PRESCRIPTION MEDICINES: COSTS IN CONTEXT
Medicines Are Transforming the Treatment of Many Difficult 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 cancer deaths since the 1990s. 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 therapy. Between 1991 and 2011, the death rate from heart disease dropped 46%.

Sources: National Multiple Sclerosis Society; Boston Healthcare; CDC; American Cancer Society
Cite: Medicines in Development Report, Pharmaceutical Research and Manufacturers of America (PhRMA) and the Association of Black Cardiologists (ABC), December 2015

Prescription Medicines: Costs in Context www.phrma.org/cost
HIV/AIDS: As Treatment Improved Spending Became Sustainable

1989

The New York Times
September 15, 1989

AIDS Treatment Costs Put at $5 Billion a Year

“We have got to get our act together now because the medical system is going to be crushed in two years.”

—Daniel Hoth, director of the division of AIDS at the National Institute for Allergy and Infectious Diseases

“If we don’t act now, we will be soon rationing health by queuing...”...

“People will wait longer and longer in the emergency rooms, more people will die, the whole level of care will decrease significantly.” He called it “a downward spiral of effects which we cannot afford.”

—Dr. Douglas Shenson, Montefiore Medical Center

Today

“We used to think HIV costs would overwhelm us... but we figured it out and let drug development progress.”

—Ira Klein, M.D., M.B.A., FACP, Aetna

HIV/AIDS Death Rates

10.2 16.2


HAART COMBINATIONS INTRODUCED

2.7

www.phrma.org/cost
Projected Total Spending on
RETAIL AND NON-RETAIL BRAND & GENERIC
MEDICINES AND PHARMACY COSTS, THROUGH 2024

Source: Altarum Institute and 2014 CMS National Health Expenditures Report

Prescription Medicines: Costs in Context www.phrma.org/cost
Invoiced Prices Increased in 2014, BUT WERE OFFSET BY REBATES AND OTHER PRICE CONCESSIONS

Protected Brand Price Spending Growth

Source: IMS Health, National Sales Perspectives, Dec 2014
Cost of Medical Procedures Continue to Rise, but COST CONTAINMENT IS BUILT INTO DRUG PRICING LIFE CYCLE

Percutaneous Coronary Angioplasty (PTCA)

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

Atorvastatin 10mg

- 2005: $2.13
- 2013: $0.18
- 2014: $0.15 (93% decrease)

Data adapted from: HCUP Hospital Charge database 2005 and 2013, average Hospital Charges Atorvastatin 10mg – IMS National Sales Perspective (NSP) Invoice price in 2005 (branded Lipitor), 2013 (generic), and 2014 (generic)

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**Example**

**THEN & NOW**

*How Prescription Drug Prices Fall Significantly Over Time*

<table>
<thead>
<tr>
<th>MEDICINE</th>
<th>BRAND NAME THEN</th>
<th>VS. GENERIC NOW</th>
<th>% CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DIOVAN HCT</strong></td>
<td>2010 $87</td>
<td>$13</td>
<td>-85%</td>
</tr>
<tr>
<td>(Hypertension)</td>
<td></td>
<td></td>
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<tr>
<td><strong>LIPITOR</strong></td>
<td>2010 $85</td>
<td>$4</td>
<td>-95%</td>
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<tr>
<td>(Cholesterol)</td>
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<tr>
<td><strong>PLAVIX</strong></td>
<td>2011 $166</td>
<td>$5</td>
<td>-97%</td>
</tr>
<tr>
<td>(Blood Thinner)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SEROQUEL</strong></td>
<td>2010 $87</td>
<td>$3</td>
<td>-97%</td>
</tr>
<tr>
<td>(Schizophrenia)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>ZYPREXA</strong></td>
<td>2010 $393</td>
<td>$8</td>
<td>-98%</td>
</tr>
<tr>
<td>(Schizophrenia &amp; Bipolar Disorder)</td>
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</tbody>
</table>

Biopharmaceutical companies invest in pioneering research to bring new treatments to patients, and over time those medicines become available as lower-cost generic copies.

