Pharmaceutical Cost Drivers and the Role of PBMs

Eric Douglas

May 18, 2019
Overview

- What’s the problem?
- What role do PBMs play?
- State and federal solutions
What’s the Problem?

Modern Healthcare
Drug prices rise as pharma profit soars

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

The Washington Post
Pharma, under attack for drug prices, started an industry war

The New York Times

The Wall Street Journal
Cancer Drug Price Rises 1,400% With No Generic to Challenge It
What’s the Problem?

Cumulative Change in Brand Prescription Drug Price and Utilization, 2012-2016

- Total: -38%
- Anti-Infectives: 110%
- Cardiovascular: 70%
- Central Nervous System: 65%
- EENT: 56%
- Gastrointestinal: 83%
- Hormones: 71%
- Respiratory: 91%
- Skin: 165%

Cumulative Change in Generic Prescription Drug Price and Utilization, 2012-2016

- Total: 14%
- Anti-Infectives: 14%
- Cardiovascular: 4%
- Central Nervous System: 8%
- EENT: 18%
- Gastrointestinal: 13%
- Hormones: 24%
- Respiratory: 30%
- Skin: 25%

What Role Do PBMs Play?

- 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 their clients to perform a variety of services to ensure high-quality, cost-efficient delivery of prescription drugs to consumers.
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
What Role Do PBMS Play?

- PBMs offer various design models depending on plan sponsor's specific needs

- The plan sponsor always has the final say when creating a drug benefit plan
  - There is no one-size-fits-all model because each plan sponsor has unique needs
  - Plan sponsors retain full audit rights in their contracts – ensuring transparency
  - On average, more than 90% of rebates negotiated by PBMs are passed through to plan sponsors¹

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

<table>
<thead>
<tr>
<th>Drug Category</th>
<th>% of Spend</th>
<th>Trend</th>
<th>Unit Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Autoimmune</td>
<td>14.0%</td>
<td>23.1%</td>
<td>$4,785</td>
</tr>
<tr>
<td>HIV</td>
<td>5.6%</td>
<td>22.0%</td>
<td>$1,814</td>
</tr>
<tr>
<td>Cancer (oral)</td>
<td>5.3%</td>
<td>19.3%</td>
<td>$8,594</td>
</tr>
</tbody>
</table>

High-cost categories exert upward pressure on overall trend

- 5.2% Offsetting cost relief from PBM management
- 5.4% Overall trend

25% of pharmacy spend

Source: Prime Therapeutics, Focus on Trend: Commercial, (Spring 2018).
Are Rebates the Culprit?

PBM Rebate Arrangements for Traditional Medications in Employer-Sponsored Plans, by Employer Size, 2014 vs. 2017

- **100% of rebates**
- **Percentage share of rebates**
- **Flat guaranteed amount per script**

<table>
<thead>
<tr>
<th></th>
<th>Smaller employers</th>
<th>Larger employers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2014</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Smaller</td>
<td>35%</td>
<td>35%</td>
</tr>
<tr>
<td>Percentage</td>
<td>29%</td>
<td>35%</td>
</tr>
<tr>
<td>Flat</td>
<td>30%</td>
<td>30%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Smaller employers</th>
<th>Larger employers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2017</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Smaller</td>
<td>29%</td>
<td>24%</td>
</tr>
<tr>
<td>Percentage</td>
<td>29%</td>
<td>24%</td>
</tr>
<tr>
<td>Flat</td>
<td>42%</td>
<td>53%</td>
</tr>
</tbody>
</table>

**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, PBM, 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.
Are Rebates the Culprit?

Flow of $100 Across Various Channels — Overall

- Passed through supply chain
- Captured—net profit
- Captured—other uses

Total Expenditure: $100
- Insurers Keep: $3
- PBMs Collect: $81
- PBMs Keep: $19
- Pharmacists Collect: $76
- Pharmacists Keep: $5
- Wholesale Collect: $60
- Wholesale Keep: $2
- Manufacturers Collect: $58
- Manufacturers Keep: $41
- Production Costs: $17

$15 circled as a significant amount.
STUDY SHOWS NO CORRELATION BETWEEN DRUG REBATES AND PRICE INCREASES

Major Findings:

- There is no correlation between the prices drug companies set and the rebates they negotiate with PBMs.
- There are prominent cases of higher-than-average price increases in drug categories where manufacturers negotiate relatively low rebates.
- There are prominent cases of lower-than-average price increases in drug categories where manufacturers negotiate relatively high rebates.
- Drugmakers are increasing prices regardless of rebate levels.

A study contradicts claims that drug pricing is contingent on the level of rebates and discounts manufacturers negotiate with pharmacy benefit managers (PBMs). Visante analyzed data on the top 200 self-administered, patent-protected, brand-name drugs and found no correlation between the prices drugmakers set and negotiated rebates across 23 major drug categories.

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

Federal Solutions

- Eliminate "pay-for-delay" agreements.
- Promote accelerated FDA approval of both "me too" brand and generic drugs.
- Reduce innovator biologic exclusivity to seven years.
- Eliminate the tax deduction for direct-to-consumer (DTC) drug ads that mention a specific product.
- Remove Part D’s protected classes.
- Create a safe harbor for value-based drug price negotiations from Medicaid Best Price.

State Solutions

- Promote increased access to lower-cost biologics.
- Support private negotiations between pharmacies (both chains and independents), PSAOs, and PBMs.
- Preserve the ability of PBMs to use their full range of cost-saving tools, including networks, utilization management, and formulary management.
Conclusion

- Manufacturers are increasing drug prices for both brands and generics

- 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
Thank you