CWAG Prescription Drug Pricing Webinar

January 9, 2018

Kipp Snider, J.D.
Vice President, State Policy
Pharmaceutical Research & Manufacturers of America (PhRMA)
Medicines Are Expected to Account for a Stable Share of Total Health Care Expenditures Through the Next Decade

US Health Care Expenditures Attributable to Retail and Nonretail Prescription Medicines, 2008-2025*

*Retail prescription medicines are those filled at retail pharmacies or through mail service. Nonretail prescription medicines are those purchased through physicians’ offices, clinics, and hospitals and are typically administered to the patient by the provider.

Source: Altarum Institute
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**

DRUG SPENDING

MEDICAL SPENDING

Congestive Heart Failure
Diabetes
Hypertension
Dyslipidemia

**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."
Government actuaries project prescription drug spending growth to remain between 6% and 8% through 2025, in line with overall health care spending growth.\textsuperscript{1}

2014 saw a record 41 medicines approved by the FDA, including a number of transformative medicines for debilitating diseases—as well as 15.7 million Americans gaining coverage through the Affordable Care Act.\textsuperscript{2,3}

*Total retail sales including brand medicines and generics

Sources: PhRMA analysis of CMS data\textsuperscript{1}; RAND Corporation\textsuperscript{2}; FDA\textsuperscript{3}
Generics cost a fraction of the price of the initial brand medicine.

<table>
<thead>
<tr>
<th>Medicine</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIOVAN VCT® Hypertension (2010)</td>
<td>85%</td>
</tr>
<tr>
<td>Brand Name THEN $87</td>
<td>Generic NOW $13</td>
</tr>
<tr>
<td>LIPITOR® Cholesterol (2010)</td>
<td>95%</td>
</tr>
<tr>
<td>Brand Name THEN $85</td>
<td>Generic NOW $4</td>
</tr>
<tr>
<td>PLAVIX® Blood Thinner (2011)</td>
<td>97%</td>
</tr>
<tr>
<td>Brand Name THEN $166</td>
<td>Generic NOW $5</td>
</tr>
<tr>
<td>SEROQUEL® Schizophrenia (2010)</td>
<td>97%</td>
</tr>
<tr>
<td>Brand Name THEN $87</td>
<td>Generic NOW $3</td>
</tr>
<tr>
<td>ZYPREXA® Schizophrenia &amp; Bipolar Disorder (2010)</td>
<td>98%</td>
</tr>
<tr>
<td>Brand Name THEN $393</td>
<td>Generic NOW $8</td>
</tr>
</tbody>
</table>

Note: Figures represent the average annual price for 30 pills of the most commonly dispensed form and strength. "Then" price represents the average price in the year prior to generic entry. "Now" price represents the average price in CY 2014. Source: IMS analysis for PhRMA, May 2015.
$103 billion of U.S. brand sales are projected to face generic competition.

2012-2016: $91.2 Billion

2017-2021: $102.8 Billion

Projections exclude biologics, which will face competition from biosimilars entering the market.

Note: Pre-expiry sales of products are calculated for products facing loss of exclusivity (LOE) in each year; the sales in the prior year for each product are aggregated to represent the collective industry exposure to LOE. LOE does not indicate generic market entry. Only small molecule LOEs are included.

Insurers and PBMs have a lot of leverage to hold down medicine costs.

Negotiating power is increasingly concentrated among fewer pharmacy benefit managers (PBM).

Insurers determine:

**FORMULARY**
- if a medicine is covered

**TIER PLACEMENT**
- patient cost sharing

**ACCESSIBILITY**
- utilization management through prior authorization or fail first

**PROVIDER INCENTIVES**
- preferred treatment guidelines and pathways

Top 3 Market Share:
- 70%
- OptumRx/Catamaran*
- 22%
- CVS Health (Caremark)
- 24%
- Express Scripts
- 24%
- All Other

Note: OptumRx and Catamaran merged in 2015. Their 2014 shares are shown combined.
Source: Drug Channels Institute.
In fact, after discounts and rebates, brand medicine prices grew just 3.5% in 2016.

CASE STUDY
Critics Proven Wrong on Hepatitis C Medicine Spending

What payers claimed would happen

“[I]t forces payers…to consider whether or not they can even sustain the pharmacy benefit they provide to members.”
– EXPRESS SCRIPTS (OCTOBER 2014)

“What they have done with this particular drug will break the country…It will make pharmacy benefits no longer sustainable. Companies just aren’t going to be able to handle paying for this drug.”
– EXPRESS SCRIPTS (APRIL 2014)

“Never before has a drug been priced this high to treat a patient population this large, and the resulting costs will be unsustainable for our country. The burden will fall upon individual patients, state and federal governments, and payers who will have to balance access and affordability in a way they never have had to before.”
– EXPRESS SCRIPTS (APRIL 2014)

What actually happened

“Hepatitis C is the first example where price is lower in the U.S. vs. Western Europe because of our negotiations.”
– EXPRESS SCRIPTS (DECEMBER 2015)

“The price is sufficiently low that we can go to our clients and say that they can treat every patient with hepatitis C.”
– EXPRESS SCRIPTS (JANUARY 2015)

“Our clients will save more than $1 billion this year on hepatitis C medications, and we will financially guarantee that their patients will adhere to their therapy.”
– EXPRESS SCRIPTS (JANUARY 2015)

“After our deal, other payers have begun to follow suit and negotiate their own arrangements with either AbbVie or Gilead. Because of our initial action, these follow-up negotiations will ultimately lower the national spend on hepatitis C drugs by more than $4 billion annually.”
– EXPRESS SCRIPTS (JANUARY 2015)
In the midst of this incredible progress, medicine cost growth is declining.

Multiple sources confirm 2016 spending growth was between 3% and 5%.

<table>
<thead>
<tr>
<th>Source</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Express Scripts</td>
<td>5.2%</td>
<td>3.8%</td>
</tr>
<tr>
<td>CVS Health</td>
<td>5%</td>
<td>3.2%</td>
</tr>
<tr>
<td>CMS</td>
<td>9%</td>
<td>5%</td>
</tr>
<tr>
<td>QuintilesIMS</td>
<td>8.5%</td>
<td>4.8%</td>
</tr>
</tbody>
</table>
And too often negotiated savings do not make their way to patients.

More than half of commercially insured patients’ out-of-pocket spending for brand medicines is based on the full list price.

Cost sharing for nearly 1 in 5 brand prescriptions is based on list price.

Source: Amundsen Consulting Group study.