



Prescription Medicines: Costs in Context and Pragmatic Solutions

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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**

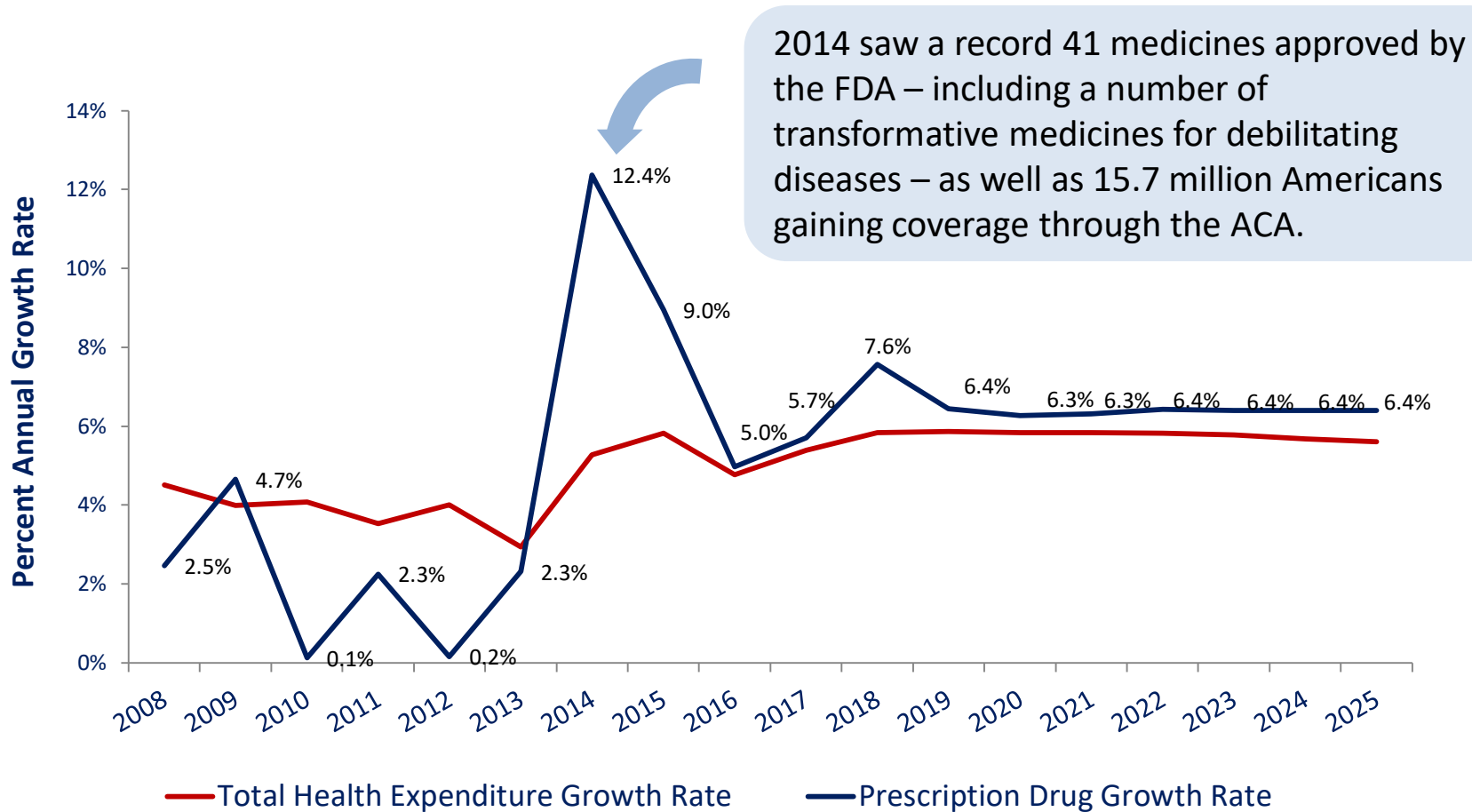
The New York Times

December 6, 2015

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

Prescription Medicine Spending Growth: 2008-2025*

After growing 12.2% in 2014, government actuaries project prescription drug spending growth to moderate over the next few years to 6-8% through 2025, in line with overall health spending



