



BERKELEY CENTER  
FOR HEALTH TECHNOLOGY

# **Public and Private Payer Responses to Pharmaceutical Pricing in the United States**

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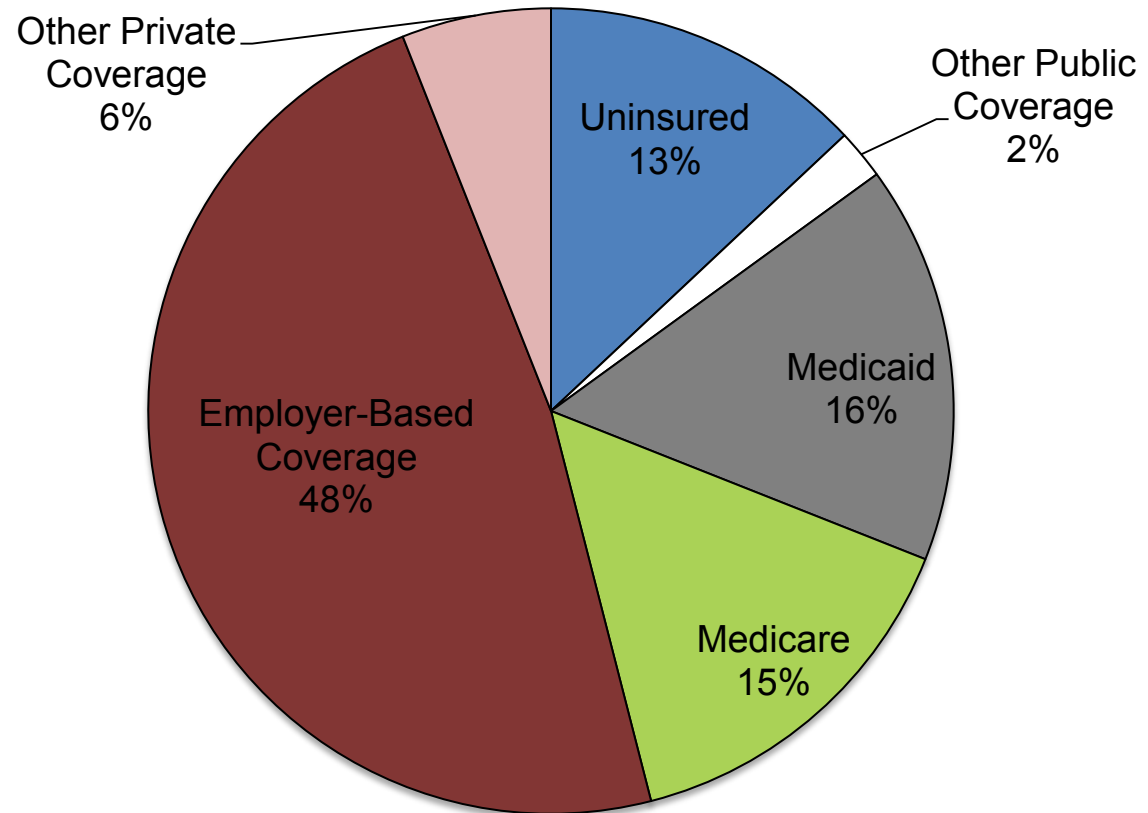


# Overview



- The problem, as viewed by US payers
- Payer strategies: utilization
- Payer strategies: pricing

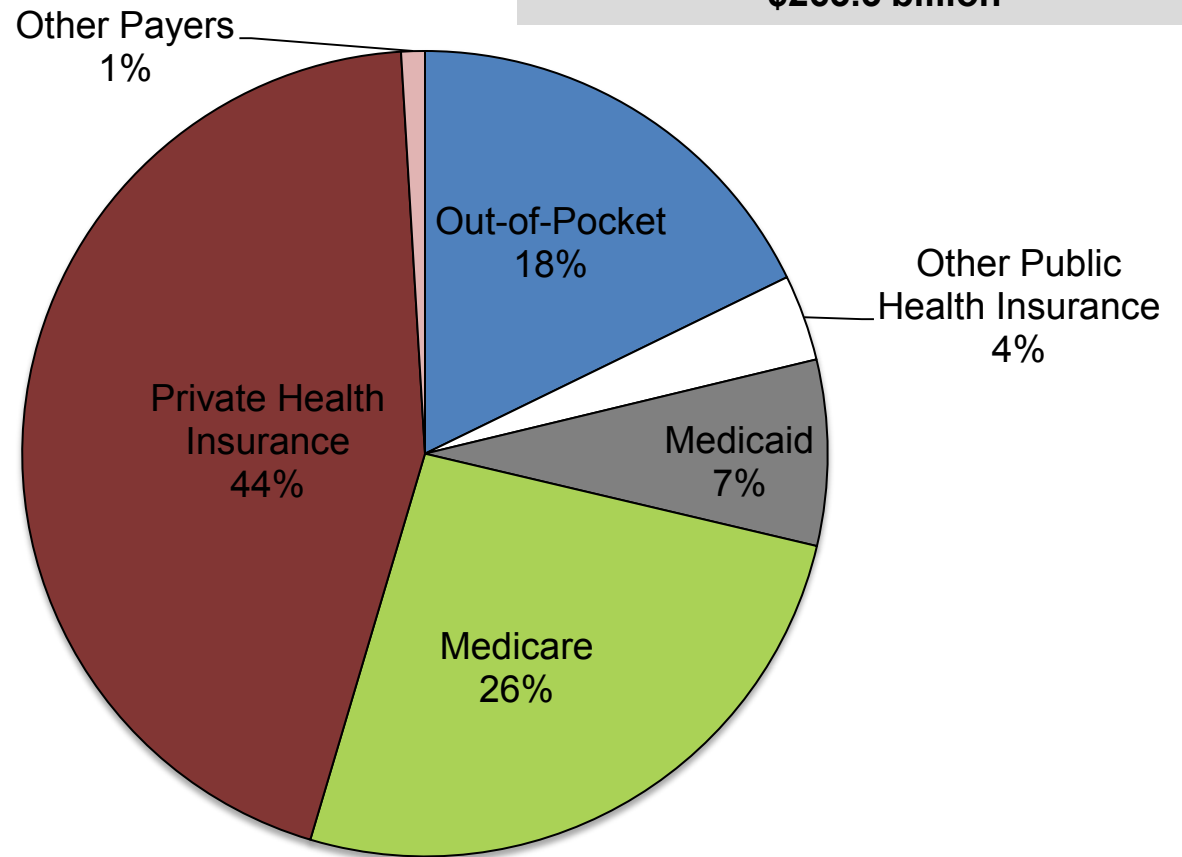
# Distribution of Health Insurance (Total US Population 315 million)



