"FOLLOW THE MONEY"

August 4, 2021

9:00 am - 11:00 am CDT

HBCH ORGANIZATION MEMBERS

HBCH
Houston Business Coalition on Health

HBCH Mission:
To improve the Cost, Quality and Consumer Experience in Healthcare Delivery
in Houston and nationally through Collective Employer Influence.

Strategic Partners

AGENDA

9:00 – 9:10	Welcome & Opening Comments	
9:10 – 10:10	Panel Perspectives	
	Sue Prochazka	Rice University
	Robert Popovian	Conquest Advisors
	Josh Golden	CapitalRx
	Tom Traylor	ArchimedesRx / EpiphanyRX
	Amy Ball	Health Strategy
	Corey Belkin	Health Transformation Alliance
10:10 – 10:55	Panel and Q&A	
10:55 - 11:00	Closing Comments	

National Alliance 2019 Pharma Roundtables

- Areas of focus
  - Addressing High Drug Costs
  - Strategies to Contract for Value
  - Benefits design & Formulary Management
- Key Recommendations
  - Eliminate rebates and encourage full transparency
  - Implementing integrated site-of-care solutions for specialty meds
  - Hold PBMs accountable for formulary cost savings strategies
  - Implement other drug waste reduction strategies
  - Support collaboration and info sharing across employers and coalitions
  - Push for federal regulations
  - Identify relevant value-comparison tools
  - Recommend independent audits

Panel Speakers

Sue Prochazka
Benefits Director,
Rice University

Robert Popovian, MD
Founder,
Conquest Advisors

Josh Golden
Senior VP of
Strategy,
CapitalRx

Tom Traylor
Executive VP,
ArchimedesRx/
EpiphanyRx

Amy Ball, MD
Chief Pharmacy
Officer,
Health Strategy, LLC

Corey Belkin
VP of Strategic
Initiatives,
Health
Transformation
Alliance (HTA)

“FOLLOW THE MONEY”

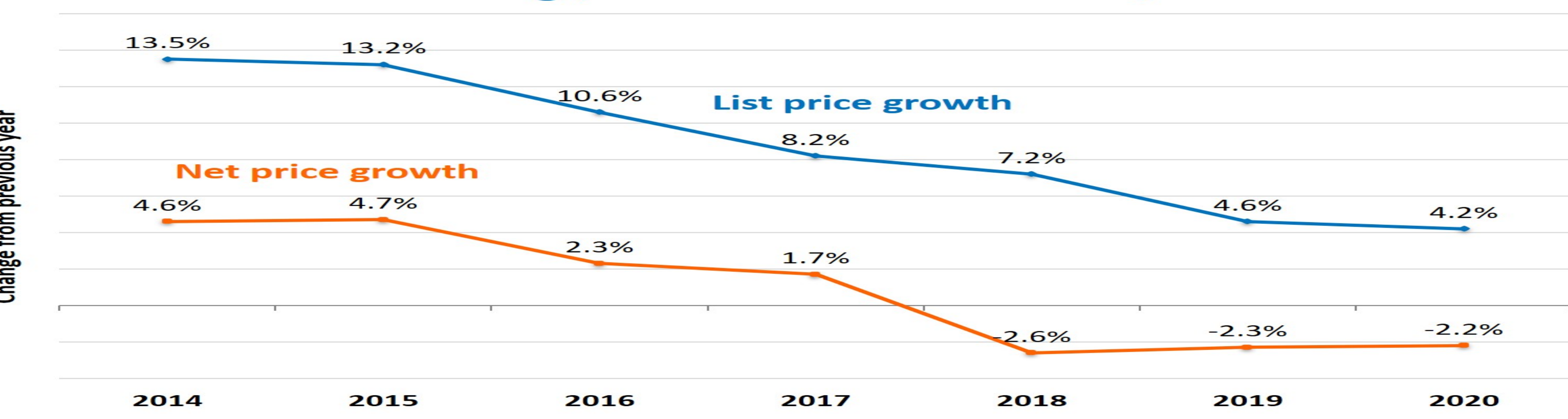
"FOLLOW THE MONEY"

Robert Popovian Presentatio

A Lot of Healthcare Players Have Their Hand in the Drug Pricing/Spending Cookie Jar!

