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PBM 20/20: Charting a Clear Path towards the Future of Pharmacy

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SIG University

PBM 20/20: Charting a Clear Path towards the Future of Pharmacy

July 2019



Agenda

- ▶ State of the PBM Industry
- ▶ Biosimilar Landscape & Rebates
- ▶ The Importance of UNDERSTANDING Pricing & Contracting

STATE OF THE PBM INDUSTRY

Consolidation Continues in All Channels throughout 2018

2010		Q1 2018	
8	Payers cover 46% of commercial lives	7	Payers cover 65% of commercial lives
16	Payers cover 80% of Medicare lives	9	Payers cover 79% of Medicare lives
10	Payers cover 32% of Medicaid lives	9	Payers cover 56% of Medicaid lives
5	PBMs manage 65% of prescription drug market	3	PBMs manage ~67% of prescription drug market
40%	Of physicians are in hospital-owned practices	55%	Of physicians are in hospital-owned practices

Pharmacy Benefit Marketplace

Changes

- Cigna buys Express Scripts
- CVS/Caremark buys Aetna
- Anthem creates IngenioRx
- Anthem vs Express Scripts in court
(contract dispute over market check)
- Insulin class-action suit (Sanofi, Novo Nordisk, Eli Lilly – RICO suit relative to inflated insulin prices)
- Optum to require POS rebates
- Humira lawsuits (Abbvie – clinical outcomes (fungal infections, nerve damage, cancer); 130+ patents preventing generic/biosimilars until 2023 – the drug is 20 years old)
- Haven

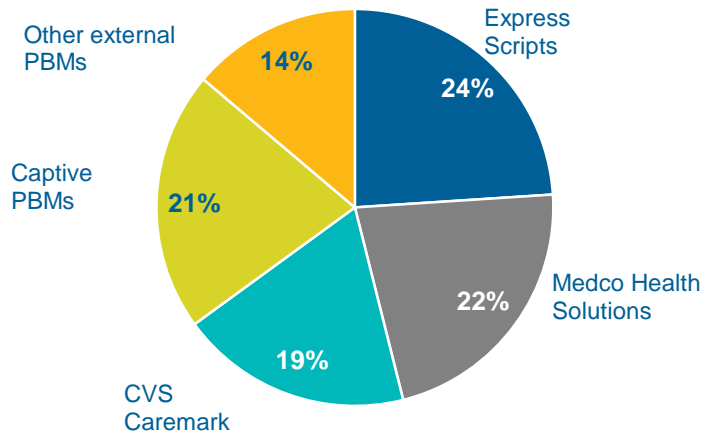
Current

- UHC owns Optum
- Cigna uses Optum
- Aetna uses CVS/Caremark
- Anthem uses Express Scripts (termed 3/31/19)

Recently Announced Mergers Will Result in Significant Consolidation across the PBM Market

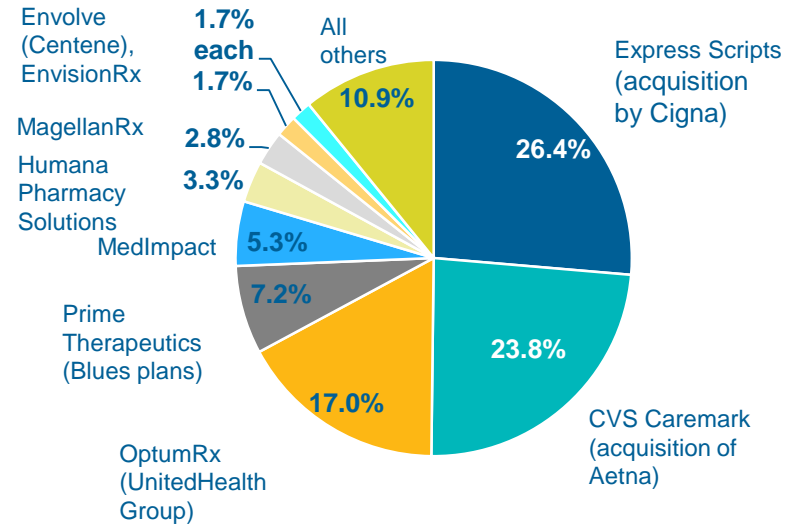
PBM Market 2010

(Total PBM lives = 217,000,000)



PBM Market 2019

(Total PBM lives = 266,000,000)



estimates; Health Strategies Group, Leading Health PlansSource: Managed Markets Insight & Technology, Pharmaceutical Care Management Association. Accessed February 2018; 2010: self-reported enrollment and company reports; Health Strategies Group and PBMs, April 2018.

