



Prescription Drug Pricing Overview

February 2, 2017

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Agenda

- How are prescription drugs priced?
- What are Pharmacy Benefit Managers (PBMs)?
- Specialty Drug Increases
- Generic Drug Increases

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Pharmacy Pricing 101

- “List Price”
- Called “AWP”
- Set by manufacturer
- High rate of inflation

- Negotiated with PBM
- Largely remains the same for life of the three year contracts

Average Wholesale Price	\$100
<u>- Discount</u>	<u>-16%</u>
Ingredient Cost	\$84
<u>+ Dispensing Fee</u>	<u>+\$1</u>
Gross Cost	\$85
<u>- Member Copay/Deductible</u>	<u>-\$25</u>
Amount Paid	\$60
<u>- Rebate</u>	<u>-\$6</u>
BCBSVT Post-Rebate Cost	\$54

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Drug Definitions

■ Brand Drugs

- Drugs with patent protection and there is one manufacturer
- About 12% of all prescriptions but about 32% of the cost

■ Generic Drugs

- Drugs without patent protection and there are multiple manufacturers
- About 87% of all prescriptions but only about 27% of the cost

■ Specialty Drugs

- Type of brand drugs that are high cost and require special handling and care to treat rare conditions.
- About 1% of all prescriptions but about 41% of the cost

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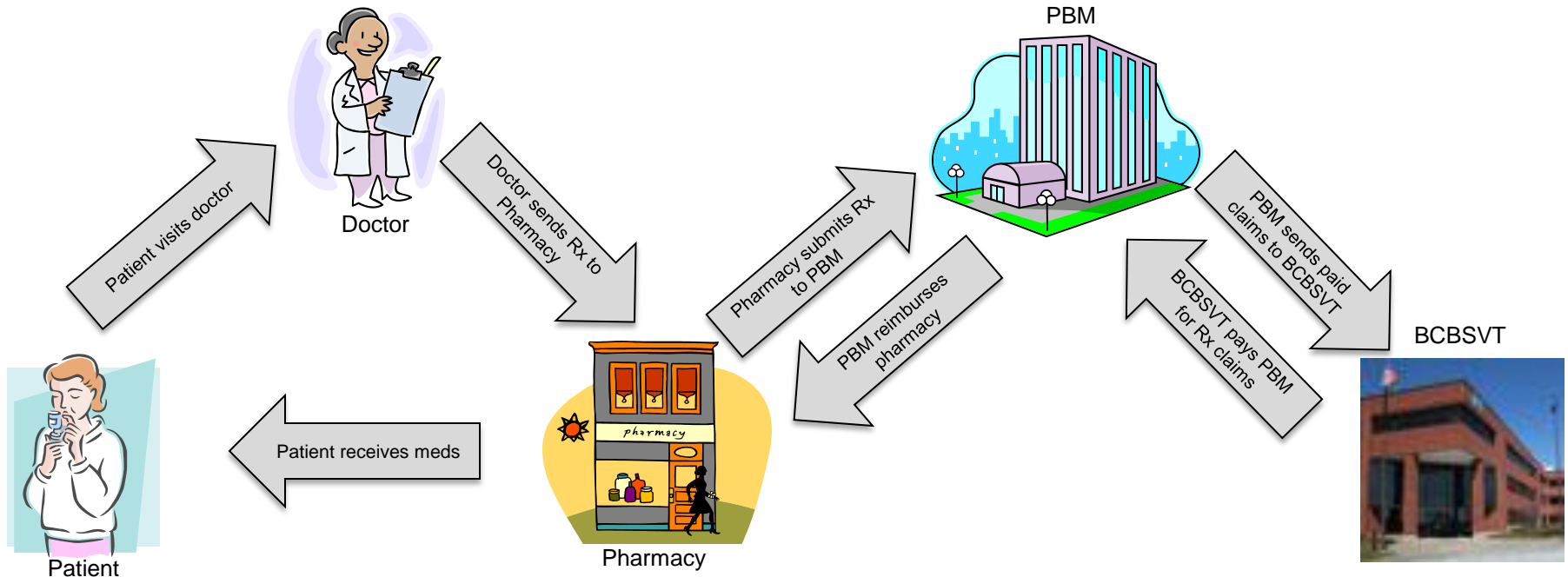


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What is a Pharmacy Benefit Manager?

- Pharmacy Benefit Managers are the circuitry through which we provide our members widespread access to affordable prescription drugs in a safe manner.



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Why Do We Contract with PBMs?

- **BCBSVT's Volume** (158,000 members)
 - 1.3 Million Rx claims
 - \$158 Million in drug spend
 - 8,592 pharmacies used
 - 14,141 unique drugs processed
- **Express Scripts' Volume** (105,000,000 members)
 - 1.5 Billion Rx claims
 - \$104 Billion in drug spend
 - 67,000 pharmacies used
 - 140,000 unique drugs processed
- **Caremark's Volume** (63,000,000 members)
 - 880 Million Rx claims
 - \$62 Billion in drug spend
 - 67,000 pharmacies used
 - 140,000 unique drugs processed
- **Optum Rx's Volume** (60,000,000 members)
 - 850 Million Rx claims
 - \$57 Billion in drug spend
 - 67,000 pharmacies used
 - 140,000 unique drugs processed

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What Services Do PBMs Provide?