*Total retail sales including brand medicines and generics

Source: Centers for Medicare & Medicaid Services (CMS)¹

Multiple Data Sources Confirm

DRAMATIC SLOWDOWN IN PRESCRIPTION MEDICINE SPENDING GROWTH

Accounting for discounts and rebates, net spending growth rates in 2016
dipped to between 2% and 4%



IMS reported that the 2016 net prescription medicine spending growth rate was between 2% to 3%



CVS Health reported that net prescription medicine spending for its clients grew by 3.6% in the first half of 2016



Altarum Institute reported that the 2016 prescription medicine spending growth rate of 4.0% was lower than the growth rates for physician and hospital spending



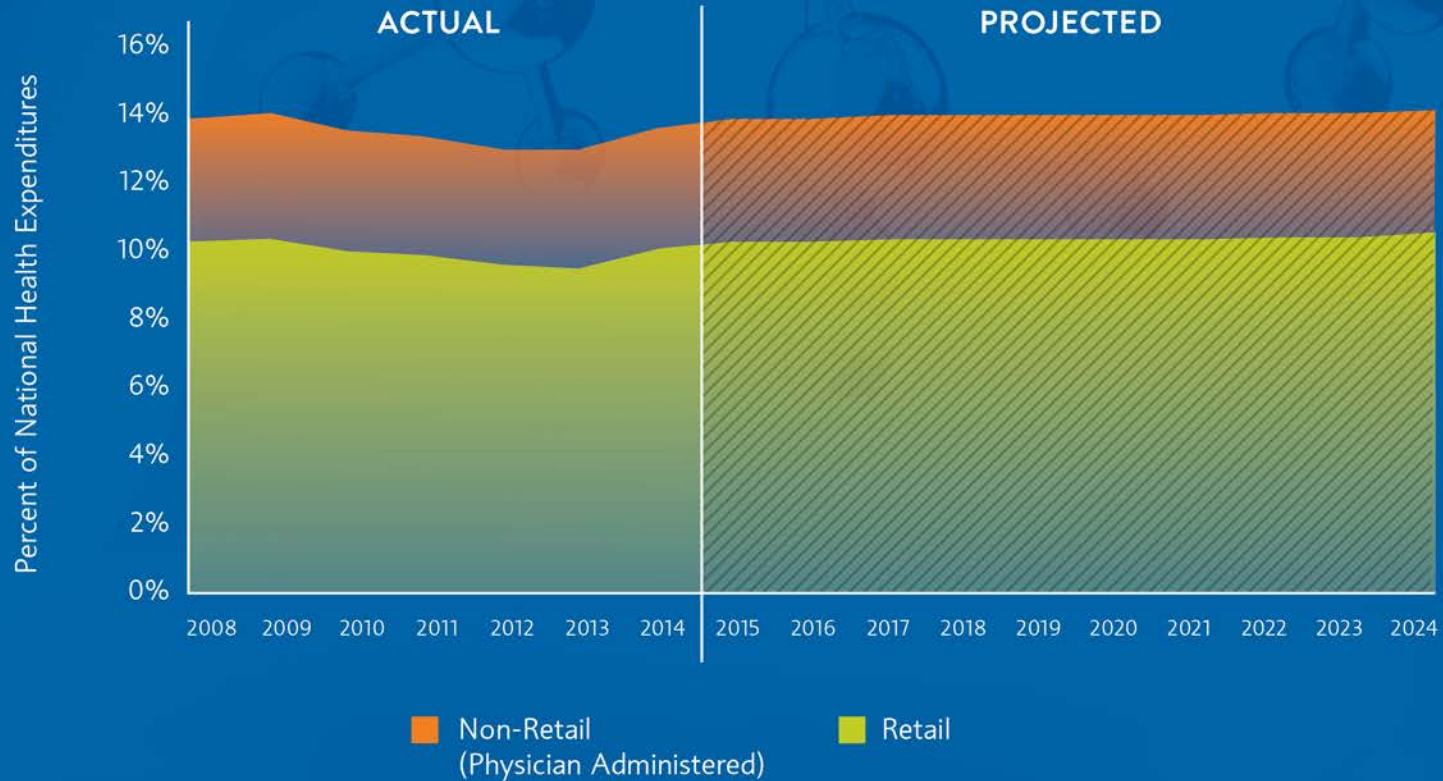
Express Scripts reported that net prescription medicine spending growth for its clients was 3.8% in 2016



