

Pharmacy Pricing & PBM Overview

House Committee on Health Care

January 23, 2019

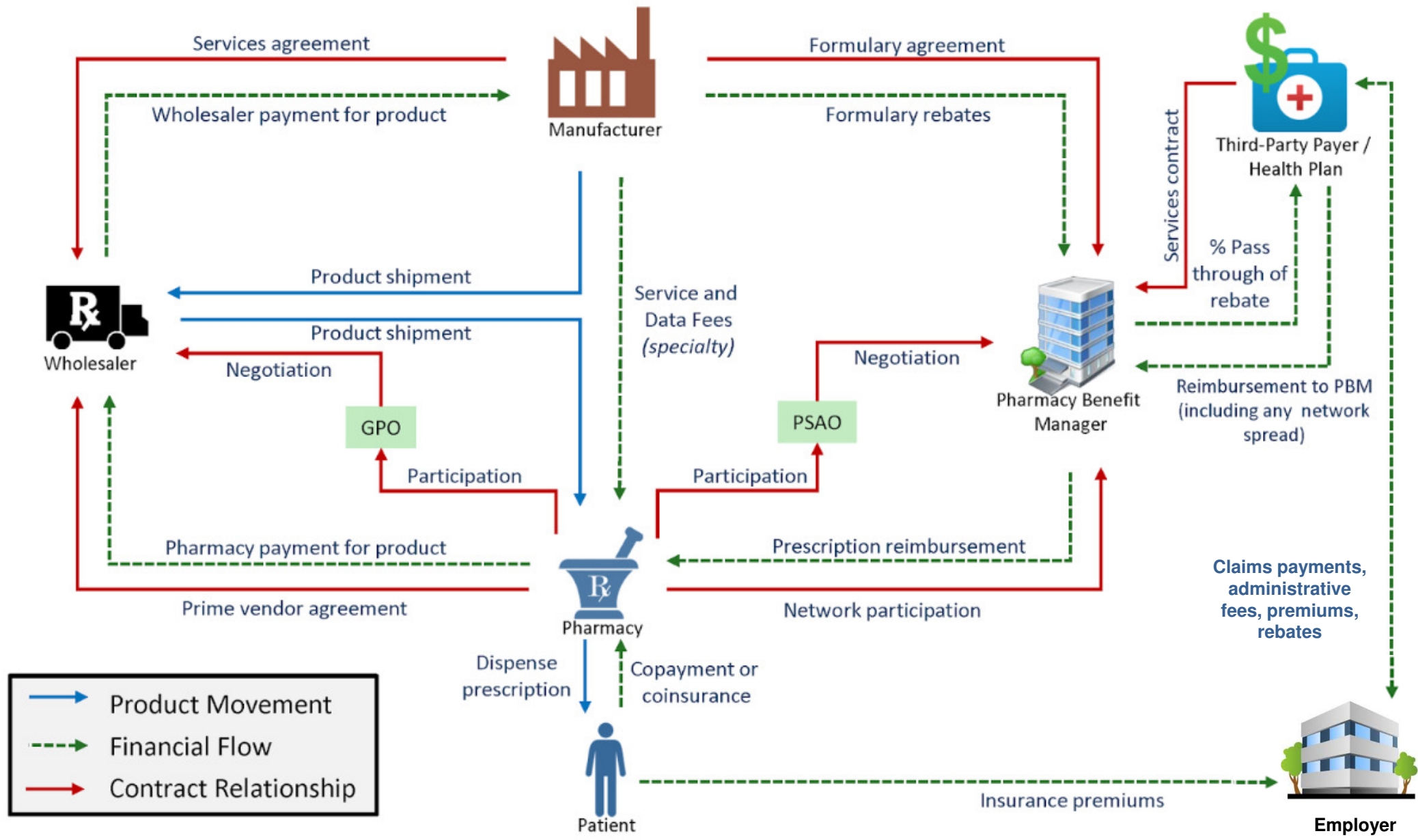
Agenda

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



What are Pharmacy Benefit Managers?

U.S. Distribution and Reimbursement System: Patient-Administered, Outpatient Drugs



Why Do We Contract with PBMs?