- Claims Processing
- Patient Safety Edits
- Formulary Management
- Nationwide Pharmacy Network Contracting
- Manufacturer Rebate Contracting
- ePrescribing Hub
- Mail Order Pharmacy
- Specialty Drug Pharmacy
- Customer Service
- Prior Approval Processing
- Academic Detailing
- Data Integration
- Account Management
- Market Development
- Fraud, Waste & Abuse Review
- Trend Analysis

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How Do Pharmacy Benefit Managers Make Money?

- **Discount Spread**

- Example: PBM negotiates a 16.6% discount with the pharmacies and then negotiates a 16.5% discount with the plan sponsor.

- **Pass-through + Fee**

- Example: PBM negotiates a 16.5% discount with the pharmacies and then passes the full discount onto the plan sponsor. PBM charges the plan sponsor a fee on each claim.

- **Rebates**

- Example: PBM keeps a portion of the rebates it collects from manufacturers.

- **Float**

- Example: PBM collects from the plan sponsor on the 1st and reimburses the pharmacies on the 3rd of the month.

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Pharmacy Industry Margins

- Pharmacy Benefit Managers have the smallest margins in the pharmacy delivery pipeline.

(as a % of revenue)	Express Scripts	Rite Aid	Pfizer
Gross Margin %	7.7%	29.0%	81.3%
Net Income %	1.7%	2.0%	21.7%

Note: Data from 2014 SEC filings.

- As a not-for-profit company, BCBSVT contributes about 0.5% to our reserves each year.

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Specialty Drug Price Increases

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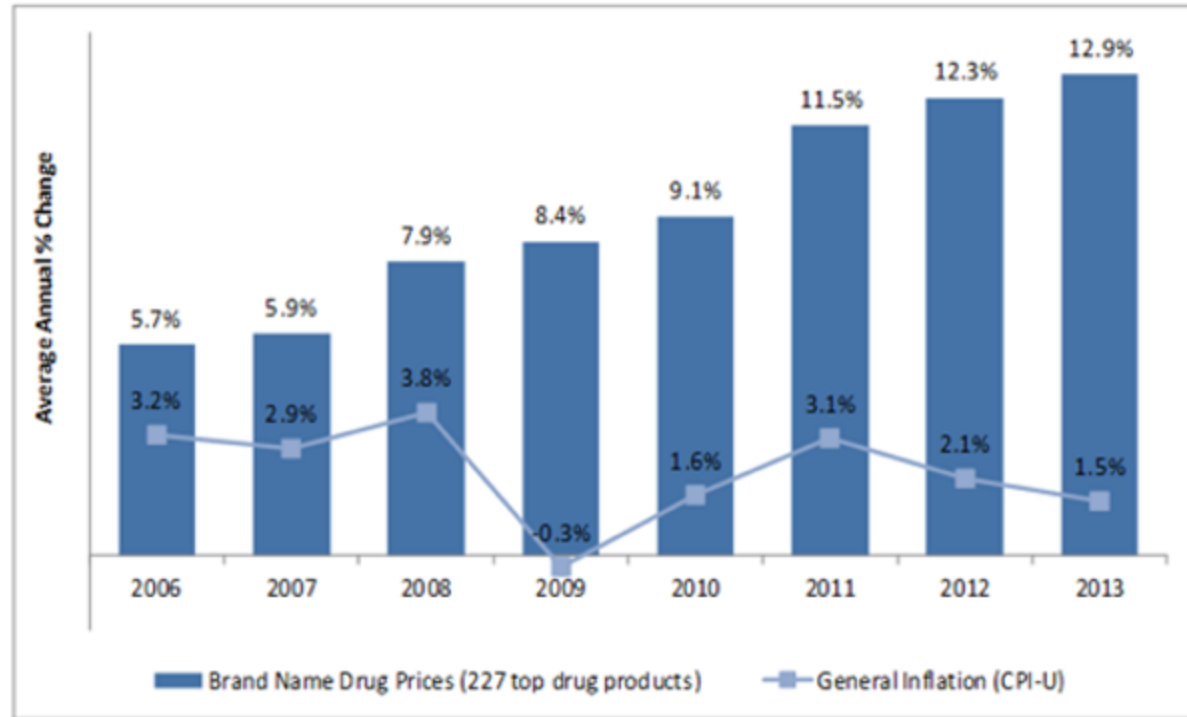
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Brand Drug Inflation

- Driven by increases in specialty drug prices, the prices for brand drugs across the U.S. have been growing much faster than inflation