Source: The Henry J. Kaiser Family Foundation, State Health Facts (2013)

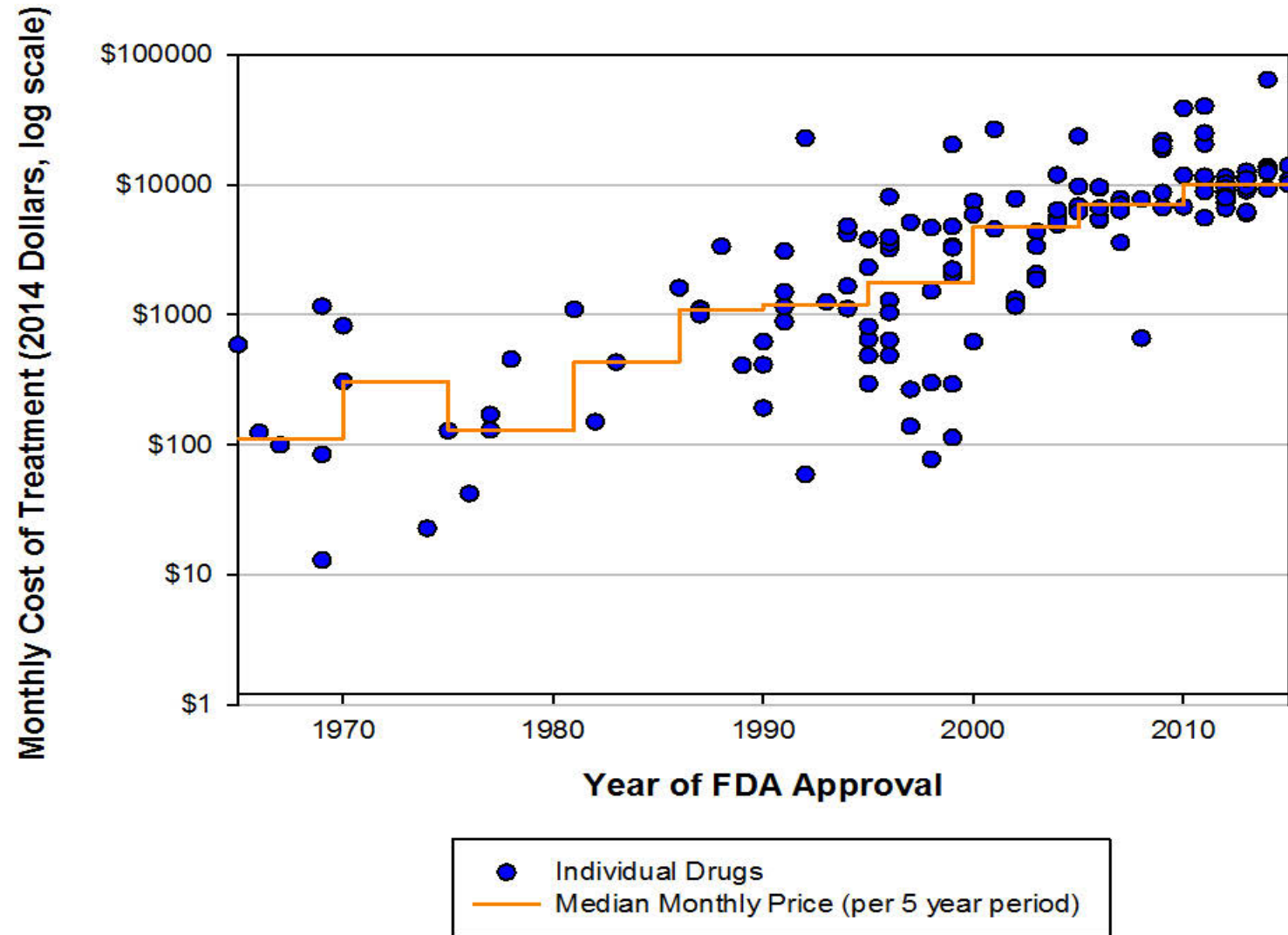
# U.S. Prescription Drug Expenditures, by Type of Payer

**Total Prescription Drug Spending:  
\$263.3 billion**



Source: California Healthcare Foundation, Health Care Costs 101, 2014 Edition

# 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



## Top selling U.S. drug prices over five years

Prices rose 54 percent to 126 percent.

