



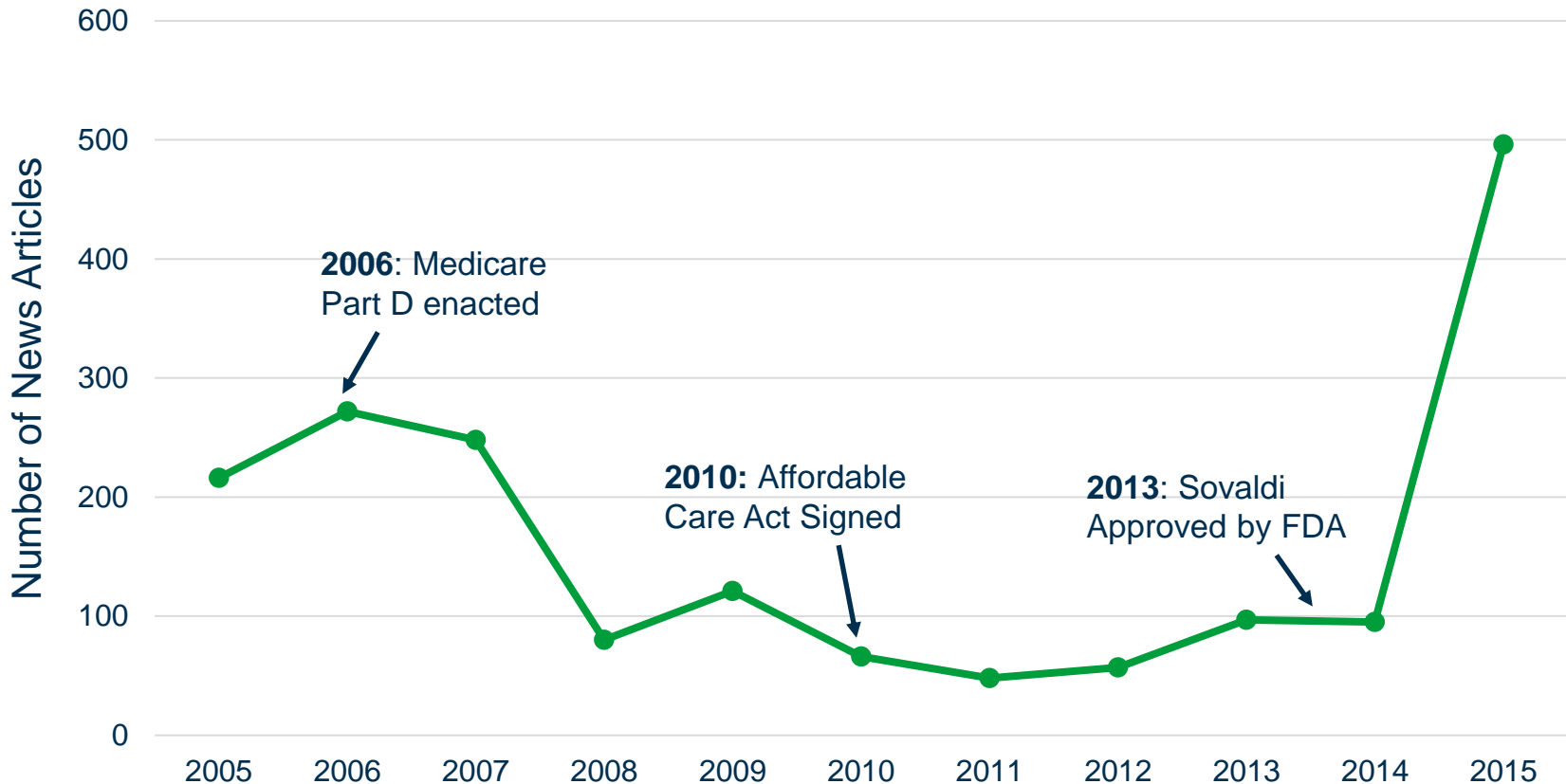
Pharmaceuticals: Can or Should We Do Anything About Rising Drug Costs?