Average Brand Name Drug Prices vs General Inflation Rate by Year



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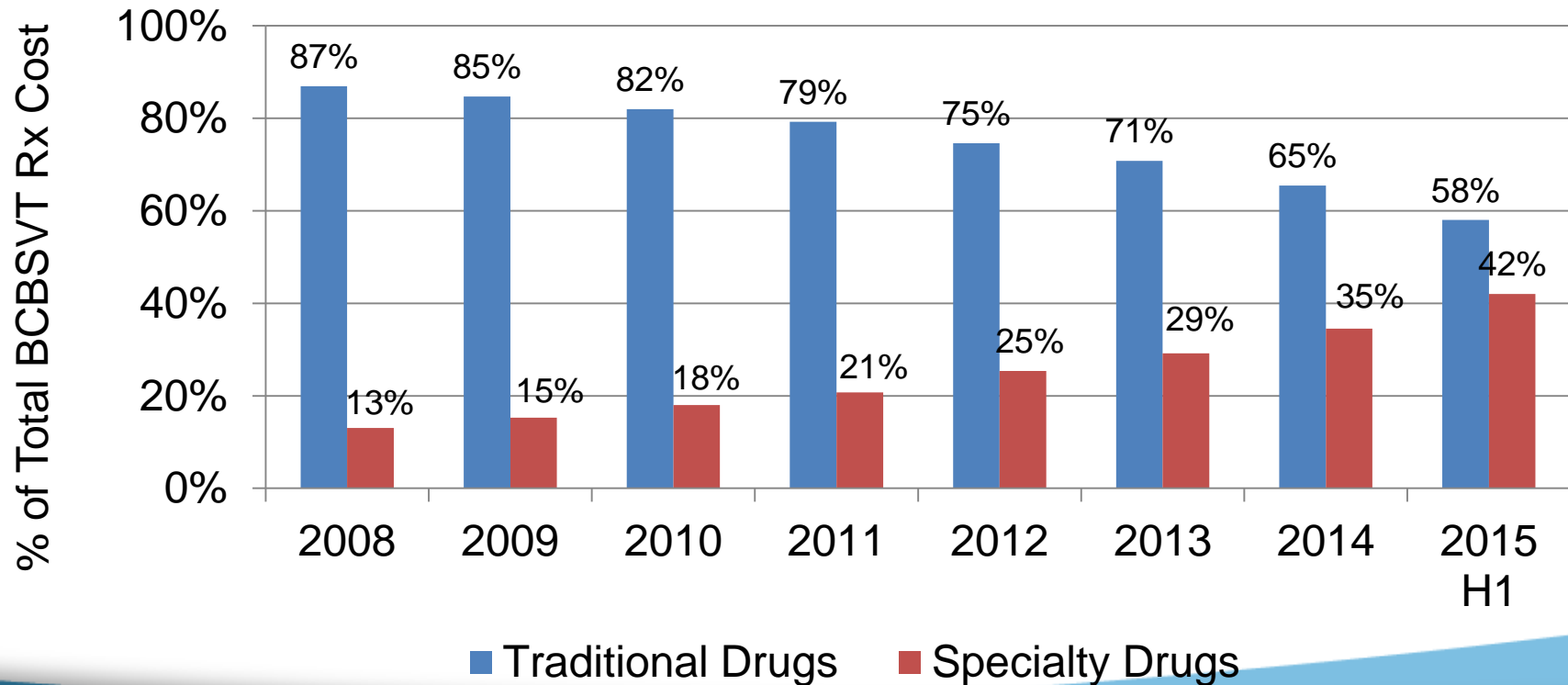


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Increasing Impact of Specialty Drugs

- BCBSVT's Rx trend is significantly higher than its medical trend due to historically high specialty drug trends.
- Specialty drugs have gone from being 13% of BCBSVT's Rx cost in 2008 to 42% in 2015.



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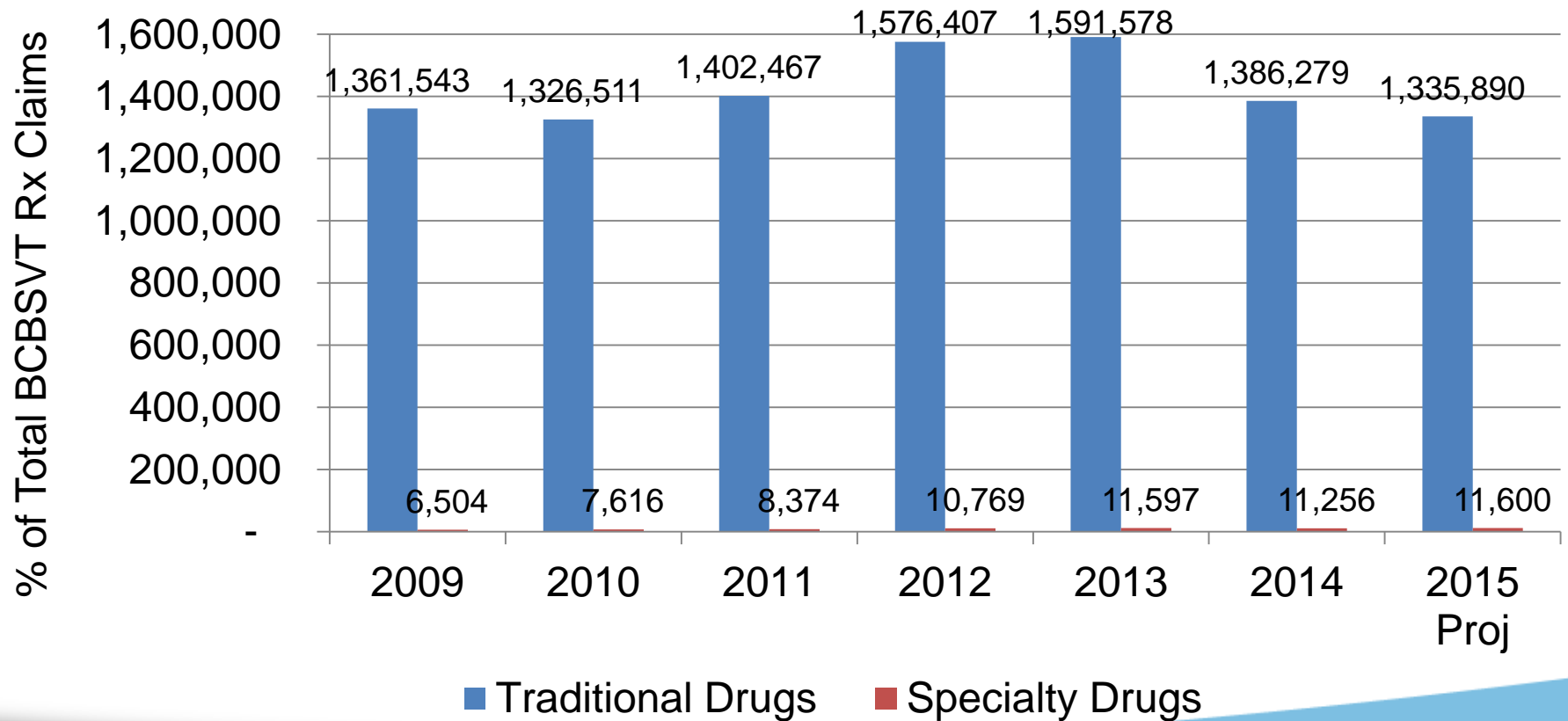


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Distribution of Scripts

- While the number of specialty scripts has doubled over the years, they are still a very small portion of the total.