| DRUG (COMPANY)   | PRICE*        |            | PRICE GROWTH |
|--|---------------|------------|--------------|
|  | Dec. 31, 2010 | Present    |              |
| <b>Humira</b> (AbbVie)<br>40 mg/0.8 ml pre-filled syringes           | \$1,676.98    | \$3,797.10 | 126.4%       |
| <b>Enbrel</b> (Amgen)<br>50 mg/ml subcutaneous sol.                  | \$427.24      | \$932.16   | 118.2%       |
| <b>Copaxone</b> (Teva)<br>20 mg/ml subcutaneous sol.                 | \$3,025.04    | \$6,593.00 | 118.0%       |
| <b>Crestor</b> (AstraZeneca)<br>10 mg tablets                        | \$350.17      | \$745.41   | 112.9%       |
| <b>Abilify</b> (Otsuka)<br>10 mg tablets                             | \$454.07      | \$891.97   | 96.4%        |
| <b>Lantus Solostar</b> (Sanofi SA)<br>100 units/ml subcutaneous sol. | \$191.96      | \$372.76   | 94.2%        |
| <b>Advair Diskus</b> (GlaxoSmithKline)<br>250/50 inhalation discs    | \$199.90      | \$334.63   | 67.4%        |
| <b>Remicade</b> (Johnson & Johnson)<br>100 mg IV powder for solution | \$657.87      | \$1,071.48 | 62.9%        |
| <b>Neulasta</b> (Amgen)<br>6 mg/0.6 ml subcutaneous sol.             | \$3,320.00    | \$5,155.65 | 55.3%        |
| <b>Nexium</b> (AstraZeneca)<br>10 mg oral packets                    | \$162.55      | \$250.94   | 54.4%        |

\* Reflects wholesale acquisition prices before volume-related rebates and other discounts. Prices are based on most commonly prescribed dose.

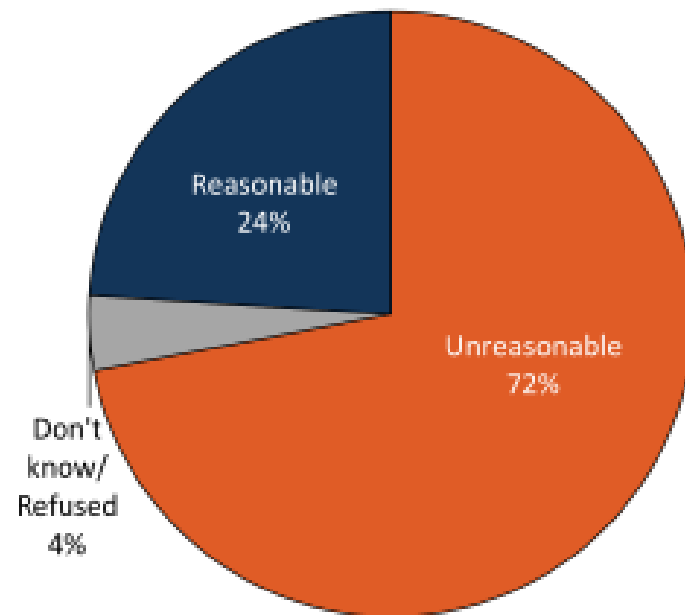
Source: Truven Health Analytics

S. Culp, 30/03/2016

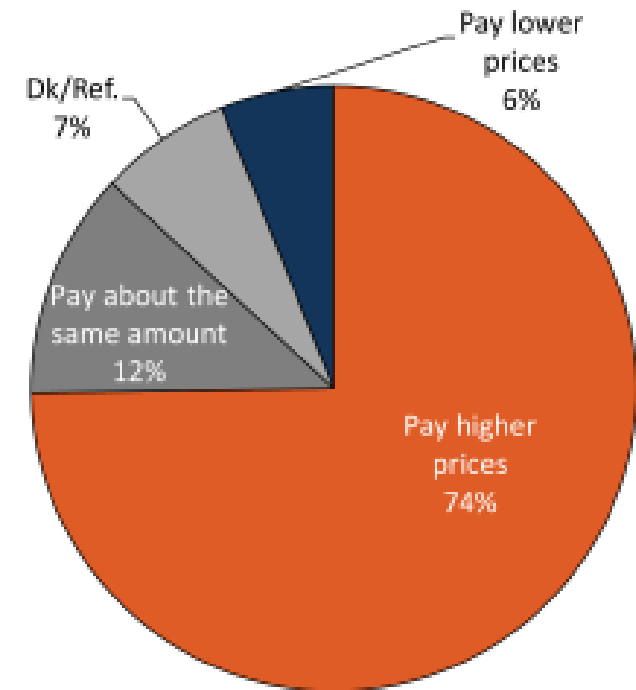
REUTERS

# Most Say Costs Are Unreasonable And Prices Higher Than In Other Countries

In general, do you think the cost of prescription drugs is reasonable or unreasonable?



In general, do you think people in this country pay higher or lower prices than people in Canada, Mexico, and Western Europe pay for the same prescription drug, or do you think they pay about the same amount?



SOURCE: Kaiser Family Foundation Health Tracking Poll (conducted August 6-11, 2015)

# Clinton's Proposals

Quotes from:  
**Hillary Clinton Proposes Cap on Patients' Drug Costs as Bernie Sanders Pushes His Plan**  
**The New York Times**, Patrick Healy & Margot Sanger-Katz, Sept. 22, 2015

“Now, at the same time that drug prices have been rising, insurance plans have asked individuals to take on a greater share of the burden.

That means that more Americans are absorbing the cost of expensive drugs, and many are having difficulty affording the medicines.

