

The background features a blurred image of several white, round pills on the left side. On the right side, there is a decorative pattern of small, light-colored dots arranged in a grid-like fashion, fading out towards the right edge.

Facing Specialty Medication Challenges in 2012

Leveraging Cost, Integration and Strategy

Specialty Medication: Then

What was a specialty drug?

- Extensive evolution of the term (and market) since 1978
- Originally these were a small group of drugs that required highly advanced biotechnical methods of development and manufacturing
 - *1993 there were about 40 products*
- Required special handling, administration and extensive patient monitoring
- Due to the intricate processes required to produce, these drugs were very expensive by nature
 - *Only a few manufacturers had the technology in place*

Specialty Medication: Now



What is a specialty drug?

- » Much larger segment of the prescription drug market, both in drug number and dollars.
 - » *Currently over 200 products.*
- » Some do not require the same extensive level of manufacturing but are lumped into the specialty classification purely based on cost.
 - » *Specialty vendors often get advantage pricing over retail networks.*
- » Some still require special handling, administration and patient monitoring.
 - » *Many are now patient-centric.*
- » Are all still **very expensive** by nature.

Specialty Medication Characteristics

Specialty medications today are those that:

» Are used to diagnose and/or treat a variety of disease states, not merely complex or rare conditions.

» *Arthritis, Psoriasis, Multiple Sclerosis.*

» Do not always require close patient monitoring.

» *Some only require follow-up after treatment has stabilized.*

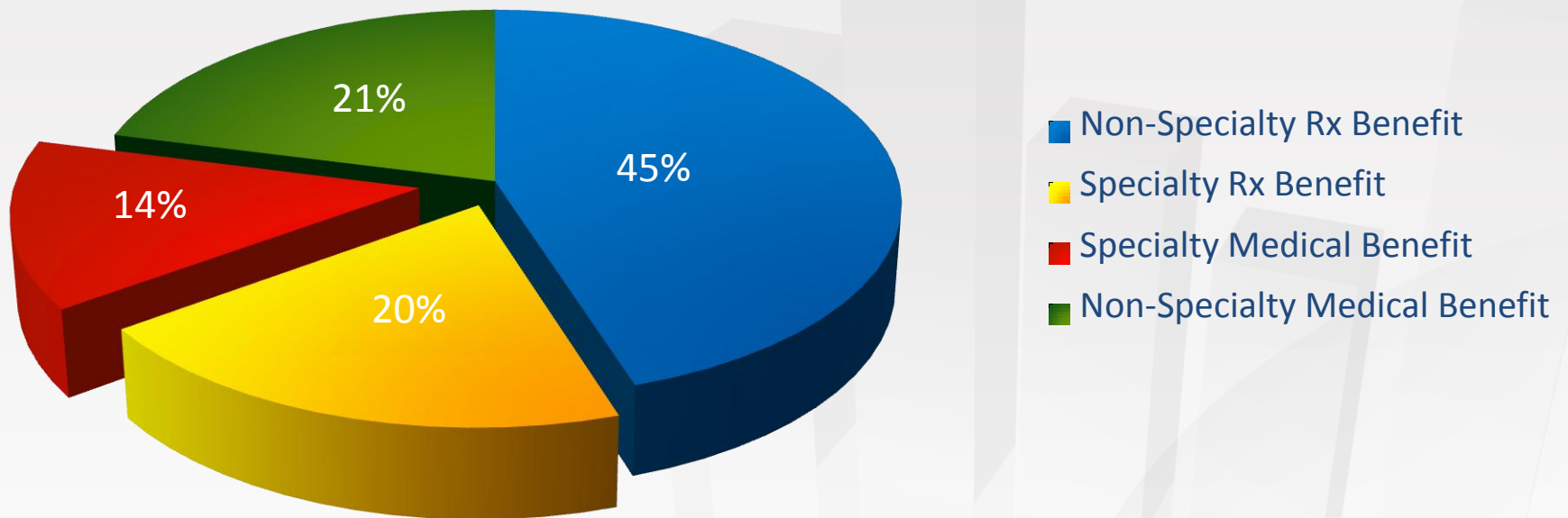
» Frequently require special handling and storage.