CMS reported that spending growth for prescription medicines fell by nearly a third between 2014 and 2015, from 12.4% to 9.0%

Medicines Account for a **STABLE SHARE OF HEALTH CARE SPENDING**

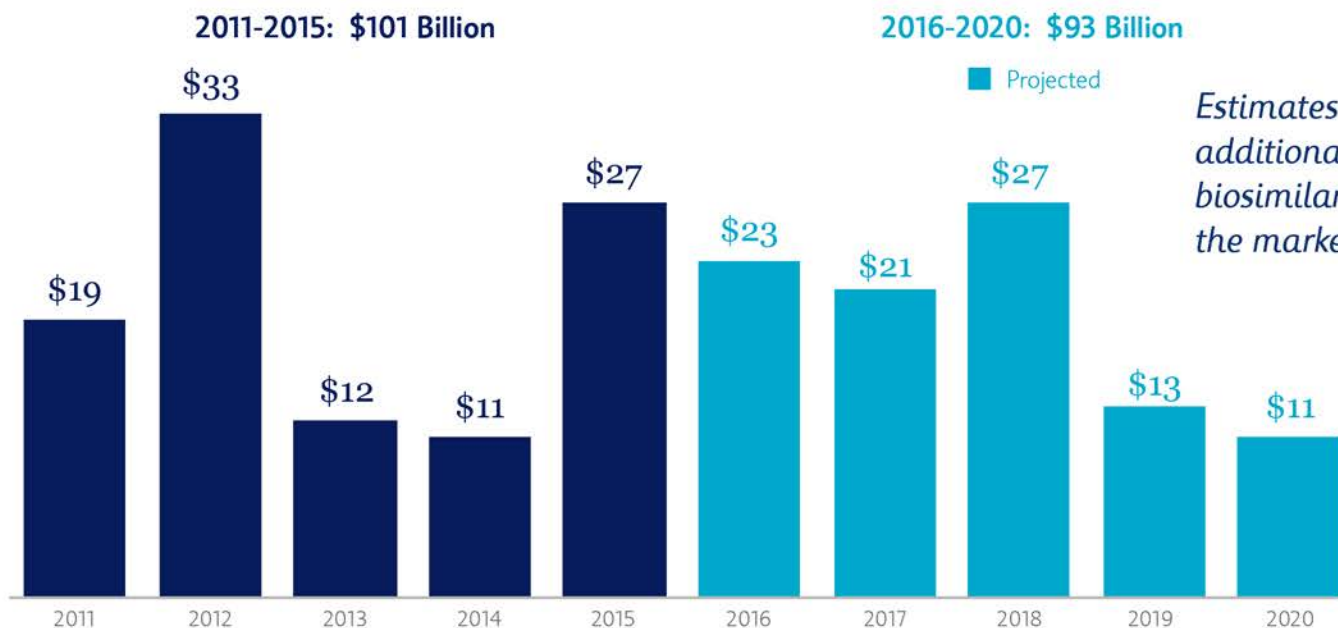
Health Care Expenditures Attributable to Retail and Non-Retail Prescription Drugs, 2008-2024



Spending on Brand Medicines Falls Dramatically as MEDICINES FACE GENERIC COMPETITION

