



Solid Benefit Guidance
ARTHUR J. GALLAGHER & CO.

Pharmacy Benefit Management Discussion

October 25, 2017

Presented by: Seth Friedman, National Pharmacy Practice Leader

Proprietary and Confidential



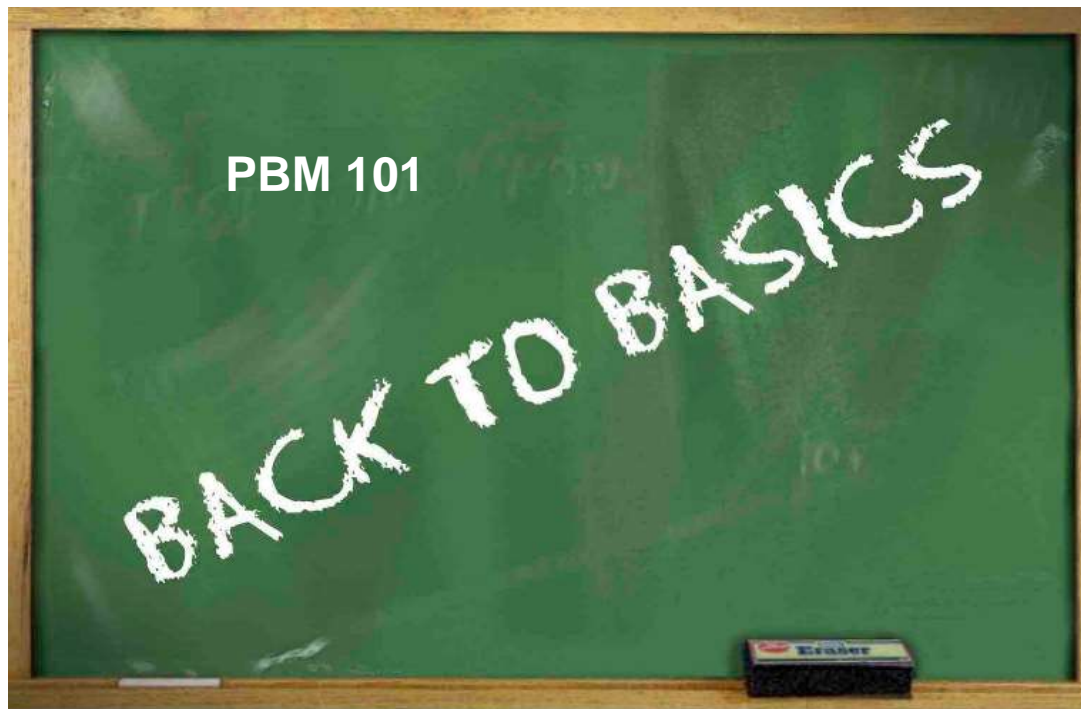


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AWP

- The “Average Wholesale Price”
- Is a **list price**, not what is paid (similar to a car MSRP)
- First DataBank and Medi-Span were the two primary suppliers of this information
- Ongoing Litigation with First Databank has now forced FDB to stop publishing
- PBMs/MCOs typically offer a discount off of AWP (“AWP – 15%”)



MAC

- MAC stands for “the Maximum Allowable Cost”
- Represents the **maximum cost per unit of medication** (tablet, capsule, etc.) that a plan will pay for that product
- Primarily used to set pricing for similar generic products
- While Medicaid’s old Federal Upper Limit is often credited with being one of the earliest and most well known MAC lists, it is no longer the industry standard.



Is a PBM
allowed to
have more
than one
MAC?



U&C

- U&C stands for the “Usual and Customary” price
- **Very different** from the Medical term “U&C”
- U&C represents the price a pharmacy would sell a product to an individual consumer that did not have a prescription insurance card.
- Commonly referred to as the “**cash price**” for the prescription
- Each **individual pharmacy** sets it’s own U&C price
- Costco and Sam’s Club represent pharmacy chains that still offer deep U&C pricing discounts
- As network rates have gotten deeper, U&C has recently had less impact



GDR

- GDR is the “generic dispensing rate”
- Also known as **GFR (Generic Fill Rate)**
- The generic dispensing rate is calculated by taking the total number of generic prescriptions divided by the total number of all prescriptions

- Example:

42 Brand Rx

58 Generic Rx

100 Total Rx

$58/100 = 58\%$ Generic Dispensing Rate



GSR

- GSR is the generic substitution rate (measures the plan's effectiveness of moving to a generic, when possible)
- Measures **effectiveness in switching to a generic product** when a brand prescription is written for a product that has a generic available
- Brand drugs that have a generic available in the market are commonly referred to as "Multi-Source Brand Products"
- The GSR is calculated by taking the number of generic products and dividing by the combined total of generic products plus multisource brands
- Example: $45 \text{ Generics} / (45 \text{ Generics} + 5 \text{ Multisource Brands}) = 90\%$
- Most plans will average well over 90% in terms of GSR



What are Brand Drugs?

