San Francisco Health Service System
Health Service Board

Rates & Benefits

Pharmacy Landscape and Trends Presentation

April 11, 2019

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Health Solutions

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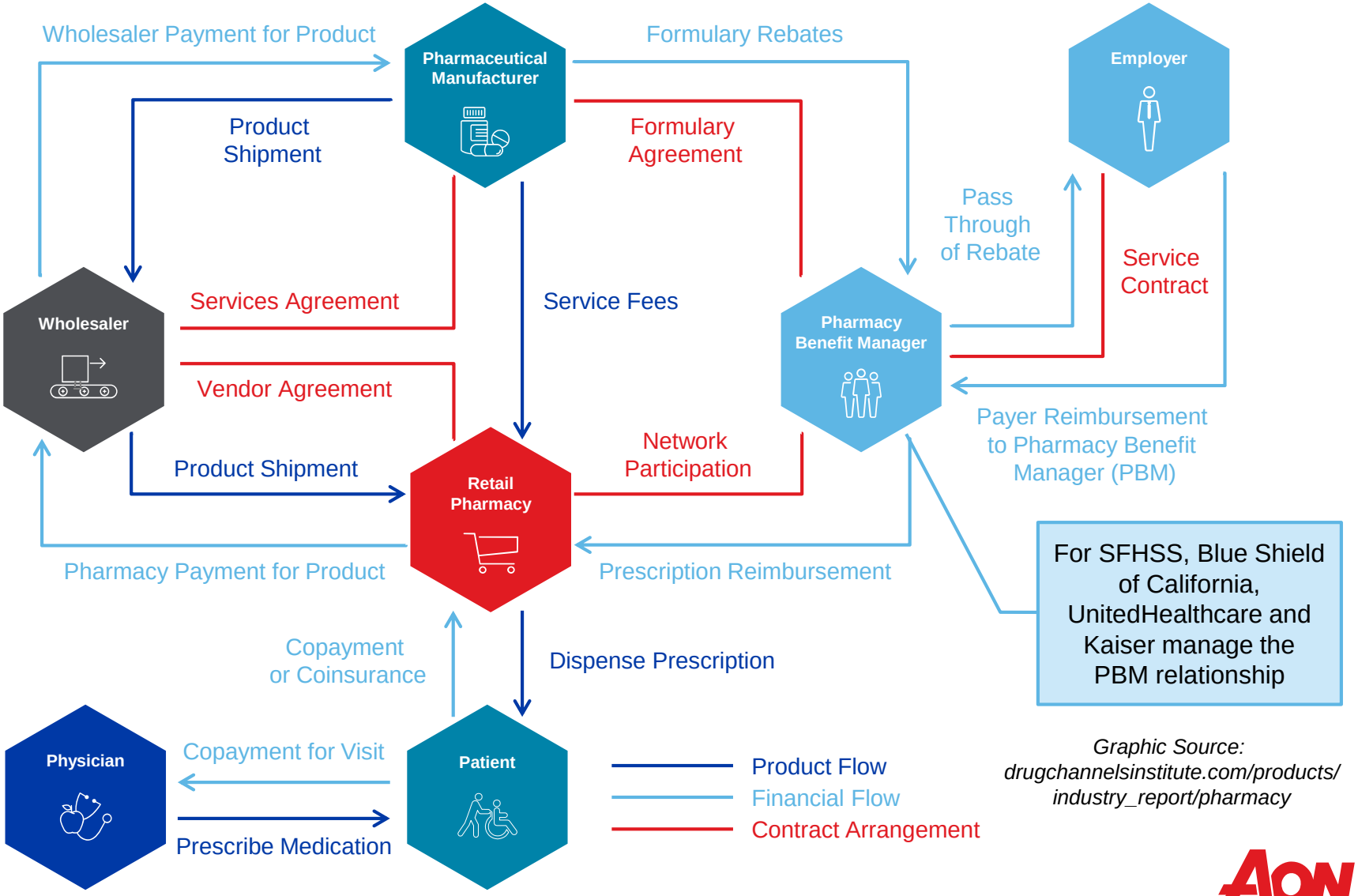
Pharmacy Landscape and Trend—Introduction

Today's presentation has two primary objectives:

1) Provide education on the current pharmacy benefit landscape and trends; and

2) Level set regarding developments in prescription drug tiering—in the next month, we will be coming forward with proposals on re-tiering within the UnitedHealthcare (UHC) City Plan and Blue Shield of California Access+ and Trio plans.