- **BCBSVT's Volume** (158,000 members)
 - 1.3 Million Rx claims
 - \$168 Million in drug spend
 - 8,592 pharmacies used
 - 14,141 unique drugs processed
- **Express Scripts' Volume** (105,000,000 members)
 - 1.4 Billion Rx claims
 - \$100 Billion in drug spend
 - 67,000 pharmacies used
 - 140,000 unique drugs processed
- **CVS/Caremark's Volume** (94,000,000 members)
 - 1.9 Billion Rx claims
 - \$134 Billion in drug spend
 - 67,000 pharmacies used
 - 140,000 unique drugs processed
- **Optum Rx's Volume** (80,000,000 members)
 - 1.3 Billion Rx claims
 - \$911 Million in drug spend
 - 67,000 pharmacies used
 - 140,000 unique drugs processed

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

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.

Pharmacy Industry Margins

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

(as a % of revenue)	Express Scripts	Walgreens	Amgen
Gross Margin %	8.5%	23.4%	63.9%
Net Income %	3.3%	3.8%	30.7%

Note: Data from 2018 SEC filings.

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



How are Prescription Drugs Priced?

Drug Definitions

■ Brand Drugs

- Drugs with patent protection and there is one manufacturer
- About 12% of all prescriptions but about 30% of the cost

■ Generic Drugs

- Drugs without patent protection and there are multiple manufacturers
- About 86% of all prescriptions but only about 20% of the cost

■ Specialty Drugs

- Type of brand drugs that are high cost and require special handling and care to treat rare conditions.
- About 2% of all prescriptions but about 50% of the cost

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>
Plan Cost	\$60
- <u>Rebate</u>	<u>-\$6</u>
Net Cost	\$54

Pharmacy Pricing 101 – Pass-Through Pricing

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- Called “AWP”
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- <u>Rebate</u>	<u>-\$6</u>
Net Cost	\$54
+ <u>Admin Fee</u>	<u>\$2</u>
Final Cost	\$56

Pharmacy Pricing 101 – Spread/Traditional Pricing

	<u>BCBSVT</u>		<u>Walgreens</u>
Average Wholesale Price	\$100		\$100
- <u>Discount</u>	<u>-16%</u>		<u>-17%</u>
Ingredient Cost	\$84		\$83
+ <u>Dispensing Fee</u>	<u>+\$1</u>		<u>+\$0.50</u>
Gross Cost	\$85		\$83.50
- <u>Member Copay/Deductible</u>	<u>-\$25</u>		<u>-\$25</u>
Plan Cost	\$60	← \$1.50 →	\$58.50
- <u>Rebate</u>	<u>-\$6</u>		
Net Cost	\$54		

PBM Spread Margin

MAC Pricing

- MAC = Maximum Allowable Cost
- Used for generic drugs where there are multiple manufacturers making the same FDA-approved drug but charging different prices for the same drug
- Meant to hold down prices and inflation by reimbursing pharmacies based upon the lowest cost version of the generic drug