- Compounds **discovered** by Brand pharmaceutical manufacturers
- **Marketing Names** are given to chemical compounds
- Brand Drugs are typically **very expensive** due the time and money needed to research product and get it approved by the FDA
- Only a **fraction of the cost** is actually attributable to the manufacturing of the product



What's the average undiscounted cost of a 30 day brand drug?



What are Generic Drugs?

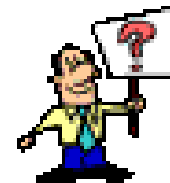
- Manufactured when the **patent expires** on the Brand drug
- Per the FDA website, the FDA requires that:
“A generic drug is identical, or bioequivalent to a brand name drug in dosage form, safety, strength, route of administration, quality, performance characteristics and intended use.”
- First to file gets a **six month exclusivity period (Single Source Generic)**
- Trademark laws prohibit the generic from **looking exactly like** the brand product.



Brand Zocor



Generic
simvastatin



What percent
of drugs
dispensed
are generics?
How much do
they cost?



Why are Generic Drugs so Inexpensive?

- **No substantial funding** of drug discovery
- Increased **competition**
- Do not bear the burden of **proving safety**
- Residual benefits of **marketing from Brand companies**
- Generic companies will sometimes strike deals with Brand Companies to have them **manufacture the product for them**
- Some popular Brand Name Drugs that are now generic
- Some argue generics are safer, as they have been market tested!



Brand Name	Generic Name (Equivalent to the Brand)
Zocor	simvastatin
Prozac	fluoxetine
Norvasc	amlodipine
Zoloft	sertraline
Prilosec	omeprazole



What are Specialty Products (Drugs)?



- Very **high cost** medicines
- Used to treat **complex** diseases
- Rheumatoid Arthritis, Hemophilia, MS and Hepatitis C are examples
- Historically billed through **medical** and given in doctors office
- PBM is **building capabilities** in this area
- Sometimes require special handling (refrigeration)
- Commonly, Specialty products are thought of as “Biotech” or “Injectible” products
 - **Biotech** –Drugs are result of companies genetically altering micro-organisms
 - **Injectibles** –Injected into the bloodstream directly
- Limited Distribution arrangements are starting to grow in popularity
- Orphan Drugs



Common Specialty Drugs

Drug	Class	Average Cost Per Rx
Enbrel	Rheumatoid Arthritis	\$4,500
Copaxone	Multiple Sclerosis	\$4,000
Avonex	Multiple Sclerosis	\$3,600
Humira	Rheumatoid Arthritis	\$5,000
Cellcept	Transplant	\$1,300
Xolair	Asthma	\$4,000
Betaseron	Multiple Sclerosis	\$4,000
Gleevec	Cancer	\$9,400



What are “Therapeutic Alternatives?”

- Occurs when **multiple drugs** are available to treat the **same condition**
- Typically are **just as safe and effective**, and **save the plan money**

	Description	Example
Brand to Generic Alternative	A generic drug is available to treat the same condition as a more expensive brand name product (i.e. this is not the same product, but is in the therapeutic class to treat the same condition)	Generic oxybutinin xl is given to a patient instead of Brand Name Detrol LA to treat overactive bladder
Brand To Brand Alternative	A plan switches a member from a non-formulary product to a formulary product within the same formulary category	Brand Name Cozaar is substituted for Brand Name Benicar as a more cost effective product for the treatment of high blood pressure



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Drug Development





So How Does it Begin?

- Scientists looking for compounds to test with **“targets”**
- “Targets” are part of our molecular makeup that **hold the key** to disease states
- “Targets” are **typically proteins** that make up our DNA
- Goal: **“Inhibit or Stimulate”** the target
- Process is called **“HTS – High Throughput Screening”**
- **Key is** to see how **selective** a compound is in modifying a target (i.e. impacts the target, and not other proteins)
- **Genomics** (understanding the DNA sequencing of organisms) are the future





**Drug Development is a slow process, with low success rates.....
.... but huge rewards.**



Odds of...

