

2018 Formulary Strategy

Targeted Management, Expanded Cost Control Options



From 2016 through 2025, health care spending is projected to grow 5.6 percent and **prescription drug spending 6.3 percent** annually — both at a rate higher than the Gross Domestic Product. Since 2012, when we first began removing certain drugs in favor of clinically appropriate, lower-cost alternatives, formulary management has been foundational to help clients mitigate the impact of rising drug costs.

That continues today. For clients aligned with our Standard Control Formulary first-quarter per-member-per-month (PMPM) cost was \$85.90 compared to \$121.12 for those with a Standard Opt-Out Formulary. Generic Dispensing Rate for Standard Control Formulary clients was 86.5 percent compared to 83.8 percent for those on Standard Opt-Out, which does not include formulary removals.* Standard Opt-Out Formulary does not include formulary removals.

Since 2012, when we introduced our industry-leading and rigorous approach to formulary management, through 2018, our formulary strategy is expected to deliver \$13.4 billion in cumulative savings to pharmacy benefit management clients, through inclusion of lower-cost brands and transition to generics. CVS Caremark is the largest pharmacy benefit manager in the country, in lives and claims, providing coverage to nearly 90 million plan members. Our range of managed commercial formularies, including Standard Control Formulary, cover more than 31 million members.

Over the years, we have introduced several other innovative strategies to help mitigate the impact of brand drugs coming to market at ever higher prices and escalating costs for existing brand drugs. The latest advance in our cost management strategies are value-based initiatives, which enable much more precise and targeted formulary management by negotiating pricing for specific drugs and conditions rather than at a therapy class level. This helps ensure that **reimbursement for a drug is aligned to the value and outcomes it delivers** rather than a static, pre-set price.

Q1 2017 Post-Rebate PMPM Cost



Note: Standard Opt-Out Formulary does not include formulary removals.

Value-based management approaches can vary depending on the therapy class and drug. Such strategies include:

✓ Indication-based pricing and rebates

✓ Outcomes-based contracting

✓ Cost cap-based contracting

Transform Value: Beyond Formulary

In addition to our current formulary management strategies, we are announcing our new Transform Value program, which is designed to offer incremental benefit based on specific outcomes and cost cap-based management in key trend categories. Outcomes-based management aligns reimbursement for a drug to it achieving a pre-defined outcome. Cost cap-based programs establish a cost threshold based on expected utilization of a drug, for instance as a per-member-per-month cap. The program will launch with:

- **Transform Oncology Value:** This program encompasses several cancer types including breast cancer and non-small cell lung cancer. For patients on a certain breast cancer drug, if a plan's average cost is above a pre-determined threshold, the manufacturer would be responsible to add value. If plan members on a certain non-small cell lung cancer drug progress to secondary therapy and key lab data has been obtained, the manufacturer would contribute additional pre-determined value.
- **Transform Obesity Value:** The manufacturer would be required to provide additional value if members do not achieve a minimum level of weight reduction within the initial assessment period. This program is only available to clients aligned with our Standard Control Formulary or Advanced Control Formulary.
- **Transform Respiratory Value:** For a certain chronic obstructive pulmonary disorder controller, if a greater percent of members escalate to triple therapy compared to those on other controllers, the manufacturer would need to provide enhanced value.

2012

Formulary removals

2015

New-to-market evaluations

2016

Specialty class review

2017

Biosimilar preference
Hyperinflation management
Indications-based formulary

2018

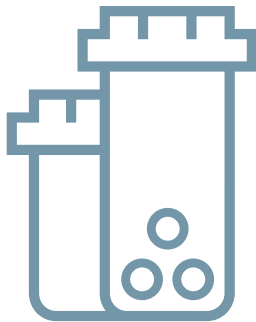
Expansion of value-based management initiatives for incremental benefit

2018 Standard Control Formulary Removals

CVS Health offers a range of formulary management options that help reduce pharmacy costs for clients and members, while ensuring clinical integrity and access. In addition to expanding our value-based initiatives, effective January 1, 2018, we expect to remove 17 products from our Standard Control Formulary in 10 drug classes.