MAC Pricing Example

NDC CODE	NDC DESCRIPTION	STRENGTH	STRENGTH		DOSAGE FORM DESCRIPTION	MANUFACTURERS NAME	ALLOWED UNIT PRICE
			UNIT OF MEASURE	ROUTE OF ADMIN DESC			
68084072801	Fluconazole	100	MG	Oral	Tablet	AMERICAN HEALTH PACKAGING	24.000
60505012001	Fluconazole	100	MG	Oral	Tablet	APOTEX	8.793
54569649800	Fluconazole	100	MG	Oral	Tablet	A-S MEDICATION SOLUTIONS	8.770
65862005930	Fluconazole	100	MG	Oral	Tablet	AUROBINDO PHARMA	8.754
50268033711	Fluconazole	100	MG	Oral	Tablet	AVPAK	9.531
68001025204	Fluconazole	100	MG	Oral	Tablet	BLUE POINT LABORATORIES	8.803
58118501600	Fluconazole	100	MG	Oral	Tablet	CLINICAL SOLUTIONS WHOLESAL	36.520
61919041910	Fluconazole	100	MG	Oral	Tablet	DIRECT RX	26.225
66336057011	Fluconazole	100	MG	Oral	Tablet	DISPENSING SOLUTIONS INC.	14.168
55111014430	Fluconazole	100	MG	Oral	Tablet	DR.REDDY'S LABORATORIES, INC.	8.754
55045323808	Fluconazole	100	MG	Oral	Tablet	DRX	8.750
68462010230	Fluconazole	100	MG	Oral	Tablet	GLENMARK PHARMACEUTICALS	8.803
59762501601	Fluconazole	100	MG	Oral	Tablet	GREENSTONE	8.754
67405060203	Fluconazole	100	MG	Oral	Tablet	HARRIS PHARMACEUTICAL	8.754
00904650061	Fluconazole	100	MG	Oral	Tablet	MAJOR PHARMACEUTICALS	9.709
51138012704	Fluconazole	100	MG	Oral	Tablet	MED-HEALTH PHARMA	8.800
00378251693	Fluconazole	100	MG	Oral	Tablet	MYLAN	8.793
16714069101	Fluconazole	100	MG	Oral	Tablet	NORTHSTAR RX	8.770
16571021130	Fluconazole	100	MG	Oral	Tablet	PACK PHARMACEUTICALS, LLC	8.754
21695013110	Fluconazole	100	MG	Oral	Tablet	PHYSICIAN PARTNER	17.606
55700049008	Fluconazole	100	MG	Oral	Tablet	QUALITY CARE PRODUCTS	12.505
57237000430	Fluconazole	100	MG	Oral	Tablet	RISING PHARMACEUTICALS	8.754
51672406506	Fluconazole	100	MG	Oral	Tablet	TARO	8.754
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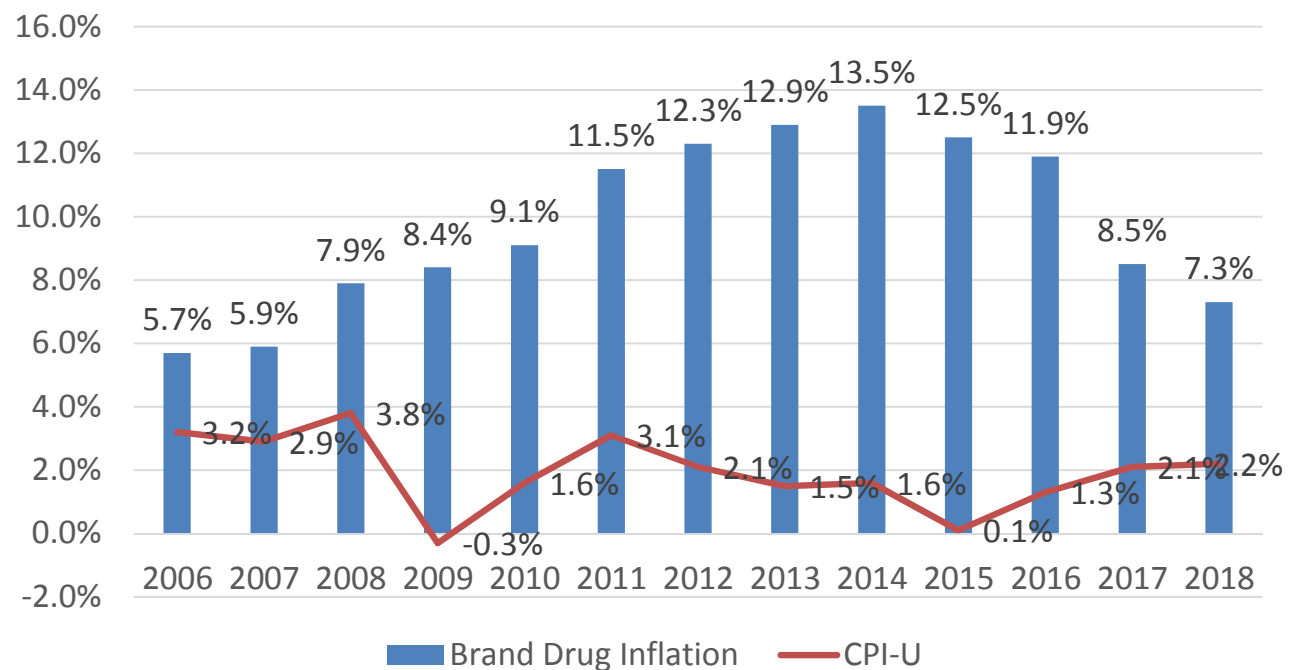