- **Audited by the IRS: 1 in 100**
- **Dying in a car accident: 1 in 113**
- **Being born with 11 fingers and toes: 1 in 500**
- **Being diagnosed with cancer: 1 in 2 for men and 1 in 3 for women**

A potential compound from the drug discovery process actually becomes a marketable FDA approved product:

4000:1



About the FDA and Labeling



- Formed in 1906, current budget of **\$2.1B**
- Fees collected from pharma... **conflict of interest?**
- FDA will **review and approve** product and monitor product post launch
- Acts as **watchdog** of product marketing
- FDA becoming much more **conservative**
- Key to FDA approval is the **labeling (listing of uses and warnings)**
- **Black Box** warns of drugs with potentially serious side effects
- Pharmaceutical companies push to be assigned to a **new therapeutic category**



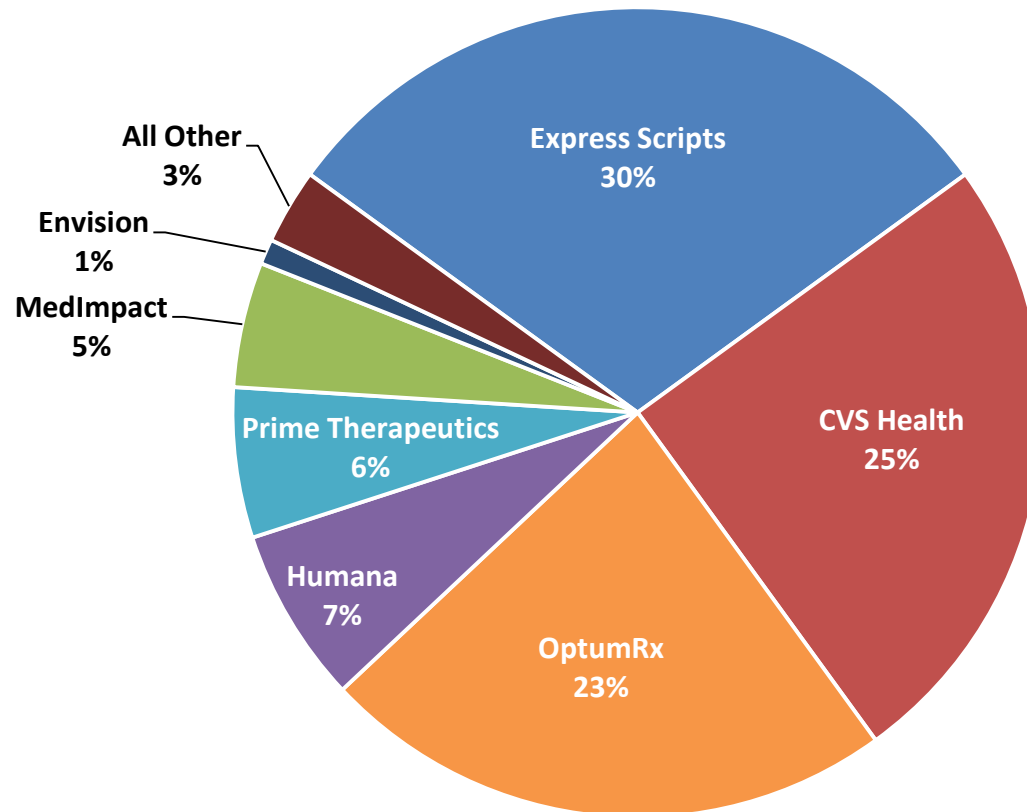
- Sales “Armies”: 35k in 1995, **100k** today
- Stat: 1 US Doctor for every 1,000 citizens, **but 1 Drug Rep for every 3 Doctors**
- **Tier 2 Formulary Access** critical component of launch
- Formulary Access involves providing **rebates** to managed care organizations
- **DTC (Direct to Consumer) Advertising** heavily utilized, but with much scrutiny



How many
countries
allow DTC
advertising
for RX?



Estimated PBM Market Share, 2016





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The Flow of Money

WAL*MART



ExxonMobil

CVS Health



UnitedHealth Group

COSTCO WHOLESALE



at&t

MCKESSON

verizon



amazon



CardinalHealth



Walgreens

BERKSHIRE HATHAWAY INC.



FannieMae.