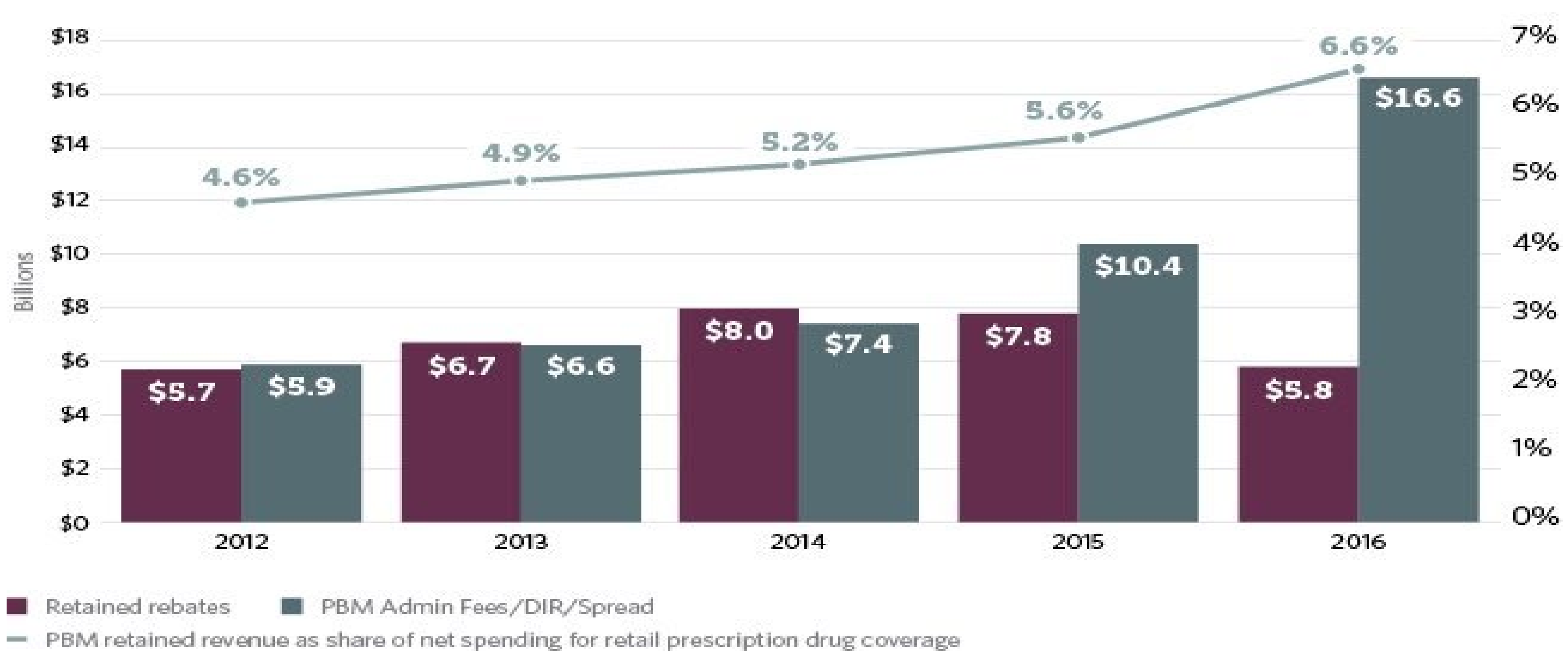
List to Net Price Differential

SSR Health Data



- The major components of gross-to-net price differences for brand-name drugs include:
  - Rebates
  - Fees
  - Discounts to healthcare providers under the 340B Drug Pricing Program
  - Patient assistance programs

It’s Not Just About Rebates!



Concessions Paid to the Middlemen

From 2013– 2019 rebates/fees paid by biopharmaceutical companies has increased by ~100%

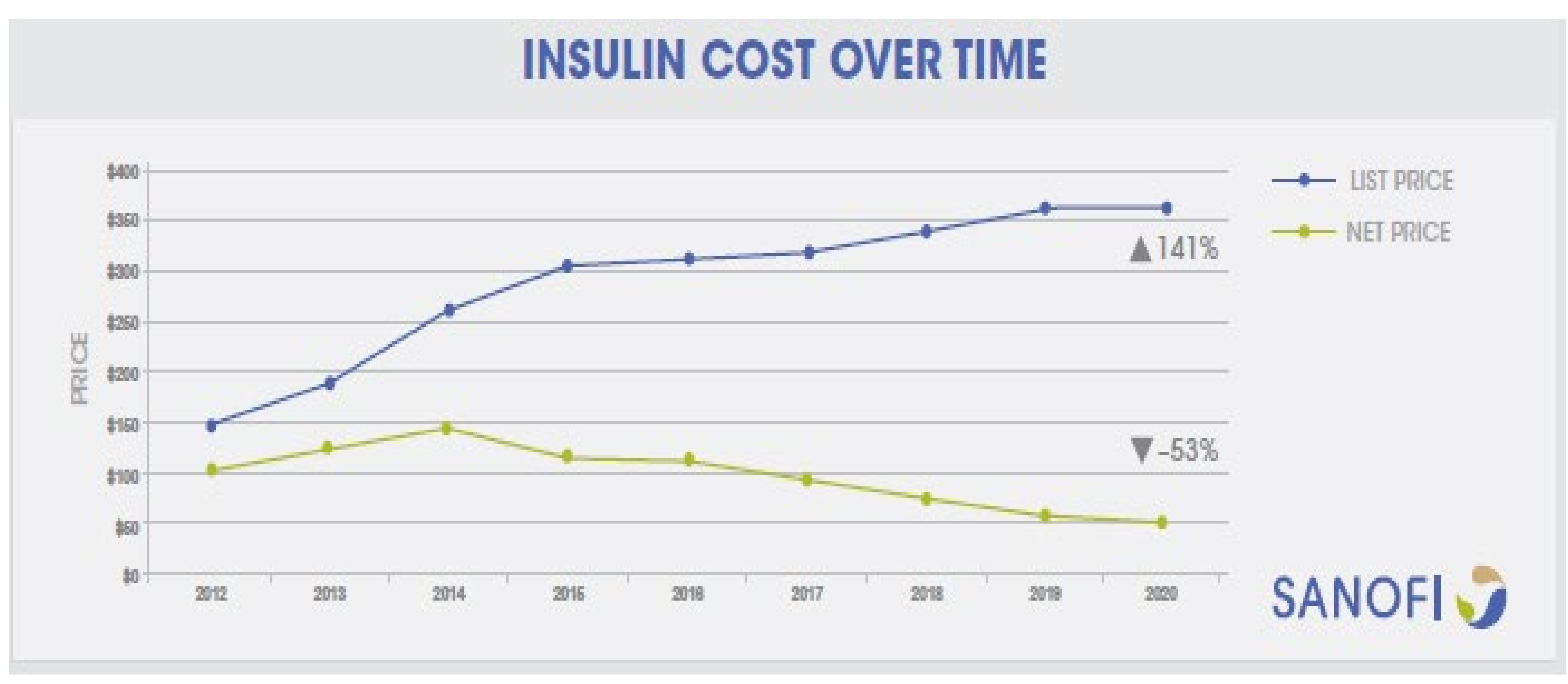
Total Value of Pharmaceutical Manufacturers' Gross-to-Net Reductions for Brand-Name Drugs, 2014 to 2019