Specialty Drug Price Increases

Brand Drug Inflation

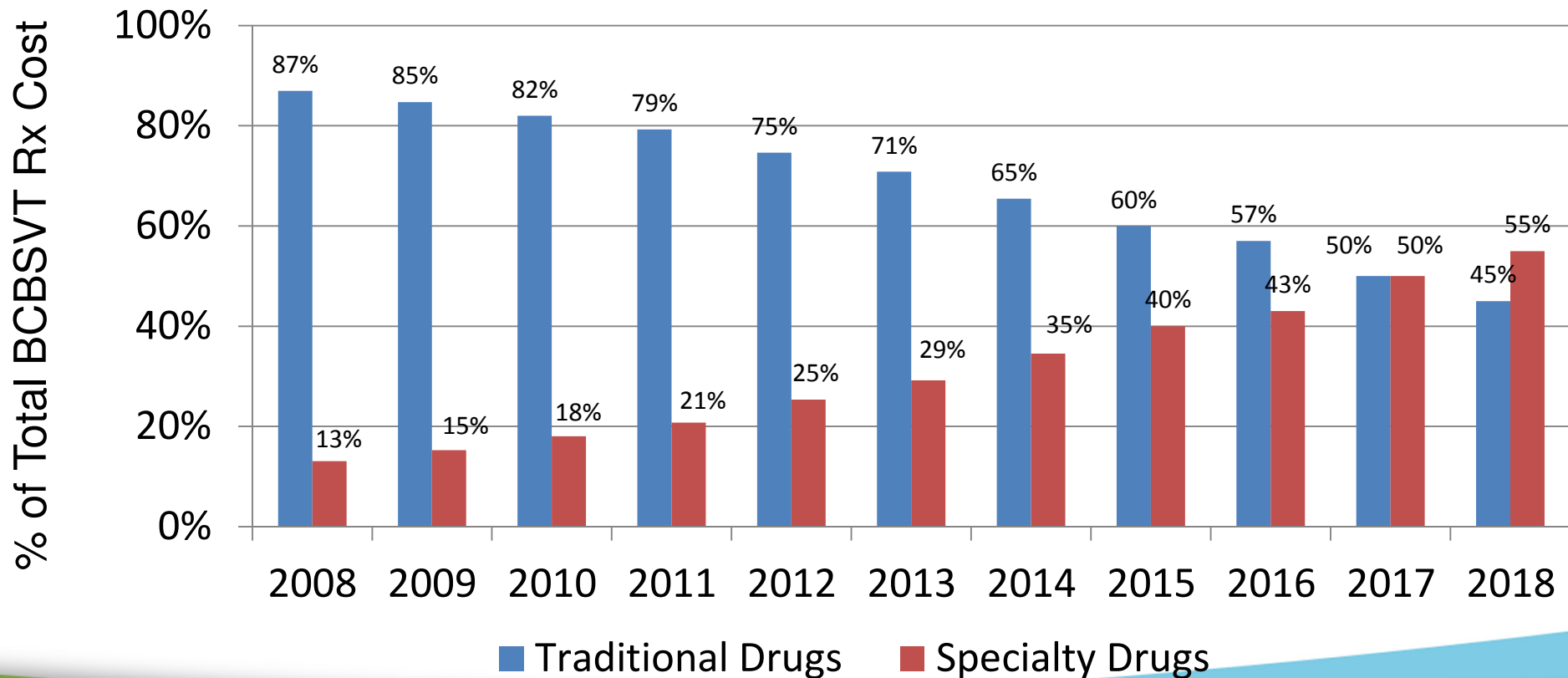
- Driven by increases in specialty drug prices, the prices for brand drugs across the U.S. have been growing much faster than inflation
- \$100 brand drug in 2005 would equal \$335 in 2018 while \$100 in 2005, growing at CPI rate, would only equal \$128 in 2018.