Mrs. Clinton's plan is aimed at addressing both sides of that equation, by trying to discourage drug companies from overcharging for their products while preventing insurance companies from passing along those high prices to consumers.”

“Hillary Rodham Clinton proposed capping out-of-pocket drug expenses at \$250 a month.”

Table 2: Those in Worse Health Or Taking 4 Or More Drugs More Likely To Report Difficulty Affording Their Medicines

|   | Health Status Among Those Taking Prescription Drugs |                   | Prescription Drug Use         |                                     |
|---|---|-------------------|-------------------------------|-------------------------------------|
|   | Excellent/ Very Good/ Good Health                   | Fair/ Poor Health | Taking 1-3 Prescription Drugs | Taking 4 Or More Prescription Drugs |
| In general, how easy or difficult is it for you to afford to pay the cost of your prescription medicine?                    |   |                   |                               |                                     |
| Somewhat difficult  | 12  | 28                | 12                            | 24                                  |
| Very difficult  | 5   | 15                | 4                             | 14                                  |
| In the past 12 months, have you or another family member living in your household not filled a prescription for a medicine? |   |                   |                               |                                     |
| Yes   | 19  | 37                | 21                            | 30                                  |
| No  | 80  | 63                | 79                            | 69                                  |

SOURCE: Kaiser Family Foundation Health Tracking Poll (conducted August 6-11, 2015)



“Another would require drug makers to offer discounts to the federal government when it purchases drugs for patients in the Medicare and Medicaid programs.”



# Payer Responses: Target on Drug Utilization



1. Increased consumer cost sharing
2. Changed physician payment incentives
3. More stringent prior authorization

# 1. Consumer Cost Sharing and Benefit Re-Design

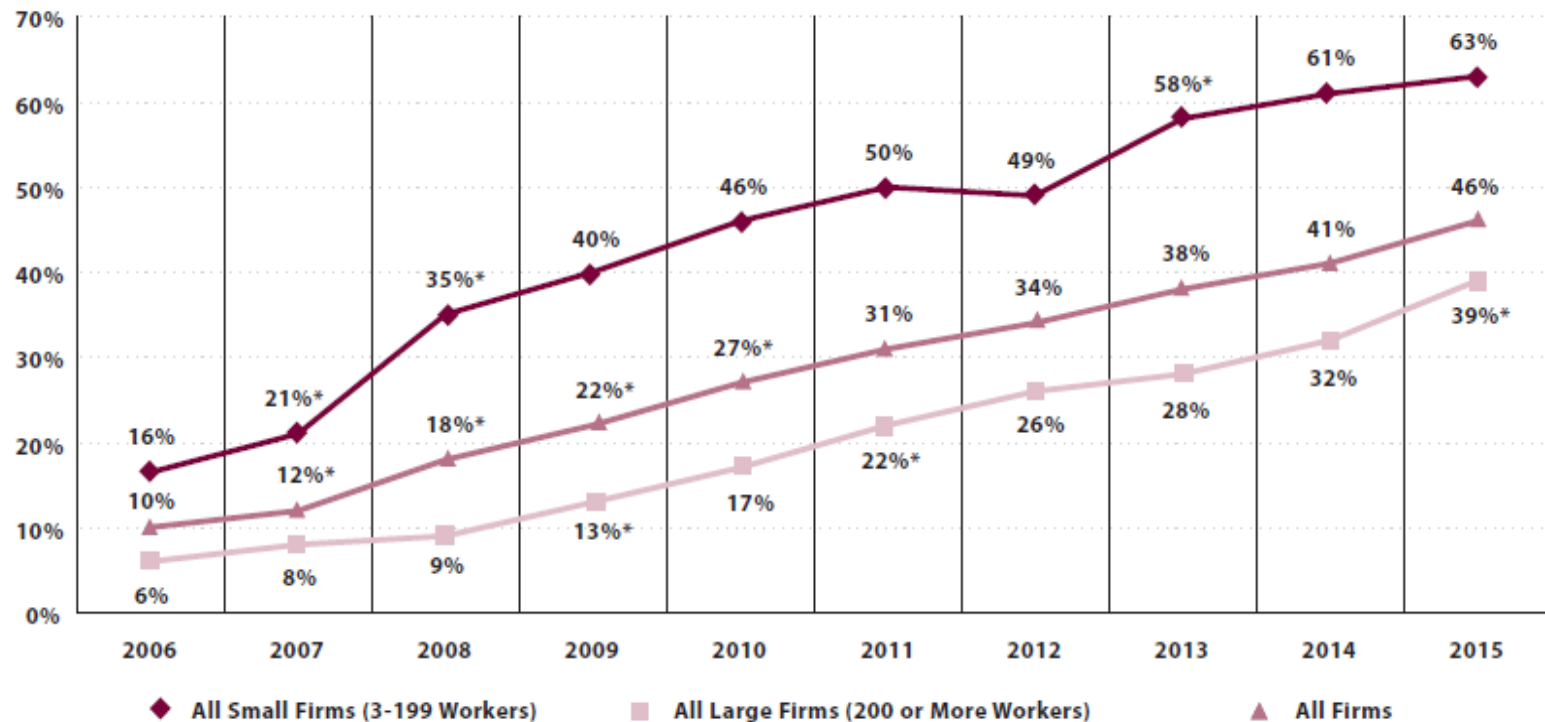
- Consumers and patients are being required to pay an ever-larger share of medical and drug costs at the time of receiving care
  - Infused drugs managed through high-deductible plan designs
  - Oral drugs managed through tiered formularies, coinsurance
- Affordable Care Act is limiting cost sharing:
  - Expansion of Medicaid, which has no cost sharing
  - Commercial plans: out-of-pocket cost share max
  - Public insurance exchanges: subsidies for cost sharing as well as premium