Year	Total value, billions	Percentage change from previous year
2014	$102	22%
2015	$124	22%
2016	$139	12%
2017	$153	10%
2018	$166	9%
2019	$175	6%

Source: Drug Channels Institute analysis of IQVIA Institute data; Drug Channels Institute estimates. Gross-to-Net Reductions include the total value of rebates, off-invoice discounts, copay assistance, price concessions, and such other reductions as distribution fees, product returns, the 340B Drug Pricing Program, and more.

Published on *Drug Channels* (www.DrugChannels.net) on August 4, 2020. This chart appears as Exhibit 159 in *The 2020 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers*, which is available at http://drugch.nl/pharmacy

Average Insulin Cost



https://www.drugchannels.net/2021/03/drug-channels-news-roundup-march-2021.html#more

What Drives Biopharmaceutical Spending?
Price vs Utilization

Components of Change in Commercial Payer Net Drug Spending, Specialty Drugs, by PBM, 2020

Express Scripts   Navitus   WellDyne

Year-over-year change

	Express Scripts	Navitus	WellDyne
Change in utilization	4.9%	13.7%	16.3%
Change in unit cost	4.3%	1.4%	-9.8%
Overall change in specialty drug spending	9.2%	15.1%	6.4%

Source: Drug Channels Institute analysis of company drug trend reports. Figures represent commercially insured beneficiaries only.
Published on *Drug Channels* (www.DrugChannels.net) on July 14, 2021.

Do Rebates Impact List Prices?

RESEARCH IMPACT DATA & TOOLS EVENTS INITIATIVES & CENTERS PEOPLE FELLOWSHIPS ABOUT

WHITE PAPERS > HEALTHCARE REFORM

The Association Between Drug Rebates and List Prices

February 11, 2020 | By Neeraj Sood, PhD, Rocio Ribero, PhD, Martha Ryan and Karen Van Nuys, PhD

- Drug rebates and list prices are positively correlated: On average, a $1 increase in rebates is associated with a $1.17 increase in list price.
- Rebates play a role in increasing drug prices, and reducing or eliminating rebates could result in lower list prices and reduced out-of-pocket expenditures for some patients.

https://healthpolicy.usc.edu/research/the-association-between-drug-rebates-and-list-prices/

What is the Impact of Biopharmaceutical Spending on Healthcare Premiums?

The California Department of Managed Healthcare (DMHC) via Senate Bill (SB) 17 requires health plans and health insurers that file rate information with the DMHC or the California Department of Insurance (CDI) to annually report specific information related to the costs of covered prescription drugs.

Table 1

Impact of Prescription Drugs on Premiums *(in millions)*[10]

Category of Premium Payment	2019	Percentage of Premium	2018	Percentage of Premium	YOY[11] Percentage Change
Prescription Drug Expenses	$9,622	12.8%	$9,051	12.7%	6.3%
Medical Expenses	$55,764	74.2%	$52,993	74.3%	5.2%
Manufacturer Drug Rebates	($1,205)	(1.6%)	($1,058)	(1.5%)	13.9%

https://www.dmhc.ca.gov/Portals/0/Docs/DO/2019SB17PrescriptionDrugTransparencyReport.pdf

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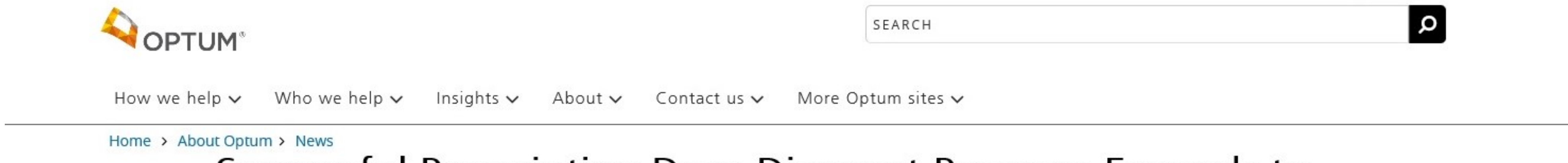
How Much Do Patients Save if PBMs Share the Savings?