EXPRESS SCRIPTS*

AmerisourceBergen*



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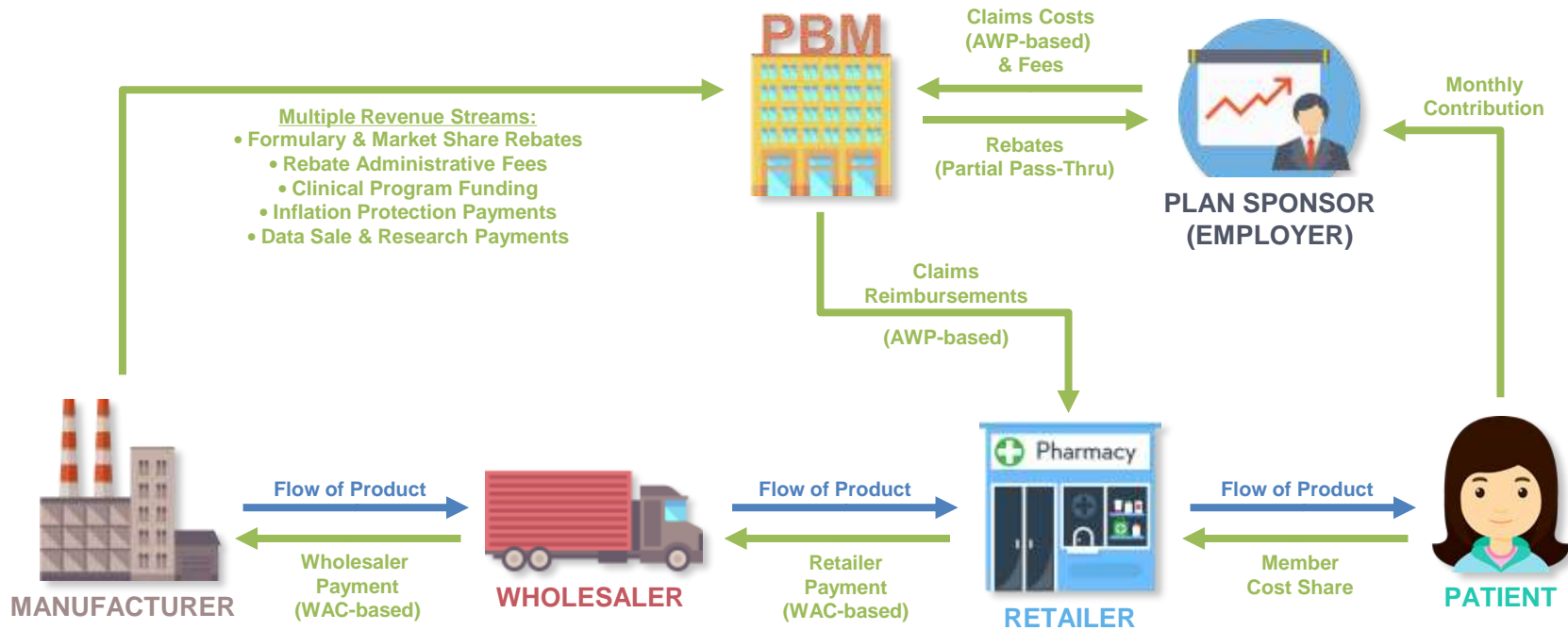


- Infographic is reflective of typical monetary flow for an oral, single-source, branded product under a usual and customary (cash price) arrangement.
- Flow of money may vary considerably based on type of drug (i.e. generic, specialty) and unique prescription characteristics (i.e. mail order, 340B).