*Figures represent the average annual price for 30 pills of the most commonly dispensed form and strength. *Then* price represents the average price in the year prior to generic entry. *Now* price represents the average price in CY 2014. Source: IMS analysis for PhRMA, May 2015.*
MEDICARE

Part D

Includes most drugs, which are either picked up by patients at the pharmacy or delivered via mail order

COMMERCIAL INSURERS

Retail Pharmacy Benefit

Part B

Medical Benefit

Includes a minority of drugs that generally must be administered by a physician or other health care professional
**pre PART D**

59%

Comprehensive Drug Coverage

2005

41%

No Comprehensive Drug Coverage

2011

90%

**post PART D**

Patients With Good ADHERENCE*

67%

78%
Congressional Budget Office Projections and Tallies of Total Part D Spending for 10-Year Period 2004-2013 ($ Billions)\textsuperscript{20}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{chart.png}
\caption{Budget Office Projections}
\end{figure}

\begin{quote}
The bids are coming in, and the pricing is coming in better than anticipated, and that is likely a reflection of the competition that’s occurring in the private market.

– Peter Orszag, Former CBO Director\textsuperscript{21}
\end{quote}
POWERFUL PURCHASERS NEGOTIATE ON BEHALF OF PATIENTS

Negotiating power is increasingly concentrated among fewer benefit managers, with the TOP FIVE PBMS INCREASING THEIR MARKET SHARE TO OVER 80%.

PBM Market Share at Year End 2014

- Express Scripts, Inc.: 29%
- CVS Caremark: 24%
- OptumRx: 19%
- Catamaran Corporation: 13%
- Prime Therapeutics Inc.: 9%
- All Else: 6%

*OptumRx and Catamaran Corp. will merge to UnitedHealth Group in fall of 2015
Sources: Drug Channel Institute Study Jan. 2015
IMS Institute for Healthcare Informatics Health Study. 2014
Mechanisms to PROMOTE ACCESS

- Plans compete for enrollees based on benefits, quality, and price.
- Beneficiaries have a choice among plans to best meet their needs.
- Enrollees can switch plans each year during open enrollment.
- Premium and cost-sharing subsidies assist low-income beneficiaries.
- There are no limits on the number of prescriptions.
- Defined standard benefit and formulary rules set minimum plan requirements.

Mechanisms to CONTROL COSTS

- Plans are paid based on competitive bids submitted each year.
- Plans and manufacturers negotiate discounts for covered medicines.
- Plans attract enrollment through lower premiums and quality of coverage.
- Plans use tiered formularies, tiered copays, and other utilization management tools.
- Rebates and discounts are passed on to beneficiaries and the government.
HOSPITAL OUTPATIENT DEPARTMENTS
- Physician administered (infused/injected)
- Durable medical equipment (DME) drugs
- Some oral drugs

PHYSICIAN OFFICES
- Physician administered (injected/infused)
- Some oral drugs
- Some vaccines

PATIENT’S RESIDENCE
- Drugs requiring nebulizer or infusion pump (ie, DME drugs)
- Parenteral nutrition

DIALYSIS CENTERS
- Dialysis related (eg, erythropoietin for treatment of anemia)
AVERAGE SALES PRICES (ASP):

- Enacted in Section 303(c) of the Medicare Modernization Act
- Intended to reflect the weighted average of all manufacturer sales prices, net of rebates and discounts (except Medicaid and certain federal and other purchasers)
- Includes special rules for certain classes of drugs (eg, durable medical equipment, infusion drugs, vaccines, biosimilars)

6% ADD-ON PAYMENT HELPS COVER:

- Geographic and provider purchasing variability
- Shipping fees
- Complex administration
- Ongoing patient monitoring and education
- Overhead for complex storing and handling requirements
- Bad debt and beneficiary copayment collection
Medicines are Part of the Solution...
AND MORE CAN BE DONE TOGETHER

**COST CONTAINMENT**
Look at all health care costs, reduce administrative costs and waste, replicate effective cost-containment practices.

**PAY FOR VALUE**
Support evidence-based care and empowered patients and providers, backed by sound research and strong quality measures.

**SOLUTIONS**
Avoid blanket policies that chill investment, and collaborate to find new approaches.