



Prescription Medicines: Costs in Context 2019

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PhRMA

We are in a new era of medicine where breakthrough science is transforming care with innovative treatment approaches...

Then



Medicines made of chemical compounds



Medicines treat broad diseases



Radiation and chemotherapy to treat cancer



Now



Medicines made from living cells



Medicines targeted to specific patient based on genetic makeup



Immunotherapy that harnesses body's own immune system to fight disease



CAR T-cell therapy

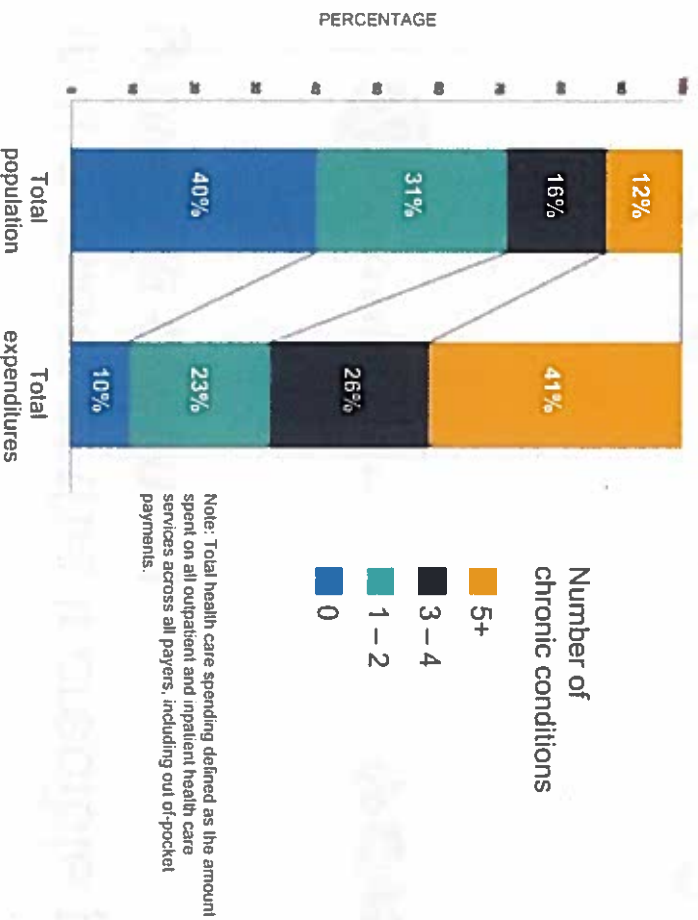


CRISPR

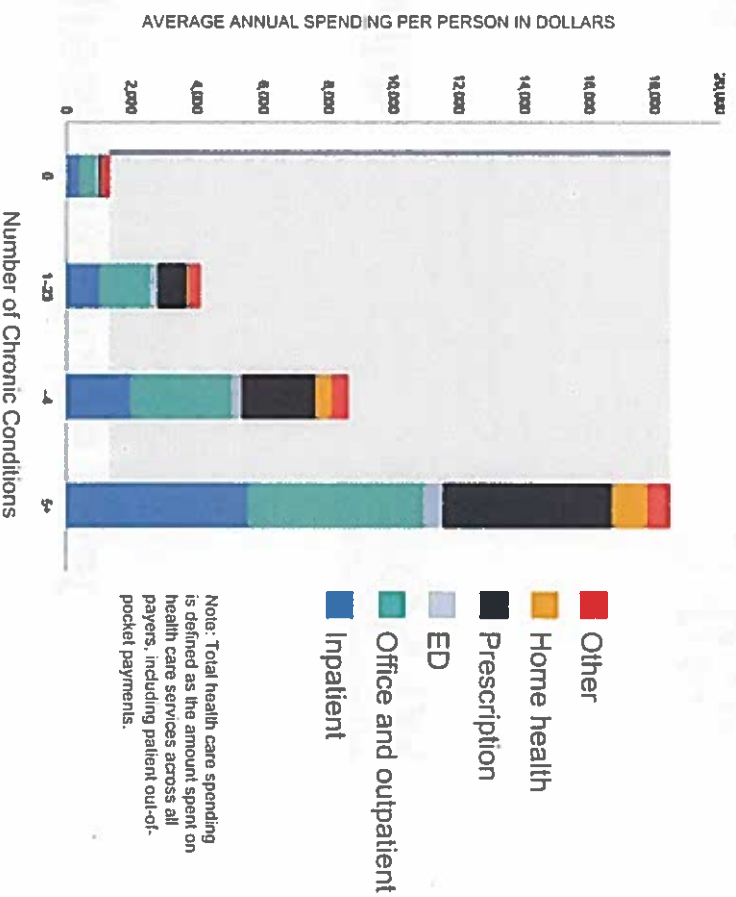
...and enabling us to more effectively treat chronic disease, the biggest cost driver.

Treating people with one or more chronic condition consumes 90 cents of every dollar spent on health care.

Prevalence and Spending by Number of Chronic Conditions (2014)



Health Care Spending by Number of Chronic Conditions (2014)



In the midst of this incredible progress, medicine cost growth is declining.