Average Brand Drug Prices vs General Inflation Rate



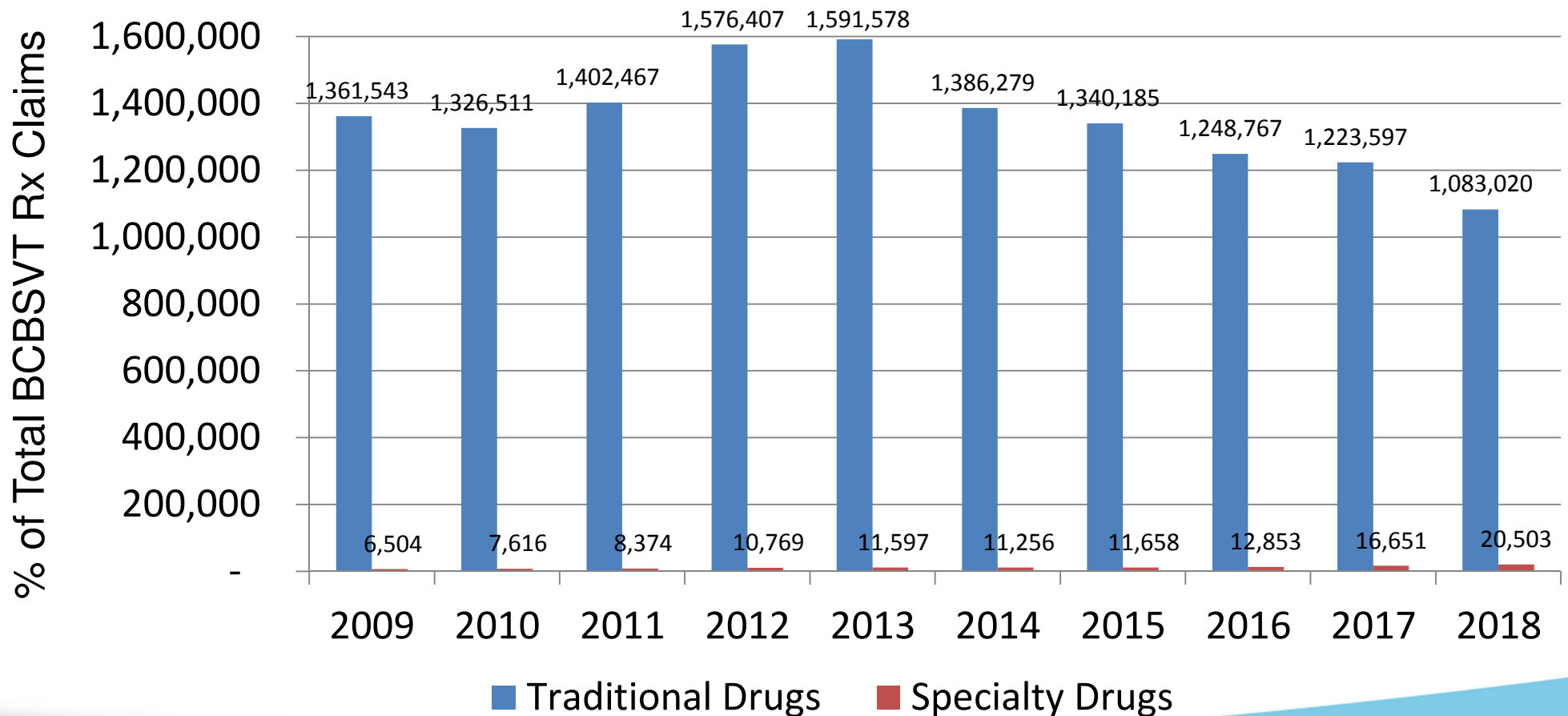
Increasing Impact of Specialty Drugs

- 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 55% in 2015.