# ■ Employers Move to High-Deductible Health Plans

## EXHIBIT G

Percentage of Covered Workers Enrolled in a Plan with a General Annual Deductible of \$1,000 or More for Single Coverage, By Firm Size, 2006-2015



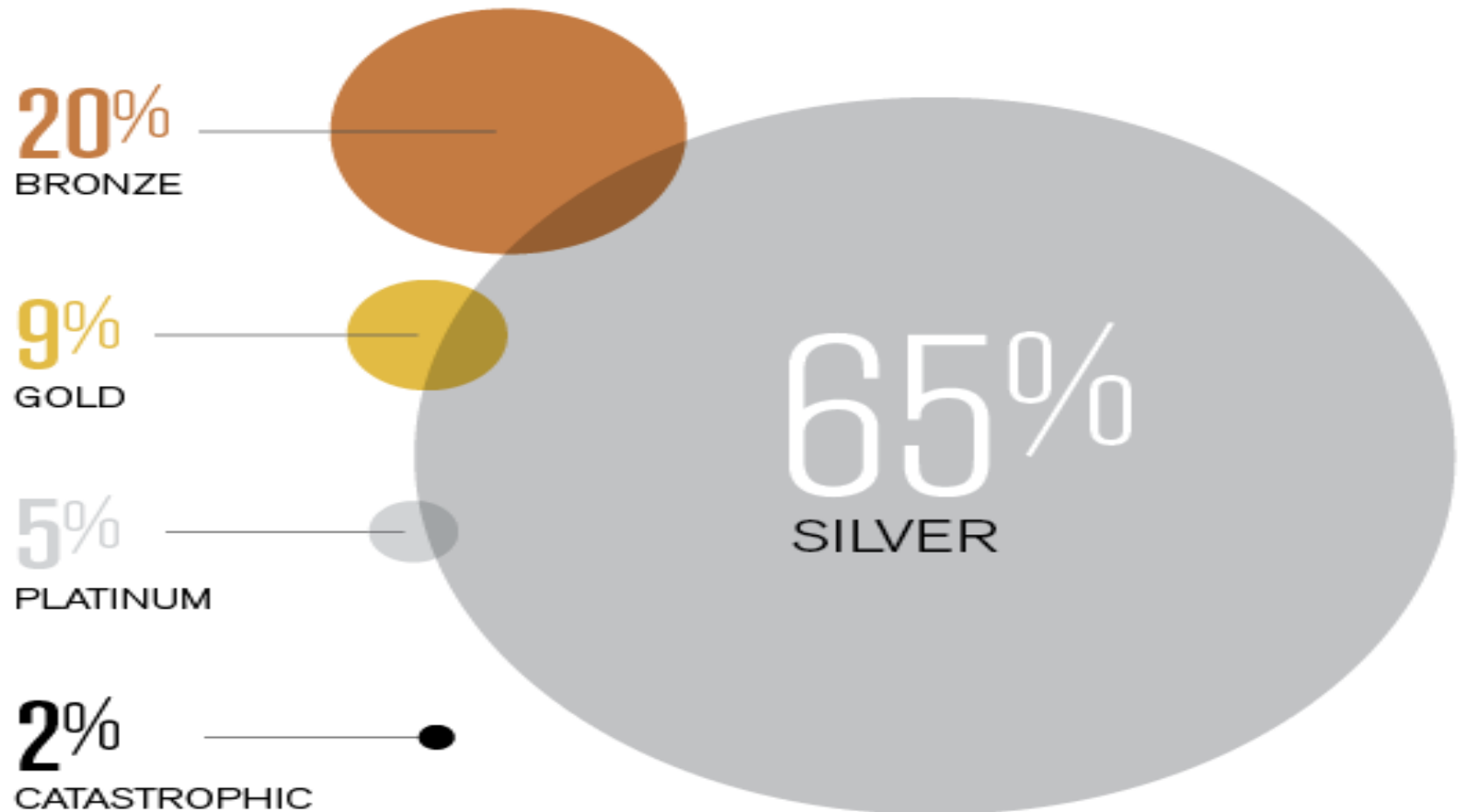
\* Estimate is statistically different from estimate for the previous year shown ( $p < .05$ ).

NOTE: These estimates include workers enrolled in HDHP/SO and other plan types. Average general annual health plan deductibles for PPOs, POS plans, and HDHP/SOs are for in-network services.

SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2006-2015.

# Individual Consumers Favor High-Deductible Silver and Bronze Plans in ACA Insurance Exchanges

## Plan selection by metal level



Note: Percentages rounded by HHS.