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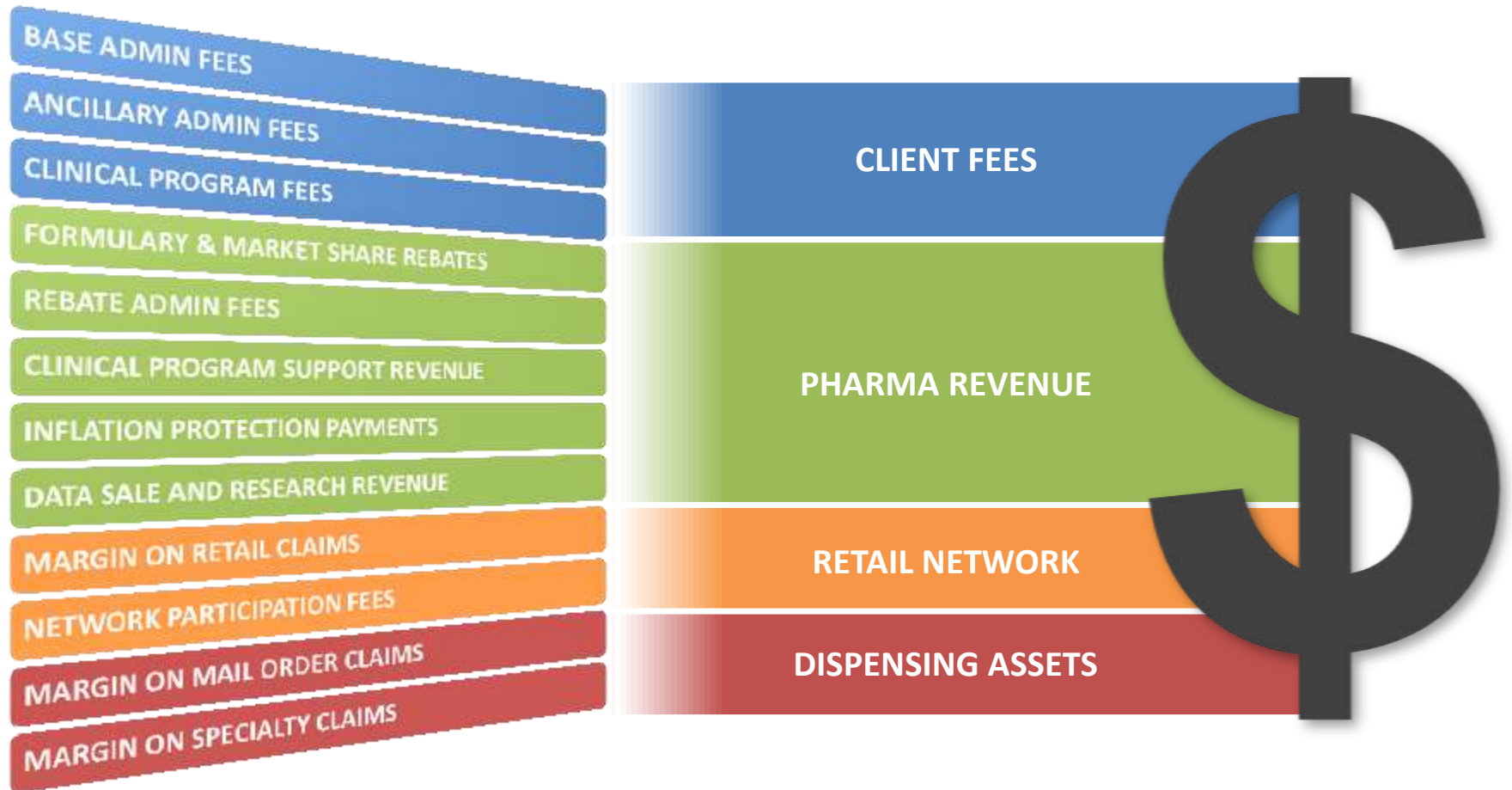
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- WAC = Wholesale Acquisition Cost (determined by Manufacturer).
- AWP = Average Wholesale Price (multiplier of WAC).
- Infographic is reflective of typical monetary flow for an oral, single-source, branded product under a traditional PBM deal with partial pass-through of rebate revenue.
- Flow of money may vary considerably based on type of drug (i.e. generic, specialty) and unique prescription characteristics (i.e. mail order, 340B).