3.8%

2016



1.5%

2017



3.2%

2016



1.9%

2017



3.9%

2016

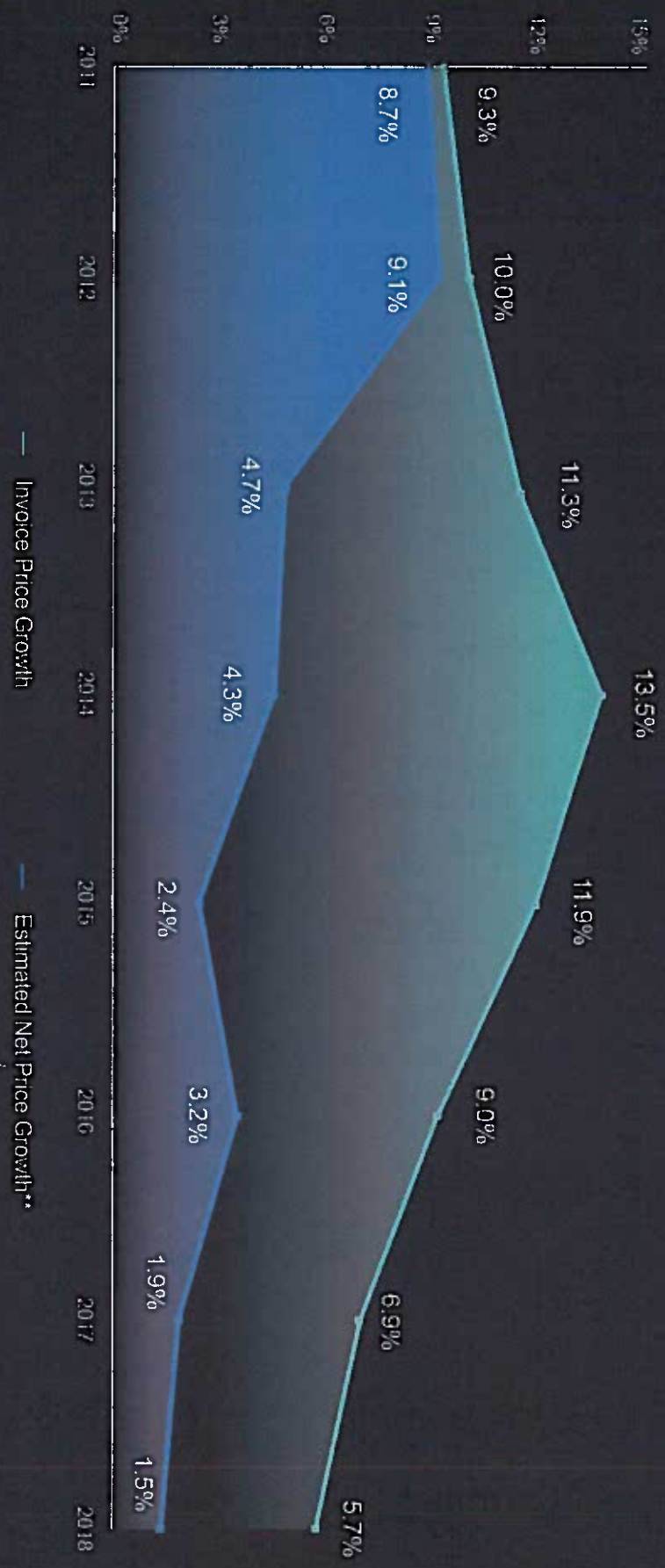


0.6%

2017

Note: IQVIA data is reflective of retail and physician-administered medicine spending

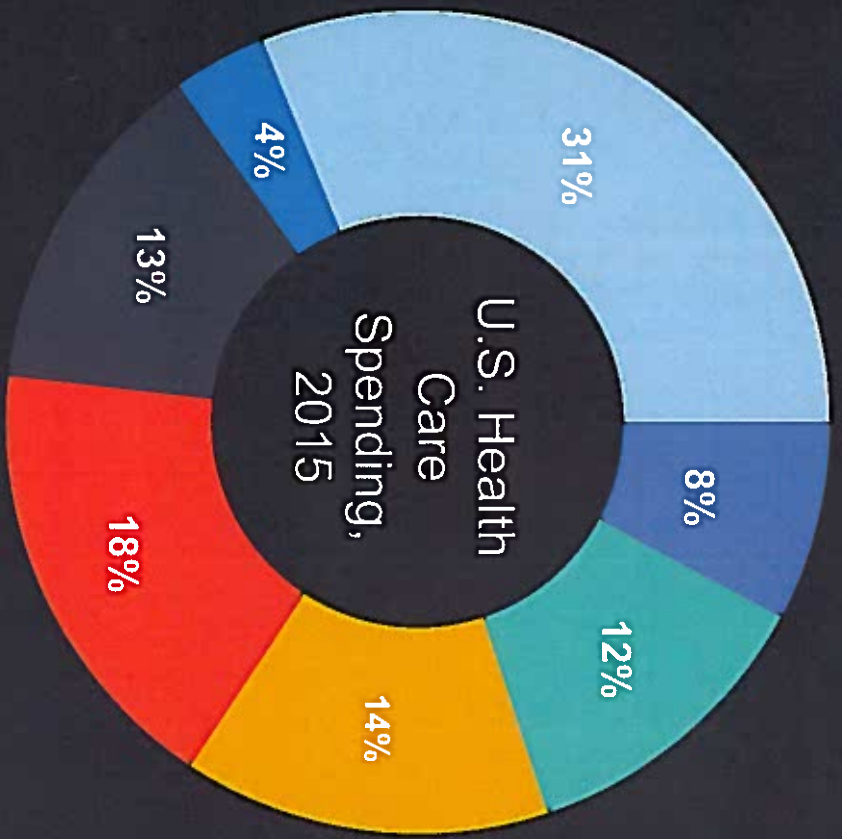
In fact, after discounts and rebates, brand medicine prices grew just 1.5% in 2018.



Source: IQVIA, January 2019

*Includes protected brand medicines only (ie, brand name drugs without generic versions available in the year indicated).
 **Net price growth reflects impact of off-invoice discounts and discounts provided by manufacturers

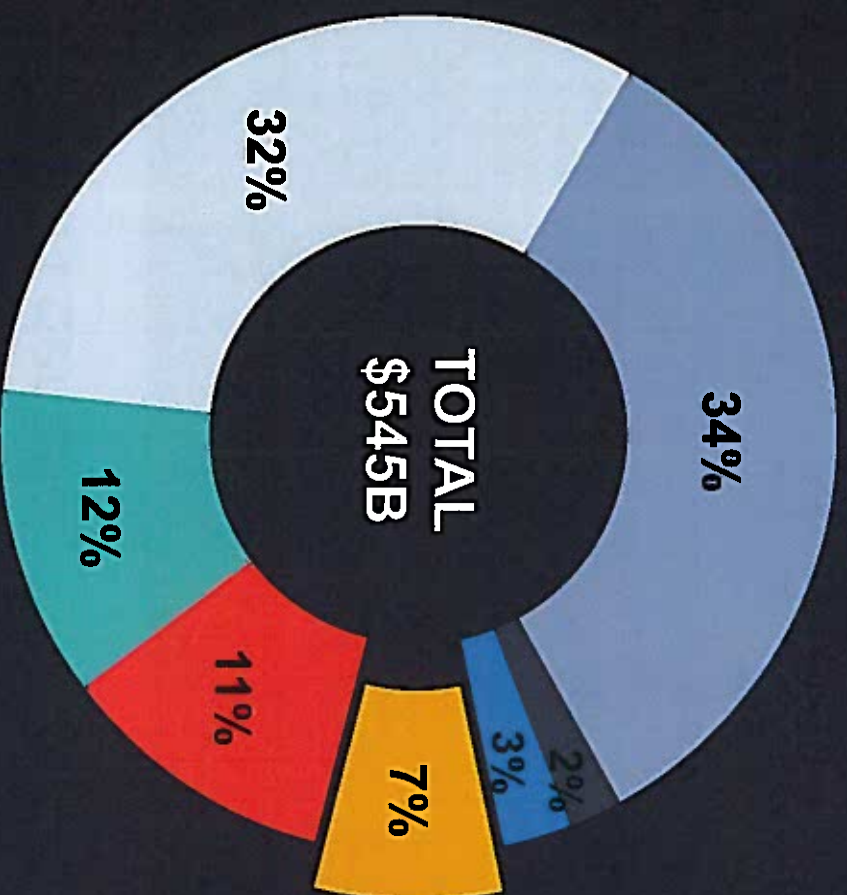
Spending on retail and physician-administered medicines continues to represent just 14% of spending...



- Admin Costs
- Home Health & Nursing Home Care
- Prescription Medicines
- Physician & Clinical Services
- Other**
- Dental Services
- Hospital Care

Source: Pfizer's analysis of CMS National Health Expenditures data. All items in the study and Berkeley Research Group study. ** Supply chain entities involved in bringing medicines from manufacturer to patient, including wholesalers, pharmacies, PBJs and healthcare provider locations.