» Very few now have limited access or distribution.

» Can be oral or injectable.

» Can carry an annual cost of as much as \$300,000 per patient.

Current Landscape



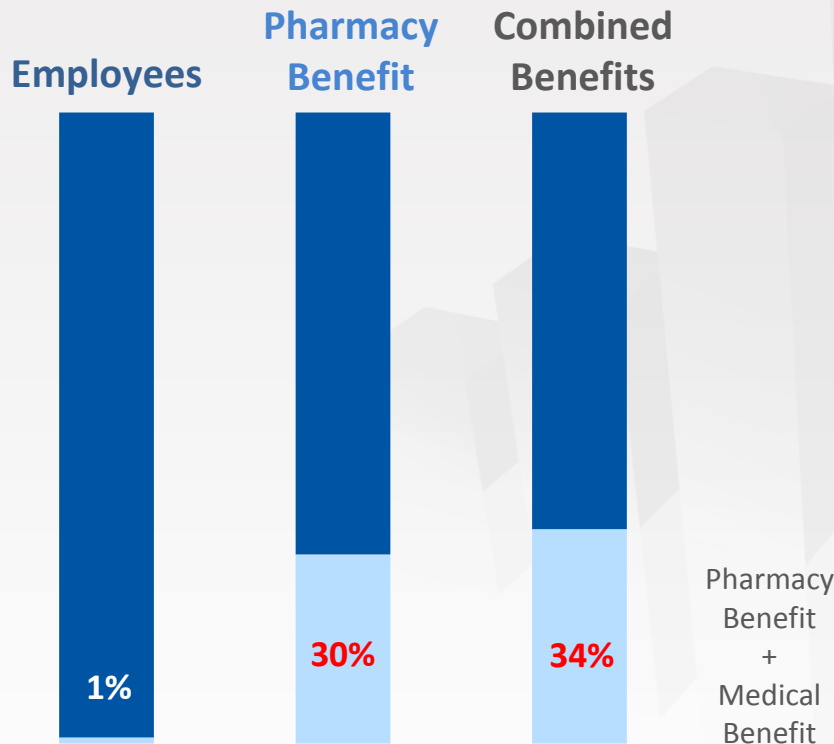
Specialty spend account for 34% of total medication costs.

Current Landscape



- The average annual cost of a single patient on one specialty medication is \$23,000
- Current national specialty drug spend accounts for 34% of total medication costs
 - 45% *Non-Specialty Rx benefit*
 - 21% *Non-Specialty Medical benefit*
 - 20% *Specialty Rx benefit*
 - 14% *Specialty Medical benefit*
- < 1% of members will be the largest cost generators
 - highly disproportional