Caroline F. Pearson

Avalere Health | An Inovalon Company
April 2015

Public Focus on Drug Prices Increased Dramatically in 2016

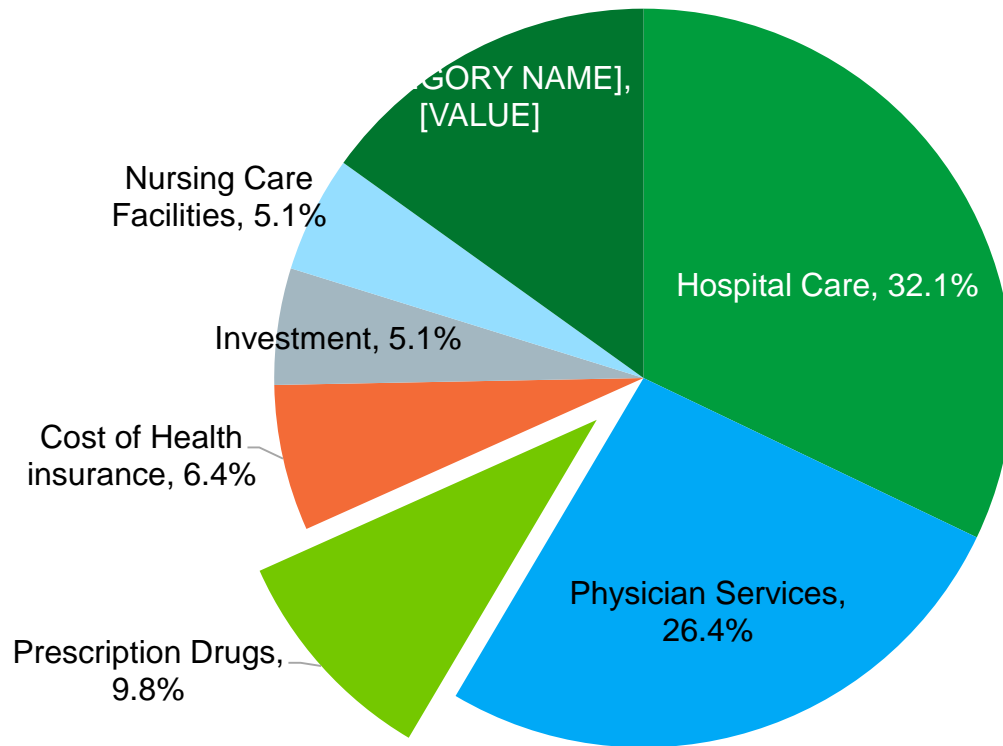
MEDIA COVERAGE OF DRUG PRICES OVER LAST 10 YEARS



To conduct our review of media coverage over the last 10 years, we used the paid news archive service Factiva.com. Review includes print (newspaper), online (online newspapers and blogs), and broadcast* (affiliate and cable) and excludes paid subscription-based trades, press releases, duplicate news stories (e.g., wire pickups or reruns on broadcast news).

Drug Costs Remain a Modest Share of Overall Health Spending

EXPENDITURES BY SERVICE, AS PERCENT OF NHE, 2014



When accounting for non-retail prescription drug spending, medicines constitute just over 13% of NHE and are projected to remain stable