Pharmacy Benefit Manager (PBM) Flow—High Complexity!



Graphic Source: drugchannelsinstitute.com/products/industry_report/pharmacy

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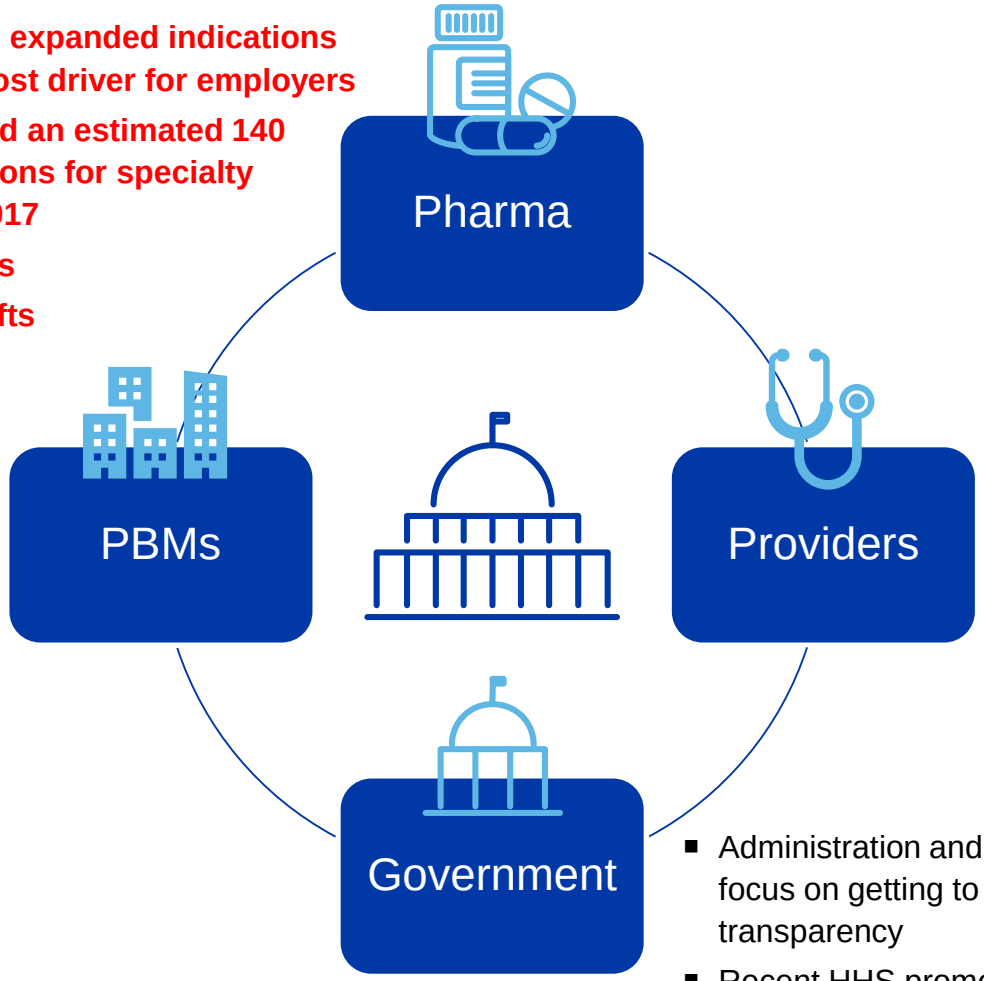
Key Prescription Drug Trends Impacting Employers

- **New specialty drugs and expanded indications continue to be the key cost driver for employers**
  - **The FDA has approved an estimated 140 supplemental indications for specialty drugs from 2015 to 2017**
- **Emergence of biosimilars**
- **Generic drug pricing shifts**



- Significant recent merger and acquisition activity, including pharmacy benefit managers (PBMs) and health plans
- Addressing new drugs launch prices by applying ICER data to create quality-adjusted life years (QALY) benchmarks
  - Used in Europe and has just been introduced in the U.S. by CVS / Caremark

- eScribing moves all of the patient's plan information, including cost savings opportunities into the hands of the prescribing physician
- Can eliminate all member impact allowing total and complete plan management
- PBMs are driving increase in eScribing