PBMs: A Diversified Revenue Model





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What We Are Thinking About





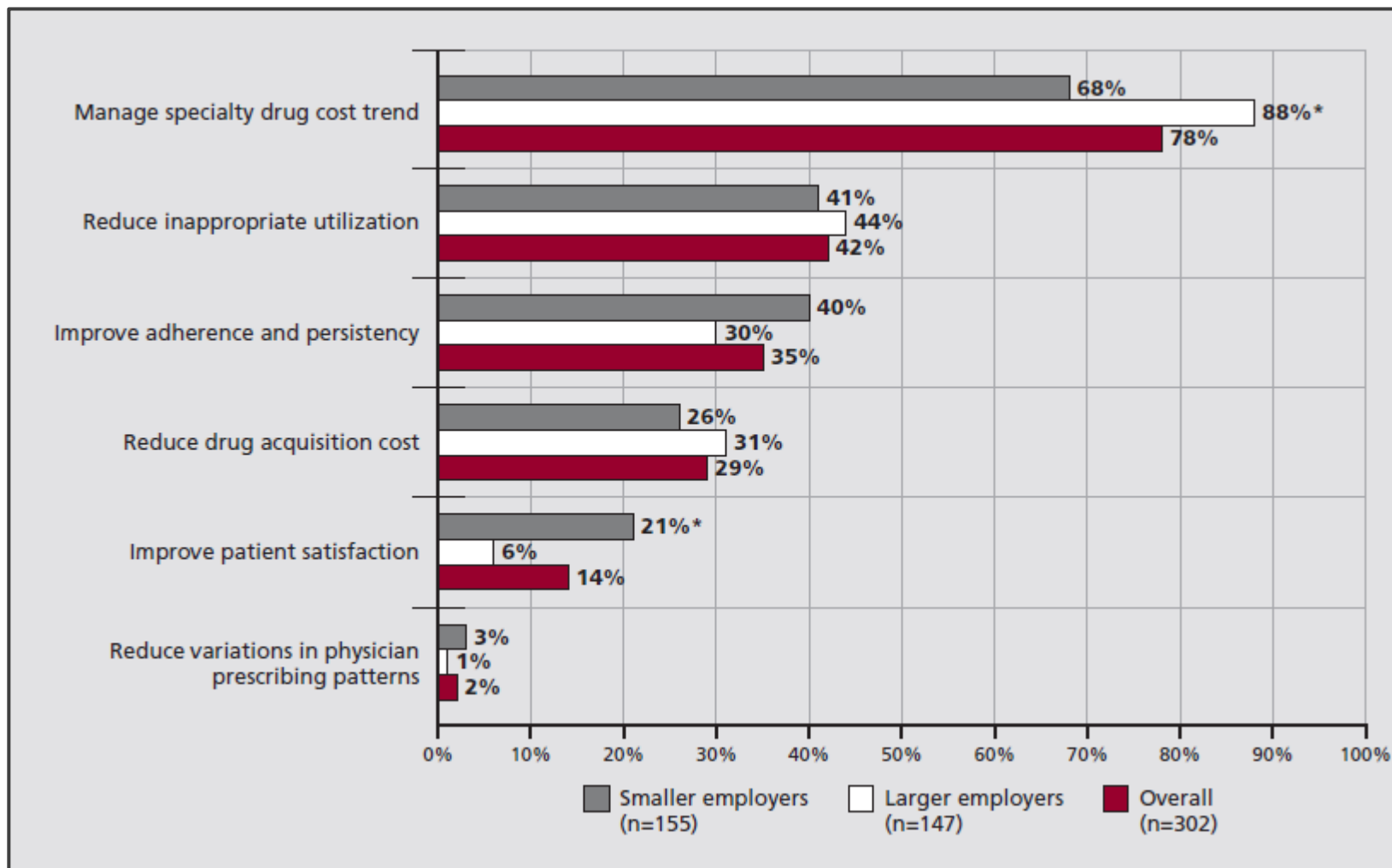
**Common
Themes for
Plan Sponsors
Managing a
Pharmacy
Benefit
in 2016**