- ***Consumers already seeing average savings of $130 per eligible prescription in 2019***
- ***Programs strengthen prescription drug adherence by up to 16%, lead to improved patient health***

https://www.optum.com/about/news/successful-prescription-drug-discount-program.html

Does Rebate Reform Lead to Lower Healthcare Costs?

YES, Passing ALL Concessions to Medicare Patients Will Not Only Reduce OOP Cost But Will Improve Medication Adherence

Table 2 Estimated Impact on Average Medicare Part D Premium from Mandating Rebates Benefit Patients (based on 2019 premium costs).

	Monthly Premium	Annual Premium
Medicare Part D Premium	$29.20	$350.40
Pharmaceutical Expenditure	12.7%	12.7%
Implied Healthcare Premium	$230.11	$2,761.31
Percentage Drug Rebate	-1.5%	-1.5%
Dollar Value of Drug Rebate	$(3.41)	$(40.96)
Medicare Part D Premium Excluding Drug Rebates	$32.61	$391.36

Table 3 Estimated Impact on Federal Costs from Mandating Patients Who Are Prescribed the Medicines Receive the Rebates (based on 2019 premium costs).

	Annual Federal Cost
Medicare Part D Premium Increase Due to Drug Rebates	$40.96
Low-income subsidy recipients	12.9 million
Federal Government Increased Subsidy Costs	$528,375,791

Sources: Author calculations based on data from the Kaiser Family Foundation and California Department of Managed Health Care

Table 4 Estimated Systemic Savings and Medicare Savings Due to Increased Medication Adherence.

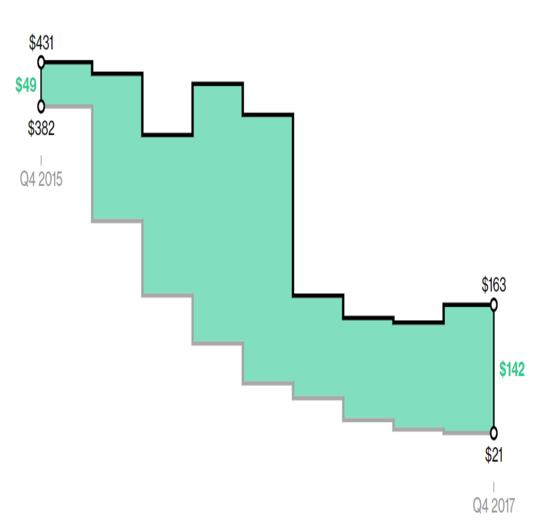
	Percentage Improvement in Medication Adherence	
	4.0%	16%
Medical Savings per patient	$381	$1,522
High cost Medicare Part D Patients	1,016,660	1,016,660
Medicare Savings	$386,889,963	$1,547,559,852

Source: Author calculations

Winegarden, Wayne and Popovian, Robert, Reforming Rebate Contracting will Improve Drug Affordability, Vol. 14 No. 7: 783, Health Science Journal, https://www.hsj.gr/medicine/reforming-rebate-contracting-willimprove-drug-affordability.php?aid=34290

Do Patients and States Overpay for RX Medicines?

Spread Pricing



A report commissioned by Ohio Medicaid showed the spread between what the state paid the PBMs and what they paid pharmacies added up to $224 million in 2017

Claw back

OVERPAYING FOR PRESCRIPTION DRUGS: THE COPAY CLAWBACK PHENOMENON

Almost one quarter of filled pharmacy prescriptions (23%) involved a patient copayment that exceeded the average reimbursement paid by the insurer

Total overpayments amounted to $135 million

1. http://www.dispatch.com/news/20180610/side-effects-series-on-prescription-drugs
2. https://www.bloomberg.com/graphics/2018-drug-spread-pricing/?srnd=premium
3. https://healthpolicy.usc.edu/wp-content/uploads/2018/03/2018.03_Overpaying20for20Prescription20Drugs_White20Paper_v.1-4.pdf

Does Rebate Contracting Create Mis-Aligned Incentives?

2021 National Preferred Formulary Exclusions

Drug Class	Excluded Medications	Preferred Alternatives
HEPATITIS Hepatitis C	LEDIPASVIR/SOFOSBUVIR, MAVYRET, SOFOSBUVIR/VELPATASVIR, SOVALDI	EPCLUSA, HARVONI, VOSEVI, ZEPATIER

EPCLUSA Authorized Generic - $24,000 EPCLUSA - $78,000

~70%

"17 of the largest health plans co}vered biosimilars as preferred in only 14% of formulary decisions. In 33% of cases, biosimilars were designated as "non-preferred" by the insurer."

https://jamanetwork-com.eu1.proxy.openathens.net/journals/jama/article-abstract/2766151

"72% of Part D formularies had a lower cost-sharing tier and 30% of Part D formularies had fewer utilization controls on branded drugs for at least one multisource drug."

https://jamanetwork-com.eu1.proxy.openathens.net/journals/jamainternalmedicine/fullarticle/2728446

"FOLLOW THE MONEY"
Josh Golden Presentation

REBUILDING TRUST IN HEALTHCARE

Proprietary & Confidential

Where Does a Typical PBM's Profit Come From?

