

# Specialty Drug Cost Impact on Pharmacy and Medical Benefit Plans

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# Today's Discussion

- Rapidly rising Specialty drug costs affect **every** employer that sponsors pharmacy and medical benefit plans
- Today's focus—
  - Specialty drug basics—Magnitude of the problem
  - Specialty drug costs
    - Pharmacy plan
    - Medical plan
  - Framework for managing Specialty drugs through pharmacy and medical benefit plans

# Specialty Drugs—The Basics

- Produced with living organisms; some target specific gene
- Offer **first-time** management and sometimes **cure** of previously untreatable diseases and conditions, for example—
  - Hepatitis-C
  - MS
  - Rheumatoid Arthritis
  - Array of cancers
- Specialty drug administration—
  - Oral
  - Self-injectable
  - Infused
  - Inhaled
- Newer drugs—Majority oral or self-injectable
- Many require special storage/handling

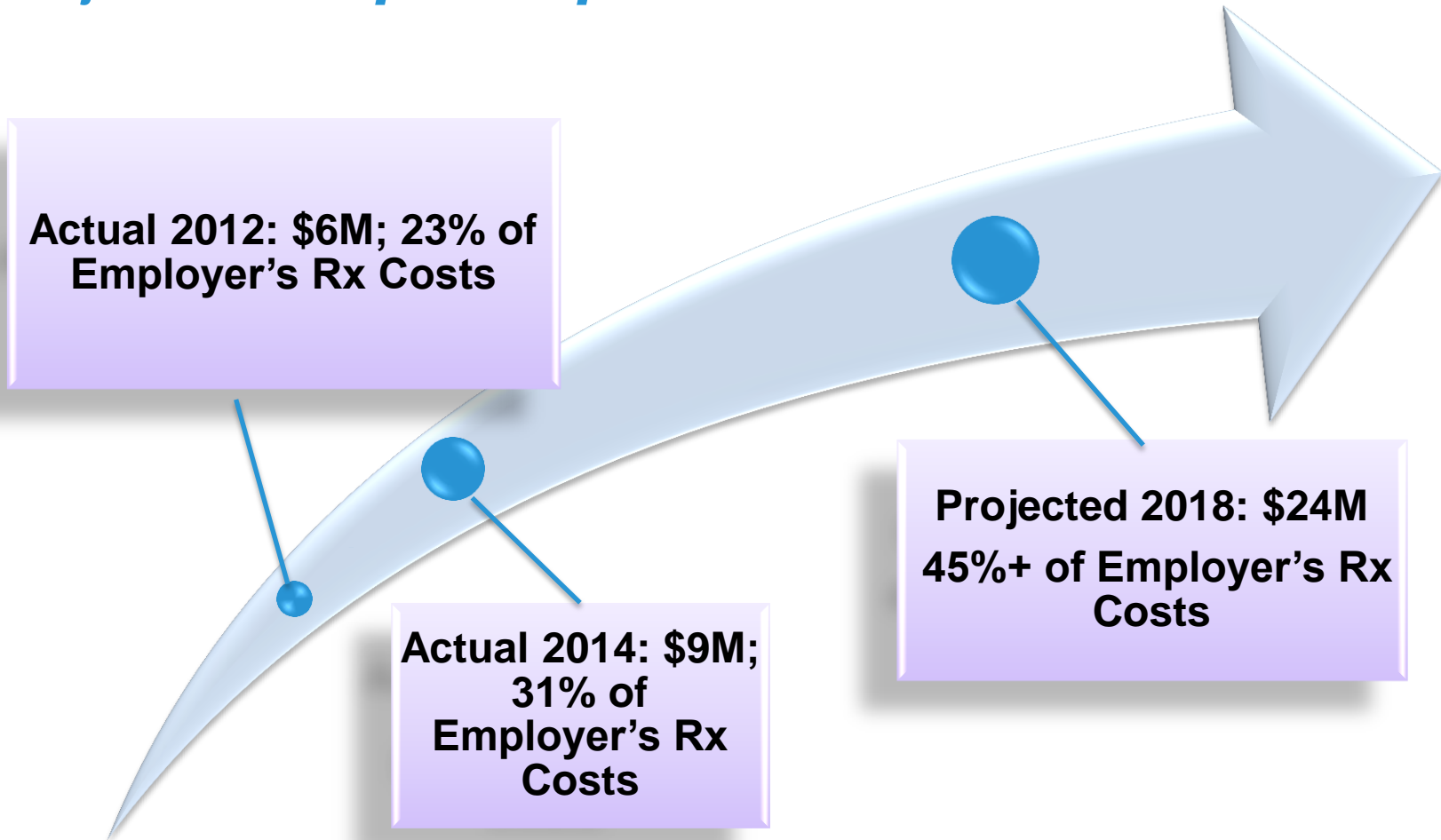
# Specialty Drugs—The Basics

- Virtually **no** Specialty generics because brand drugs cannot be duplicated exactly
- Emergence of “**biosimilars**”
  - Targeted to provide same efficacy as brand Specialty drug, but **not** duplicate brand drug
  - Potential savings—**15% - 30%** lower than brand drug after patent expiration
  - However, manufacturer of original drug may lower price to compete with biosimilars
- Until recently, Specialty drugs focused on relatively **rare** diseases
- Newly approved drugs and drugs in pipeline—treat **common** conditions—e.g., heart disease, diabetes and common cancers
- **> 300** Specialty drugs in marketplace; **> 900 in pipeline**
- Typically, outpatient Specialty drug costs split roughly **50:50** between employer’s pharmacy and medical plans

# Specialty Drugs—Pharmacy Plan

- Mostly orals and self-injectables
- Pricing clearly defined by 11-digit National Drug Codes (NDCs)
- Utilization typically ranges from **1% - 3%** of plan members
- However, for many employers, currently represents ~ **25% - 35%+** of plan costs