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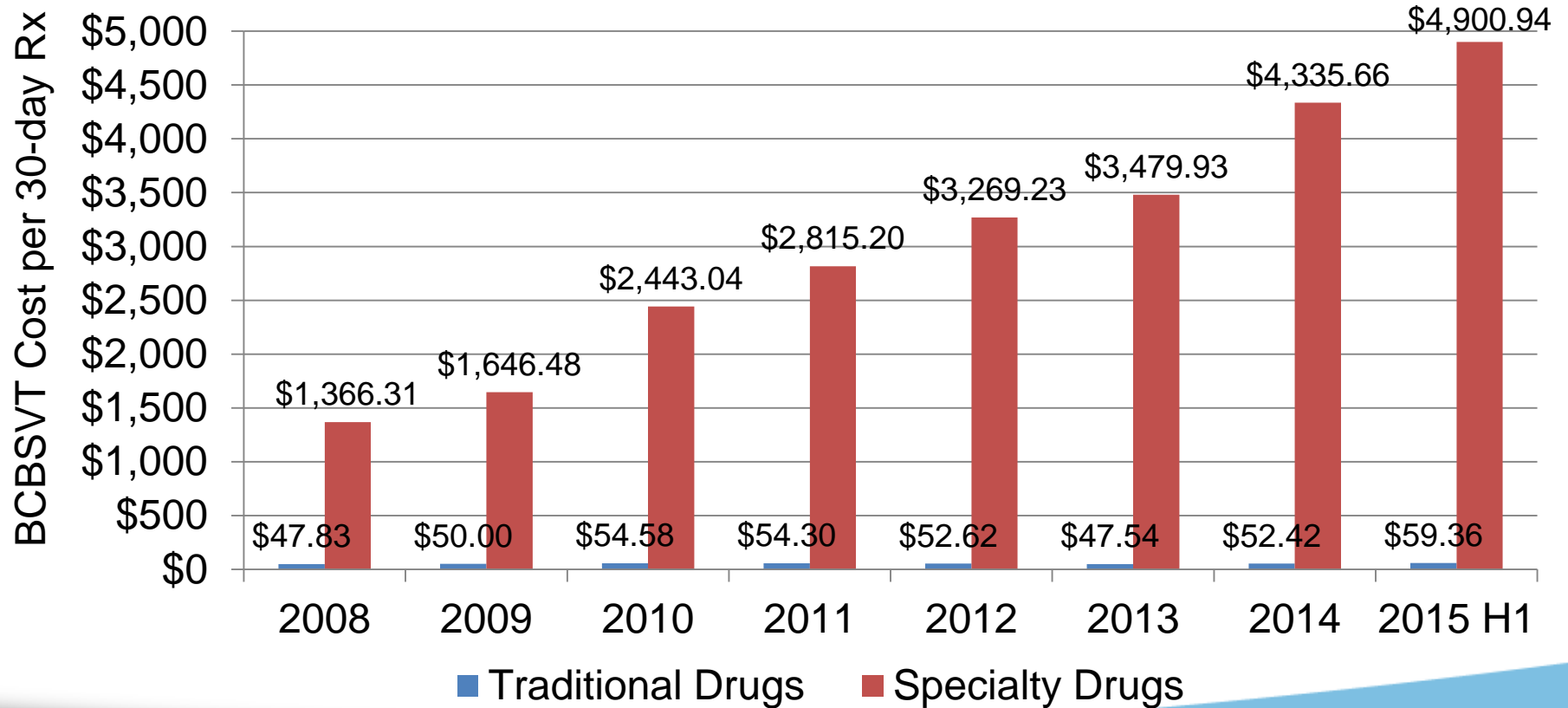


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Specialty Drug Price Inflation

- The cost per script for specialty drugs has tripled over the last seven.



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Common BCBSVT Specialty Drugs

Humira



242 patients
\$7.6M

Harvoni



52 patients
\$9.8M

Enbrel



184 patients
\$5.1M

Copaxone



78 patients
\$4.5M

Tecfidera



50 patients
\$2.6M

Revlimid



13 patients
\$1.4M

Xolair



24 patients
\$0.5M

Juxtapid



2 patients
\$0.8M

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BCBSVT Specialty Drug Inflation

- Humira & Enbrel are seeing large price increases due to expected biosimilar competition
- Tecfidera, Gilenya and Viagra all took large price increases ahead of competition from upcoming generic versions.