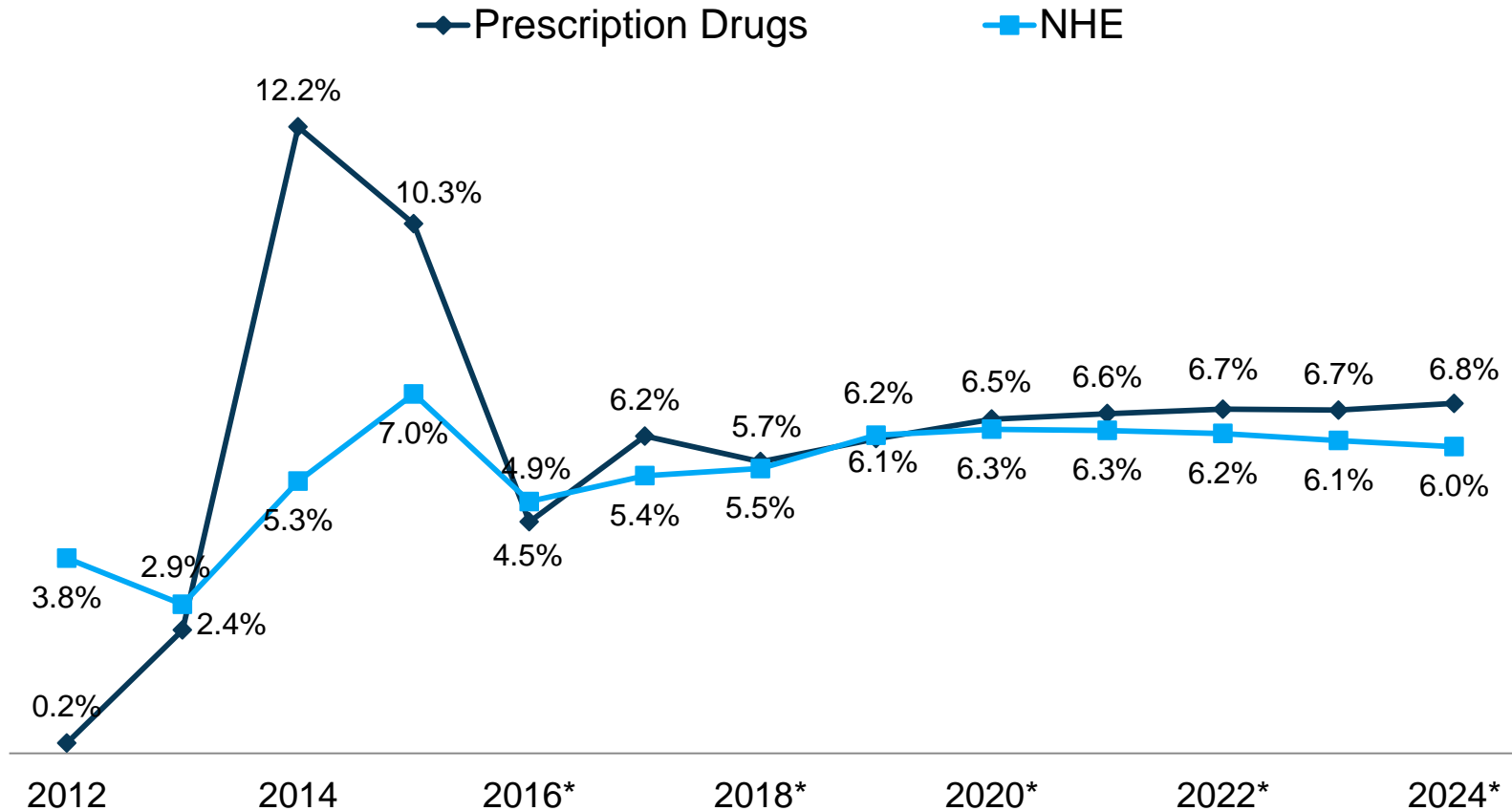
2014 Spending = \$3.031 trillion

1. Centers for Medicare & Medicaid Services. "National Health Expenditure Historical Data." December 2015. Available at: <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsHistorical.html>



Prescription Drug Spending Grew Substantially in 2014 Due to Introduction of New Treatments

ANNUAL PERCENT INCREASE IN SPENDING ON PRESCRIPTION DRUGS VS OVERALL NHE



1 NHE = National Health Expenditure

2 *Projected. The projections begin after the latest historical year (2014) and go through 2024

3 Centers for Medicare & Medicaid Services. National Health Expenditures by Type of Service and Source of Funds: Calendar Years 1960-2014, and NHE Projections 2014-2024. Available at: <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/index.html>