Other Recent Partnerships Threaten to Disrupt the Healthcare Market



- ~4,300 pharmacies & ~320 clinics
- ~\$16 billion annual pharmacy sales
- PBM managing 4 million lives, ~\$6 billion in revenue.
- ~334,000 Part D enrollees
- Enhanced SP capabilities
- High market concentration on the West Coast, expanded East Coast presence

POTENTIAL



- ~4,700 Walmart stores, with more than 4,000 in-store pharmacies and other limited health service offerings
- Medical benefit coverage for ~8.7 million enrollees; pharmacy benefit coverage for 80% of its non-TRICARE medical benefit enrollees, plus ~5.3 million PDP enrollees
- Internal PBM, along with mail-order and SP capabilities
- Ability to offer competitive rates on primary care (e.g., in-store walk-in clinics) and other health services while drawing customers to its stores

Other Recent Partnerships Threaten to Disrupt the Healthcare Market



- 120,000 employees
- Creation of medical clinics to provide health care to employees while testing health-related products
- Development of AC Wellness, a wellness center in Cupertino, CA, that employs physicians, chiropractors, dietitians, and physical therapists
- Staffing needs include primary and acute care physicians, physical therapists, and nurses.
- Additional needs include clinical program designers to create disease prevention programs and promote healthy lifestyles for employees.

amazon

BERKSHIRE HATHAWAY INC.
JPMORGAN CHASE & CO.

- Now know as “Haven”
- 1.1 million employees
- Priorities will include developing “technology solutions” (i.e., software and apps) to provide “simplified, high-quality and transparent health care at a reasonable cost.”
- Potential to leverage internal technological innovations to support eventual rollout in patient populations other than organizations’ employees

Payer and Employer Implications

Total cost of care will be a key focus for the 2020 health plan and large employer selling season

- **ESRX** is now positioned to stand alongside OptumRx with respect to pass-through models and going at risk for managing total cost
- **CVS** has been less willing to go at risk for medical trend but this is likely to change with Aetna. We expect CVS will launch a similar transparent PBM offering for employers before the end of 2019.
- **OptumRx** managed care contracts have largely shifted to pass-through models, employer is expected to follow
- **Anthem's** willing to go at risk on medical even prior to launch of IngenioRx



Trump Administration Introduces the American Patients First Blueprint to Lower Drug Prices

Increased Competition

Immediate action items

Implement Measures to Promote Competition for Biologics

reases

Incentives for Lower List Prices

Immediate action items

- Make Medicare drug pricing dashboard more transparent

Assess Rebate Rules and Reform Rebating System

price

- Consider regulatory status for FDIVs
- Reform Medicaid Drug Rebate Program
- Reform 340B Drug Discount Program
- Assess rules regarding drug copay assistance cards

Better Negotiations

Immediate action items

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Allow Part D plans more negotiating power with biopharmaceutical companies

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- Evaluate current national drug spending data

Lower Out-of-Pocket Costs

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Removing barriers for marketing generic drugs and biosimilars, by replacing rebates with up front discounts

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How will the Blueprint impact employee benefits?

- If Implemented: No immediate impact to employers
- Anticipate that it will spill over into commercial health plans
- HHS can't regulate employer market, but Congress can
- Despite a newly divided Congress, continued scrutiny on prescription drug prices has been bipartisan.