- Average Specialty drug cost— **> \$3,000 per month**
- On average, Specialty patient also uses **8** non-specialty drugs
- Annual Specialty trend—rate of increase in PMPM plan costs—**20% - 30%+**
- Utilization expected to increase **10%** per year
- **8 of 10** drugs approved by FDA in next 5 years expected to be Specialty drugs
- By 2030, **9 of 10 top drugs by revenue** will be Specialty drugs

# Case Study—Employer A's Specialty Rx costs projected to *quadruple* from 2012 to 2018



# Specialty Drugs—Sample Client's Rx Experience

- Overall, Client's Specialty drug plan experience consistent with rapidly rising cost of Specialty drugs experienced by other employers
- Specialty drugs are major driver of Client's pharmacy plan costs and will continue to drive up costs going forward

Metric	CY 2013 Experience	CY 2014 Experience	Change: 2013 to 2014
Specialty Total Cost	\$2.3M	\$3.7M	<b>+60.3%</b>
Specialty Utilizers as % of Members	0.9%	1.0%	+20.4%
Specialty Gross Cost PMPM	\$161	\$247	<b>+53.4%</b>
Specialty as % of Gross Cost	15.2%	20.3%	<b>+32.9%</b>
Specialty as % of Total Rxs	0.5%	0.6%	+25.1%
% Member Cost Share	4.2%	3.6%	-13.1%

Non-Specialty PMPM Trend: +8.6%;  
Overall PMPM Trend: +15.6%

Source: CVS Caremark 2014 Rx Insight Report on Client's pharmacy plan experience.

# Specialty Drugs—Sample Client's Rx Experience

- Breakdown of Specialty trend

Trend Component	% Impact
Price Inflation	+13.4%
Utilization	+24.6%
Drug Mix	+8.5%

- Combination of these factors contributes to dramatic increase in Client's Specialty drug costs
- Unless Client implements an effective strategy to manage these costs, expect Specialty drug costs to continue their dramatic upward spiral



# Specialty Drugs—Medical Plan

- Typically, ~ **50%** of outpatient Specialty drug costs through medical plan—

Site of Care	~ % Distribution of Specialty Costs	~ Relative Cost
Outpatient Hospital	45%	1.50+
Physician's Office	35%	1.00
Home Infusion	13%	Not available
Other	7%	N/A
Drug Administration and Professional Fees	N/A	Outpatient hospital: 2 – 4X Physician's office