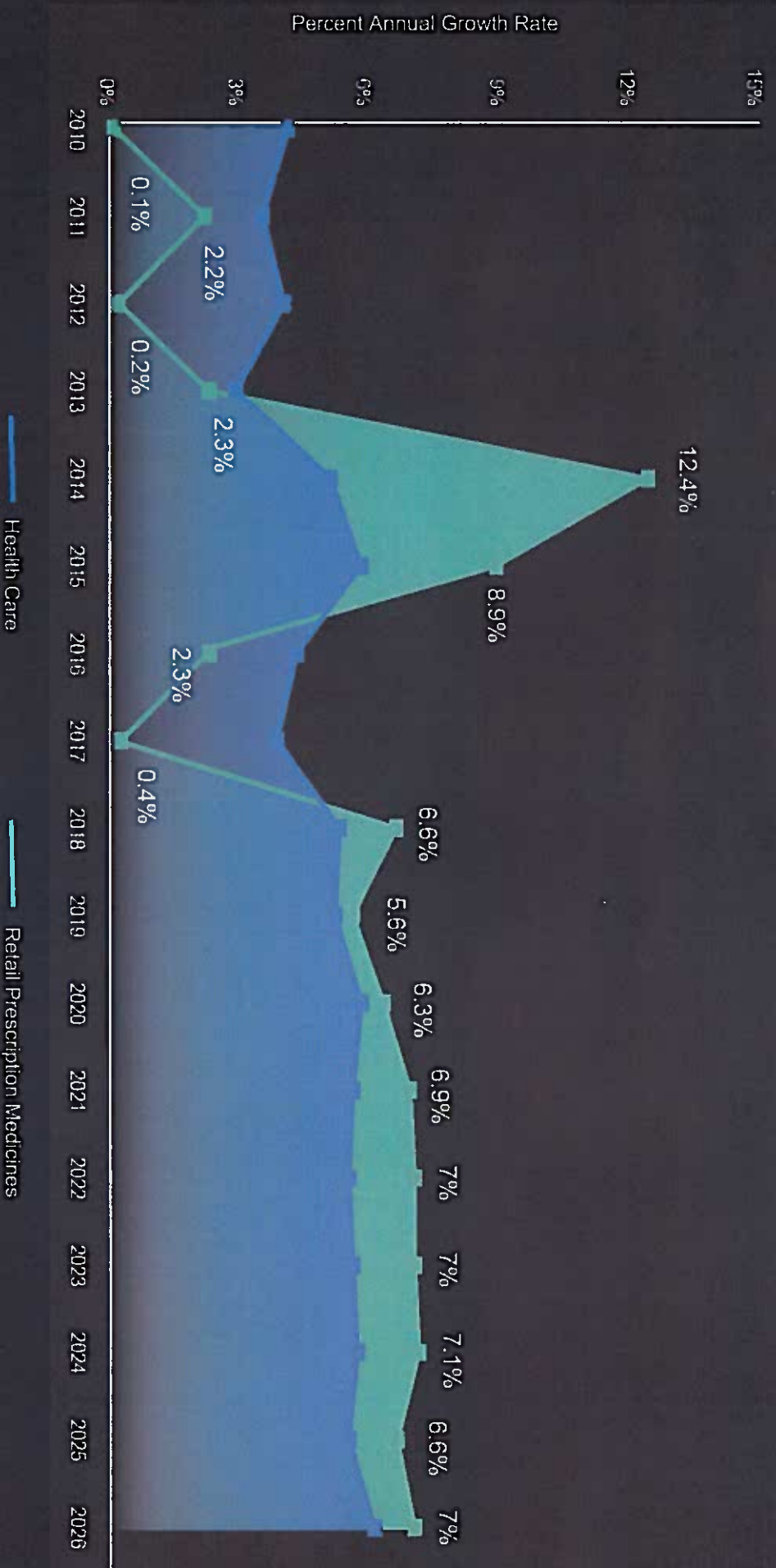
...and a small share of total Medicaid spending...



- Dental Services
- Other
- Prescription Medicines
- Government Administrative Costs
- Physician and Clinical Services
- Home Health and Nursing Home Care
- Hospital Care

*Data: Prescription drug data is net of rebates and includes both retail and non-retail drugs. Data used were predominantly derived from CIMS 6+ reports. Pre-charge expenditures were tabulated using FY2015 CIMS State Drug Utilization data files and CIMS brand generic indicators for each DDC.
Source: CIMS National Health Expenditure Data and Aetna Institute

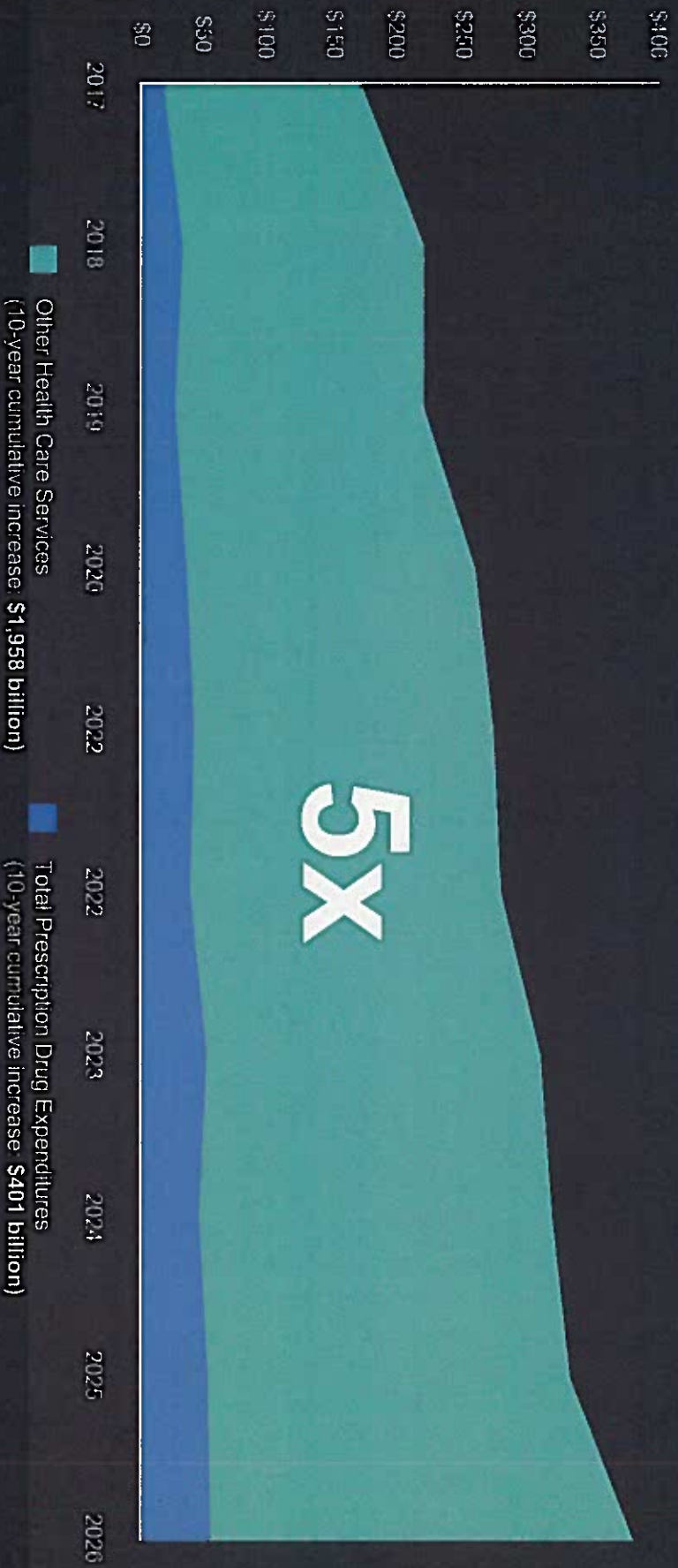
...and is projected to grow in line with health care spending through next decade.