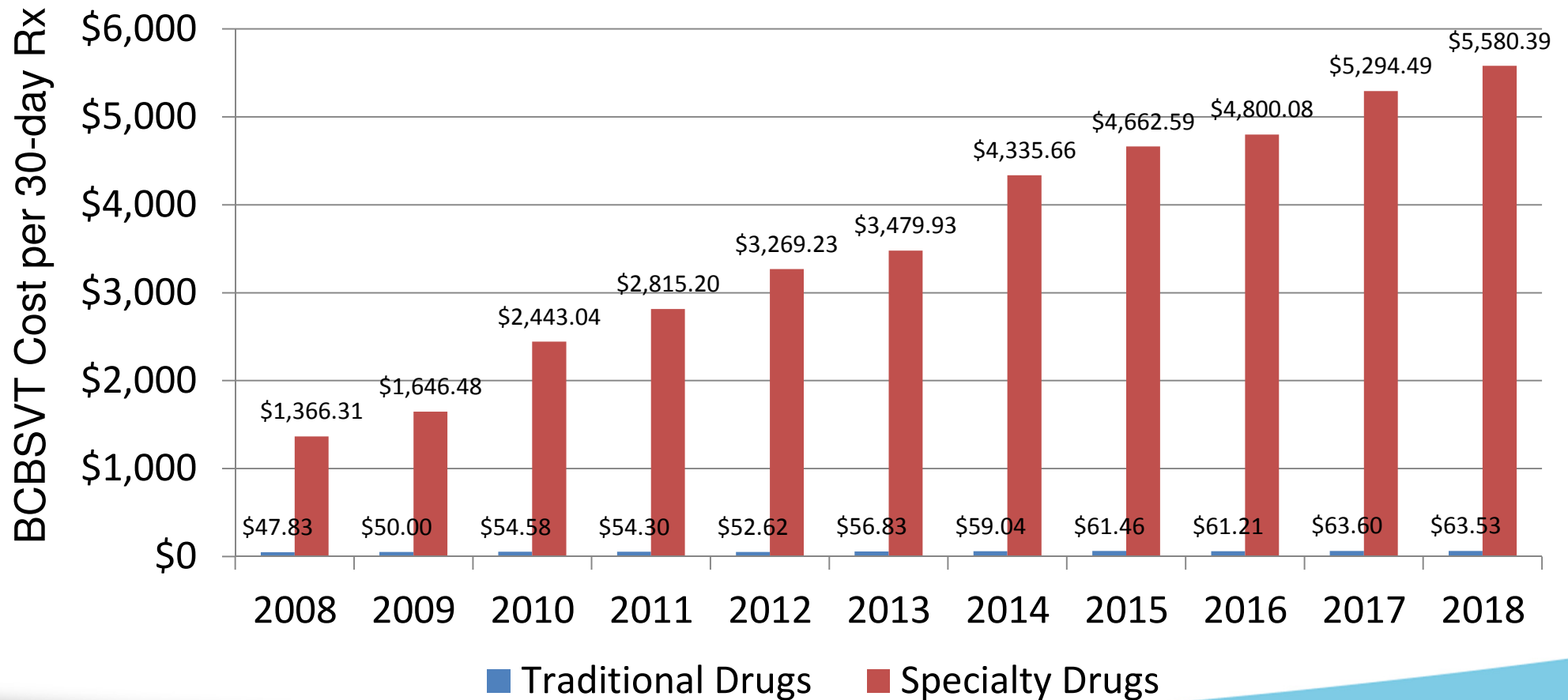
Distribution of Scripts

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



Specialty Drug Price Inflation

- The cost per script for specialty drugs has quadrupled over the last decade.



Common BCBSVT Specialty Drugs

Humira



374 patients
\$17.1M

Harvoni



14 patients
\$1.2M

Enbrel



181 patients
\$6.6M

Copaxone



39 patients
\$2.1M

Tecfidera



30 patients
\$1.7M

Revlimid



20 patients
\$2.5M

Orkambi



8 patients
\$1.5M

Haegarda



3 patients
\$1.2M

BCBSVT Specialty Drug Inflation

- Humira & Enbrel are taking large price increases due to expected biosimilar competition
- Drugs to treat diabetes such as Metformin, Lantus Solostar and Januvia are also taking large price increases.

Drug Inflation - Top Impacted Drugs*

Drug Name/ Strength	Specialty Flag	Scheduled Release	1-18 - 9-18			1-17 - 9-17			% Change	
			AWP	QTY	AWP/ QTY	AWP	QTY	AWP/ QTY	AWP/ QTY	Inflation Impact on AWP
HUMIRA PEN 40MG/0.8ML	Yes	2023	\$13,997,910	4,791	\$2,921.71	\$10,975,954	4,135	\$2,654.40	10.1%	\$1,280,667
ENBREL SURECLICK 50 MG/ML	Yes	N/A	\$4,961,014	3,328	\$1,490.65	\$5,724,542	4,230	\$1,353.45	10.1%	\$456,632
METFORMIN ER OSMOTIC 1000 MG	No	N/A	\$1,316,934	49,732	\$26.48	\$1,634,835	71,712	\$22.80	16.2%	\$183,182
STELARA 90 MG/ML	Yes	2023	\$2,050,196	83	\$24,701.16	\$1,111,683	49	\$22,687.40	8.9%	\$167,142
LANTUS SOLOSTAR 100/ML (3)	No	N/A	\$2,483,683	78,249	\$31.74	\$2,751,679	92,274	\$29.82	6.4%	\$150,239
REVLIMID 10 MG	Yes	2020	\$1,263,265	1,561	\$809.27	\$1,284,886	1,785	\$719.82	12.4%	\$139,620
HUMIRA 40MG/0.8ML	Yes	2023	\$1,461,610	500	\$2,923.22	\$1,178,602	444	\$2,654.51	10.1%	\$134,356
GILENYA 0.5 MG	Yes	2023	\$1,483,290	4,723	\$314.06	\$2,176,305	7,601	\$286.32	9.7%	\$131,009
TECFIDERA 240 MG	Yes	2021	\$1,573,281	10,680	\$147.31	\$2,270,803	16,657	\$136.33	8.1%	\$117,307
JANUVIA 100 MG	No	2023	\$1,212,550	70,696	\$17.15	\$1,240,013	79,865	\$15.53	10.5%	\$114,899

Rebates

- While BCBSVT's rebates have increased, the increase in the AWP (list price) from the manufacturers has been larger
- During 2016 & 2017, the increases in AWP minus the increases in rebates left BCBSVT \$33M behind

