Drug Costs: The Health Plan Perspective

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About AHIP

America’s Health Insurance Plans (AHIP) is the national association whose members provide insurance coverage for health care and related services to millions of Americans every day. Through these offerings, we improve and protect the health and financial security of consumers, families, businesses, communities and the nation. We are committed to market-based solutions and public-private partnerships that improve affordability, value, access and well-being for consumers.

Accident & Health Business Markets represented by AHIP in the United States:

- Major Medical
- Medicaid
- Medicare Advantage
- Medicare Supplemental Insurance (Medigap)
- Supplemental Health
- Long-Term Care
- Disability Income Insurance
- Dental
- Vision
Where Does Your Premium Dollar Go?

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prescription Drugs</td>
<td>22.1¢</td>
</tr>
<tr>
<td>Physician Services</td>
<td>22.0¢</td>
</tr>
<tr>
<td>Outpatient Services</td>
<td>19.8¢</td>
</tr>
<tr>
<td>Inpatient Services</td>
<td>15.8¢</td>
</tr>
<tr>
<td>Operating Costs</td>
<td>17.8¢</td>
</tr>
<tr>
<td>Net Margin</td>
<td>2.7¢</td>
</tr>
</tbody>
</table>

80% Medical Expenses

18% Operating Costs

3% Net Margin

Note: Values exceed 100% due to rounding.

Source: Data sources and methodology are referenced in more detail at http://www.ahip.org/health-care-dollar.

1. Prescription drug costs include outpatient, physician- and self-administered medications – but not those administered in inpatient settings.
2. Medical expenses as identified in this research differs from Medical Loss Ratio as defined by the Affordable Care Act.
3. Operating costs include consumer-centric activities such as communicating with members, running customer service operations, quality reviews, and data analysis, among other activities.
High Price Drugs

• PhRMA $100 million public affairs campaign: “Go Boldly” (Innovation) and “Share the Savings” (Aimed at health plans and PBMs)

• Public is outraged by drug prices

• Public debate on drug prices and access to drugs continues

• Opportunities to incorporate Rx drug policies and solutions (transparency, competition, value) into legislation (i.e. “UFA” bills)
The growth rate in health care prices increased during 2016 from 1.4% in Q1 to 2.1% in Q4.

- Prescription drug prices exhibited the highest growth and the greatest acceleration, increasing from 3.3% growth in Q1 to 6.4% growth in Q4.
- Hospital prices grew slowly, but with some acceleration during the year.
- Physician prices showed almost no growth in 2016.

Growth in Prices for Hospitals, Physicians, and Prescription Drugs: 2016

Source: Altarum Center for Sustainable Health Spending. Growth rates are relative to the same quarter of the previous year.
AHIP’s report, “High-Priced Drugs: Estimates of Annual Per-Patient Expenditures for 150 Specialty Medications,” is available online:
Recent reports have projected drug spending in the United States to grow to $560 billion – $590 billion by 2020, up from $337 billion in 2015.

Much of this growth will be fueled by the growing number of high-priced, specialty drugs coming to the market – an estimated 225 new specialty drugs over the next five years.

While specialty drugs account for less than 2 percent of all prescriptions, they make up roughly 30 percent of spending on all prescription drugs.

Almost half (47.8 percent) of the specialty drugs included in this analysis cost more than $100,000 per patient per year.

A number of ongoing state and federal efforts are developing to address the significant challenges of high-priced drugs; and in support of these measures, this report attempts to quantify the annual per-patient expenditures for an initial sample of 150 specialty medications.
Prescription Drug Prices: Then & Now

