIALTY</td>
<td>22.6%</td>
<td>22.3%</td>
<td>21.3%</td>
</tr>
</tbody>
</table>

* Trend is forecast only for specialty medications billed through the pharmacy benefit.

Monthly and Median Costs of Cancer Drugs at the Time of FDA Approval
1965-2015

Source: Peter B. Bach, MD, Memorial Sloan-Kettering Cancer Center
Only 1/5 of increase related to clinical benefits/costs.

In 1995 patients and their insurers paid $54,100 for a year of life. A decade later, 2005, they paid $139,100 for the same benefit. By 2013, they paid $207,000.

Howard, Bach, Berndt, Conti (2015)
Example: MS Drugs

Figure 1: Estimated annual costs of multiple sclerosis disease-modifying therapies in the United States from 1993 to 2013.

Annual costs estimated from average wholesale prices (AWP), or wholesale acquisition costs if AWP not reported, and discounted 12%. IFN = interferon.

Source: Hartung (2015)
Rebates for Brand Name Drugs

Figure 1. Medicaid and Medicare Part D Drug Expenditures and Rebates

Potential Health Policy Objectives

• Ensure patient access to the medically appropriate drugs that they need
• Pay for drugs based on the outcomes achieved and their value (informed by evidence)
• Responsibly manage spending in public programs (considering affordability)
• Maintain incentives for innovation
Approaches being discussed

• Transparency
• Comparative Effectiveness Research
• Utilization Management (& other coverage restrictions)
• New Financing Models
• Others...
Unanswered Questions

• What is “value” and how do we measure it?
• How do we incorporate considerations of “value” into policy?
• How much are we willing to pay?
Thank you!

• Questions?
• Comments?
• Insights?

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