Drug Inflation - Top Impacted Drugs*										
1-16 - 9-16						1-15 - 9-15			% Change	
Drug Name/ Strength	Specialty Flag	Scheduled Release	AWP	QTY	AWP/ QTY	AWP	QTY	AWP/ QTY	AWP/ QTY	Inflation Impact on AWP
HUMIRA PEN 40MG/0.8ML	Yes	2016	\$7,929,497	3,407	\$2,327.41	\$5,884,405	3,136	\$1,876.64	24.0%	\$1,535,770
ENBREL 50 MG/ML	Yes	N/A	\$5,588,422	4,741	\$1,178.74	\$4,365,036	4,606	\$947.61	24.4%	\$1,095,820
METFORMIN HCL ER 1000 MG	No	N/A	\$1,377,291	64,633	\$21.31	\$462,697	42,524	\$10.88	95.8%	\$674,029
TECFIDERA 240 MG	Yes	N/A	\$2,485,882	20,205	\$123.03	\$2,407,752	22,200	\$108.46	13.4%	\$294,503
PANTOPRAZOLE SODIUM 40 MG	No	2007	\$1,848,280	378,421	\$4.88	\$1,631,194	390,904	\$4.17	17.0%	\$269,177
EPIPEN 2-PAK 0.3MG/0.3	No	N/A	\$1,122,324	3,241	\$346.29	\$826,840	3,123	\$264.76	30.8%	\$264,242
GILENYA 0.5 MG	Yes	2019	\$2,391,836	9,144	\$261.57	\$802,375	3,440	\$233.25	12.1%	\$259,011
HUMIRA 40MG/0.8ML	Yes	2016	\$1,060,115	456	\$2,324.81	\$968,496	516	\$1,876.93	23.9%	\$204,235
VIAGRA 100 MG	No	2017	\$706,850	13,022	\$54.28	\$634,752	14,642	\$43.35	25.2%	\$142,328
NOVOLOG FLEXPEN 100/ML	No	N/A	\$1,129,557	30,060	\$37.58	\$885,428	26,913	\$32.90	14.2%	\$140,594

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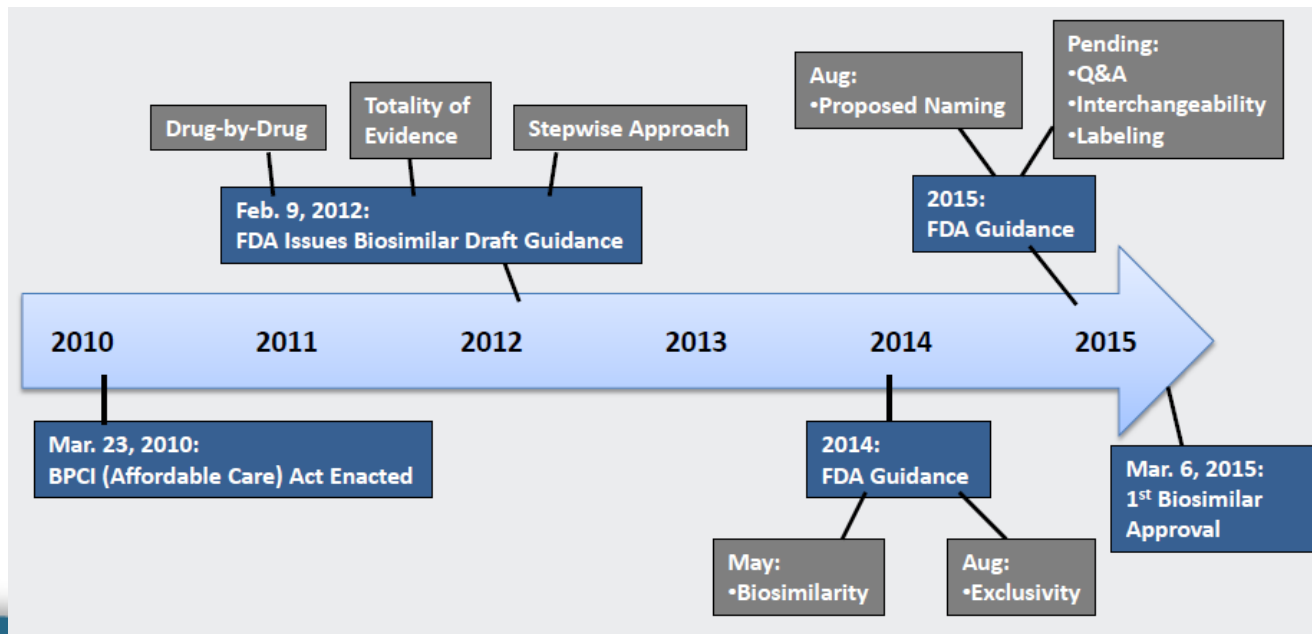
Biosimilars: Potential Price Solution

- A biopharmaceutical drug designed to have active properties similar to one that has previously been licensed
 - “Generic Drug :: Brand Drug” as “Biosimilar :: Specialty Drug”
- New to the U.S. via the Affordable Care Act
- Expected to cost 25%-30% less than specialty drugs
- First biosimilar (Zarzio) was approved in March 2015 and reached the market in late summer.