Rapid Growth in Specialty Drugs Is Drawing Attention

**Payer-
Reported
Specialty
Drug Trend**

20-25%

annual per capita growth in spend for payers and PBMs^{1,2}

**Spending
Drivers for
the Future**

40%

of drugs under development are
considered specialty³

60%

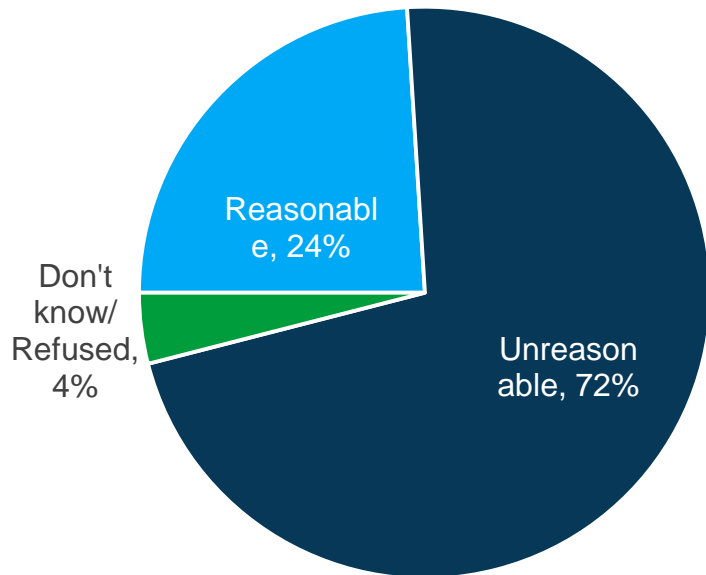
of new drugs expected to be
approved in the near-term are
specialty⁴

Plans must increasingly consider the pharmaceutical pipeline when they set rates—particularly in low-margin programs like Medicaid.

1. Ha T. Tu, Divya R. Samuel. Center for Studying Health System Change, April 2012. 2. CVS Caremark, 2013. 3. Milliman, 2012
4. Ian Spatz, Nancy McGee, Troyen A. Brennan, et al., Health Policy Brief, November 2013.
2 PBM: Pharmacy Benefit Manager

Public Concern with Drug Prices Drives Interest of Political Candidates and Public Figures

In general, do you think the cost of prescription drugs is reasonable or unreasonable?



What items should be a top healthcare priority for the President and Congress?

Top Healthcare Priorities for the President and Congress	Total	Democrats	Republicans
Make sure high-cost drugs for chronic conditions (HIV, hepatitis, mental illness cancer) are affordable	77%	85%	73%
Government action to lower prescription drug prices	63%	74%	56%
Making sure health plans have sufficient provider networks	58%	63%	55%
Repeal the entire health care law	37%	28%	58%

ACA: Affordable Care Act

1 Kaiser Family Foundation Health Tracking Poll: August 2015 (conducted August 6-11, 2015).

2 Kaiser Family Foundation Health Tracking Poll: October 2015 (conducted October 14-20, 2015).

Stakeholders Have Outlined a Range of Proposals Addressing Drug Prices and Spending

Transparency

- Require manufacturers to disclose drug-specific R&D costs, sales and marketing budgets, cost of production, and profit

Medicare Price Controls

- Permit government price negotiations in Part D
- Extend Medicaid rebate to Part D low-income subsidy (LIS)

Value-based Payments

- Create value frameworks to assess relative product benefit
- Tie contracts and/or Medicaid rebates to product value

R&D Spending Minimums

- Require manufacturers to invest a minimum percentage of revenue on R&D

Drug Importation

- Permit importation of drugs from Canada or other countries

Promote Competition

- Antitrust waiver to allow PBMs to collectively negotiate rebates
- Modify FDA policies to accelerate second-to-market drugs