Similar exposure in coming years to the \$105Bn loss in 2009-13 (the "patent cliff") underscores continuing cost containment in the pharmaceutical sector

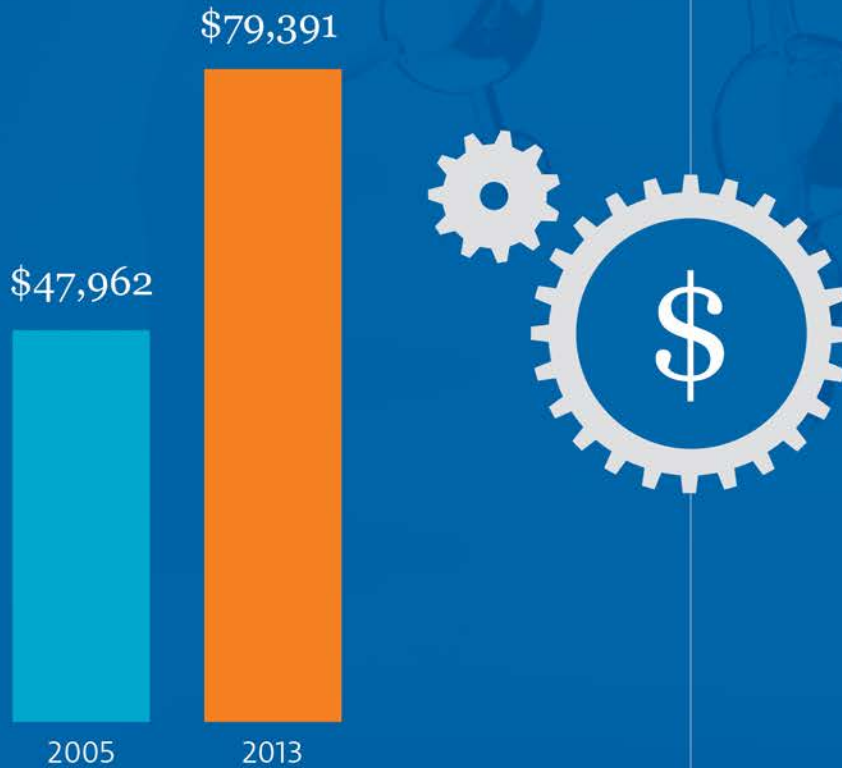
Pre-expiry Value of Small Molecule Products at Risk (in Billions), 2011-2020



Notes: Pre-expiry sales of products are calculated for products losing exclusivity (LOE) in each year, the sales in the prior year for each product are aggregated to represent the collective industry exposure to LOE. Loss of exclusivity does not indicate generic market entry. Small molecule losses of exclusivity only.

Medical Procedures Become More Expensive Over Time, BUT COST CONTAINMENT IS BUILT INTO THE MEDICINE LIFE CYCLE

Percutaneous Coronary Angioplasty (PTCA)