	2015	2016	Increase \$
AWP	\$313,280,691	\$331,799,750	\$18,519,059
Rebates	\$16,947,139	\$18,569,923	\$1,622,784
Claims	1,351,843	1,261,620	
AWP/Claim	\$231.74	\$262.99	\$31.25
Rebate/Claim	\$12.54	\$14.72	\$2.18
Rebates/AWP	5.4%	5.6%	

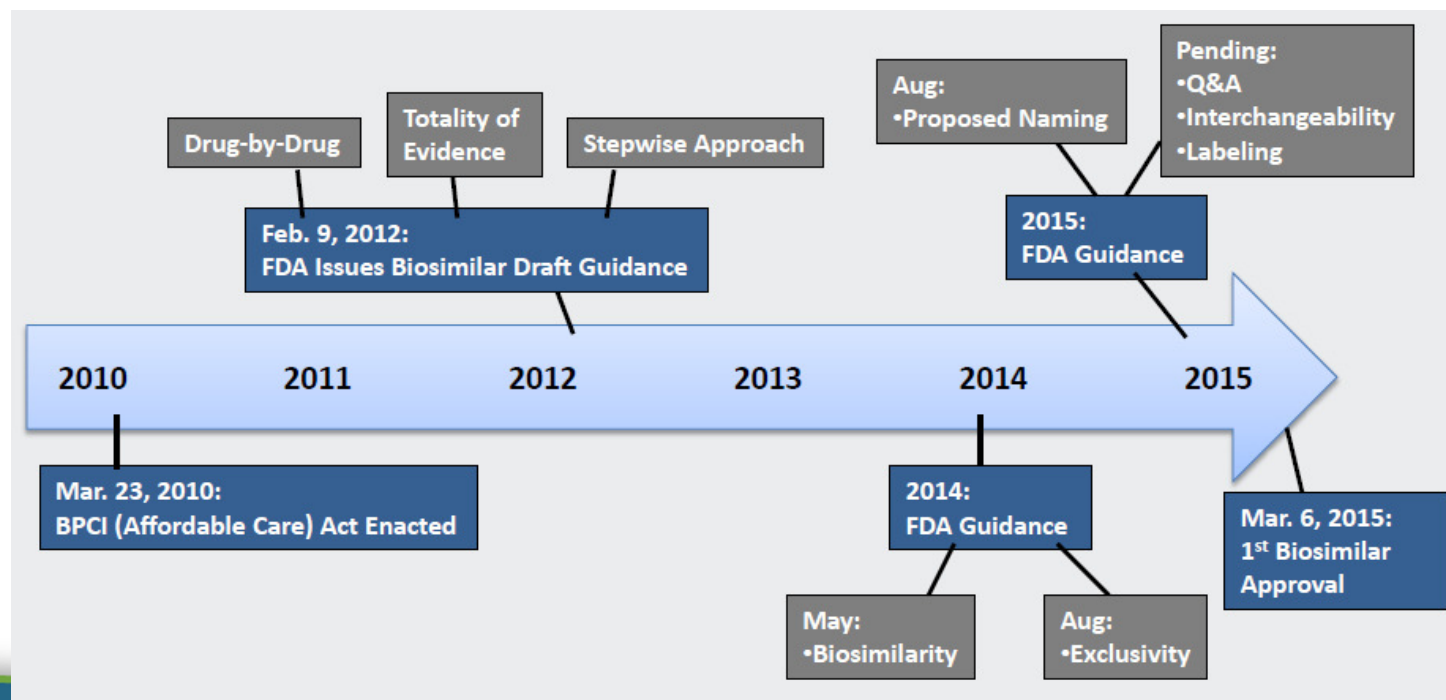
	2016	2017	Increase \$
AWP	\$331,799,750	\$354,657,828	\$22,858,078
Rebates	\$18,569,923	\$25,383,479	\$6,813,556
Claims	1,261,620	1,240,248	
AWP/Claim	\$245.44	\$281.11	\$35.67
Rebate/Claim	\$13.74	\$20.12	\$6.38
Rebates/AWP	5.6%	7.2%	

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

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



Biosimilar Opportunities

- Biosimilar drugs available in Europe are 15%-75% less expensive than specialty equivalent.
 - Average = ~25%-30% less expensive than specialty versions
- Manufacturers are investing a lot of money in the development and approval of biosimilars

Product	Sales(\$B)	No. Biosimilars In Development
Aranesp	\$4.00	7
Avastin	\$6.97	22
Enbrel	\$8.40	28
EPOs	\$3.73	85
Herceptin	\$6.40	38
Humira	\$10.70	26
Insulins (all)	>\$12.00	50
Lantus	\$7.80	7
Lucentis	\$4.20	3
Neulasta	\$4.10	20
Neupogen	\$1.57	57
Remicade	\$8.90	14
Rituxan	\$7.16	44
TNF inhibitors	n/a	70
Interferons alfa	n/a	69
Interferons beta	n/a	26
Somatropins	n/a	34
mAbs & mAb fragments	n/a	233
Cancer indications	n/a	398
mAbs, cancer indications	n/a	144

n/a = Not applicable.