Current Landscape



Average annual cost of one specialty medication is \$23,000

=
\$

Some members have more than one specialty condition

=
\$

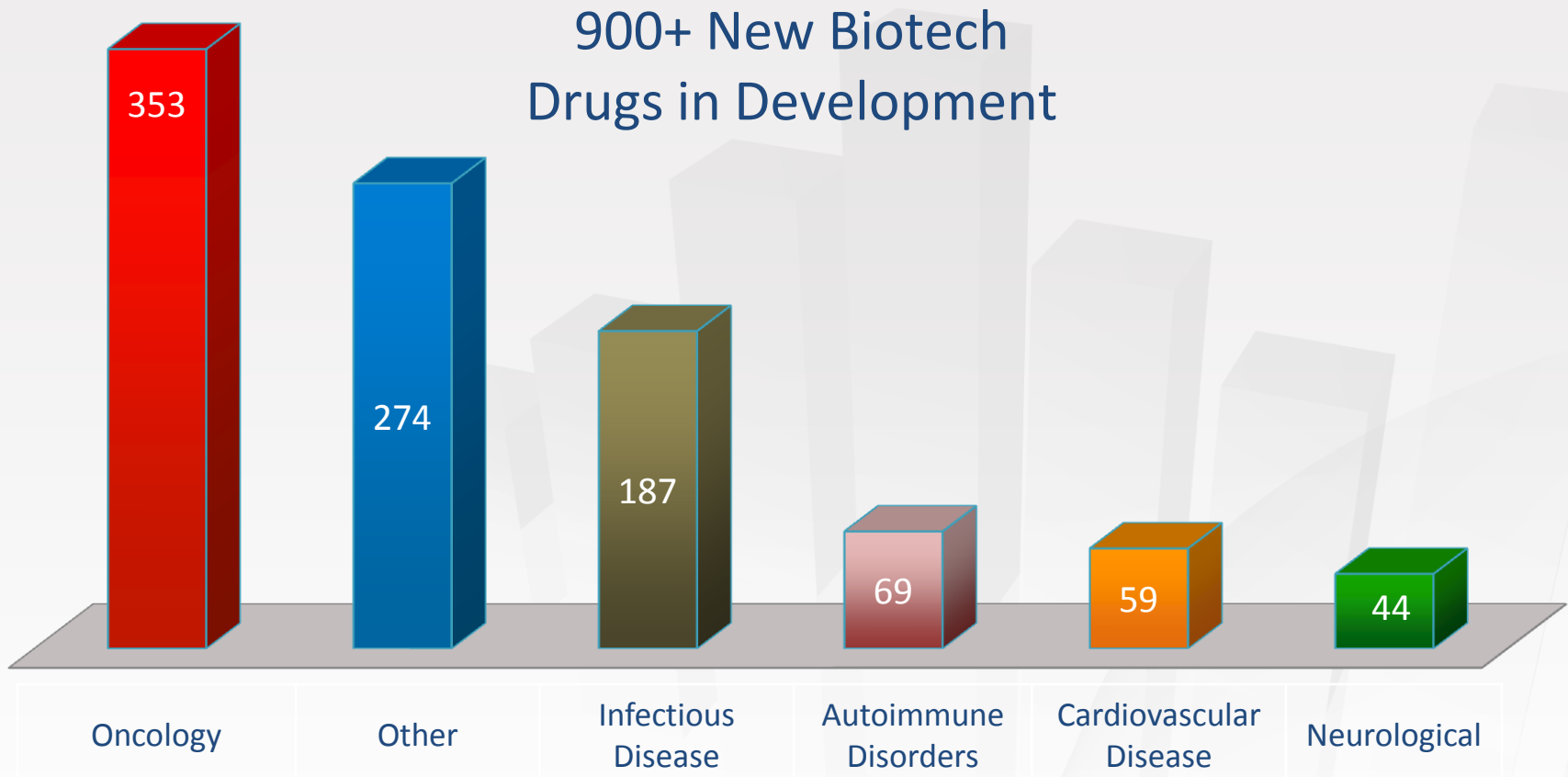
1% of employees = 30% of pharmacy benefit and 34% of combined benefit drug costs

Current Landscape



- Specialty drug market is currently growing at between 18% and 20%, so fast market experts claim that they can't accurately trend
- ~900 Specialty medications are currently in the FDA approval pipeline
- On average 50% of specialty medication spend resides within the medical benefit, the other 50% in the Rx benefit package
- Number of utilizing patients increases by about ~6% annually
- Existing specialty medications increased in price by 11.5% in 2011
- Single fastest growing sector of all health care channels

What Is Driving Specialty Total Outcomes?



Source: "FDA new drug approvals up in 2011: 900 biotech drugs in development". <http://gabionline.net>. Quoting from Pharmaceutical Research and Manufacturers of America (PhRMA) and Cuttill & Co. report. Posted 7/10/2011.

Method of Specialty Drug Coverage

Pharmacy Benefits

» Advantages

- » *Involves a specialty medication vendor platform.*
- » *Offers a significant cost advantage for product acquisition and billing.*
- » *Provides the ability to monitor and measure as each medication goes through typical pharmacy transaction process.*

» Disadvantages

- » *Can be perceived as less patient friendly, creates a three party experience in some cases.*

Method of Specialty Drug Coverage

Medical Benefits

» Advantages

» *Perceived as easier for the patient.*

» *Removes one entity (pharmacy) from the process and creates a two party experience.*