Reduce Exclusivity

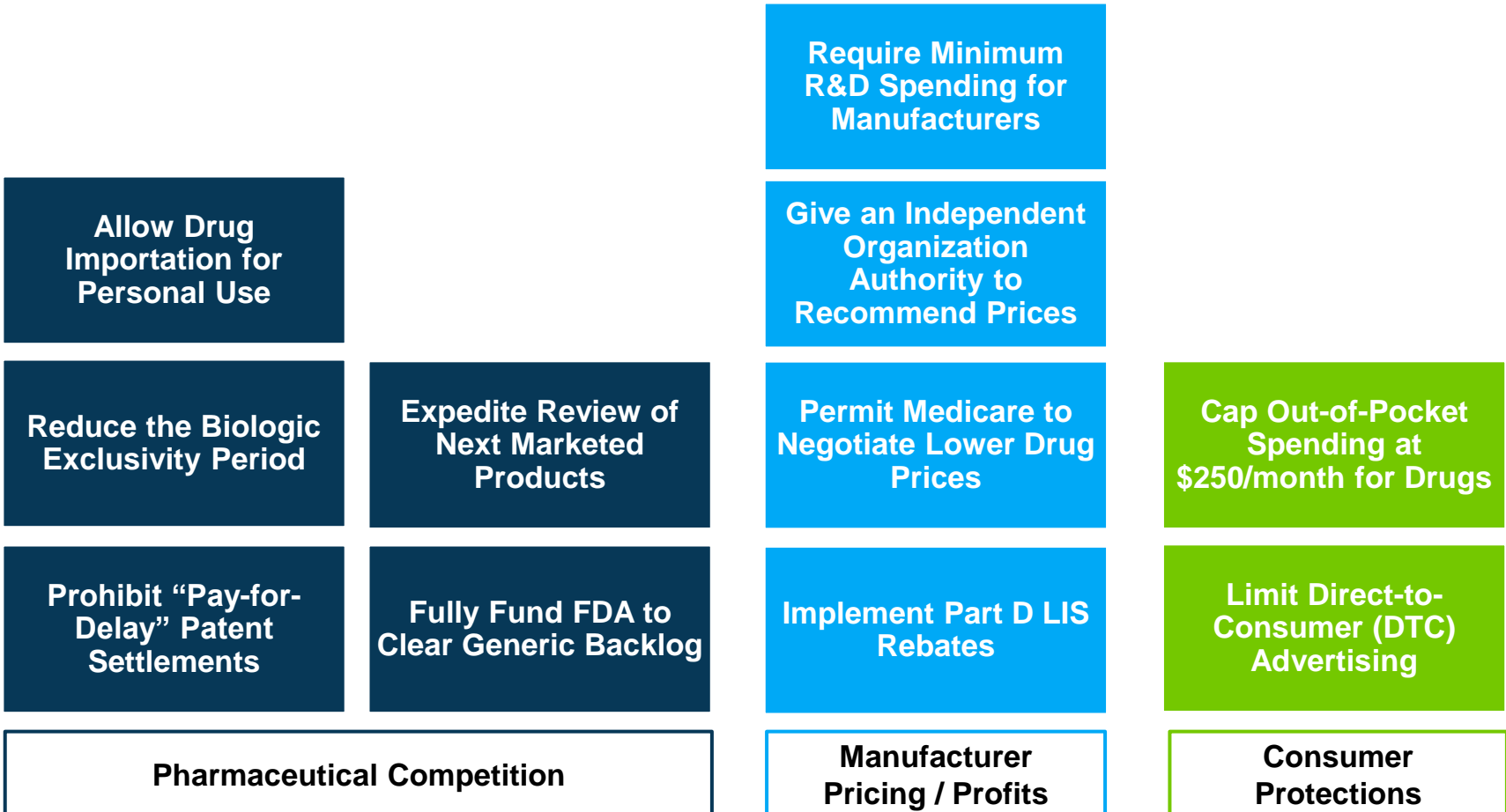
- Reduce biologic exclusivity from 12 to 7 years
- Prohibit “Pay-for-Delay” patent settlements