BIOSIMILAR LANDSCAPE & REBATES

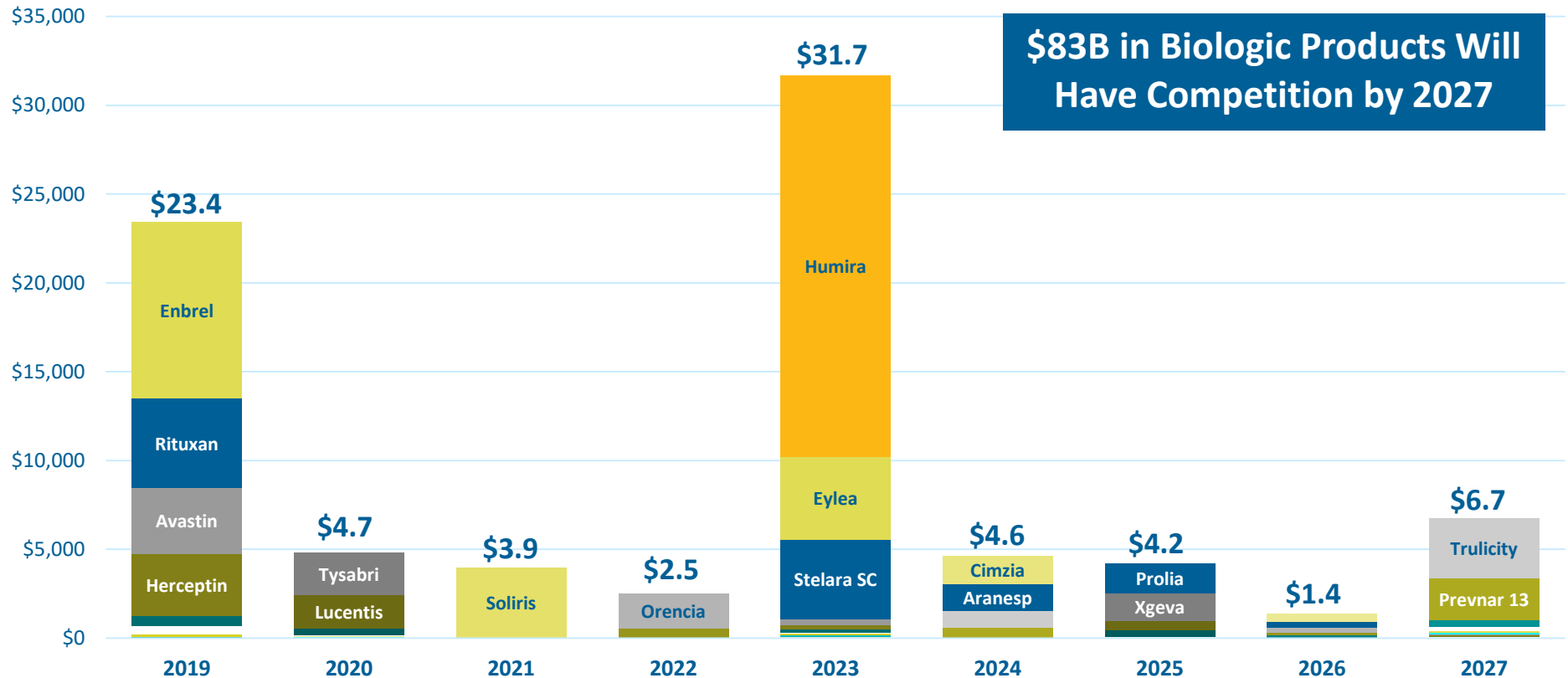
Biosimilar Market Overview

KEY FEATURES

- **9 biosimilars currently approved and launched**
- **10 biologic patents expired**
- Global Biosimilar market **annual growth rate (CAGR) of 45.22%**
- Biosimilars generated **\$3 billion world-wide** in 2017 sales
- FDA estimated the delayed market launch of nine biosimilars represented **\$4.5 billion in potential savings**

“Experience with generic drugs teaches that automatic substitution is crucial for successful generic drug entry, market acceptance, and consumer savings.” -FTC

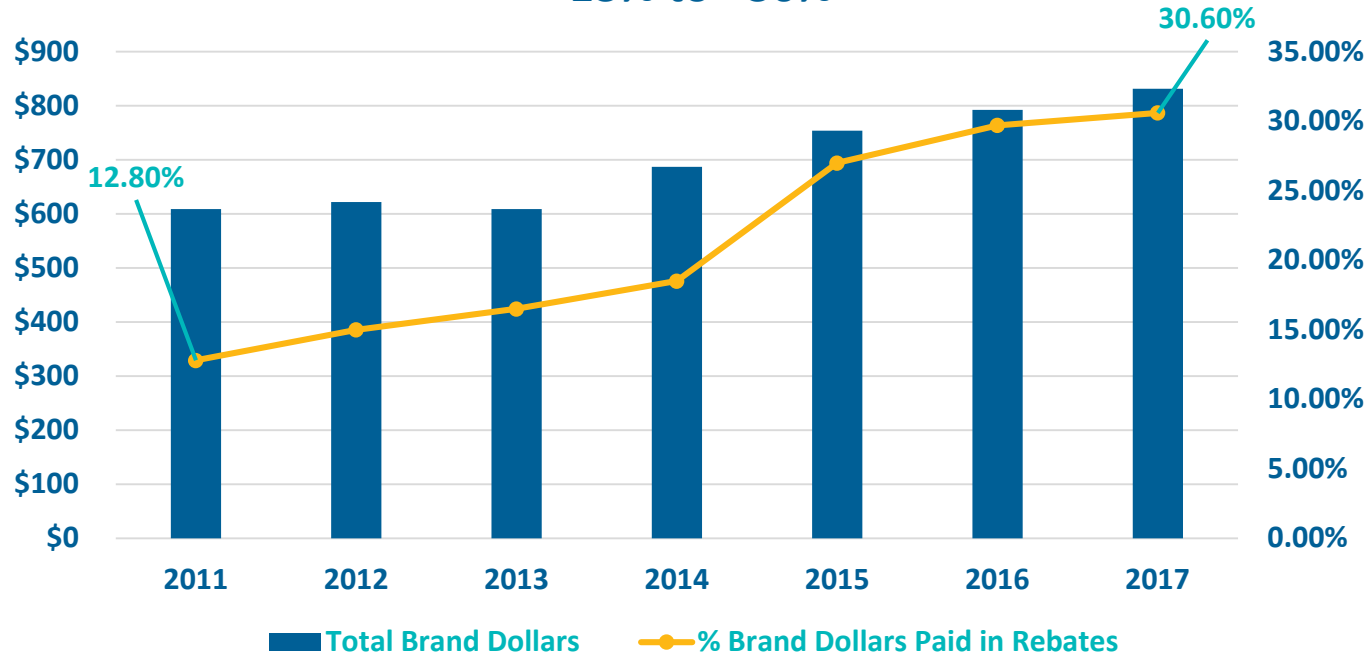
Future Biologic Product Competition (Billions)