» Disadvantages

» *No method of cost containment.*

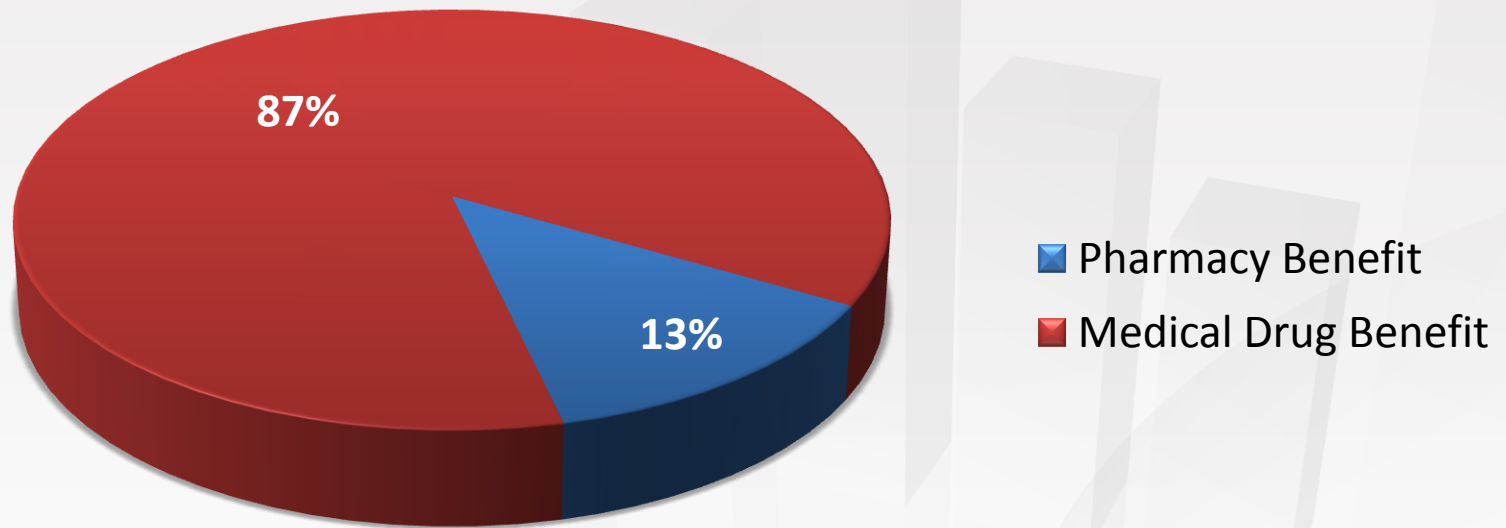
» *No standard of reimbursement.*

» *No standard of claim submission.*

» *Medical billers don't understand drugs.
(lack of knowledge)*

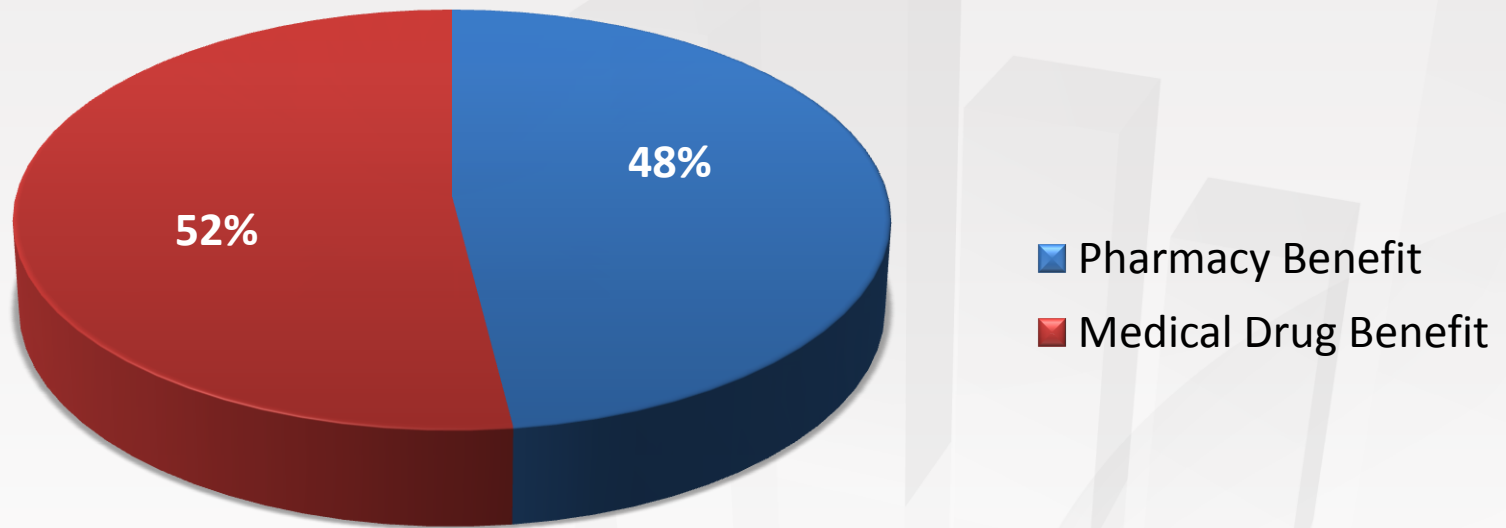
Dynamics of Specialty

Specialty Drug Coverage > 2000

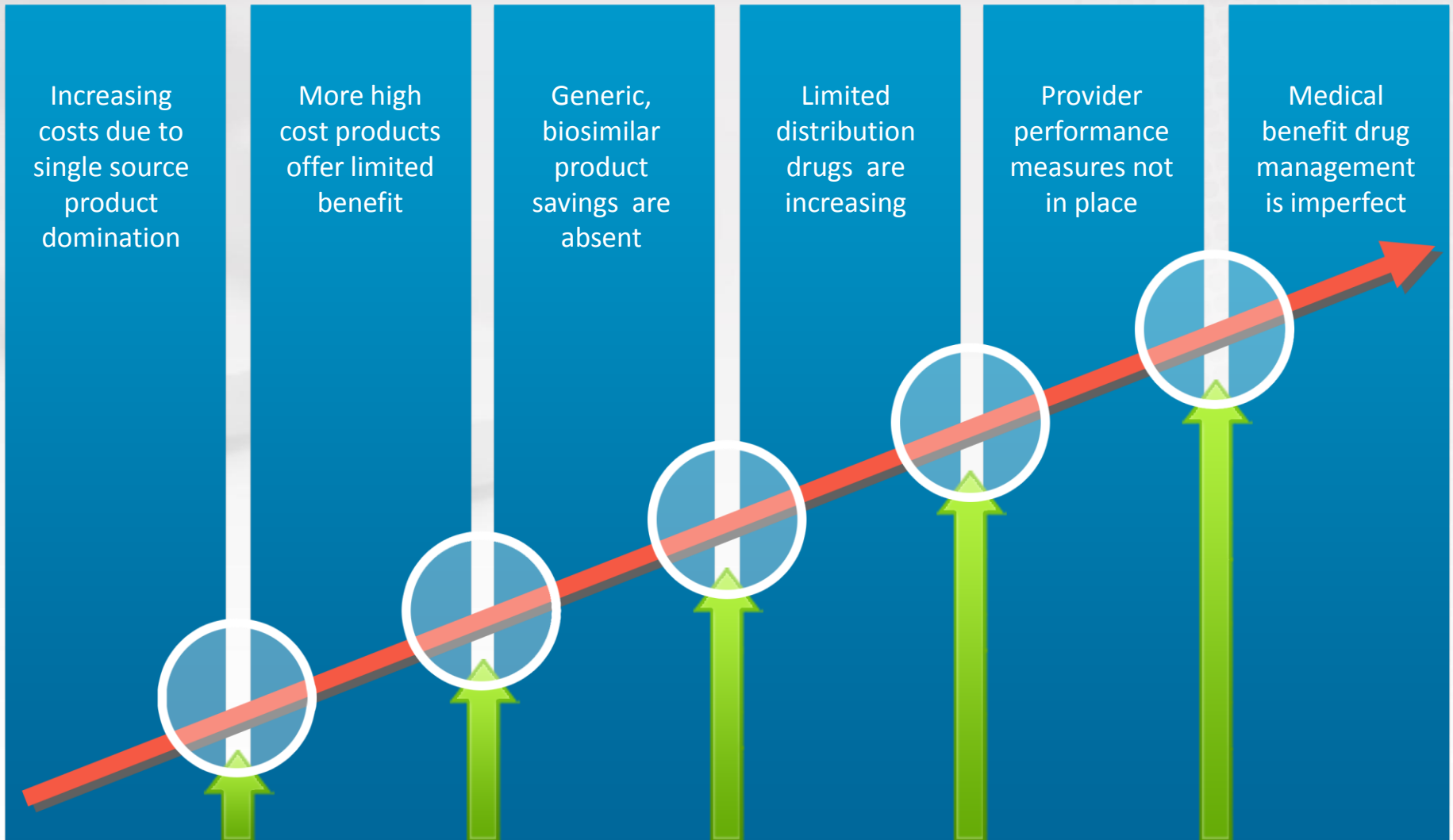


Dynamics of Specialty

Specialty Drug Coverage > 2010



Specialty Market Acceleration



Specialty Medication Strategy



Why is a strategy important now?

- The growing cost of specialty medication use will overshadow any savings from brand/generic transitions, clinical program savings and most other avenues that are currently employed to contain costs within a Plan.
- Growing cost will force containment needs.
 - *In 2005 the total national drug spend was \$210B, of which \$41B was specialty (20%).*
 - *In 2009 the national drug spend was \$315B, of which \$90B was specialty (28%).*
 - *By 2020 estimates are suggesting that 45% of a Plan's total drug expenditure will be on Specialty medications (>\$200B nationally).*

Specialty Medication Strategy



➤ Tiered specialty structure is coming.

➤ *Rebating*

➤ *Preferred vs. Non Preferred*

➤ *Pharma alignment with access channels*

➤ Specialty drugs will not have “generics”.

➤ *Biosimilars are coming; draft guidelines already released by the FDA.*

➤ *Biosimilars will not have the price offset that we see with generics on traditional medications.*

➤ *Lack of competition due to expense to produce*

➤ Legislation may affect the ability of Payers to stratify specialty medications.

Specialty Medication Strategy



Pharma has recognized that profitability on specialty products far exceed that of traditional drug lines and they are switching gears in drug development philosophy.