	Profit Source	Method of Profit	Potential Conflicts
Admin Fees	**Administrative Fees**	Per claim or PEPM/PMPM service fees.	*None*
	Clinical Program Fees		
Retail Network	**Retail Markup**	PBM charges client more than they reimburse the retail pharmacy, resulting in "spread" margin.	***Pricing concessions from retailers do not flow through to patients and plans.***
	MAC Lists	PBM juggles clients across multiple MAC lists to game outcomes.	
	Network Fees	PBM collects "participation fees" from retailers, which are not shared with the plan.	
Mail & Specialty	**Mail Order Pharmacy**	PBM dispenses drugs at a higher cost than they acquire them.	***PBM will maximize the volume and the price of claims over time.***
	Specialty Pharmacy	PBM dispenses expensive specialty drugs at a higher cost than they acquire them.	***PBM will steer members towards most profitable therapies.***
Pharma Revenue	**Manufacturer Payments**	PBM receives multiple revenue streams from pharma, sharing only a portion with the plan.	***PBM will steer members towards drugs that generate more rebates.***
	Data Sale Revenue	PBM repackages and sells aggregated claims data to pharma for "market research".	***Details of data sharing are not disclosed to patients or plans.***

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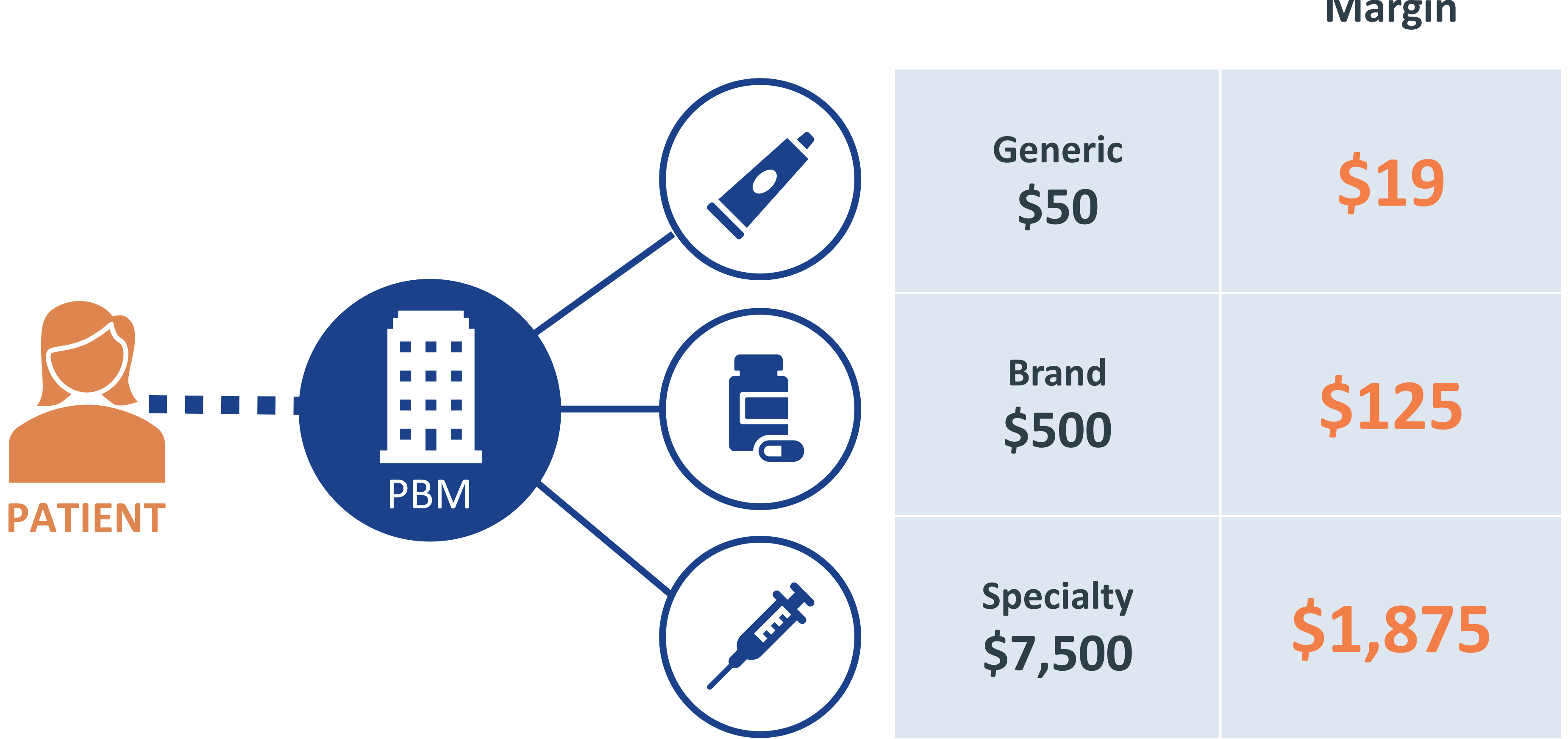
Hidden Profit Encourages Bad Behavior

Cost	$2,500	$15	$9
Est. Rebate	$1,950	n/a	n/a

If the PBM retains any portion of Pharma revenue, they will steer members toward inefficient products.