These formulary changes will help reduce costs for clients and plan members. We remove drugs only when clinically-appropriate, lower-cost (often generic) alternatives are available. Our targeted approach ensures minimum member disruption. For 2018, we estimate 99.76 percent of members will be able to stay on their current therapy.

Our proactive member and prescriber communication strategy helps members transition to clinically-appropriate medications, minimizing disruption. Every member's journey is unique and that's why we take a personalized approach to member outreach. Our communications are informed by our data analysis and predictive modeling, which enable us to concentrate our efforts where they are most needed. Our engagement strategies are grounded in research, and we know that better engagement helps improve outcomes as well as member satisfaction.



Future Updates

The autoimmune class is a leading trend driver for commercial clients, due primarily to utilization and price. Many drugs are also obtaining a growing number of supplemental indications, making careful management of this therapeutic class critical to helping payors manage the financial impact. In addition, consistent with our policy, as a new specialty product launches all existing products in the class will be re-evaluated to determine appropriate formulary placement and potentially removed or added to formulary. New entrants are expected in the hepatitis C class.

We are in the process of finalizing changes for autoimmune and hepatitis C categories, which will be communicated mid-September.

Prescription drugs accounted for \$323 billion in spending last year.¹ In an era of increasing utilization, an aging population, and a trend of ever-growing brand drug prices, we are focused on developing solutions that help our clients control costs and stay ahead of market trends.

List of Removals and Updates

Below are the therapy classes with drug removals and updates for the 2018 Standard Control Formulary. We are in the process of finalizing changes for both these classes, which will be communicated mid-September. For 2018, we estimate that 99.76 percent of members will be able to stay on their current therapy.

| Class | Products |
|---|--|
| Antiandrogens | Xtandi ^P |
| Anticholinergics | Incruse Ellipta ^P |
| Dermatology Tetracycline | Doryx/Doryx MPC, Monodox |
| Erectile Dysfunction | Levitra ^{NP} |
| Fertility | Follistim |
| Gaucher's | Elelyso |
| Incretin Mimetics | Tanzeum |
| Migraine Injectable | Sumavel Dosepro |
| Multi-Source Brands | Benicar/Benicar HCT, Effexor XR, Nuvigil, Seroquel XR, Zetia |
| Multiple Sclerosis Agents | Avonex ^{NP} , Plegridy ^{NP} |
| Ophthalmic Allergies | Lastacaft ^P |
| Ophthalmic Prostaglandins | Lumigan ^P |
| Ophthalmic Steroids | FML ^{*P} , Pred Mild ^P |
| Opioid Dependence | Zubsolv ^P |
| PAH Endothelin Receptor Antagonists | Opsumit ^P |
| Post-Herpetic Neuralgia | Horizant |
| Sodium-Glucose Co-transporter 2 (SGLT2) Inhibitors and Combination Products | Jardiance, Synjardy/Synjardy XR, Invokana ^P , Invokamet/Invokamet XR ^P |
| Steroid Beta Agonists Combos | Dulera, Symbicort ^P |
| Transmucosal IR Fentanyl | Abstral ^{NP} |
| Testosterone Replacements | Androgel 1.62% ^P |
| Urinary Antispasmodics | Gelnique ^{NP} |
| Viscosupplements | Hyalgan, Synvisc/Synvisc One |

* FML Forte and FML S.O.P. will be preferred. FML Ophthalmic Suspension will be non-preferred. NP: Non Preferred drug being added back. P: Preferred drug being added back

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*CVS Health Enterprise Analytics, 2017. Trend data based on a CVS Health commercial PBM client - employer and health plan - cohort. Data not age-adjusted. Savings and trend will vary based on a variety of factors, including demographics, plan design and programs adopted by the client. Client-specific modeling available upon request.

1. QuintilesIMS Institute Study: U.S. Drug Spending Growth of 4.8 Percent in 2016: <https://www.quintilesims.com/press-releases/quintilesims-institute-study-us-drug-spending-growth-of-48-percent-in-2016>.

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