Generic Drug Price Increases

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%
 - 2017 generic drug inflation = 0.2%
 - 2018 generic drug inflation = 0.1%
- 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

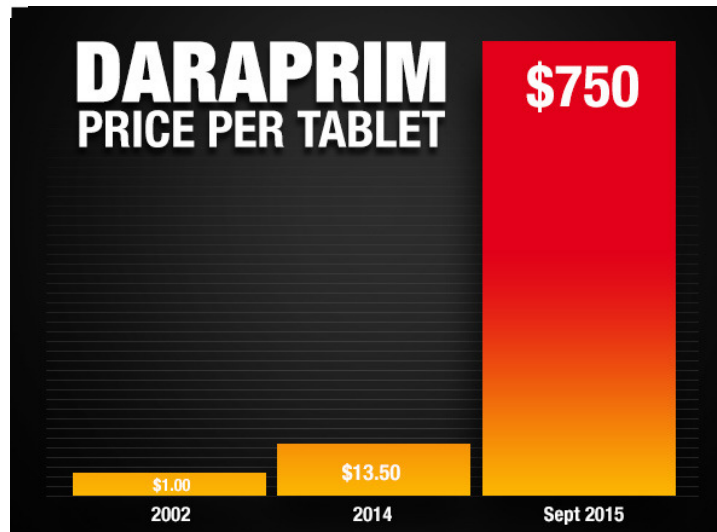
Doxycycline

- 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.

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.



Impact to Employers

Impact on Local MH/SUD Provider

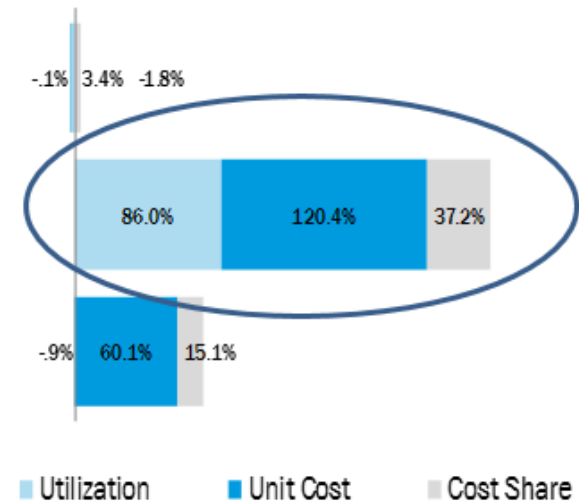
- The employer had a \$388,000 increase in their cost due entirely to increases associated with specialty drugs
 - Increase of \$55K for a patient on Fabrazyme (enzyme deficiency)
 - Increase of \$97K for a patient on Harvoni (hepatitis C)
 - Increase of \$89K for a patient on Ofev (idiopathic pulmonary fibrosis)
 - Increase of \$83K for 2 patients on Enbrel (rheumatoid arthritis)

Local MH/SUD Provider				Employer - Health Care and Social Assistance	
Description	2016	2017	Change	2017	Change
Specialty Plan Cost PMPM	\$64.66	\$112.36	73.8%	\$43.51	15.7%
Non-Specialty Plan Cost PMPM	\$60.27	\$58.02	-3.7%	\$54.32	1.1%

Impact on Local College

- The college saw a \$283K (74%) increase in their pharmacy costs due to specialty drugs
 - \$128K increase in hepatitis C drugs
 - \$77K increase in growth deficiency drugs
 - \$47K increase in oncology drugs

	Plan Cost PMPM	Your Trend
Non-Specialty	\$45.85	1.5%
Specialty	\$66.71	243.7%
Total	\$112.55	74.3%





Lab Pricing

Lab Work Pricing

- Lab claims are about 6% of total health care costs
- Numerous labs with different charges for same tests
- Later in 2019, BCBSVT will start to require providers to use in-network labs
- Mercy Diagnostics (NJ) is out-of-network with high prices

	Average Unit Cost of a Lab Test	Average Percent of Medicare's Rate
Average In-Network Lab	\$107.95	183%
Mercy Diagnostics	\$292.76	1,467%



Questions?