PBMs That Own Dispensing Will Seek to Optimize Profit Over Time



	Typical PBM Margin
Generic $50	$19
Brand $500	$125
Specialty $7,500	$1,875

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The Situation Has Reached a Boiling Point

Bloomberg

The Secret Drug Pricing System Middlemen Use to Rake in Millions

By Robert Langreth, David Ingold and Jackie Gu
September 11, 2018

Los Angeles Times

Column: How 'price-cutting' middlemen are making crucial drugs vastly more expensive

The Columbus Dispatch

Drug middlemen name own prices, methodology goes unchallenged

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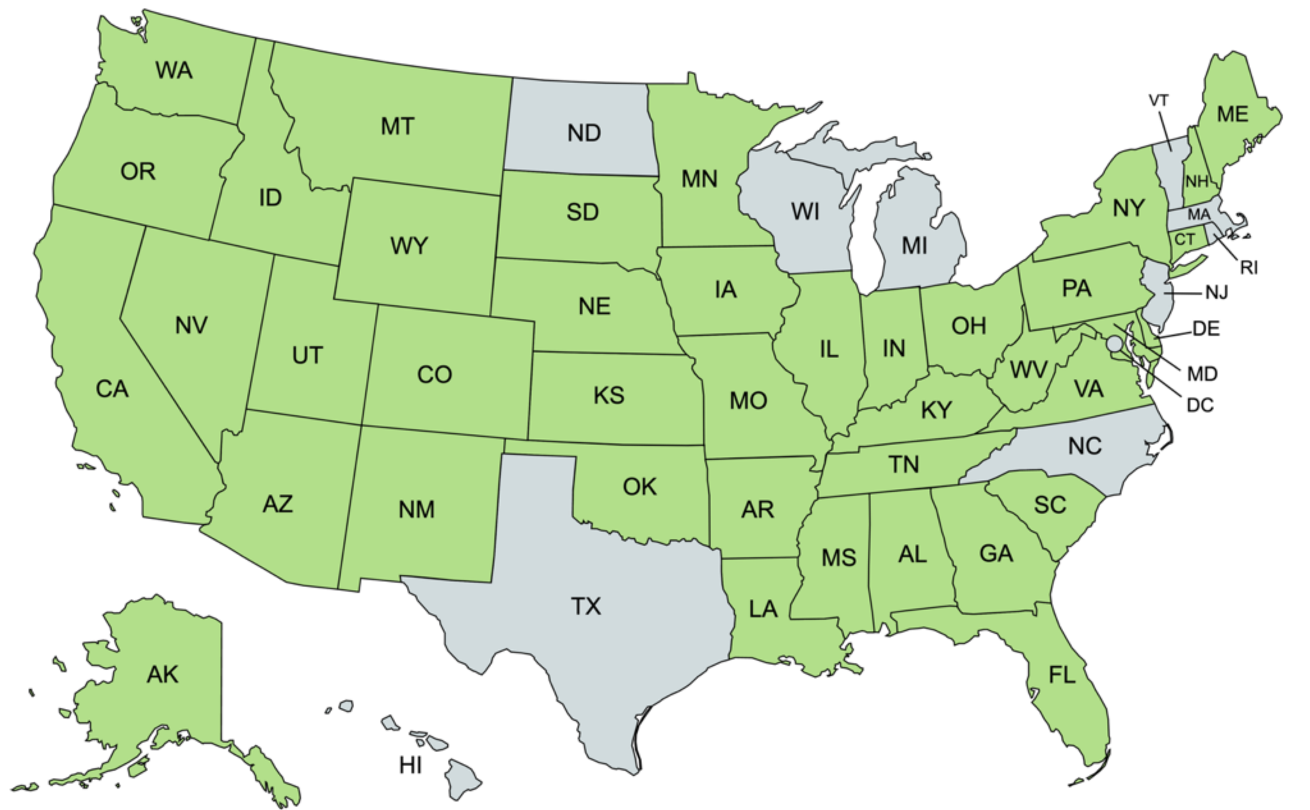
2018-2020 State Legislative Action Impacting PBMs



- States introduced **327 bills** impacting PBM business practices.
- At least one bill was introduced in **all 50 states**.
- **83 bills** were enacted into law across 38 states.

Source: National Academy for State Health Policy, https://www.nashp.org/rx-legislative-tracker/ (Updated April 12, 2021)