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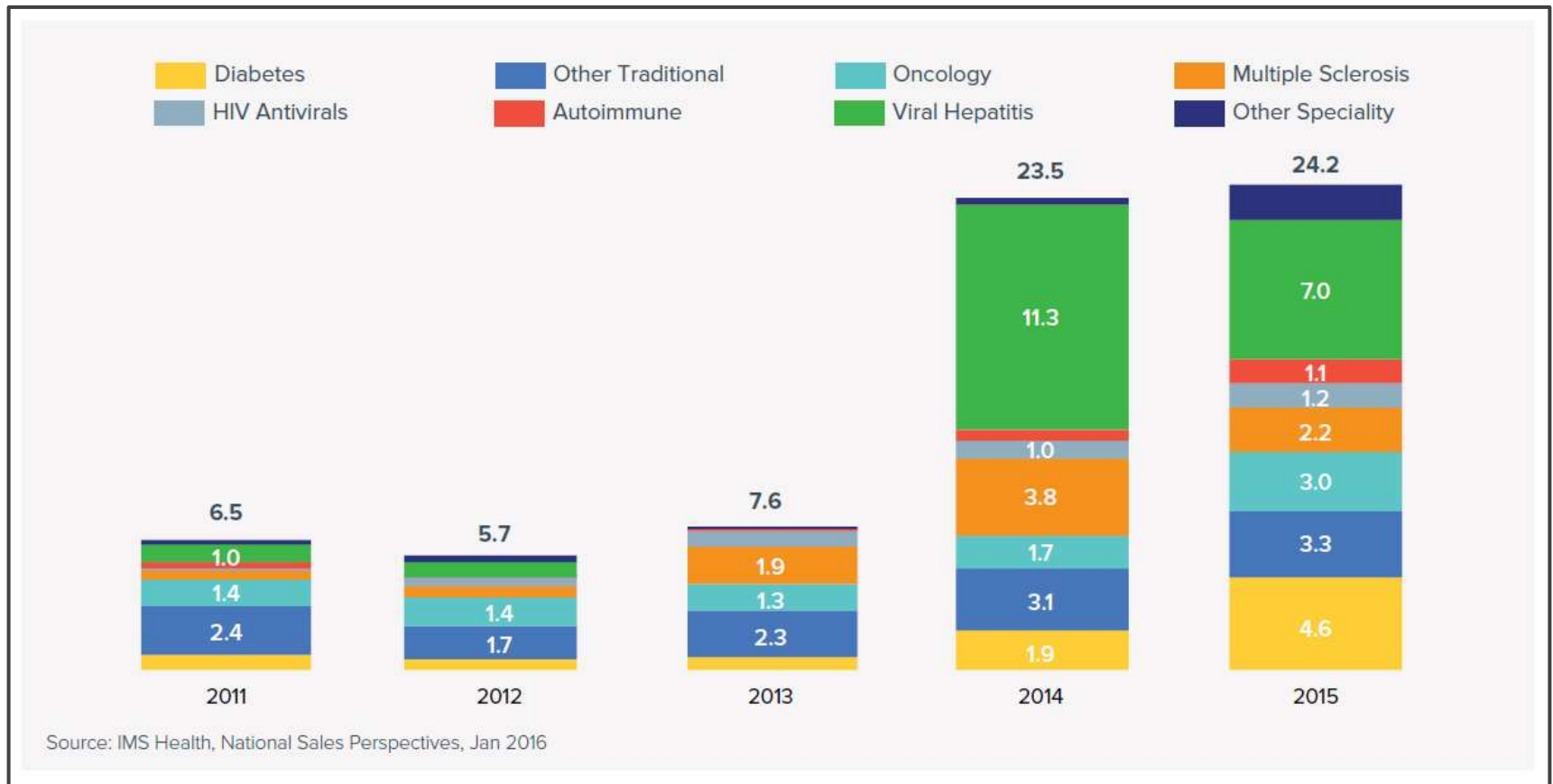
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SOURCE: 2015-2016 PBMI Prescription Drug Benefit Cost and Plan Design Report



New Brand Drug Spend Growth, By Drug Class In US \$Billion





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CHANTIX[®]
(varenicline) TABLETS

Quit Smoking Now!

CVS/pharmacy | Walmart Pharmacy | Rite Aid Pharmacy | Smart Pharmacy | TeleGreen

Rx CHANTIX[®] Coupon
Drug Coupon

Member ID: Enter Year and Time
Serial Number: 010709
Retailer: FDCUSCTAM

Pharmacy Instructions:
Use the processing information on the coupon to process prescriptions and for an Rx card. If you have any questions, please call the helpline below. THIS IS NOT INSURANCE.

Customer Service: 877-321-6755
Pharmacy Helpline: 800-223-2146

FREE DRUG CARD.US



**ABILIFY
COUPON**

Pharmacy Instructions:

Submit as a primary claim (cannot be processed as secondary) using the pharmacy processing information. For processing questions and comments please call the Pharmacy Helpline below.

THIS IS NOT INSURANCE

Processing Info:

Member ID: 3333549F54

RxBIN: 610709

RxGRP: RXCPNMN

Customer Service: 877-321-6755
Pharmacy Helpline: 800-223-2146



VIGAMOX

Rx Pharmacy Coupon

Coupon ID Number: 3333542H47

RxBIN: 610709

RxGroup: FDCUSC2

PATIENT INSTRUCTIONS: This coupon is pre be used immediately. Present this card/coupon pharmacy to receive a discount on prescription

PHARMACIST INSTRUCTIONS: Submit as (cannot be processed as secondary) using the processing information. For processing questi please call the Pharmacy Helpline below.





- There were 75 drugs that had copay cards on 2009. By 2015, there were **700 drugs**.
- An estimated **80% of specialty drug products** currently have copay card programs available for them.
- Copay cards were used in **10% of all prescriptions** in 2015, and this figure is increasing.
- One study suggests there will be **\$32B in additional health care costs** generated by copay cards over the next decade.