Pharma will work with qualified patients to keep their copays affordable

No Copay Assistance

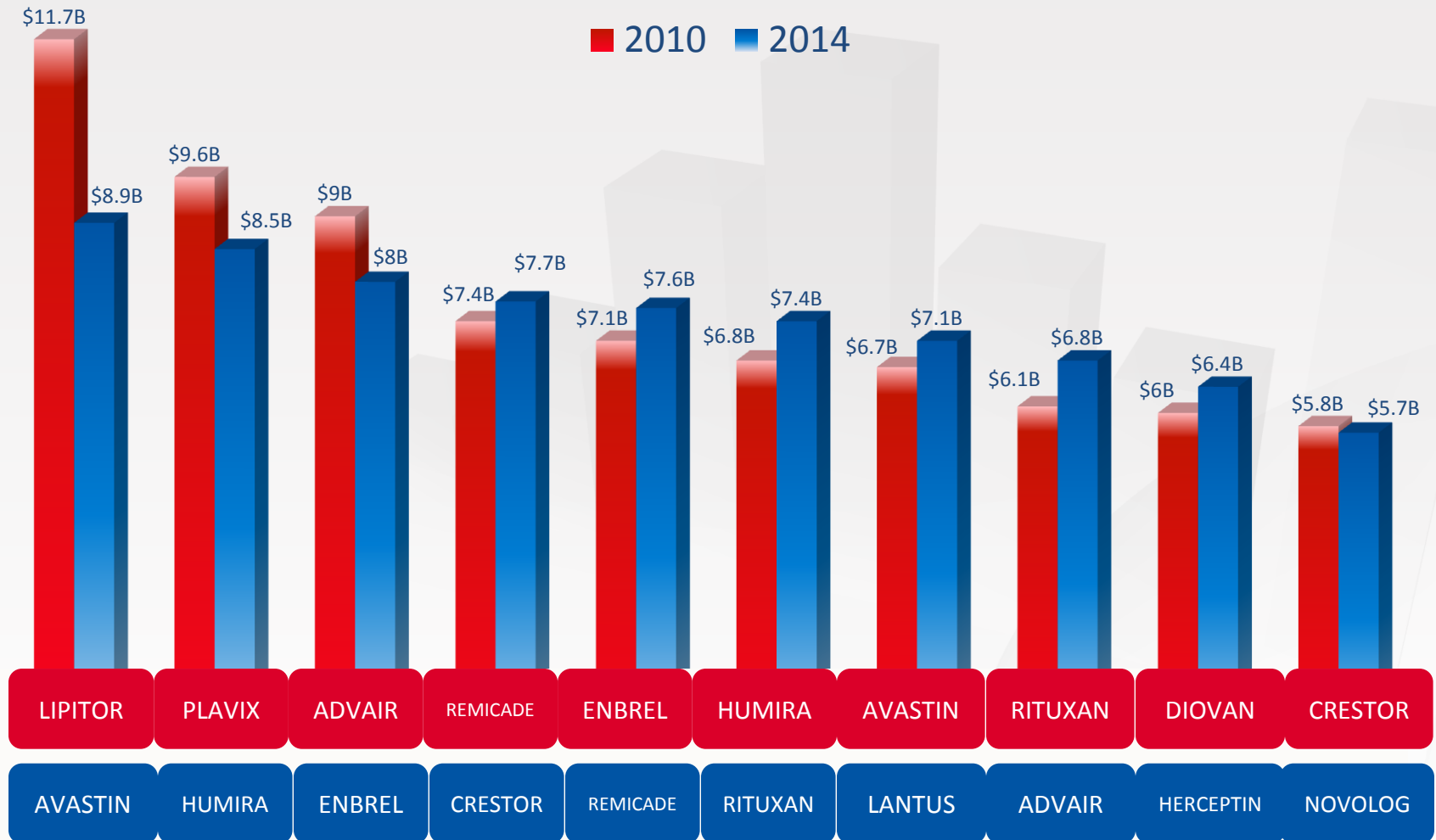
Drug Cost	\$4,500
Member copay: 10% =	\$450
Plan coverage:90% =	\$,4050

Copay Assistance

Drug Cost	\$4,500
Member copay (Before Assistance) : 10% =	\$450
Pharma Assistance =	\$400
Member Share (After Assistance) =	\$50
Plan coverage:90% =	\$,4050

Anticipating Total Cost

The Top 10 ➤ 2010 vs. 2014 Forecast



Key Specialty Strategy Concerns



➤➤ Many moving points to consider, will only get more confusing.

➤➤ *Pharma is pushing specialty drugs due to lucrative returns.*

➤➤ Specialty medication vendor has little incentive to develop a real strategy

➤➤ *Is the fox guarding the hen house?*

➤ *Profit center is based on medication use*

➤ *PBM-owned specialty vendors are tied together on profitability*

➤➤ *Strategic savings are paid for (upselling cost avoidance measures)*

Key Specialty Strategy Concerns

CVS
CAREMARK

accredoSM

Walgreens

CardinalHealth

AmerisourceBergen[®]

CuraScript[™]

➤➤ Companies with investment capital are looking very hard at entering specialty medication distribution.

➤➤ *Biggest specialty vendors are calling the shots due to limited competition:*

- CVS Caremark
- Accredo (MedCo)
- Curascript (Express)
- Walgreens

➤➤ *New competitors:*

- Cardinal Health
- AmerisourceBergen
- Unknown

Key Specialty Strategy Concerns



- Tracking specialty spend under medical benefit is very difficult, even when provided the medical data to do so
 - *Carving all specialty provisions out of the medical benefit is not the solution.*
 - *Optimal specialty provision will provide for both pharmacy and medical benefit to cover what makes the most financial and clinical sense.*
 - *Broad strokes will not work*

What to Do?



➤➤ Ask your Pharmacy Benefit Manager about their specialty medication strategy

➤➤ *Does it sound reasonable?*

➤➤ *Is it a measurable, quantifiable strategy that you feel comfortable with?*

➤➤ *Is it time to find a better strategy?*

Questions?