Source: CMS National Health Expenditures Report, 2018.
Note: Total retail sales include brand medicines and generics.

At the same time, growth in other health care services will be 5 times total medicine spending growth through next decade.

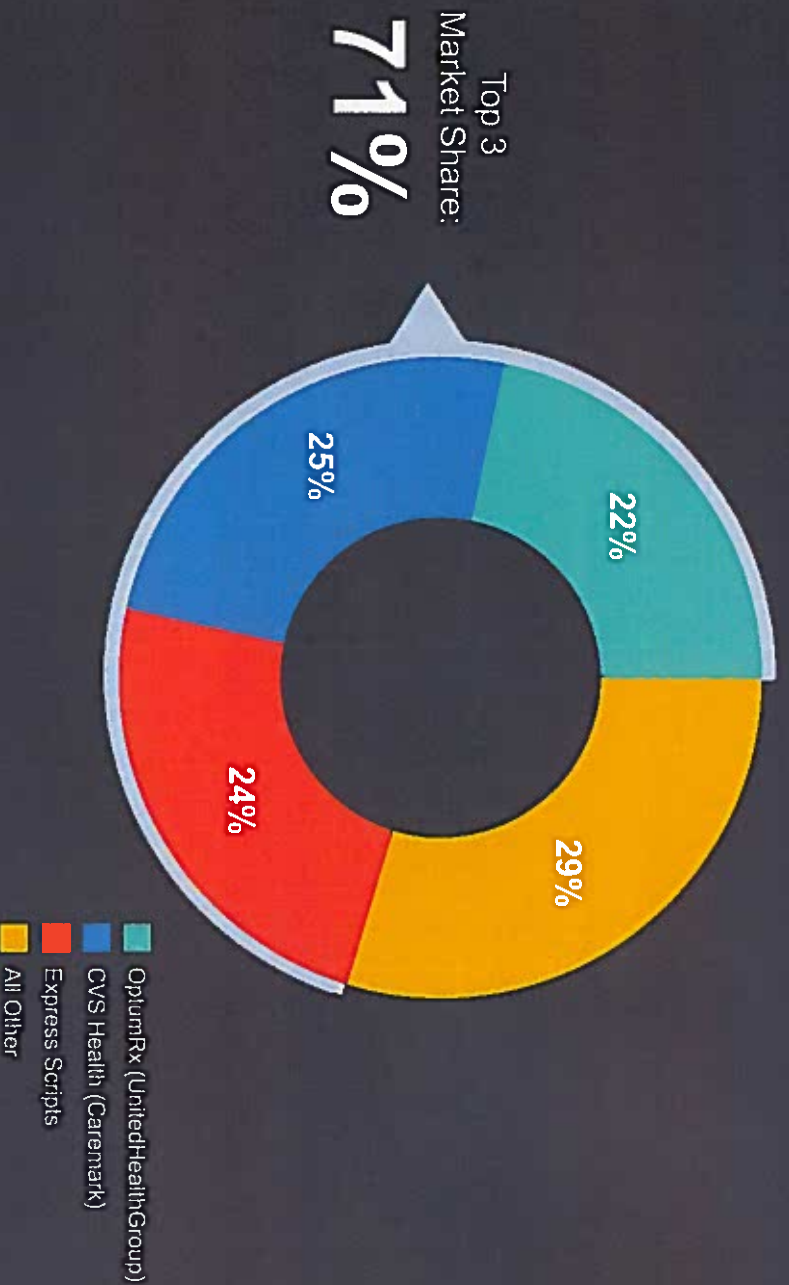
Projected Cumulative Growth in Spending (in millions), 2017–2026



Source: CBO's National Health Expenditures Report, 2018
Note: Total health sales include brand medicines and generics

Insurers and PBMs have a lot of leverage to hold down medicine costs.

Negotiating power is increasingly concentrated among fewer pharmacy benefit managers (PBMs).



Source: Drug Channels Institute, February 2018

Insurers determine:

FORMULARY

If a medicine is covered

TIER PLACEMENT

patient cost sharing

ACCESSIBILITY

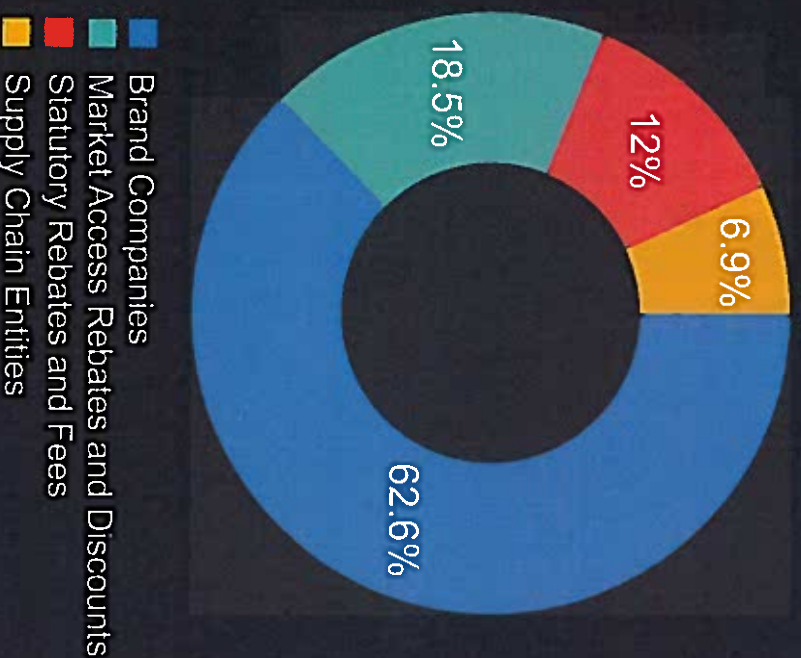
utilization management through prior authorization or fail first

PROVIDER INCENTIVES

preferred treatment guidelines and pathways

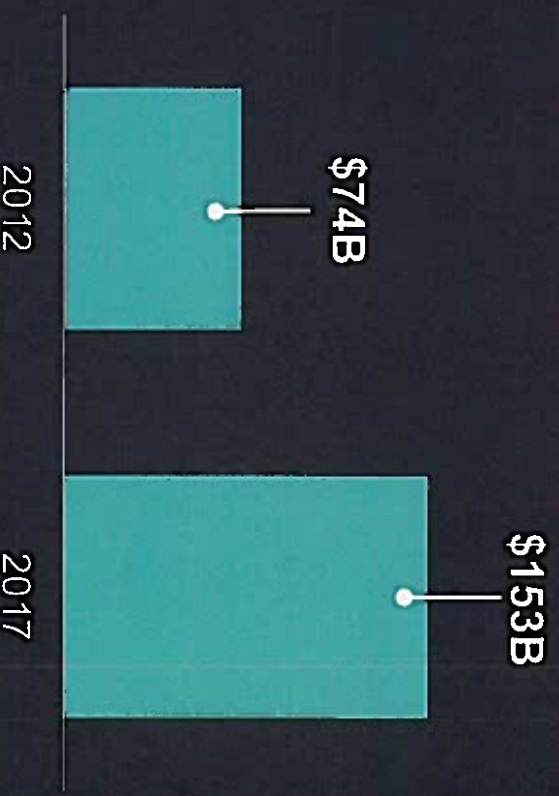
In fact, more than 1/3 of the list price is rebated back to payers, the government and other stakeholders in the supply chain.

