The Outlook for Pharmacy Benefit Management: Evolution or Disruption?

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March 5, 2018
The Big Three Dominated Again in 2017

PBM Market Share, by Total Equivalent Prescription Claims Managed, 2017

- CVS Health (Caremark)
- Express Scripts
- OptumRx (UnitedHealth)
- Humana Pharmacy Solutions
- Medimpact Healthcare Systems
- Prime Therapeutics
- Aetna
- All Other PBMs + Cash Pay

1. Excludes claims processed by Aetna. For 2017, CVS Health changed its publicly reported computation of equivalent prescription claims filled in network pharmacies.
2. Figure excludes cash pay prescriptions that use a discount card processed by one of the 7 PBMs shown on the chart.

Source: Drug Channels Institute research and estimates. Total equivalent prescription claims includes claims at a PBM's network pharmacies plus prescriptions filled by a PBM's mail and specialty pharmacies. Includes discount card claims. Note that figures may not be comparable with those of previous reports due to changes in publicly reported figures of equivalent prescription claims. Total may not sum due to rounding.

Drug Channel Economic Megatrends

Near Peak Generic Dispensing Rates

Specialty Boom Arrives

Government Crowds Out Private Payers
Drug spending slows

**NET DRUG TREND, COMMERCIAL PAYERS, 2014 TO 2017**

Source: Drug Channels Institute analysis of Express Scripts Drug Trend Report, various years. Includes the effect of rebates.
The Mysterious World of PBM Profits

- Mail Pharmacy
- Specialty Pharmacy
- Rebates and Fees
- Retail Network Spread
- “Other”
The Evolving Pharmacy Market

**Change in 30-day Equivalent Prescriptions Dispensed and Revenues, by Pharmacy Format, 2012 vs. 2017**

- **Retail community pharmacies**
  - Change in 30-day equivalent prescriptions: 16%
  - Change in prescription revenues: 28%

- **Mail pharmacies**
  - Change in prescription revenues: 86%
  - Change in prescription revenues: -33%

1. Includes estimated TRICARE prescriptions.
Payers and PBMs have narrowed networks...

- **Open Distribution**
- **Limited Dispensing Networks**
- **Pharmacy Benefit Networks**
...and now dominate specialty dispensing

**SHARE OF SPECIALTY DRUG DISPENSING REVENUES, BY COMPANY, 2017**

<table>
<thead>
<tr>
<th>Company</th>
<th>Share of Specialty Drug Dispensing Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>CVS Health</td>
<td>PBM / health plan</td>
</tr>
<tr>
<td>Express Scripts</td>
<td></td>
</tr>
<tr>
<td>Walgreens/Prime</td>
<td></td>
</tr>
<tr>
<td>OptumRx (UNH)</td>
<td></td>
</tr>
<tr>
<td>Prime Therapeutics</td>
<td></td>
</tr>
<tr>
<td>Humana</td>
<td></td>
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<tr>
<td>Cigna</td>
<td></td>
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<tr>
<td>Diplomat</td>
<td></td>
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<tr>
<td>Avella</td>
<td></td>
</tr>
<tr>
<td>BioPLus</td>
<td></td>
</tr>
<tr>
<td>SenderraRx</td>
<td></td>
</tr>
<tr>
<td>PANTHERRx</td>
<td></td>
</tr>
<tr>
<td>Walmart</td>
<td></td>
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<tr>
<td>Kroger</td>
<td></td>
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<tr>
<td>AmerisourceBergen</td>
<td></td>
</tr>
<tr>
<td>McKesson</td>
<td></td>
</tr>
<tr>
<td>Everyone else</td>
<td></td>
</tr>
</tbody>
</table>

Managing vs. Dispensing Specialty Drugs

**Specialty Drug Trend, Commercial Payers, 2017**

- **Express Scripts**
  - Change in utilization: 11.3%
  - Change in unit cost: 3.2%
- **Prime Therapeutics**
  - Change in utilization: 13.0%
  - Change in unit cost: 2.7%

The Great Rebate Debate: Who Benefits?

**Pharmaceutical Manufacturers' Off-Invoice Discounts, Rebates, and Price Concessions, 2007-2016**


See New Data Show the Gross-to-Net Rebate Bubble Growing Even Bigger, Drug Channels, June 2017.
Employers Extract More Rebate Dollars from PBMs

SHARE OF EMPLOYERS RECEIVING 100% OF REBATES, TRADITIONAL VS. SPECIALTY DRUGS, 2014 TO 2017

Traditional drugs

Specialty drugs

Source: Drug Channels Institute analysis of PBMI reports, various years. Where appropriate, data were recomputed to exclude those who were not sure if their company receives rebates. See Employers Are Extracting More of Their Rebate Dollars from PBMs, Drug Channels, January 2018.
Warped incentives?