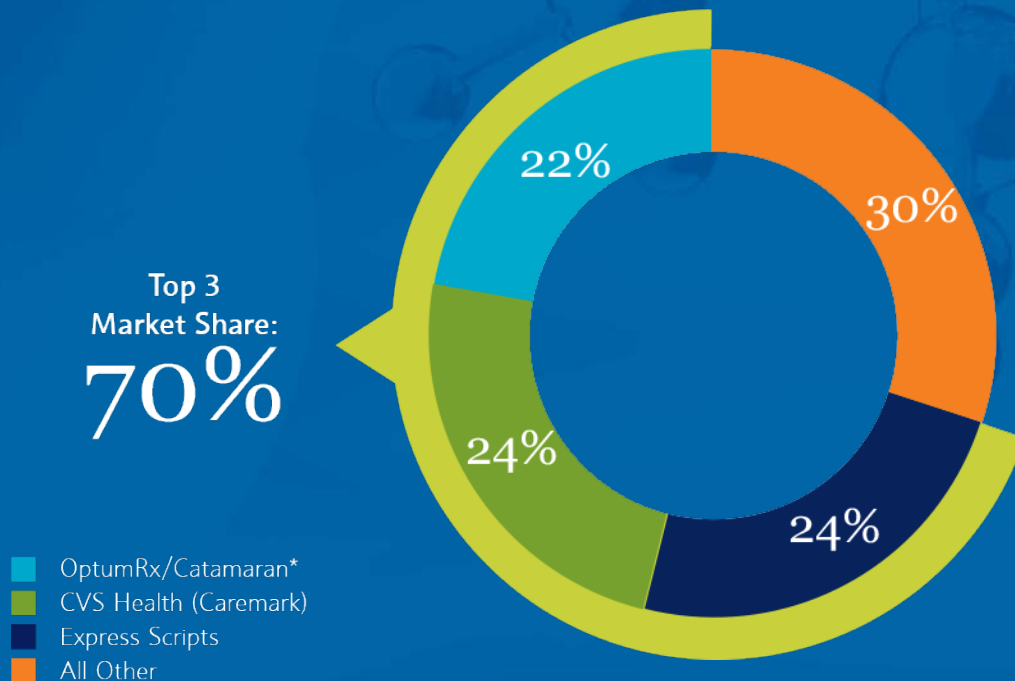


Atorvastatin 10mg



The “Blank Check” Myth Payers Have Significant Leverage to Negotiate Rebates and Discounts

PBM Market Share, by Total Equivalent Prescriptions



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

Insurers and PBMs determine:

FORMULARY

if a medicine is covered

TIER PLACEMENT

patient cost sharing

ACCESSIBILITY

utilization management through prior authorization or fail first

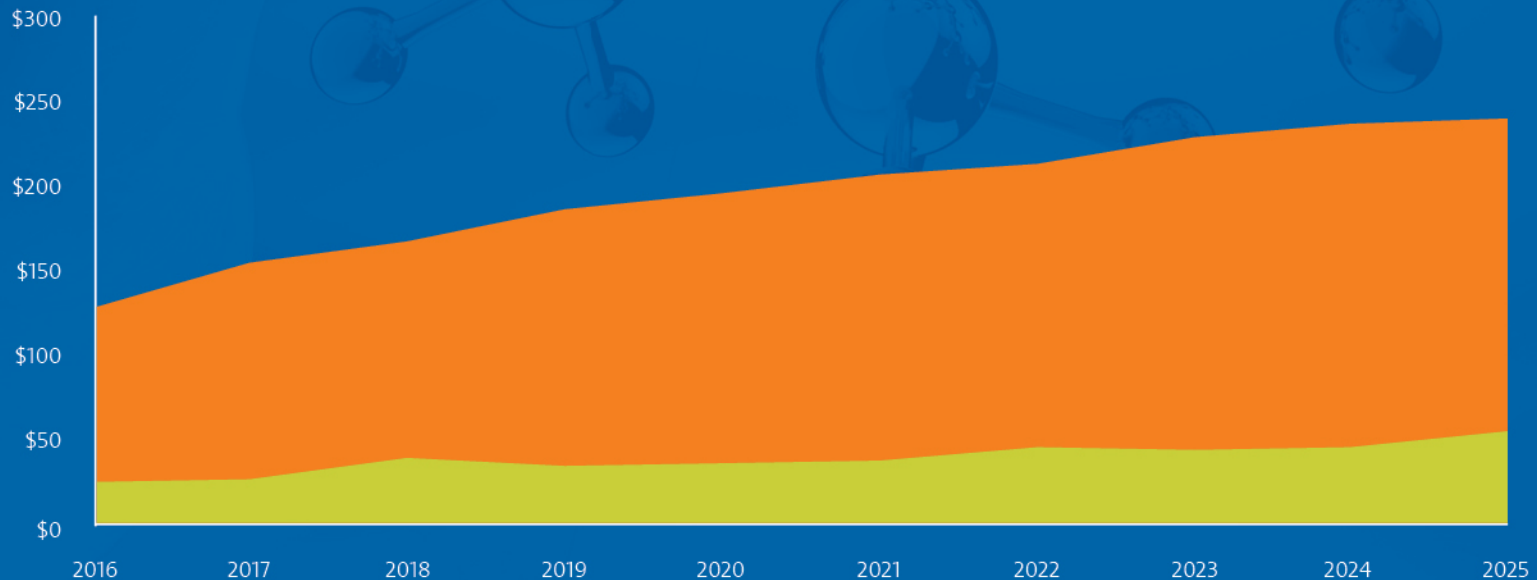
PROVIDER INCENTIVES

preferred treatment guidelines and pathways

GROWTH IN OTHER HEALTH CARE SERVICES WILL BE FIVE TIMES

Total Medicine Spending Growth Through Next Decade

Projected Annual Growth in Spending (\$ Billions)

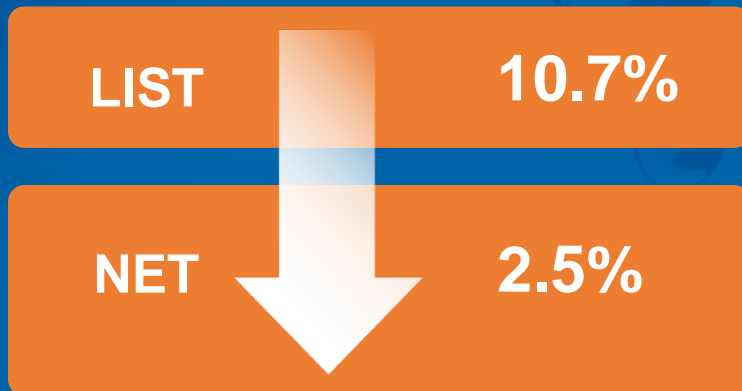


Other Health Care Services
(10-year cumulative increase:
\$1,950 billion)

All Prescription Medicines
(10-year cumulative increase:
\$393 billion)

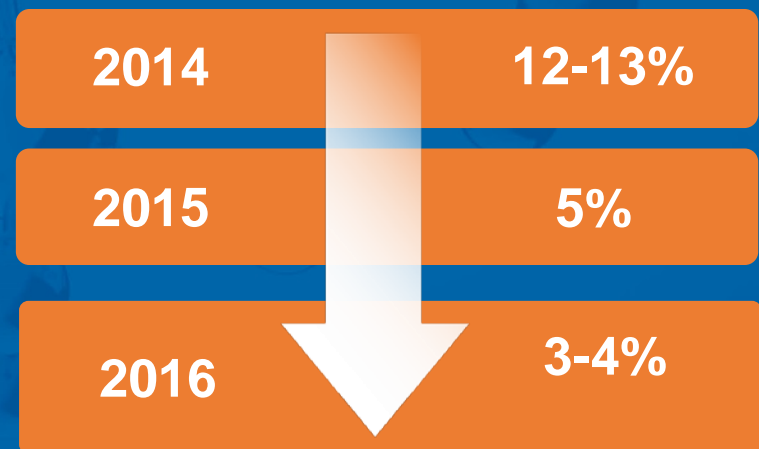
According to PBMs, Medicine Prices and Spending Growth Are Declining

Brand Drug Prices



Express Scripts experienced only a 2.5% increase in unit costs across all prescription medications—nearly 22% lower than 2015, and more than 60% lower than the increase in prices, net of rebates.