Brand companies retain just 63% of list price spending on medicines



Source: Berkeley Research Group, *Fear At Drug Charade's Inside*

Rebates, discounts, fees and other price concessions have more than doubled since 2012

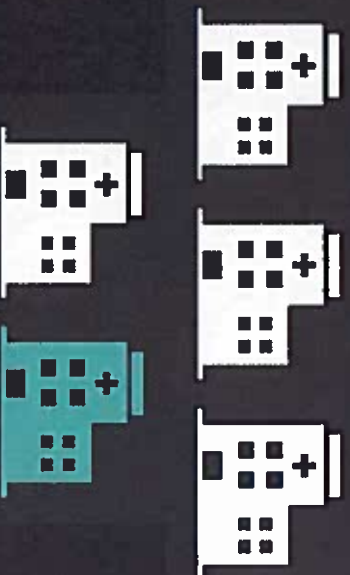


Hospitals also benefit from misaligned incentives in the supply chain.

Nearly one in five hospitals marks up medicine prices to 700% or more of their acquisition cost

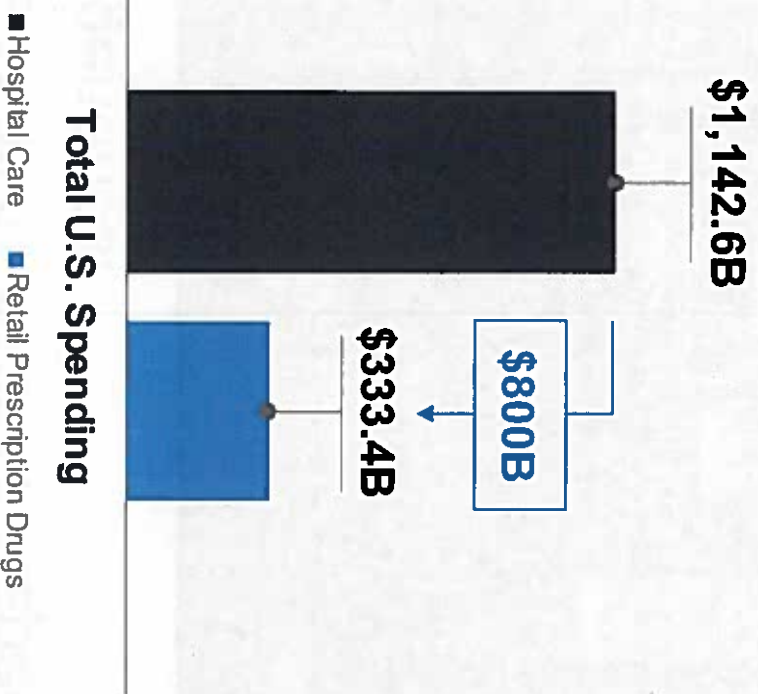
If a hospital purchased a medicine for \$150, a 700% markup could result in patients being billed \$1,050 for that medicine

An analysis found that 320 hospitals mark up some medicine prices at least 1000%



And patients face higher out-of-pocket costs at the pharmacy counter even though total spending on hospital care is far higher.

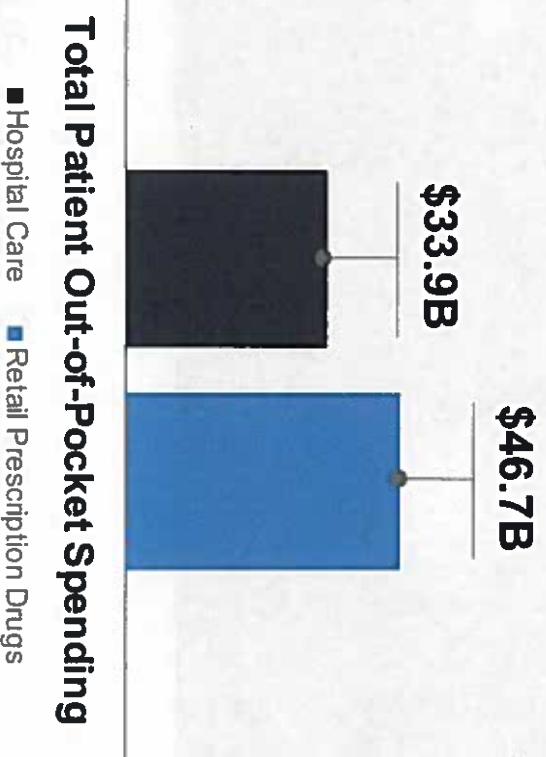
Hospital spending is much higher than prescription drug spending.



Total U.S. Spending

■ Hospital Care ■ Retail Prescription Drugs

Yet patients pay more out-of-pocket for medicines than for hospital care.