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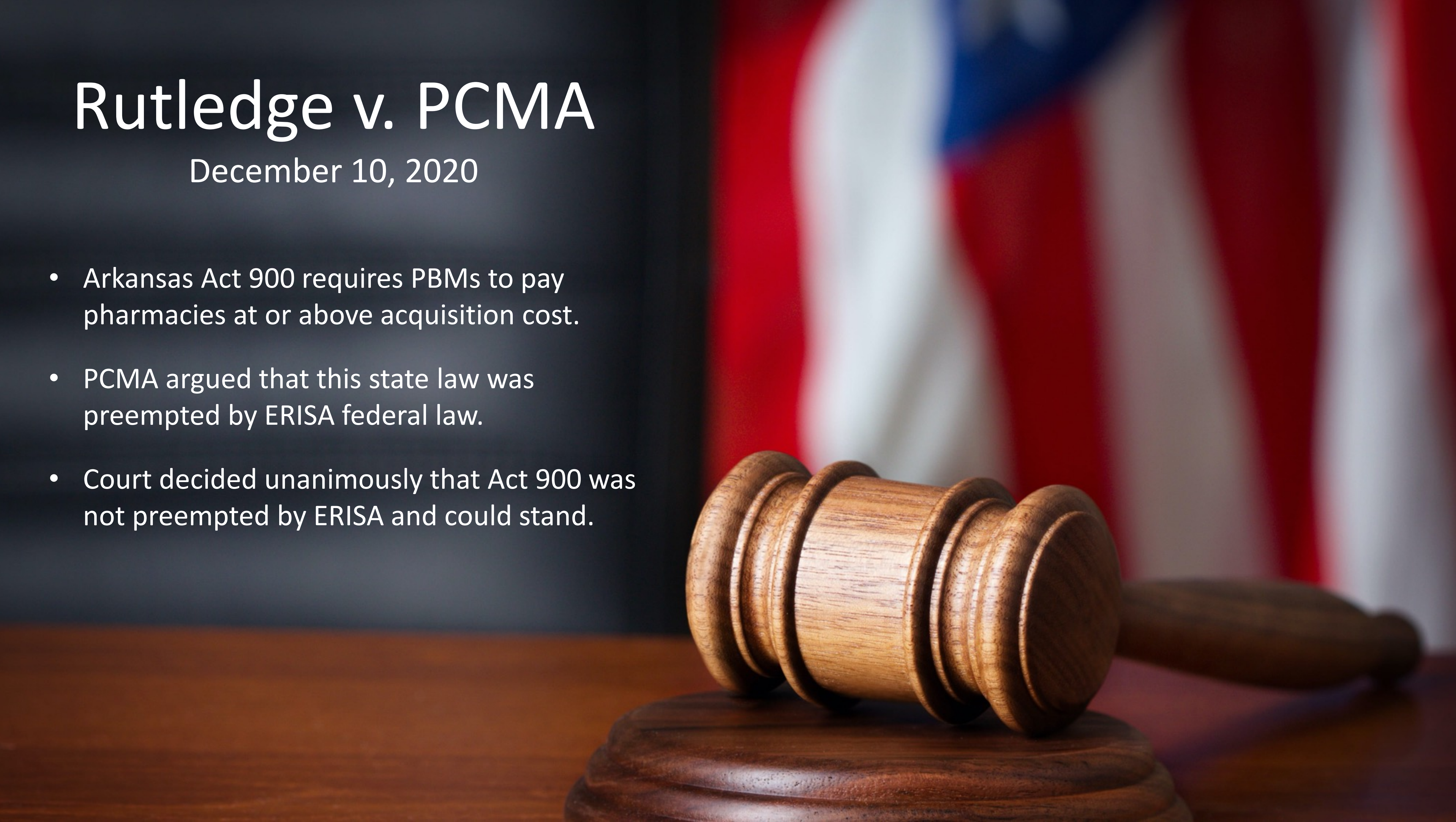

Rutledge v. PCMA
December 10, 2020
• Arkansas Act 900 requires PBMs to pay pharmacies at or above acquisition cost.
• PCMA argued that this state law was preempted by ERISA federal law.
• Court decided unanimously that Act 900 was not preempted by ERISA and could stand.

What Really Matters to Plan Sponsors?

"FOLLOW THE MONEY"

Tom Traylor Presentation

"FOLLOW THE MONEY"
Amy Ball Presentation

Optimizing Pharmacy Benefit Performance

HEALTHSTRATEGY

Health Strategy

- We have been the leading pharmacy benefit consultant for the past decade
- Uniquely qualified company with expertise in many sectors of the pharmaceutical benefit industry
- Our team understands market economic and clinical dynamics

- We are the largest, conflict-of-interest free, pharmacy benefit consulting firm in the industry
- We do not receive or accept compensation, fees or any revenue from PBMs
- We do not profit from, or operate, any reseller or coalition contracts

Future Pharmacy Benefit Ecosystem

By shifting some responsibilities from PBMs to the Plan Sponsors we achieve transparency, increase flexibility, improve quality of care, and reduce overall costs.

	Current State	Future State	
	PBM	PBM	Client / Consultant
Claims Adjudication	●	●	○
Manufacturer Revenue Contracting	●	◐	◐
Retail Network Contracting	●	◐	◐
Mail Order / Specialty Contracting	●	◐	◐
Formulary Management	●	◐	◐
Benefit Design Consulting	○	○	●
Data Warehousing	●	○	●
Benchmarking	●	◐	◐
Contract Performance Monitoring	●	◐	◐

PBM Contracting Overview

- A PBM contract outlines crucial concepts that contribute to a plan's pharmacy benefit performance and a PBM's contractual obligation to deliver on anticipated value
- Contractual concepts that are omitted entirely or included but ambiguous gives the PBM the ability to use these deficiencies to their advantage
- Contractual concepts are usually dependent on each other so missing only a few can have a material impact

Health Strategy's best practice PBM contracting approach contemplates over 60 defined terms and another 30+ multi dimensional pricing conditions to remove ambiguity and increase objectivity to ensure anticipated value is realized by the plan.