Limit Consumer OOP Costs

- Cap cost-sharing for drugs in commercial and exchange plans



Secretary Clinton Offered a Detailed Proposal Focused on Drug Pricing



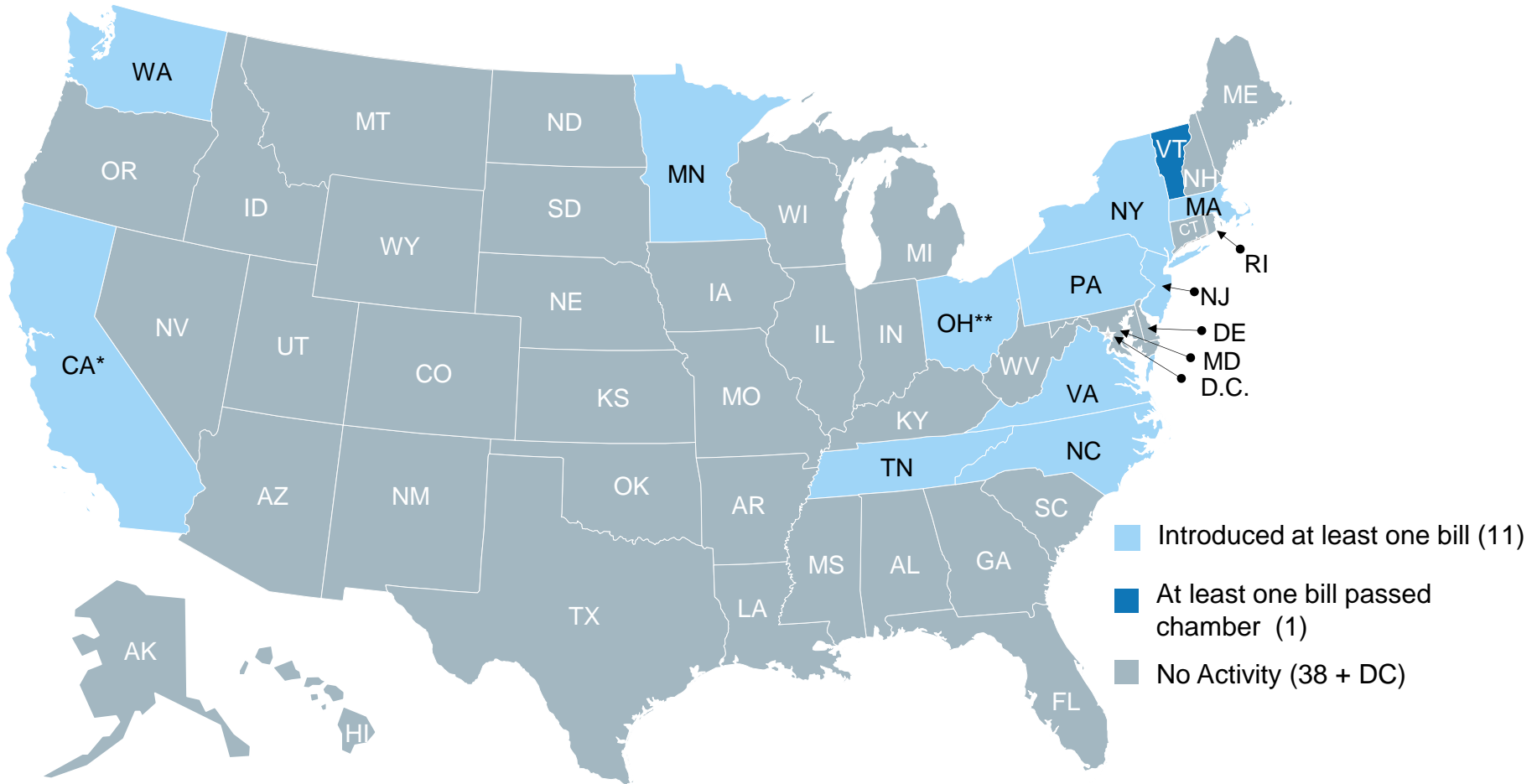
Source: Hillary Clinton's Plan for Lowering Prescription Drug Costs.

<https://www.hillaryclinton.com/briefing/factsheets/2015/09/21/hillary-clinton-plan-for-lowering-prescription-drug-costs/>



Twelve States Have Initiated Legislation To Increase Drug Pricing Transparency and Address High Drug Costs

STATE DRUG PRICING INITIATIVES



*CA has a ballot initiative awaiting public balloting in November 2016.

**OH has a ballot initiative awaiting legislative approval before being placed on public ballot.

Note: Map only includes active legislation and ballot initiatives at the time of publication.

Source: Avalere State Reform 360, May 16, 2016.

Alignment Between Pharma and Plans Will Exist for Some Policies and Not Others