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Biosimilars Timeline

- It took a while for biosimilars to get a pathway to approval in the U.S.
- Pathway created by the ACA; passed in 2010



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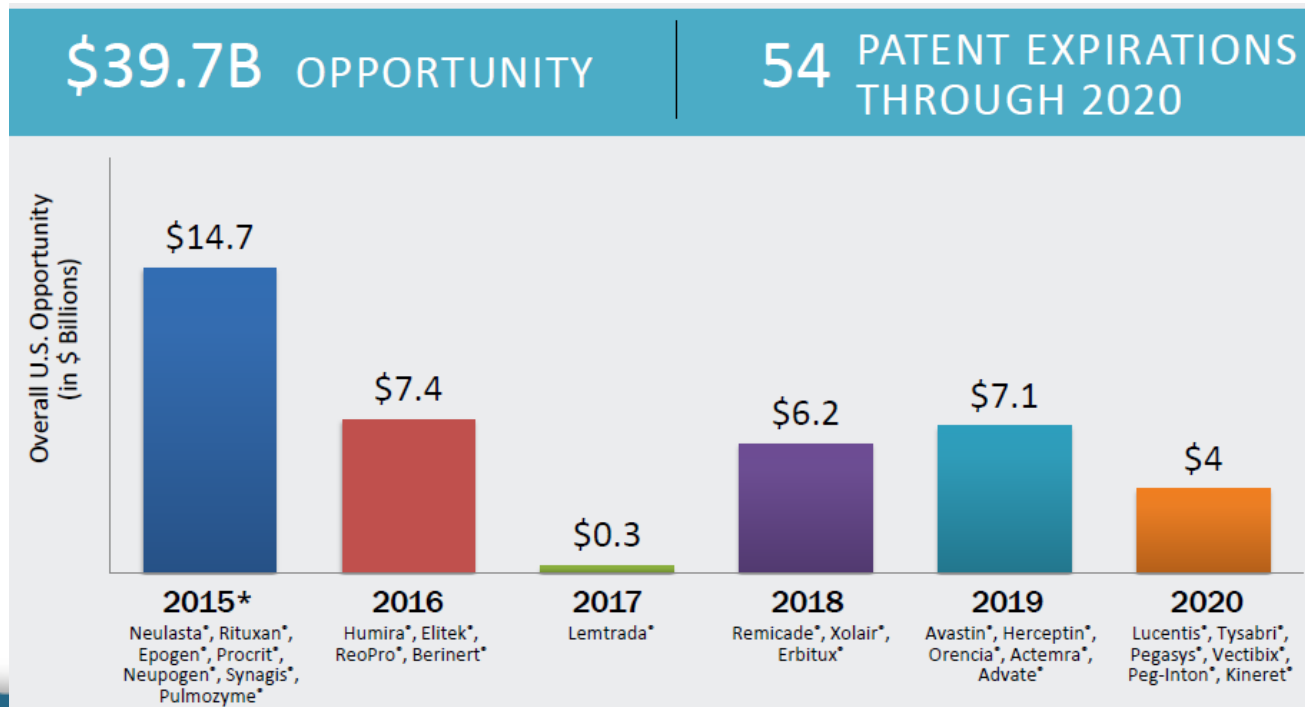


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Biosimilar Opportunities

- Biosimilar drugs available in Europe are 15%-75% less expensive than specialty equivalent.
 - Average = ~25%-30% less expensive than specialty versions



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Generic Drug Price Increases

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Overview

- Generic drugs, overall, are growing at a much slower pace than brand drugs.
 - 2014 generic drug inflation = 3.5%
 - 2015 generic drug inflation = 3.2%
 - 2016 generic drug inflation = 2.1%
- Some generic drugs have seen massive price increases
 - Doxycycline - \$1.97 per day in 2012 \$10.16 per day in 2015
 - Daraprim - \$11.00 per day in 2012 \$750 per day in 2015
 - Thiola - \$50.40 per day in 2012 \$797.98 per day in 2015

Doxycycline

- In 2013, Teva, Mylan, Actavis, and Hikma Pharmaceuticals all ceased production of doxycycline.
- This occurred at the same time there was a shortage of tetracycline.
- This resulted in an increased demand for doxycycline just as supplies were dropping.
- The result was large price increases.

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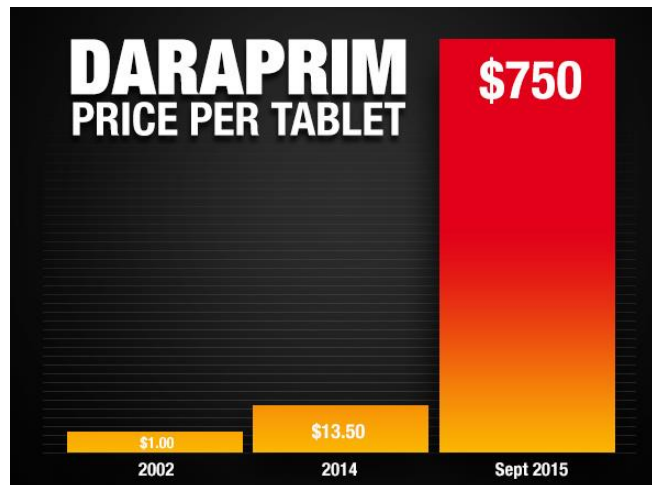
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Daraprim



- Treats toxoplasmosis which is a deadly parasite to patients with a compromised immune system such as cancer and AIDS patients.
- Released in 1953 and has been a generic drug since the 1970s.
- Turing Pharmaceuticals, headed by Martin Shkreli raised the price 5,000% in Sept.



- The media finally caught onto the story of pharmaceutical price inflation.