Contract Examples

Drug Classification

Contractual concepts such as drug classification criteria for purposes of financial guarantees can impact a plans drug spend in a material way

- **Advantageous criteria:** Drug classification criteria that results in more prescriptions pricing as a generic drug (vs. a brand drug)
  - Discounts off AWP are more aggressive for generic drugs (lower cost to plan and members)
- **Disadvantageous criteria:** Drug classification criteria that results in more prescriptions pricing as a brand drug (vs. a generic drug)
  - Discounts off AWP are less aggressive for brand drugs (high cost to plan and members)

Rebate Guarantee Exclusions

Rebate guarantee exclusion criteria and relevant defined terms can impact rebate yield and therefore plan spend net of rebates in a material way

- **Advantageous criteria:** Very few contractually defined exclusions from rebate guarantees
  - Fewer exclusions result in more rebate eligible claims
  - Rebate eligible claim count is multiple by minimum rebate guarantees to produce a minimum guaranteed rebate yield
- **Disadvantageous criteria:** Excessive contractually defined (or undefined) exclusions from rebate guarantees
  - More exclusions result in less rebate eligible claims
  - Rebate eligible claim count is multiple by minimum rebate guarantees to produce a minimum guaranteed rebate yield

2021 Health Strategy Rx Marketplace™

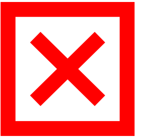
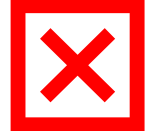
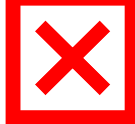
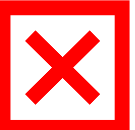
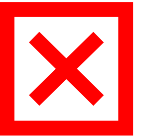
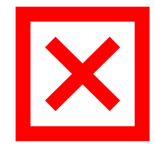
- Benefits of Scale + Individualized Pricing = Improved Economics that are Underwritable

- Direct PBM Contracts with Plan Sponsors Powered by HealthStrategy Market Leading Terms and Conditions with Underwriting Specific to each Client

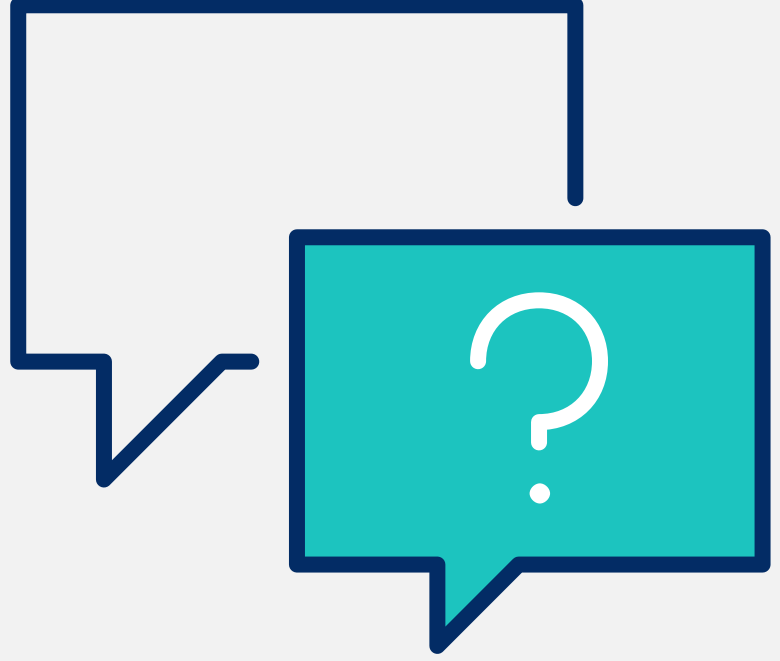
HSLLC Rx Marketplace:

Developed on $60 Billion in Drug Spend with most PBMs

Support Narrow Group of PBMs with limited Drug Spend

	HSLLC Rx Marketplace	Group Purchasing Coalitions	
	HSLLC's proprietary PBM contracting terms, conditions and pricing protections for plan sponsor ensure promised savings are realized = UNDERWRITABLE		
	Time-tested contract language resulting in claims being protected by guarantees = UNDERWRITABLE	Ambiguous contact language allows PBMs to exclude many claims from guarantees = NOT UNDERWRITABLE	
	No commissions or fees are retained by HSLLC = TRANSPARENT	Fees, commissions and other revenue (often undisclosed) may be retained by the coalition sponsor = NOT TRANSPARENT	
	Open to any PBM; including plan sponsor's incumbent PBM = MORE OPTIONS	Often limited to certain PBMs; unable to negotiate directly incumbent = LIMITED OPTIONS	
	Ability to manage formulary (e.g., drug exclusions) to eliminate low clinical value drugs = CUSTOMIZABLE	Often only standard formulary options without the ability to modify = NOT CUSTOMIZABLE	
	Pricing based upon individual plan sponsor's utilization, formulary & plan design without other's adverse utilization = AGGRESSIVE UNDERWRITING WITH CERTAINTY IN TERMS AND CONDITIONS (FINANCIAL ACCOUNTABILITY)	Often one-size fits all offer with existing group adverse utilization and risk margin for future clients' unknown utilization = CONSERVATIVE UNDERWRITING WITH AMBIGUITY IN TERMS AND CONDITIONS TO PROVIDE "WIGGLE ROOM"	

Questions



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Q&A and Closing Comments