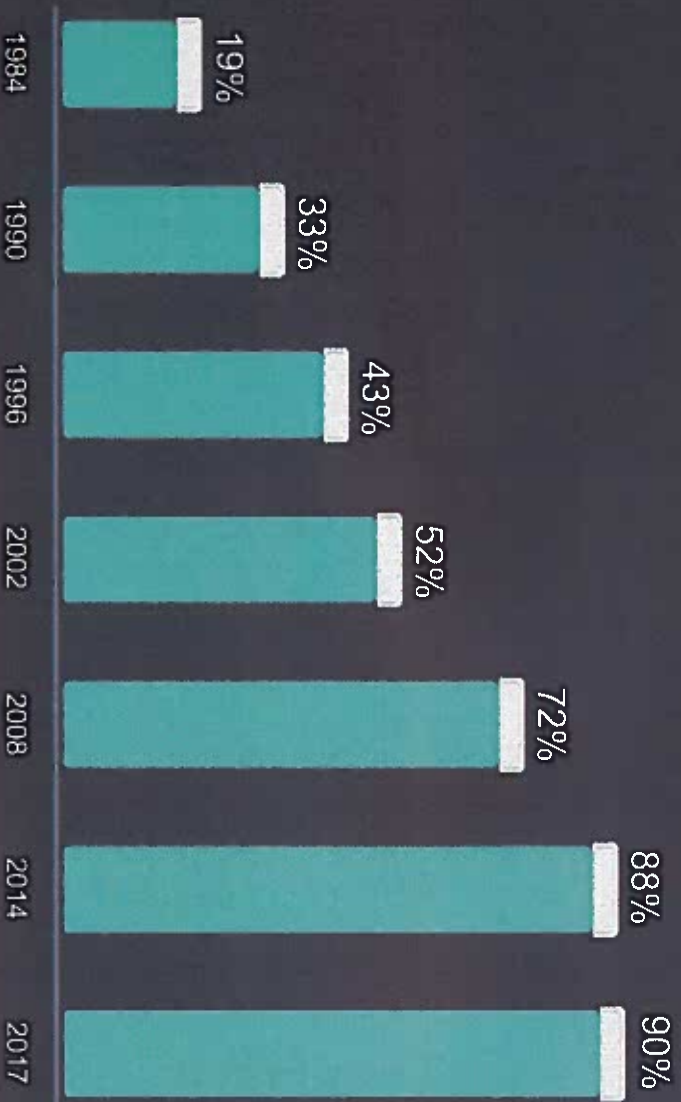


Total Patient Out-of-Pocket Spending

■ Hospital Care ■ Retail Prescription Drugs

Source: Drug Channels Institute analysis of National Health Expenditure Accounts, Office of the Actuary in the Centers for Medicare & Medicaid Services, December 2018. Outpatient prescription drug figures exclude inpatient prescription drug spending within hospitals and nearly all provider-administered outpatient drugs. Figures in billions.

90% of all medicines dispensed in the United States are generics.



Source: IMS Health
Source: Generic Pharmaceutical Association, "Generic Drug Savings in the U.S." Report, 2018

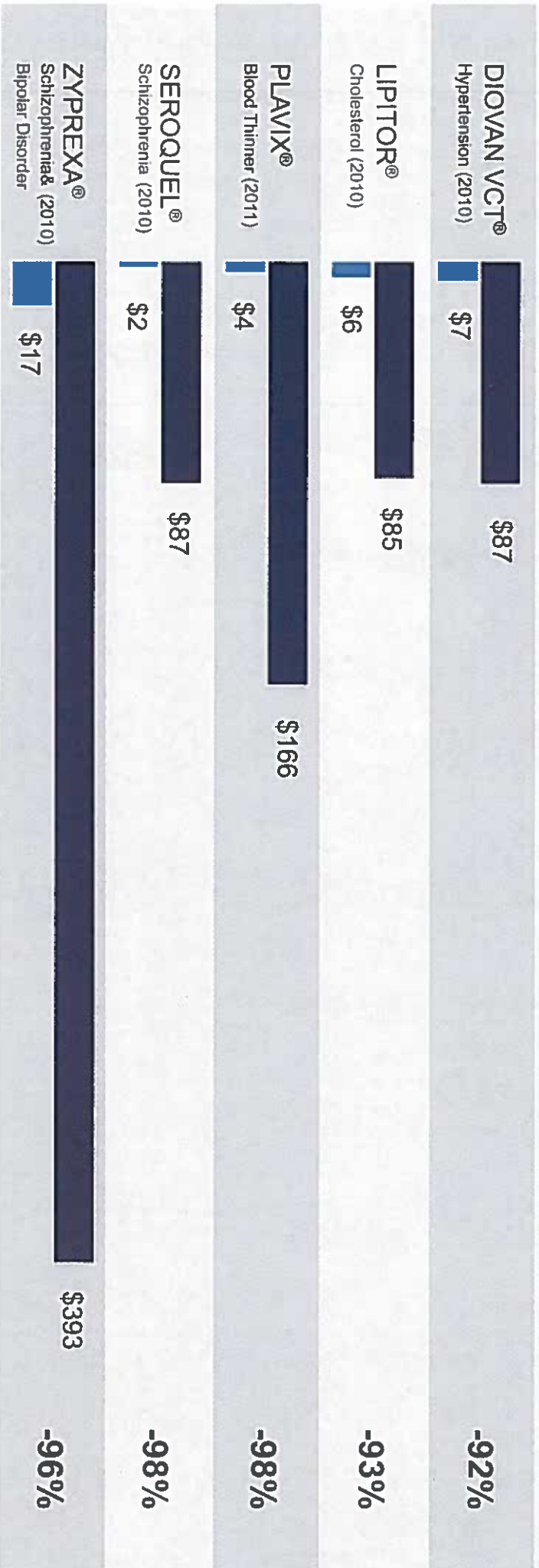


\$1.79
trillion
10-year savings
(2008-2017)

Generics cost a fraction of the price of the initial brand medicine.

Medicine

% Change



Brand Name THEN

Generic NOW

Note: 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 December 2017. Source: (CVIA) Institute for Human Data Science analysis for PhRMA, May 2018.

Competition from generics and biosimilars is expected to reduce U.S. brand sales by \$95 billion from 2019 to 2023.



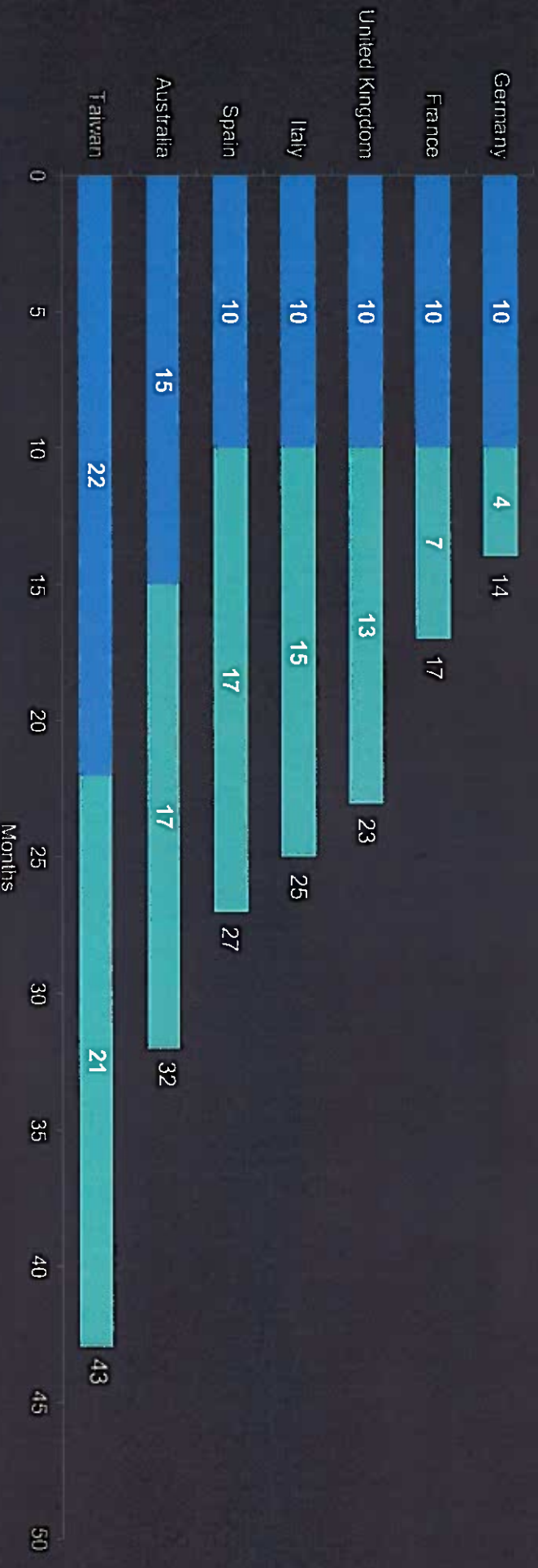
At the same time, innovator companies race to be the first to market with a new medicine.