## 2. Physician Payment Methods Discourage Prescription of High-Cost Drugs

- Some payers are offering oncologists a monthly per-patient fee, as supplement to office visit FFS
  - Care planning and shared decision making, drug management, patient education and monitoring, coordination with other providers
  - Oncologists adhere to approved (lower-cost) drug pathways
- Some payers are offering bonus (shared savings) if oncologists reduce total spending below target
  - Reward for reduced spending on drugs, ED visits, hospitalization
  - Practices must perform well on quality metrics to obtain bonus



## **Anthem Blue Cross (39 Million members)**

- Anthem initiative focuses on pathways adherence, as means to reduce use of most expensive drugs
- Oncologist supplies clinical and demographic data, selects one of Anthem-developed pathways and remains adherent to it for 80% of drugs used
  - FFS for office visits and cost-plus for drug acquisition remain in place
- Oncologist submits claim for \$350/month care planning and management fee (for patients in active treatment)
- Savings expected from lower drug expenditures (not from lower ER, IP admissions)





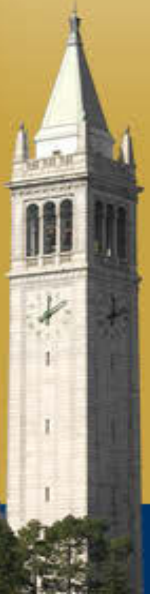
# Medicare (42 Million Beneficiaries)

- Medicare model combines monthly care management fee with shared savings bonus
  - Oncologist bills \$160/month for 6 months for patients in active treatment, in addition to FFS for office visits
  - Must comply with IT 'meaningful use', clinician accessible 24/7, patient 'navigation' services, care plan for every patient consistent with IOM
- Shared savings based on difference between future and past expenditures on physician, drug, hospital, and all other services to cancer patients
- Medicare will also be reducing physician payment for managing branded biopharmaceuticals, increasing payment for generic chemotherapies



### 3. Private Payers Increase Prior Authorization Requirements for Expensive Drugs

- Private payers impose requirements on physicians seeking to prescribe/administer expensive drugs
  - Prior authorization: physician must submit request to payer documenting appropriateness of the drug for the patient
  - Step therapy: physician must first prescribe payer's preferred drug (e.g., cheaper alternative) and only move to more expensive drug if patient does not respond, or experiences toxic side effects
- These utilization management programs are now being applied to a wider range of drugs and are becoming more stringent



# Prior Authorization is Becoming More Stringent.

## Example: Rheumatoid Arthritis Biologics

| Moderately Managed   | Highly Managed   | Bio Managed 1  | Bio Managed 2  | Drug Not Covered |
|--|--|--|--|------------------|
| <p><u>Any of the following</u></p> <ul style="list-style-type: none"><li>• Specialist approval required</li><li>• Requires prior failure or contraindication with 1 DMARD (e.g., MTX)</li><li>• Requires prior failure or contraindication with 2 conventional therapies (e.g., NSAIDs)</li><li>• Initial authorization time limit <math>\geq 3</math> months but <math>\leq 6</math> months</li></ul> | <p><u>Any of the following</u></p> <ul style="list-style-type: none"><li>• Requires prior failure or contraindication with 2 or more DMARDs</li><li>• Requires prior failure or contraindication with 3 or more conventional therapies</li><li>• Requires prior failure or contraindication with 1 DMARD AND 2 conventional therapies</li><li>• Severe RA only</li><li>• Initial authorization time limit <math>&lt; 3</math> months</li></ul> | <ul style="list-style-type: none"><li>• Requires prior failure or contraindication with 1 biologic therapy</li></ul> | <ul style="list-style-type: none"><li>• Requires prior failure or contraindication with 2 or more biologic therapies</li></ul> |                  |

Degree of management Is Increasing

# Payer Responses: Target on Drug Pricing



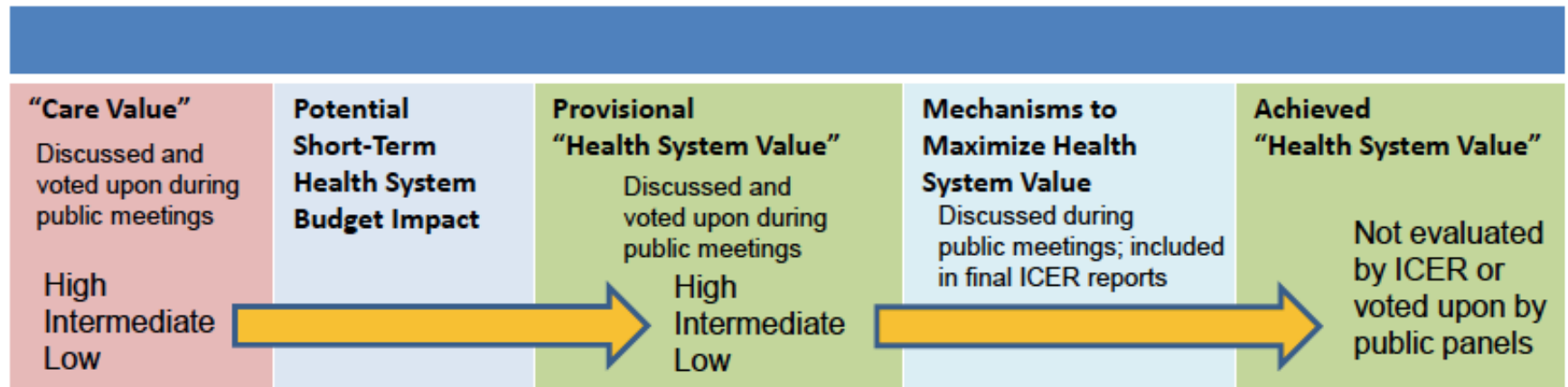
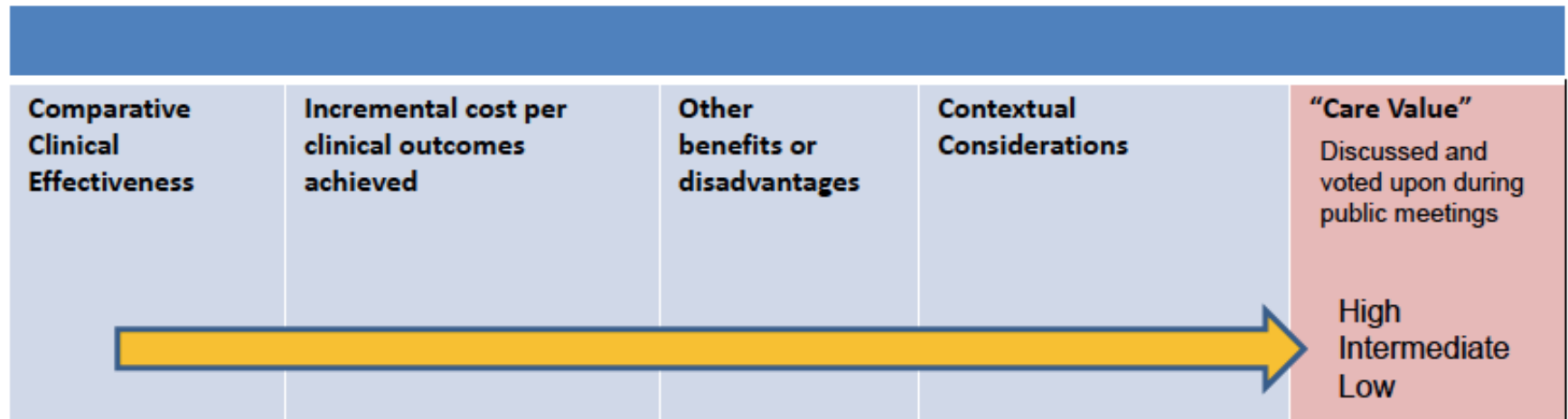
1. Private payers: formulary exclusion and price negotiations
2. Public payers: deeper and broader mandated price discounts