Source: Confidio internal analysis based on 66 top selling products per IPD Analytics 2017 IMS sales data

Rebates Have Increased Significantly Over The Past 5 Years

Rebates As A % Of Brand Value Have Gone From
~13% to ~30%



Implications of Transparent (no rebate) Model PBMs

What does pharmacy benefit management look like in a world without rebates?

PBM profitability is uncoupled from list prices, driving shared savings

- Realignment of PBM incentives increases alignment with payor customers
- Uncouples supply chain from list prices, moves toward a 'fixed price' system

PBM incentives to utilize products with high rebates are dislodged

- When all rebates are passed to the payer, the PBM should be indifferent to rebates and focused on net cost
- Increasingly important given reductions in list price by Gilead and AbbVie

PBM focus on clinical measures could lead to increased pharmaceutical utilization

- PBMs may seek to increase treatment intensity to drive clinical measures for diabetes, asthma and RA

PBMs will seek to drive volume to the lowest cost, highest adherence, channel

- Express will emphasize home, OptumRx will expand home and high-performance retail networks, CVS will promote CVS Pharmacy services alongside home delivery

FUNDAMENTALS OF PBM CONTRACTING

Fundamentals of Pharmacy Contracting

Do you have a contract *specific* to your pharmacy benefit that is between you (the client) and your PBM?

Does your contract clearly list out the discounts/fees/rebates that are applied and guaranteed to **your** claims utilization?

Does your contract clearly define under what circumstances those discounts/fees/rebate guarantees are applied to **your** claims?

Does your contract clearly state what detailed information you will have access to relative to **your** claims utilization and experience?

Does **your** contract contain audit rights allowing you to validate that your carrier or PBM is compliant with their financial & operational obligations under the terms of the contract?

Mitigate Contract Risk

RISK	COMPETITIVE MARKET STANDARD
Single Source Generics priced as brands	Objective, standardized definition of brand, generic and specialty drug
Pricing guaranteed annually but capped at \$750K	Pricing guaranteed annually, dollar-for-dollar, with no cap
Guarantees reconciled in the aggregate, with cross-subsidization	Guarantees reconciled by component and by line of business
Annual, fixed percent increase in admin fees for each year of contract	Pricing improvements in subsequent years & mid-contract market check
Material number of claims excluded from pricing guarantees	Only select claims excluded from pricing guarantees
~\$1 PMPY at risk fees for PGs annually	\$5 - \$10 PMPY at risk fees for PGs annually
PBM proprietary definitions for brand, generic drugs	Independent 3 rd party definition that is easily auditable

Mitigate Contract Risk (cont.)

RISK	COMPETITIVE MARKET STANDARD
Aggregated pricing guarantees (coalition)	Guarantees should be client-specific
Clinical savings offset	Over performance in Clinical savings <u>cannot</u> offset under performance in pricing
Percent of Savings Guarantees	If unavoidable, understand every word of the reconciliation process; know the math
Rebate definitions	All, per brand, (not per rebateable brand)
Average script fee pricing	Know exactly what this pertains to and what happens if new high priced drugs are introduced
Reporting – in aggregate; detail	What data will you have access to, how often? What is not provided?
Pass-through pricing	What are my minimum guarantees?

Key Takeaways



Significant changes in the PBM industry will dramatically change how we price and contract pharmacy services



We must become students of the PBM pricing and contracting process to ensure value is continuously delivered to our clients



Client specific contracts and the ability to validate performance are fundamental



Real or perceived - every new entrant into the space will have a ripple effect on every existing player in the ecosystem

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