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Impact to Employers

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Impact on Local Hospital

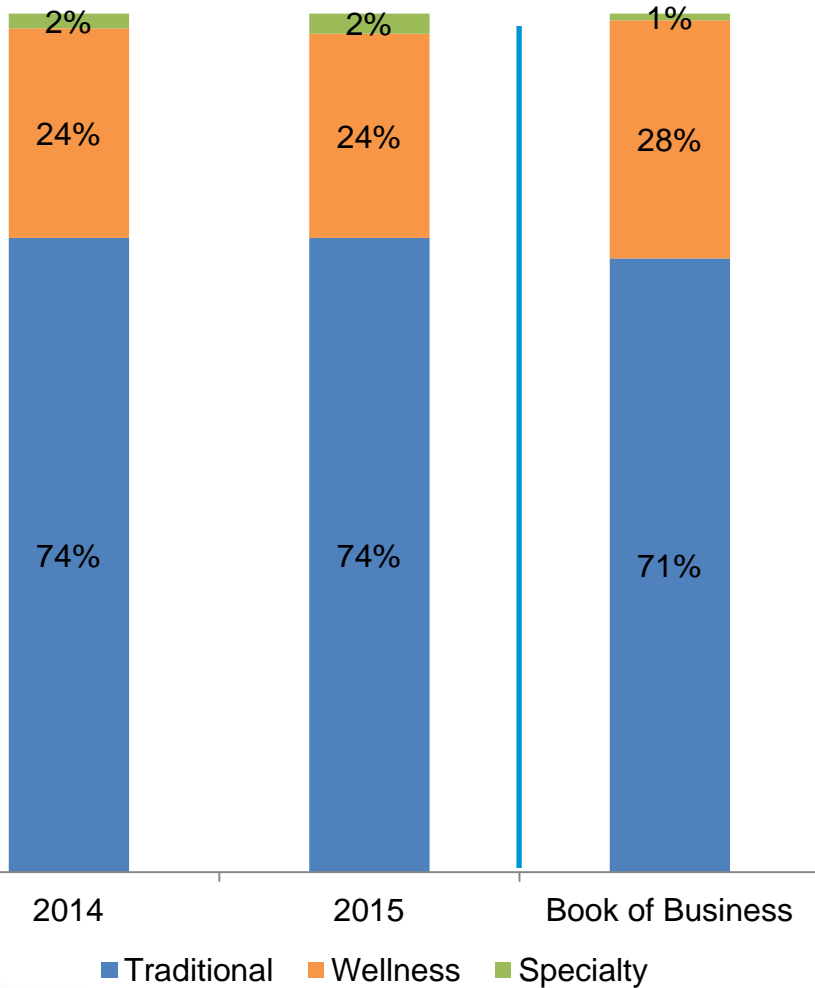
- 2 Harvoni patients and 1 Thiola patient = \$528,000 increase
- Total employer cost increase was \$453,000

OBSERVATIONS

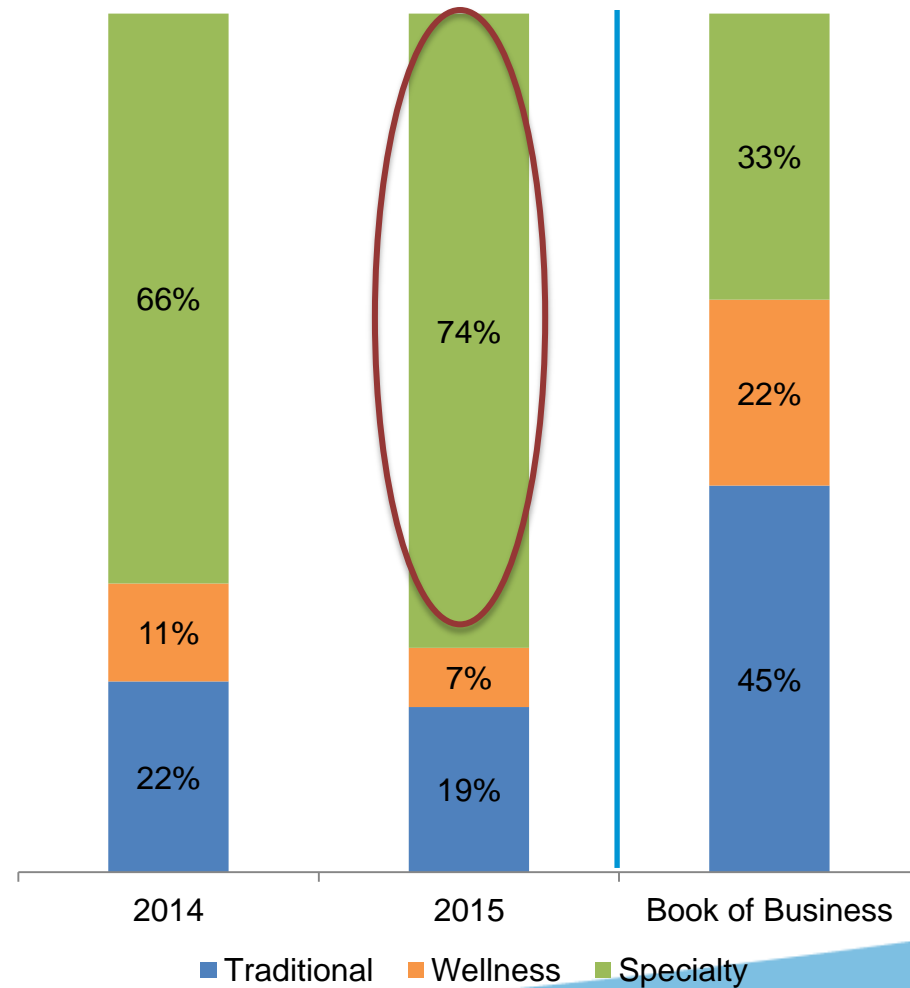
Description	7-14 - 6-15	7-13 - 6-14	Change
Avg Members per Month	1,056	1,057	-0.1%
Total Plan Cost	\$1,587,749	\$1,134,998	39.9%
Total Days	489,199	477,832	2.4%
Total Rxs	10,958	11,020	-0.6%
Plan Cost PMPM	\$125.30	\$89.48	40.0%
Plan Cost per Day	\$3.25	\$2.38	36.6%
Plan Cost per Rx	\$144.89	\$102.99	40.7%
Nbr Rxs PMPM	0.86	0.87	-0.5%
Generic Fill Rate	83.0%	80.8%	2.2
Home Delivery Utilization	5.8%	6.4%	-0.6
Member Cost %	7.7%	10.9%	-3.2
Specialty Percent of Plan Cost	44.8%	24.4%	20.4
Specialty Plan Cost PMPM	\$56.13	\$21.86	156.7%