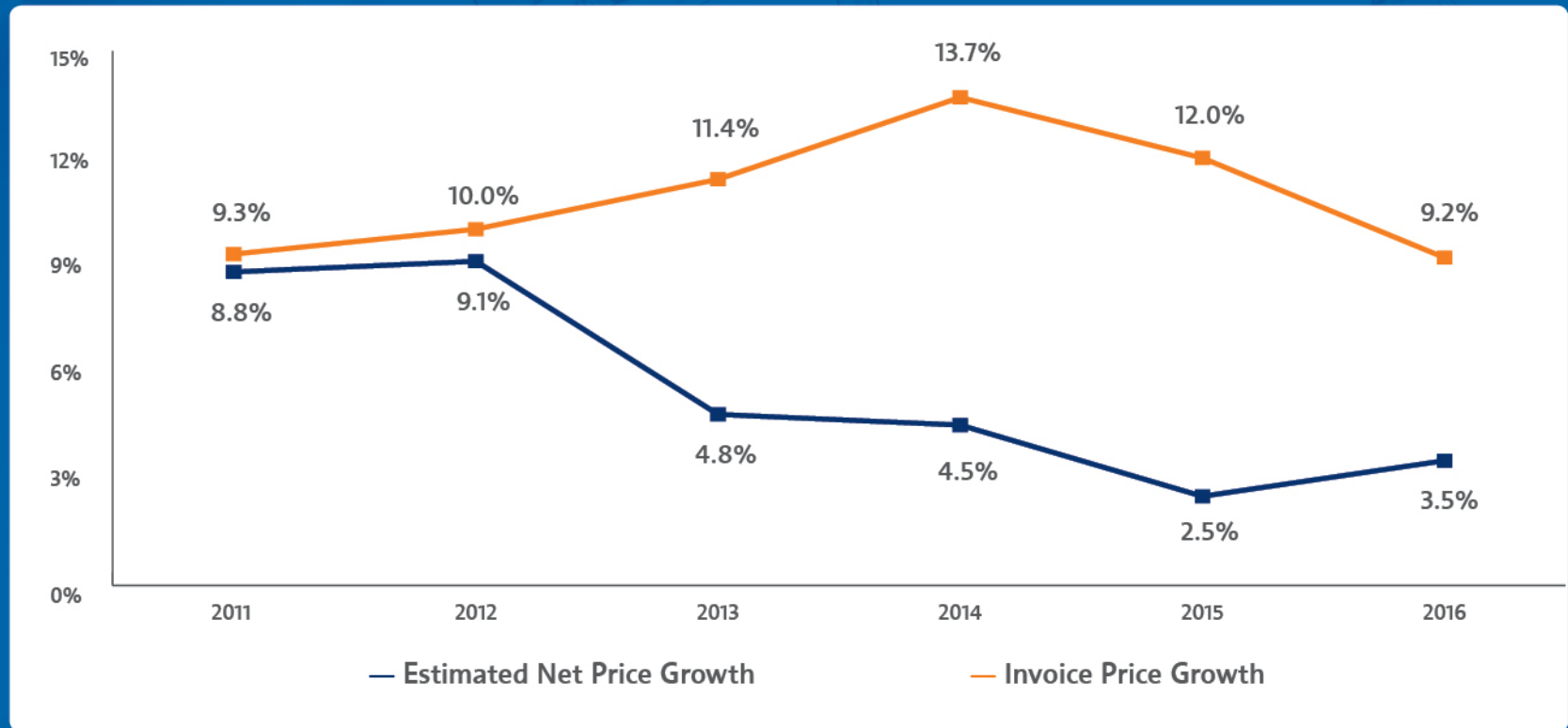
Spending Growth



Express Scripts, CVS Health, and OptumRx all report spending growth of 3-4% in 2016.