The competitive U.S. market provides patients with access to innovative medicines faster.

For example, American patients have access to cancer medicines about two years earlier.

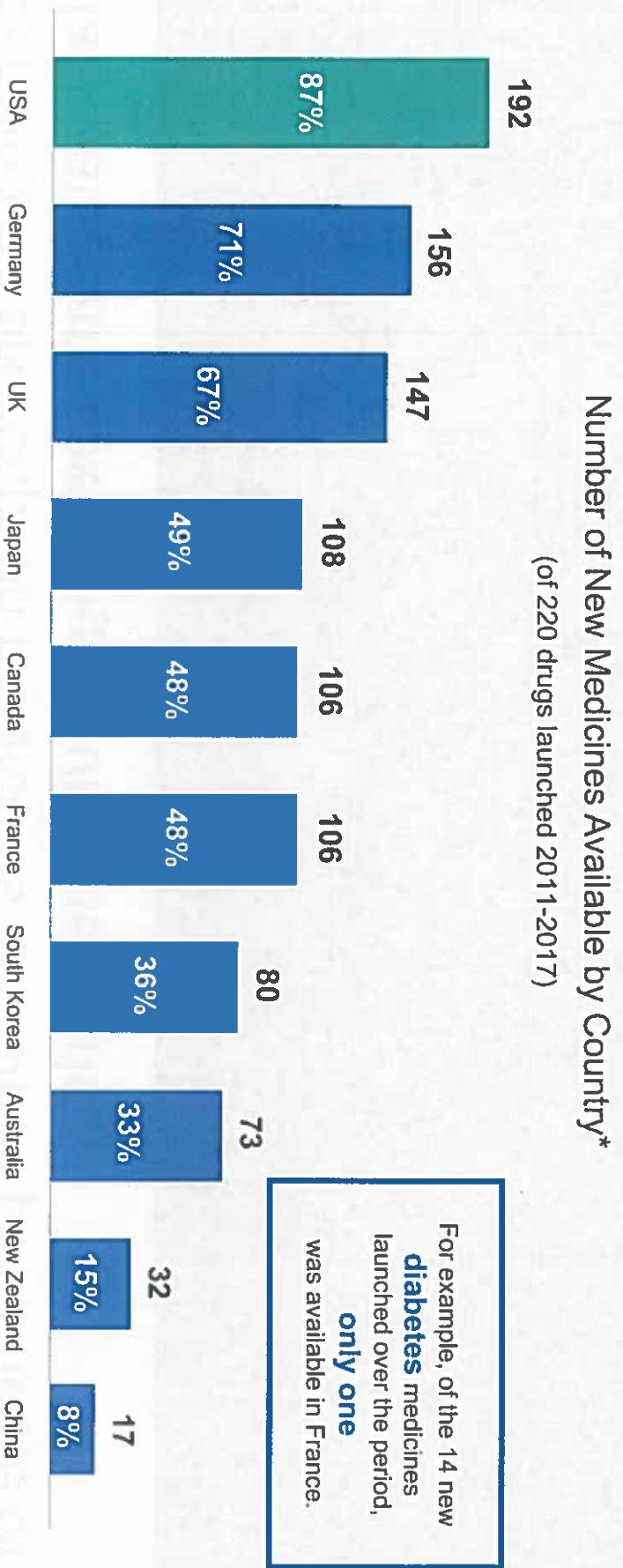
Delay in cancer medicine approval and reimbursement, 2010-2014



Source: PwC's analysis of F.H.S. Consulting Group's "Patient Access to Innovative Oncology Medicines Across Developed Markets," June 2016

More medicines are available to U.S. patients.

Nearly 90% of newly launched medicines from 2011 to 2017 were available in the United States, compared to just two-thirds in the UK, half in Canada and France, and one-third in Australia.



Note: New Molecular Entities (NME) approved by the FDA, European Medicines Agency (EMA) and Japan's Pharmaceuticals and Medical Devices Agency (PMDA) and launch in any country between 2011-2017
Source: PhRMA analysis of IQVIA Analytics

Spending on prescription medicines is a small percentage of total health care spending around the world.

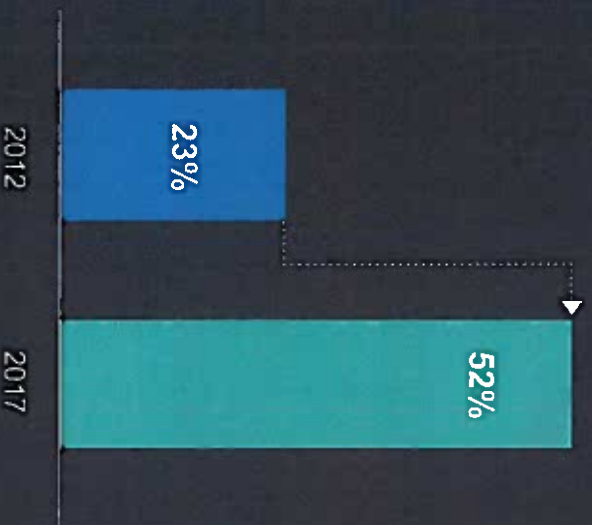


Prescription Medicines as a Percentage of Total Health Care Spending

Note: Total health care spending includes hospital care, physician and clinical services, home health and nursing home care, government administration and net cost of private health insurance, dental, income taxes and other professional services as well as durable medical equipment.
Source: OECD Health Statistics Database (accessed February 2016); Altman Institute, 2015, A ten year projection of the prescription drug share of national health expenditures (pdf) (pdf) (pdf)

Patients in the United States are facing rising out-of-pocket costs and other barriers to care.