# Specialty Drugs—Medical Plan

	Pharmacy	Physician's Office, Infusion Centers, Home	Outpatient Hospital
Pricing Source	Average Wholesale Price (AWP)	Average Sales Price (ASP)	Percent of billed charges
<b>Pricing Transparency</b>	<b>Highest</b>	<b>Less</b>	<b>Least</b>

# Specialty Drugs—Medical Plan

- **Site of care** determines cost **without** necessarily improving outcomes
  - Physician office vs. outpatient hospital setting
- Site-of-Care Management—
  - Cost and utilization management varies, based on site of care and vendor clinical programs
  - Outpatient hospital setting **most costly**
  - Utilization tending to move toward more expensive sites of care
  - Pricing transparency **decreases** along continuum from pharmacy to outpatient hospital setting

# Specialty Drugs—Future Outlook

- Specialty drug costs will continue their rapid rise as—
  - Utilization increases
  - Population ages
  - **New drugs** approved by the FDA, particularly for common conditions—e.g., heart disease and diabetes
  - FDA approves **current** Specialty drugs for **broader** indications
  - Specialty drug price inflation continues its upward spiral
- Presents **significant hurdles** for employers to effectively manage Specialty drug costs and utilization
- Clearly, many factors **outside** employer's control
- Others **within** employer's control and present **savings opportunities**

# Framework for Managing Specialty Costs

- Understand **key drivers** of Specialty drug costs through medical **and** pharmacy plans
- Manage **both** Specialty drug costs and utilization
  - Ensure Client receiving **optimal** pricing through **both** the medical and pharmacy plans
- Ensure appropriate use

# Framework for Managing Specialty Costs

- **Potential Savings—Pharmacy Plan**

- PBM Pricing

- **Benchmark** current Specialty drug pricing (and other pricing terms) to ensure pricing is marketplace competitive
- If **Market Check** provision in PBM contract, use it to determine whether all pricing terms are marketplace competitive
- If in last year of PBM contract, **leverage intensely competitive PBM marketplace** to achieve **optimal** PBM pricing through competitive bidding
- Today's PBM marketplace is a **“buyer's market”** for plan sponsors, mainly because of PBM consolidation over past 8 years
- As a result, **virtually all terms**—financial and non-financial—are **negotiable**

# Framework for Managing Specialty Costs

- **Potential Savings—Pharmacy Plan (continued)**
  - Specialty Formulary
    - Implement preferred brand formulary if not done so already
  - Specialty Clinical Programs
    - Focused on ensuring ***right drug dispensed, at right time, at right dose for appropriate condition***
      - Are these programs working effectively?
      - Are current PBM metrics valid measure of program success?
    - Ensure utilization management strategy in place for ***emerging*** Specialty drugs to ***prevent skyrocketing costs***
      - Recent Example—PCSK-9 cholesterol-lowering drugs
        - First drug approved by FDA in July 2015
        - Reduce cholesterol in patients with genetic condition that cannot be treated with statin drugs or for members with side effects from statin drugs
        - Non-discounted Price: \$14,500 per year
        - Self-injectable therapy requiring ***lifetime*** use

# Framework for Managing Specialty Costs

- **Potential Savings—Medical Plan**

- Pricing

- Evaluate Specialty drug pricing by **site of care**—outpatient hospital, physician’s office, infusion center, and home infusion
- Compare with pharmacy plan pricing
- Determine **savings opportunity** if certain self-injectable and oral Specialty drugs covered only through pharmacy plan
- Negotiate available Specialty drug **rebates** with medical vendor

- Plan Design

- Consider **copay/coinsurance incentives** to steer members to less costly settings for infused drugs
- Lock out drugs more appropriately covered through pharmacy plan
- Take advantage of patient assistance programs by manufacturers



# Framework for Managing Specialty Costs

- **Recommended Next Step—Specialty Drug Analysis**
  - Specialty Drug Spending Assessment
    - Examine current program performance with benchmarking—both on the medical **and** pharmacy sides
    - Conduct **opportunity analysis** with financial assessment
      - Clinical management
      - Site-of-care management
      - Vendor reimbursement management
    - Provide strategic recommendations with **quantified** savings opportunities