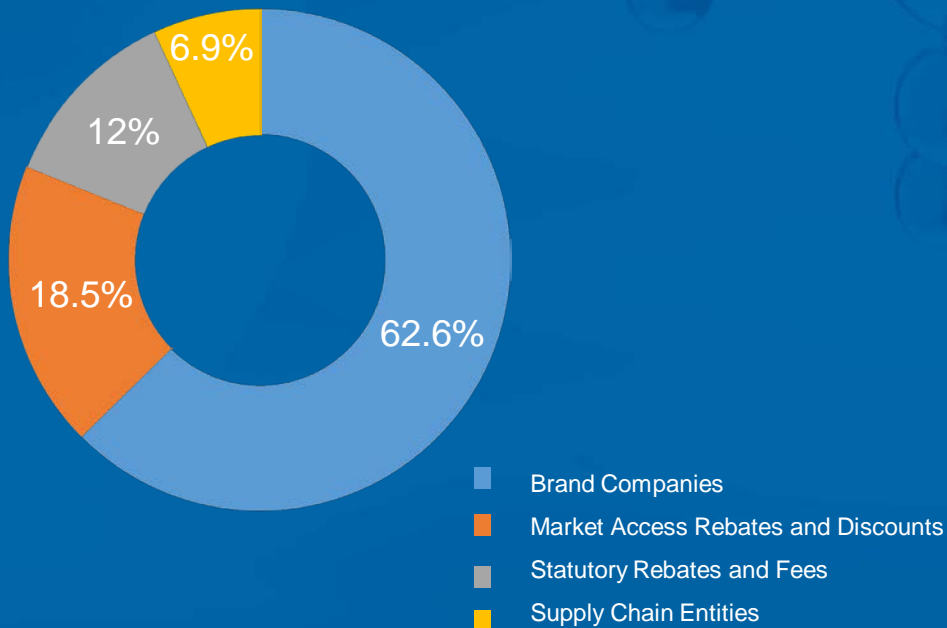
Government data show medicines had the largest decline in spending growth of all health care categories between 2015 and 2016.

Public List Prices Don't Reflect What Insurers Actually Pay

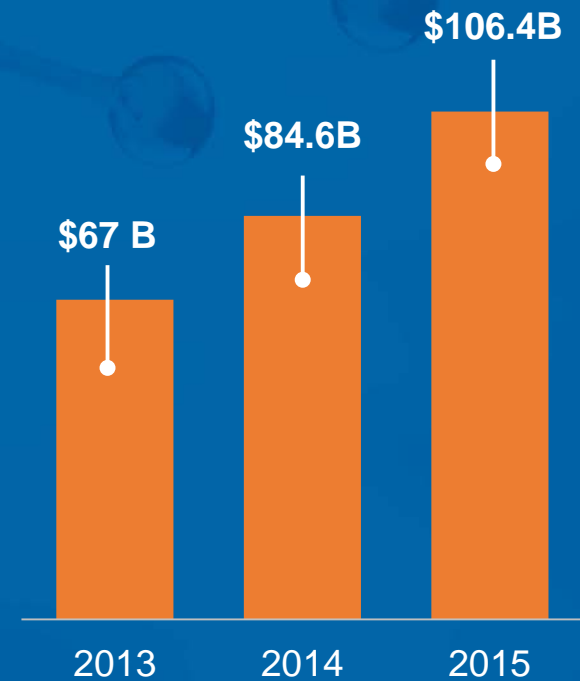


Trends in List Price Mask Impact of Growing Discounts

1/3 of brand medicine list prices rebated back to payers, government or retained by supply chain



Rebates, discounts and fees are increasing for brand medicines



New Reality of Insurance Coverage of Medicines

Increased use of deductibles

In 2015, 46% of commercial health plans required a deductible for prescription drugs, double the number in 2012.

Cost-sharing outpacing underlying medical costs

From 2004-2014, enrollee payments increased 256% for deductibles and 107% for coinsurance. At the same time, insurer costs increased only 58%.



Incentivized prescribing

Health plans increasingly incentivize providers to follow set treatment pathways.

Increase use of fail first and prior authorization requirements

Utilization management more than doubled in employer plans from 2014 to 2016.

Policies to Advance a Value Driven Health Care System

Value Based Contracting

Modernize Drug Development and Discovery

Engage and Empower Consumers

Address Market Distortions

Better Quality Measurement and Value Assessment Tools

Appropriate Use of Medicines