# 1. Private Payers Negotiate Price Rebates in Competitive Indications

- Pipeline of innovation has made many specialty indications potentially competitive
- Insurers negotiate price discounts and rebates based on threat of formulary exclusion and tightened prior authorization (not yet coordinated with consumer and physician incentives)
- Increased use of HTA for ‘value-based pricing’ (this is mostly posturing, as part of negotiations)
- Very large emerging differences between announced and actual paid prices



# ICER: Value Assessment and “Value-based Benchmarks” for Pricing

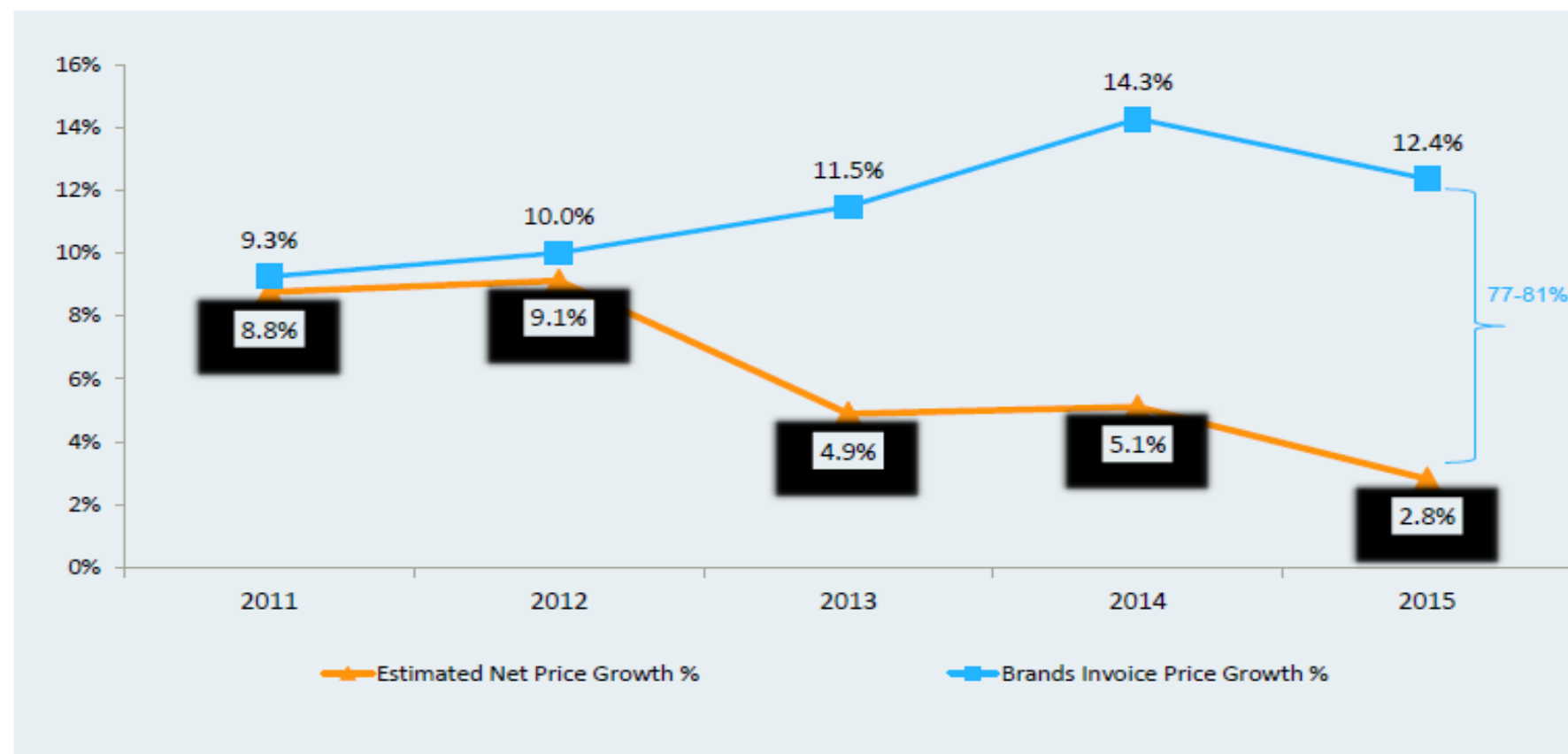


Source: Institute for Clinical and Economic Review, “Evaluating the Value of New Drugs and Devices” (2015)