Types of Funding

Type of Funding	Copay Card Programs	Patient Assistance Programs (PAPs)
Needs-Based?	Not needs-based, available to all patients (no income or financial hardship criteria).	Typically needs-based (i.e. income criteria, evidence may be required).
Target Market	Targeted at commercially-insured patients. Cannot be used for government-funded programs (Medicare, Medicaid).	Targeted at uninsured, underinsured, or those with financial hardship. Can typically be used for commercial or government-funded plans.
Source of Funding	Funding comes directly from pharmaceutical companies.	May be funded directly by pharmaceutical company foundations, or indirectly by independent foundations.



Total Annual Assistance Value of Specialty Drug Copay Cards (Examples)

DRUG	CLASS	TOTAL ANNUAL ASSISTANCE	PLAN MEMBER COST PER FILL
Adempas	PAH	\$20,000	\$0
Exjade	Iron Overload	\$20,000	\$0
Harvoni	Hepatitis C	\$23,625	≤ \$5
Sprycel	Oncology	\$36,000	\$0
Tasigna	Oncology	\$32,000	\$0

Exhibit is courtesy of CVS Health

Copay Card Programs are offered for an estimated
80% of specialty drugs and **50%** of traditional drugs.



In 2014, 10 of the top 15 charitable foundations in the country were pharmaceutical company PAPs.

Largest Foundations in the U.S. by Total Giving, 2014

Rank	Foundation	Total giving	PAP
1	Bill & Melinda Gates Foundation	\$3,439,671,894	
2	Silicon Valley Community Foundation	\$956,834,000	
3	The Abbvie Patient Assistance Foundation	\$853,356,401	✓
4	The Bristol-Myers Squibb Patient Assistance Foundation	\$811,433,684	✓
5	Johnson & Johnson Patient Assistance Foundation, Inc.	\$711,632,110	✓
6	Merck Patient Assistance Program, Inc.	\$686,800,564	✓
7	Genentech Access To Care Foundation	\$680,278,040	✓
8	Pfizer Patient Assistance Foundation, Inc.	\$668,050,404	✓
9	GlaxoSmithCline Patient Access Programs Foundation	\$625,427,284	✓
10	The Atlantic Philanthropies	\$521,711,000	
11	Ford Foundation	\$518,380,000	
12	Lilly Cares Foundation, Inc.	\$503,299,479	✓
13	Sanofi Foundation for North America	\$485,359,572	✓
14	Novartis Patient Assistance Foundation, Inc.	\$456,825,176	✓
15	The Susan Thompson Buffet Foundation	\$416,440,853	

“Under current law, corporations can deduct charitable contributions of up to 10% of their income... Companies rarely approach this limit, except in one industry — large pharmaceutical companies consistently take the maximum deduction and often exceed it.”

Frerick, Austin. “The Cloak of Social Responsibility: Pharmaceutical Corporate Charity.” Tax Notes 153, no. 9 (2016): 1151–64.

Source: “Fiscal Totals of the 50 Largest Foundations in the U.S. by Total Giving, 2014,” The Foundation Center, <http://data.foundationcenter.org/#foundations/all/nationwide/top.giving/list/2014>.



But are they good...?

1. DTC funding subverts plan design strategy

- Encourages use of less cost-effective therapies through copay manipulation.
- When a generic drug is available, coupons can increase brand drug utilization by more than 60%.*
- Eliminates financial barriers to off-label or inappropriate usage.

2. DTC funding distorts plan accumulator outcomes

- Processes as a member cost share from the PBM's perspective.
- Accumulates to deductibles and OOP maximums, despite the member not incurring OOP costs.

3. DTC Funding contributes to drug cost inflation

- Pharma must recoup costs of offering copay cards and PAPs through increases to AWP.
- Pharma is less inclined to offer rebate/discount incentives to PBMs for preferred tier placement.

* Dafny L, Ody C, Schmitt M. When discounts raise costs: the effect of copay coupons on generic utilization. NBER Working Paper No. 22745. National Bureau of Economic Research. http://www.hbs.edu/faculty/Publication%20Files/DafnyOdySchmitt_CopayCoupons_32601e45-849b-4280-9992-2c3e03bc8cc4.pdf



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We know Optum Rx is not perfect but....

- Wespath has a very strong financial and contractual terms with Optum
- Optum has been a very flexible partner to work with
- Significant dollars being spent on point-of-care technology so your doctor is prepared before you go to the pharmacy
- Optum is a very stable PBM, unlike some of the others
- Optum continues to strive for service improvements by leveraging Net Promotor Score culture
- High level auditing results prove that Optum is providing strong results



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Thank you!