- **Doxycycline** in 2013: $20 per bottle
  - Increase: 9,145%
- **H.P. Acthar Gel** in 2007: $700 per vial
  - Increase: 4,471%
- **U-500** in 2007: $220 per bottle
  - Increase: 445%
- **EpiPen** in 2007: $56.64 per pen
  - Increase: 222%
- **Benicar** in 2007: $2.25 per pill
  - Increase: 164%
- **Gleevec** in 2007: $118 per pill
  - Increase: 158%
- **Copaxone** in 2008: $2,358.60 per 30 syringes
  - Increase: 157%
- **Doxycycline** in 2014: $1,849 per bottle
- **H.P. Actchar Gel** in 2014: $32,000 per vial
- **U-500** in 2014: $1,200 per bottle
- **EpiPen** in 2014: $184.35 per pen
- **Benicar** in 2014: $5.95 per pill
- **Gleevec** in 2014: $306 per pill
- **Copaxone** in 2014: $6,072.40 per 30 syringes

Sources:
- New York Times, "Doctors Denounce Cancer Drug Prices of $100,000 a Year", April 25, 2013
- Bloomberg, "Drug Prices Soar for Top-Selling Brands", May 1, 2014
- ProPublica, "The Obscure Drug with a Growing Medicare Tab", Aug. 4, 2014
- Forbes, "Could High Drug Prices Be Bad for Innovation?" Oct. 23, 2014
High Cost Drugs: Is It the R&D?

Source: Vox, “9 of 10 top drugmakers spend more on marketing than research”, February 27, 2015, http://www.vox.com/2015/2/11/8018691/big-pharma-research-advertising
Big Pharma’s Drug Price Dollar

PBM (to administer pharmacy benefits and negotiate discounts on drug costs)
Pharmacy (to stock drugs and dispense the drug to the patient)
Wholesalers and Group Purchaser Organizations (to deliver drug to pharmacy)

Discount on List Price* 28%

Big Pharma’s Reimbursement - 63% of “List Price”

9 %

List Price (Similar to M.S.R.P.)

* Discounts and Rebates on the List Price are negotiated by PBMs and Health Plans to Lower Drug Costs for Patients; 11% of expenditures are Mandated Discounts to Federal Programs (Medicare, TriCare), 17% are Discounts to PBMs & Health Plans.

Source: Berkeley Research Group, “The Pharmaceutical Supply Chain: Gross Expenditures Realized by Stakeholders, Funded by PhRMA.
What’s Driving Prices?
Patent Dynamics and Other Pricing Strategies

**Product-hopping**
Artificially prolonging drug patents to avoid competition from generics, resulting in fewer treatment options and sky-high costs for consumers.

**Biosimilar Blocking**
Delaying or blocking a less costly biosimilar version of a drug.

**Pay-to-Delay**
Paying generic drugmakers to keep lower-cost competition out of the market.

**Acquisitions of Drug Rights**
Buying specific drug rights deemed undervalued to subsequently increase prices.

**Orphan Drug Status Abuses**
Drugs that are approved as “Orphan Disease Drugs” but subsequently used for common use.
AHIP Report: Orphan Drug Utilization And Pricing Patterns (2012 – 2014)
Available online at: https://www.ahip.org/orphan-drug-utilization-and-pricing-patterns-2012-2014/

KEY TAKEAWAYS

- 44% non-orphan diseases
- 24% off-label use
- 42% price increases
- 52% price increases

A sample of 45 orphan drugs available between 2012 and 2014 shows almost half of these drugs' usage—44 percent—was for non-orphan diseases.

Across the three years of the study, on average 20 percent of orphan drug use was for non-orphan, on-label uses; while 24 percent was for off-label use.

Drugs having little-to-no orphan utilization increased their prices by 42% during the three-year study period; while, those orphan drugs used almost exclusively to treat orphan diseases increased prices by only 15%.

We also found that drugs having little-to-no off-label use increased their prices by only 16%; however, those drugs used extensively off-label increased their prices by 52% from 2012-2014.
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Just as real estate investors can make fast profits by flipping houses, drug companies are raking in billions in profits by flipping aging drugs, according to Bloomberg.

The Bone Drug with the 3,259% Price Increase

A company backed by private-equity bought rights to Miacalcin, which combats high calcium, from Novartis AG and sold it to Mylan NV for what was described as a "substantial gain."

Source: Bloomberg Intelligence/First Databank; Bloomberg News research; Connecture Inc.
Thank you!

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