Prescription Medicines: Costs in Context and Pragmatic Solutions
U.S. Health Care System Faces Significant Challenges

- Aging population
- Increased cost sharing for patients
- Access restrictions, narrow networks
- Rising insurance premiums
- Greater prevalence of chronic diseases
- Suboptimal health outcomes
Medicines are Transforming the Treatment OF DEVASTATING DISEASES

HEPATITIS C
The leading cause of liver transplants and the reason liver cancer is on the rise – is now curable in more than 90 percent of treated patients.*

CANCER
New therapies have contributed to a 23% decline in the cancer death rate since its peak in 1991. Today, 2 out of 3 people diagnosed with cancer survive at least 5 years.**

HIGH CHOLESTEROL
America’s biopharmaceutical companies are currently developing 190 medicines to treat heart disease, stroke and other cardiovascular diseases. New PCSK9 inhibitors have revolutionized high cholesterol treatment. Between 1991 and 2011, the death rate from heart disease dropped 46%.***

*Source: U.S. Food and Drug Administration.  
**Source: American Cancer Society.  
***Source: Pharmaceutical Research and Manufacturers of America (PhRMA) and the Association of Black Cardiologists (ABC), "Medicines in Development for Heart Disease and Stroke," December 2015.
Prescription Medicine Spending Growth: 2008-2025*

After growing 12.2% in 2014, government actuaries project prescription drug spending growth to moderate over the next few years to 6-8% through 2025, in line with overall health spending.

2014 saw a record 41 medicines approved by the FDA – including a number of transformative medicines for debilitating diseases – as well as 15.7 million Americans gaining coverage through the ACA.

*Total retail sales including brand medicines and generics

Source: Centers for Medicare & Medicaid Services (CMS)¹
Multiple Data Sources Confirm

DRAMATIC SLOWDOWN IN PRESCRIPTION MEDICINE SPENDING GROWTH

Accounting for discounts and rebates, net spending growth rates in 2016 dipped to between 2% and 4%

- IMS reported that the 2016 net prescription medicine spending growth rate was between 2% to 3%
- CVS Health reported that net prescription medicine spending for its clients grew by 3.6% in the first half of 2016
- Altarum Institute reported that the 2016 prescription medicine spending growth rate of 4.0% was lower than the growth rates for physician and hospital spending
- Express Scripts reported that net prescription medicine spending growth for its clients was 3.8% in 2016
- CMS reported that spending growth for prescription medicines fell by nearly a third between 2014 and 2015, from 12.4% to 9.0%
Medicines Account for a Stable Share of Health Care Spending

Health Care Expenditures Attributable to Retail and Non-Retail Prescription Drugs, 2008-2024

Source: Altarum Institute, "A Ten Year Projection of the Prescription Drug Share of National Health Expenditures Including Non-Retail," August 2015.
Similar exposure in coming years to the $105Bn loss in 2009-13 (the “patent cliff”) underscores continuing cost containment in the pharmaceutical sector.

Pre-expiry Value of Small Molecule Products at Risk (in Billions), 2011-2020

2011-2015: $101 Billion

2016-2020: $93 Billion

Notes: Pre-expiry sales of products are calculated for products losing exclusivity (LOE) in each year, the sales in the prior year for each product are aggregated to represent the collective industry exposure to LOE. Loss of exclusivity does not indicate generic market entry. Small molecule losses of exclusivity only.

Source: IMS Institute for Healthcare Informatics, "Global Medicines Use in 2020: Outlook and Implications."
Medical Procedures Become More Expensive Over Time, BUT COST CONTAINMENT IS BUILT INTO THE MEDICINE LIFE CYCLE

Percutaneous Coronary Angioplasty (PTCA)

- 2005: $47,962
- 2013: $79,391

Atorvastatin 10mg

- 2005: $2.13
- 2013: $0.18
- 2014: $0.15

Source: Average hospital charges for Atorvastatin 10mg data adapted from HCUP Hospital Charge database 2005 and 2013. IMS National Sales Perspective (NSP) Invoice Price in 2005 (branded Lipitor), 2013 (generic) and 2014 (generic).
The “Blank Check” Myth Payers Have Significant Leverage to Negotiate Rebates and Discounts

Insurers and PBMs determine:

- **FORMULARY**: if a medicine is covered
- **TIER PLACEMENT**: patient cost sharing
- **ACCESSIBILITY**: utilization management through prior authorization or fail first
- **PROVIDER INCENTIVES**: preferred treatment guidelines and pathways

PBM Market Share, by Total Equivalent Prescriptions

- **Top 3 Market Share: 70%**

- **30%**
- **24%**
- **24%**
- **22%**

*NOTE: OptumRx and Catamaran merged in 2015. Their 2014 shares are shown combined.*
GROWTH IN OTHER HEALTH CARE SERVICES WILL BE FIVE TIMES

Total Medicine Spending Growth Through Next Decade

Projected Annual Growth in Spending ($ Billions)

**Source: PhRMA analysis of Altarum Institute, “A Ten Year Projection of the Prescription Drug Share of National Health Expenditures Including Non-Retail,” August 2015.
According to PBMs, Medicine Prices and Spending Growth Are Declining

**Brand Drug Prices**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>LIST</th>
<th>NET</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>10.7%</td>
<td>2.5%</td>
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</table>

Express Scripts experienced only a 2.5% increase in unit costs across all prescription medications—nearly 22% lower than 2015, and more than 60% lower than the increase in prices, net of rebates.

**Spending Growth**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>12-13%</td>
<td>5%</td>
<td>3-4%</td>
</tr>
</tbody>
</table>

Express Scripts, CVS Health, and OptumRx all report spending growth of 3-4% in 2016.

Government data show medicines had the largest decline in spending growth of all healthcare categories between 2015 and 2016.
Public List Prices Don’t Reflect What Insurers Actually Pay

Source: IMS Institute for Healthcare Informatics, National Sales Perspectives, March 2016.
Trends in List Price Mask Impact of Growing Discounts

1/3 of brand medicine list prices rebated back to payers, government or retained by supply chain

Rebates, discounts and fees are increasing for brand medicines

- 2013: $67 B
- 2014: $84.6B
- 2015: $106.4B

Legend:
- Brand Companies
- Market Access Rebates and Discounts
- Statutory Rebates and Fees
- Supply Chain Entities
New Reality of Insurance Coverage of Medicines

**Increased use of deductibles**
In 2015, 46% of commercial health plans required a deductible for prescription drugs, double the number in 2012.

**Cost-sharing outpacing underlying medical costs**
From 2004-2014, enrollee payments increased 256% for deductibles and 107% for coinsurance. At the same time, insurer costs increased only 58%.

**Incentivized prescribing**
Health plans increasingly incentivize providers to follow set treatment pathways.

**Increase use of fail first and prior authorization requirements**
Utilization management more than doubled in employer plans from 2014 to 2016.
Policies to Advance a Value Driven Health Care System

- Value Based Contracting
- Modernize Drug Development and Discovery
- Engage and Empower Consumers
- Address Market Distortions
- Better Quality Measurement and Value Assessment Tools
- Appropriate Use of Medicines