Impact on Local Savings Bank

Percent of Prescriptions



Percent of Plan Paid



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S. 57 - An act relating to increase consumer awareness of prescription drug prices

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Explanation of Benefits

- § 9475. EXPLANATION OF BENEFITS FOR PHARMACY CLAIMS (a) A pharmacy benefit manager shall mail an explanation of benefits to the beneficiary for each pharmacy claim for a prescription drug covered or managed by the prescription benefit manager.
- BCBSVT has about 1.33 million pharmacy claims per year
- Each mailed Explanation of Benefits (EOB) costs \$1.35
- This law would increase BCBSVT's administrative costs by about \$1.8M annually
- Members can already get their EOBs online
- BCBSVT has not logged any complaints about pharmacy EOBs

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Drug Pricing on Formularies

- Sec. 3. PRESCRIPTION DRUG FORMULARIES; RULEMAKING

(4) the health insurer provides the range of actual coinsurance amounts for each drug on the formulary based on the lowest and highest prices available at pharmacies located in Vermont, to be updated at least weekly.

- Drug pricing tools are already available to all BCBSVT members online and to Vermont Health Connect (VHC) buyers during the enrollment period
- Patients can see what the drug cost is to them and to BCBSVT, as well as other therapeutic options
- 25,883 BCBSVT members are registered with Express-Scripts.com
 - 4,952 drugs were priced in 2016
 - 129 VHC buyers priced drugs before buying

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Online Drug Pricing Tool

Brand Options

Go to: [Home](#) [Search](#) Search results

Price a medication

[Price another medication](#) | [Visit My Rx Choices® for potential savings](#) | [Help](#)

PATIENT
Brian 5/2/1968

Recent searches:
Imitrex 4 MG/0.5ML

You searched for:

Imitrex 4 Mg/0.5 MI Cartridges (1 units)
4 Mg/0.5ml Cartridge, Brand
Glaxosmithkline
[View drug information](#) | [Recalculate](#)

[View formulary alternatives](#)

Pharmacy / day's supply	Is this drug covered?	Qty	You pay	Annual cost	Add to drug list
Home delivery pharmacy 90-day supply	YES View coverage notes	12	\$2,600.00 Plan pays: \$942.76 Explain my costs	Get annual costs	Add
Retail 90-day supply	YES View coverage notes	4	\$1,268.07 Plan pays: \$0.00 Explain my costs	Get annual costs	Add

Drug list

When you price all your drugs together you can see the impact to pricing and deductible.

As you price your individual drugs, click "add" to build your drug list.

When finished, click "Price these drugs together".

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Online Drug Pricing Tool

Generic Options

Browser address bar: <https://www.express-scripts.com/consumer/site/pricing?loc=NEWNAV&directAccess=Y#>

Navigation: Home | Manage Prescriptions | Health & Benefits Information | My Account | Contact Us

Shopping cart: 0 items in cart

Retail 90-day supply **YES** [View coverage notes](#) Qty: 4 **\$1,268.07** [Plan pays: \\$0.00](#) [Explain my costs](#) [Get annual costs](#) [Add](#)

★ [Generic equivalent](#) available:

sumatriptan 4 mg/0.5 ml cart
4 Mg/0.5ml Cartridge, [Generic](#)
Sandoz
[View drug information](#) | [Recalculate](#)

[View formulary alternatives](#)

Pharmacy / day's supply	Is this drug covered?	Qty	You pay	Annual cost	Add to drug list
Home delivery pharmacy 90-day supply	YES View coverage notes	12	\$1,610.16 Plan pays: \$0.00 Explain my costs	Get annual costs	Add
Retail 90-day supply	YES View coverage notes	4	\$605.71 Plan pays: \$0.00 Explain my costs	Get annual costs	Add

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PBM Traditional Pricing

- § 9475. EXPLANATION OF BENEFITS FOR PHARMACY CLAIMS (a) A pharmacy benefit manager shall mail an explanation of benefits to the beneficiary for each pharmacy claim for a prescription drug covered or managed by the prescription benefit manager. The explanation of benefits shall include: (1) the cost of the Prescription drug being charged to the health plan; (2) the co-payment amount paid by the beneficiary; (3) fees and other charges deducted from the cost of the drug; (4) the amount retained by the pharmacy benefit manager; and (5) the final payment to the pharmacy.
- When bidding for BCBSVT's PBM contract, PBMs offer two price bids: "traditional spread pricing" and "pass-through pricing + administrative fee"
- "Traditional spread pricing" is typically the better pricing; \$4.8M lower annually in last RFP (\$14.5M over the three year contract)
- Requiring PBMs to publicly share their proprietary competitive info may lead them to only bid "pass-through pricing + administrative fee" which would increase cost

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Questions?

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