Percent of plans with deductibles on prescription drugs



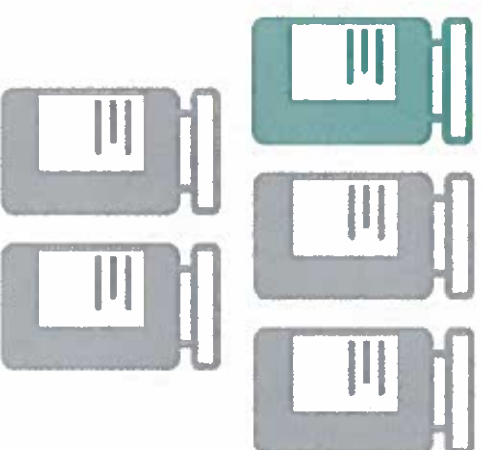
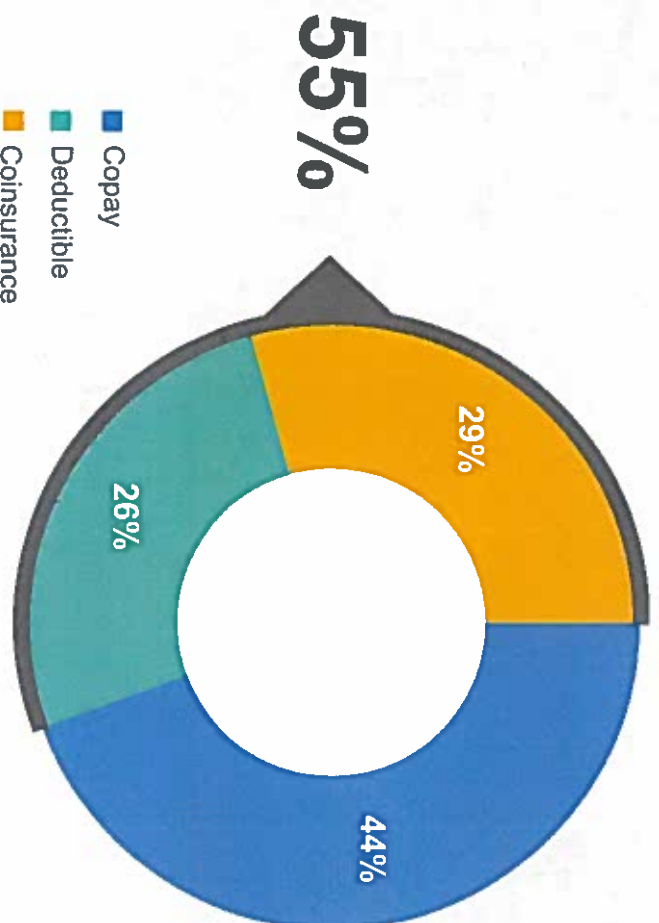
The use of four or more cost-sharing tiers is becoming more common on employer plans



And too often negotiated savings do not make their way to patients.

More than half of commercially insured patients' out-of-pocket spending for brand medicines is based on the full list price

Cost sharing for nearly 1 in 5 brand prescriptions is based on list price



Sharing negotiated discounts with patients would increase premiums about 1%.

Certain commercially insured patients could save \$145 to more than \$800 annually.

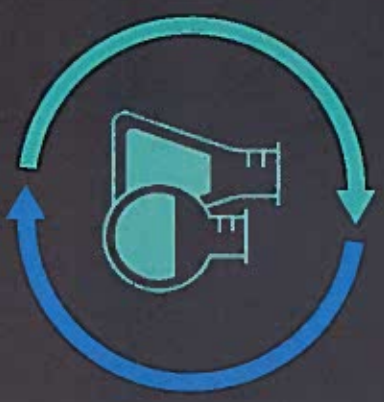
Change in Plan Costs with Shared Rebates

	PLAN TYPE		
	Traditional PPO	Copay HDHP*	Coinsurance HDHP
Net Plan Per Member Per Month Spend	\$433.91	\$374.41	\$372.89
Change in Plan Costs \$	\$0.82	\$2.62	\$3.84
Change in Plan Costs %	0.2%	0.7%	1.0%

NOTES: Plan cost includes medical and pharmacy claims
 * HDHP = High-deductible health plan

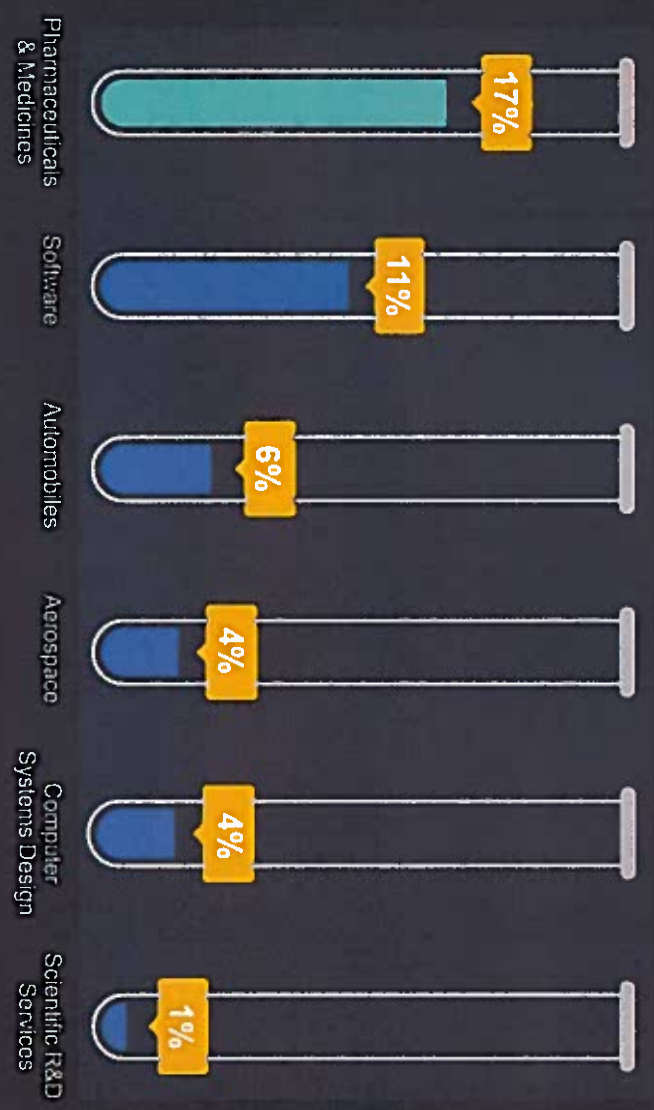
Biopharmaceutical companies use today's revenues to invest in tomorrow's treatments and cures.

Invested about
\$90 Billion
in R&D in 2016



And
20%
of revenues are reinvested
into R&D

Industry invests **17%** of all domestic research and development funded by U.S. businesses



NOTE: The remaining 57% share of business R&D spending is conducted by other industries, including subsectors of the machinery sector, the computer and electronics products sector, and the electrical equipment, appliance, and components sector. Source: ResearchWeek.com report and PhRMA analysis of National Science Foundation data.

We need a public policy environment that recognizes and rewards risk taking.

On average, it takes more than **10 years and \$2.6B** to research and develop a new medicine.



Source: Tufts Center for the Study of Drug Development (CSDD).
Source: Pharmaceutical Research and Manufacturers of America (PhRMA). "Researching Alzheimer's, Hepatitis, Seizures and Sleeping Stones." 2015.
Source: Pharmaceutical Research and Manufacturers of America (PhRMA). "Researching Cancer Medicines: Seizures and Sleeping Stones." 2014.

Collectively, these market-based reforms can make medicines more affordable and accessible.



MODERNIZE THE DRUG DISCOVERY AND DEVELOPMENT PROCESS

- Modernize the FDA to keep pace with scientific discovery and increase efficiency of generic approvals
- Promote and incentivize generic competition.



PROMOTE VALUE-DRIVEN HEALTH CARE

- Remove barriers restricting information companies can share with insurers.
- Reform regulations discouraging companies from offering discounts tied to outcomes.
- Modify Medicaid best price requirements.



EMPOWER CONSUMERS AND LOWER OUT-OF-POCKET COSTS

- Provide patients with access to negotiated rebates.
- Address affordability challenges in the deductible.
- Make more information on health care out-of-pocket costs and quality available to patients.



ADDRESS MARKET DISTORTIONS

- Address burdensome regulations that distort programs like the 340B Drug Pricing program.



IMPROVE TRADE AGREEMENTS

- Enforce existing trade agreements.
- Ensure new trade agreements recognize value of innovative medicines.