- Administration and Congressional focus on getting to pharmacy price transparency
- Recent HHS promotion of point-of-sale rebates

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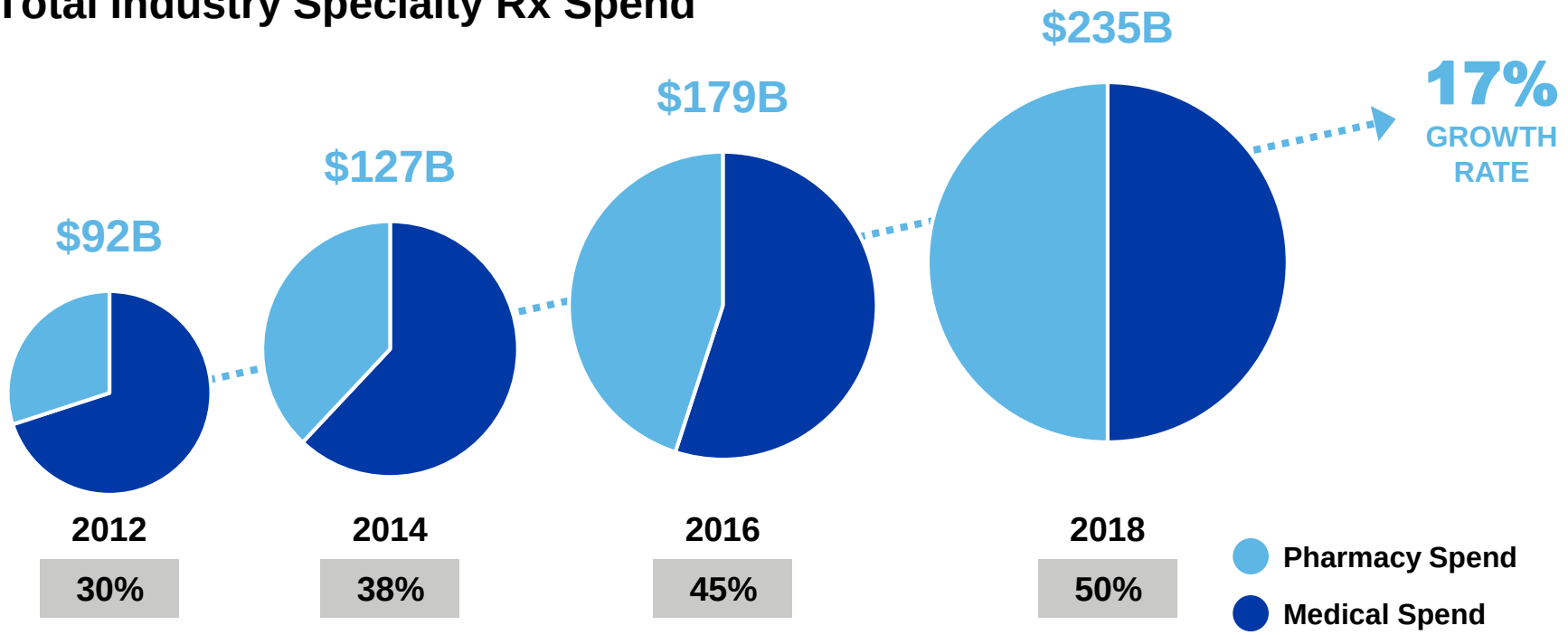
Specialty Drugs—Driving the Narrative

Total Industry Specialty Rx Spend



Specialty is growing in absolute dollars as a percent of drug spend

- **Specialty drug trend is forecasted to continue to grow at 17%**
- **In the next few years (by 2020), specialty drug spend is expected to exceed 50% of total prescription drug costs**

Source: http://georgevanantwerp.com/tag/drug-trend/

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Specialty Rx Trends—Expanding Indications (Humira)

Humira (Adalimumab), an injectable biologic used for Inflammatory conditions was originally brought to market in 2002 with the indication for Rheumatoid Arthritis.

- Since then, new diagnosis indications have been approved for Humira—which is great for patients—and this also fuels the manufacturer's revenue stream.