“Part D sponsors may have weak incentives, and, in some cases even, no incentive, to lower prices at the point of sale or to choose lower net cost alternatives to high cost-highly rebated drugs when available.”

Centers for Medicare & Medicaid Services, November 2017

“The system encourages manufacturers to set artificially high list prices, which are reduced via manufacturers’ rebates but leave uninsured individuals facing high drug prices”

The Council of Economic Advisers, February 2018

See Will CMS Pop the Gross-to-Net Bubble in Medicare Part D With Point-of-Sale Rebates?, Drug Channels, November 2017
Express Scripts: Good news or bad news?

The value of our work is clear and undeniable

**Discounted Drugs**

Despite raising list prices, big pharma has been unable to boost revenue, thanks to steep discounts and flat prescriptions. **Eli Lilly’s diabetes drug Humalog has lost most of its pricing power:**

Source: Bloomberg

Warped incentives?

**Employers’ Use of Formulary Rebates, 2017**

<table>
<thead>
<tr>
<th>Purpose</th>
<th>% of Employers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce plan spend on drug costs</td>
<td>68%</td>
</tr>
<tr>
<td>Combination of plan and member savings</td>
<td>15%</td>
</tr>
<tr>
<td>Offset member premiums</td>
<td>11%</td>
</tr>
<tr>
<td>Reduce member out-of-pocket costs at point of sale</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
</tr>
</tbody>
</table>

OOP Rx Costs in HDHP: Low for most, High for a few

Source: Drug Channels Institute analysis of Express Scripts data. Totals may not sum due to rounding. Data include only commercially-insured beneficiaries with high-deductible health plans. Computation of out-of-pocket costs excludes the effect of manufacturer copayment support and patient assistance programs. OOP = out of pocket

Trust Issues for PBMs

Plan Sponsors’ Satisfaction With their PBMs, By Degree of Transparency, 2016

<table>
<thead>
<tr>
<th>Transparency Level</th>
<th>Satisfaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all transparent</td>
<td>5.8</td>
</tr>
<tr>
<td>Somewhat transparent</td>
<td>7.4</td>
</tr>
<tr>
<td>Completely transparent</td>
<td>8.7</td>
</tr>
</tbody>
</table>

* Plan sponsors’ satisfaction was measured on a scale of 1 to 10, where 1 equaled “highly dissatisfied” and 10 equaled “highly satisfied.”
See Plan Sponsors Like More Transparent PBMs—Yet Not All Choose Transparency, Drug Channels, December 2016.

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Pharmacy Owners vs. PBMs

Source: National Community Pharmacists Association
The Payer-Aligned Medical-Pharmacy Future

See the following Drug Channels articles:
- Why CVS Health and Express Scripts Sold—and McKesson Bought—a Specialty Hub Business
- Why the Walgreens/Prime Deal Could Transform the PBM Industry
- The CVS-Aetna Deal: Five Industry and Drug Channel Implications

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Implications and Outlook

- Plan sponsors will seek even greater pass-through of rebates, admin fees, and other PBM profit sources
- PBMs will seek compensation that supports specialty dispensing profits
- PBMs, pharmacies, wholesalers, health plans, and providers will battle for control of the specialty market, patient journey, and medical spending
- PBMs will face more political and legal scrutiny over their impact on “drug prices” and consumers’ out-of-pocket spending
- The reality of the U.S. pharmacy supply chain will create deep confusion for regulators, legislators, patients, and plan sponsors
- Amazon may (or may not) change everything
General Resources

Free industry updates from the Drug Channels blog ([www.DrugChannels.net](http://www.DrugChannels.net))

Daily tweets about cool and intriguing stuff

The 2017-18 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors

Adam J. Fein, Ph.D.
Pembroke Consulting, Inc., and Drug Channels Institute

October 2017

[http://drugch.nl/wholesale](http://drugch.nl/wholesale)

The 2018 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers

Adam J. Fein, Ph.D.
Drug Channels Institute

February 2018

[http://drugch.nl/pharmacy](http://drugch.nl/pharmacy)