Although invoice price growth for protected brands was 12.4%, net price growth is estimated at 2.8%

### Protected Brand Invoice and Net Price Growth



Medicine Use and Spending in the U.S. Report by the IMS Institute for Healthcare Informatics

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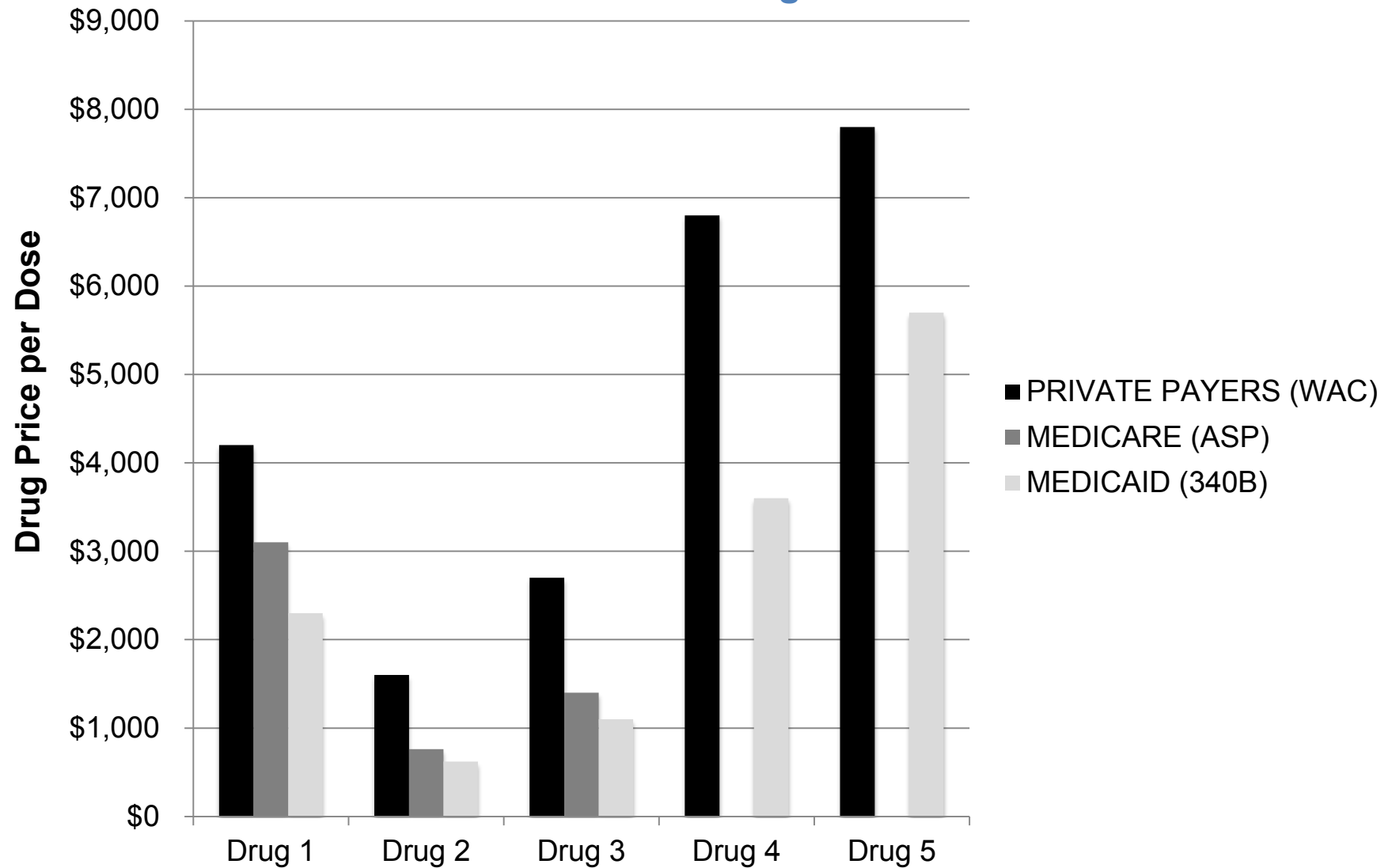
IMS INSTITUTE  
FOR  
HEALTHCARE INFORMATICS

## 2. Public Payers Obtain, and are Expanding, Mandatory Drug Price Discounts, Relative to Prices Paid by Private Insurers

- Medicaid (72 million members)
  - 23% rebate, plus negotiated discounts
- Safety net, cancer hospitals (340B)
  - 23-75% discount on infused drugs, expanding to ambulatory drugs obtained in retail settings
- Federal programs (Veterans, DoD, etc.)
  - Federal supply schedule: minimum 26% discount



## Private Payer, Public Program, and Medicare Prices for Selected Cancer Drugs





***“Geez Louise—I left the price tag on.”***

## PURCHASING MEDICAL INNOVATION



THE RIGHT TECHNOLOGY, FOR THE  
RIGHT PATIENT, AT THE RIGHT PRICE

JAMES C. ROBINSON