2002

- Rheumatoid Arthritis

2005 – 2009

- Psoriatic Arthritis
- Ankylosing Spondylitis
- Crohn's Disease
- Plaque Psoriasis
- Juvenile Idiopathic Arthritis

2012 – 2015

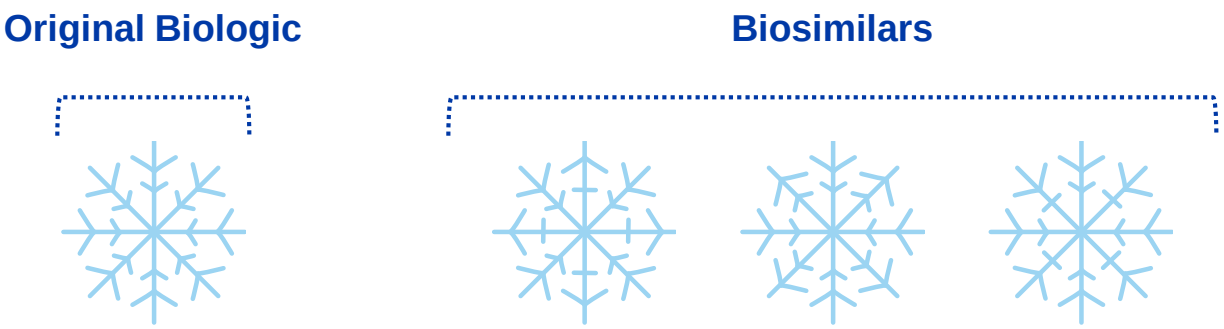
- Moderate / Severe Ulcerative Colitis in adults
- Moderate / Severe Crohn's Disease in children
- Moderate / Severe Hidradenitis Suppurativa

For all SFHSS populations: 16% increase per capita in Humira use from 2016 to 2018

The Emergence of Biosimilars (versus Original Biologics)

What Is a Biosimilar?

- A biological product that has demonstrated significant similarity to an FDA-approved product, and does not possess any meaningful differences in safety and efficacy than the reference product—typically at a lower cost (15%-30%) than the original biologic medication.
- Only 7 biosimilar medications are on the market today—an additional 10 have FDA approval but for various reasons are not yet on the market.



Similar to snowflakes, biosimilars from different manufacturers differ from their originator biologic medicines and from each other

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Prescription Drug Re-tiering Initiatives: Driven by Generic Drug Pricing Shifts

Two Circumstances Typically Cause High-Priced Generic Medications

- New, single source generics launch on the marketplace with an exclusivity period of 180 days—and with no competition for these first 180 days, the generic's price during this period tends to be only 10% to 15% less than their brands.
  - The brand drug's rebate often nets the cost of the brand lower than the price of the generic during this period.

- With older generics, the number of competing manufacturers can dwindle resulting in only one or two manufacturers continuing to produce the generic.
  - This lack of competition can result in high prices for these particular generics.

To adjust for these pharmacy manufacturer pricing practices, Pharmacy Benefit Managers (PBMs) often recommend "up-tiering" these specific generics in their prescription drug tiers

Prescription Drug Re-tiering Adjustments by PBMs

- In response to generic drug pricing shifts outlined on the prior page, many PBMs are working with plan sponsors to redefine “tiering” of their prescription drug benefits—getting away from the historical “generic/preferred brand/non-preferred brand” way of distinguishing medications.
- Instead, PBMs are moving towards “Tier 1 to 4” approaches to drug classification.

Tier	Description
1	Typically generic drugs, and some lower-cost brand drugs.
2	Typically preferred brand drugs, and some higher cost generic drugs.
3	Typically non-preferred brand drugs, and some higher cost generic drugs.
4	Specialty drugs or select drugs at certain higher price points.

Prescription Drug Re-tiering Adjustments by PBMs

- On the surface, higher priced generic medications do not impact member spend when there are fixed dollar prescription drug copayments (like in SFHSS plans)
- However, higher utilization of high-priced generic medications creates a higher level of aggregate plan cost—and ultimately higher cost increases for health plans that become reflected in future year plan rates as well as member contributions
- Thus, Aon is starting to see more employers adopt prescription drug “re-tiering” strategies, as a way to help mitigate plan cost increases for members and employers
- Communication of tiering changes are typically supported in these ways:
  - To members—proactive, targeted member communications for those on medications impacted by tiering changes.
  - To providers—use of software tools to provide cost transparency to providers at the point of prescribing.