

Addressing High Priced Drugs

New Hampshire Prescription Drug Affordability Board

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About AHIP

AHIP is the national association whose members provide health care coverage, services, and solutions to hundreds of millions of Americans every day. We are committed to market-based solutions and public-private partnerships that make health care better and coverage more affordable and accessible for everyone.

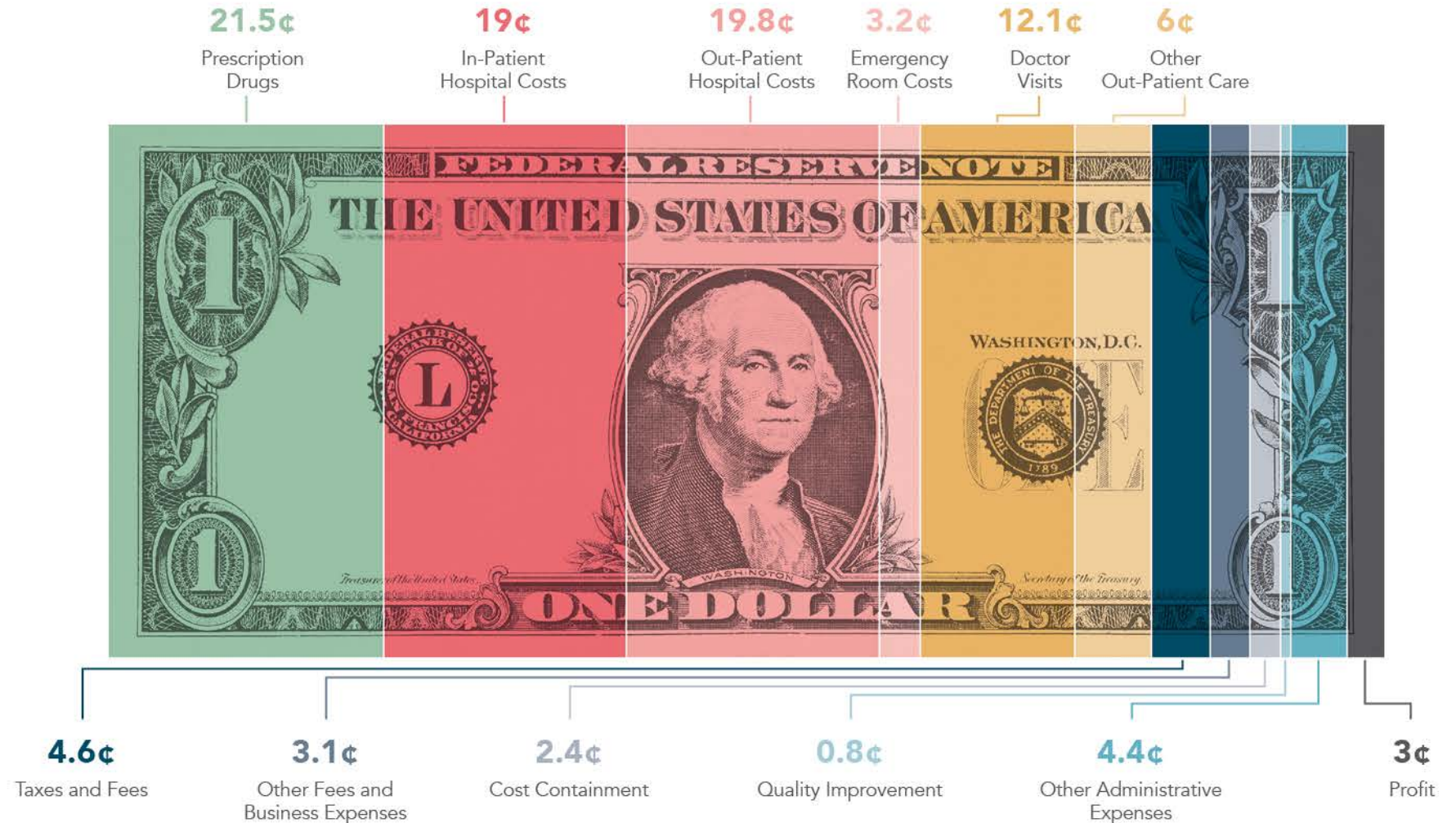
Visit www.ahip.org to learn how working together, we are Guiding Greater Health.

Where Does Your Health Care Dollar Go?

Your premium—how much you pay for your health insurance coverage each month—helps cover the costs of the medications and care you receive and improves health care affordability, access and quality for everyone. **Here is where your health care dollar really goes.**

This data represents how commercial health plans spend your premiums. This data includes employer-provided coverage as well as coverage you purchase on your own. Data reflects averages for the 2016-18 benefit years. Percentages do not add up to 100% due to rounding.

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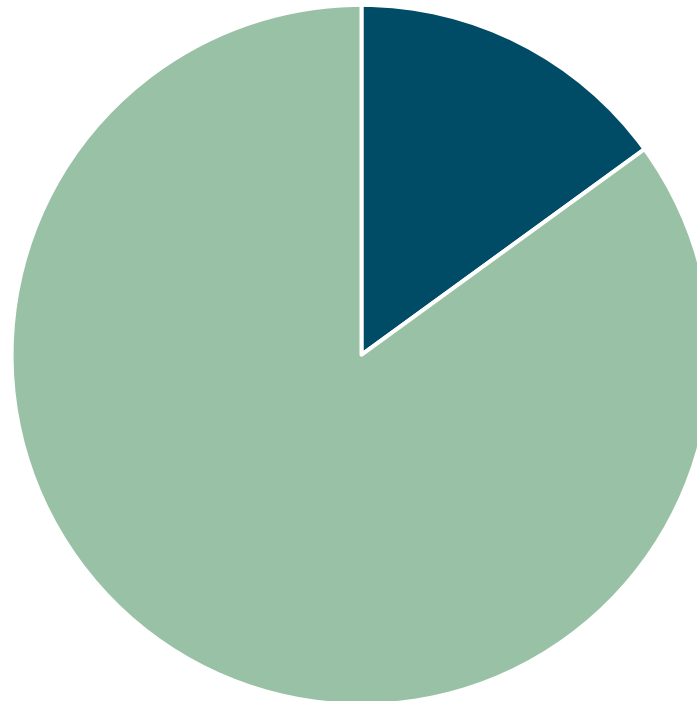


Medical Loss Ratio

Administrative Costs:

- Customer service lines
- Websites & online consumer tools
- Provider engagement
- Pharmacy benefits management
- Fraud & abuse prevention
- Accreditation costs & compliance with state laws
- Agent & broker commissions
- Operating costs (salaries, facilities, IT)
- Marketing and enrollment
- Claims administration

Health Plan MLR



■ Large Group Admin Costs (15%)

■ Medical Costs (85%)

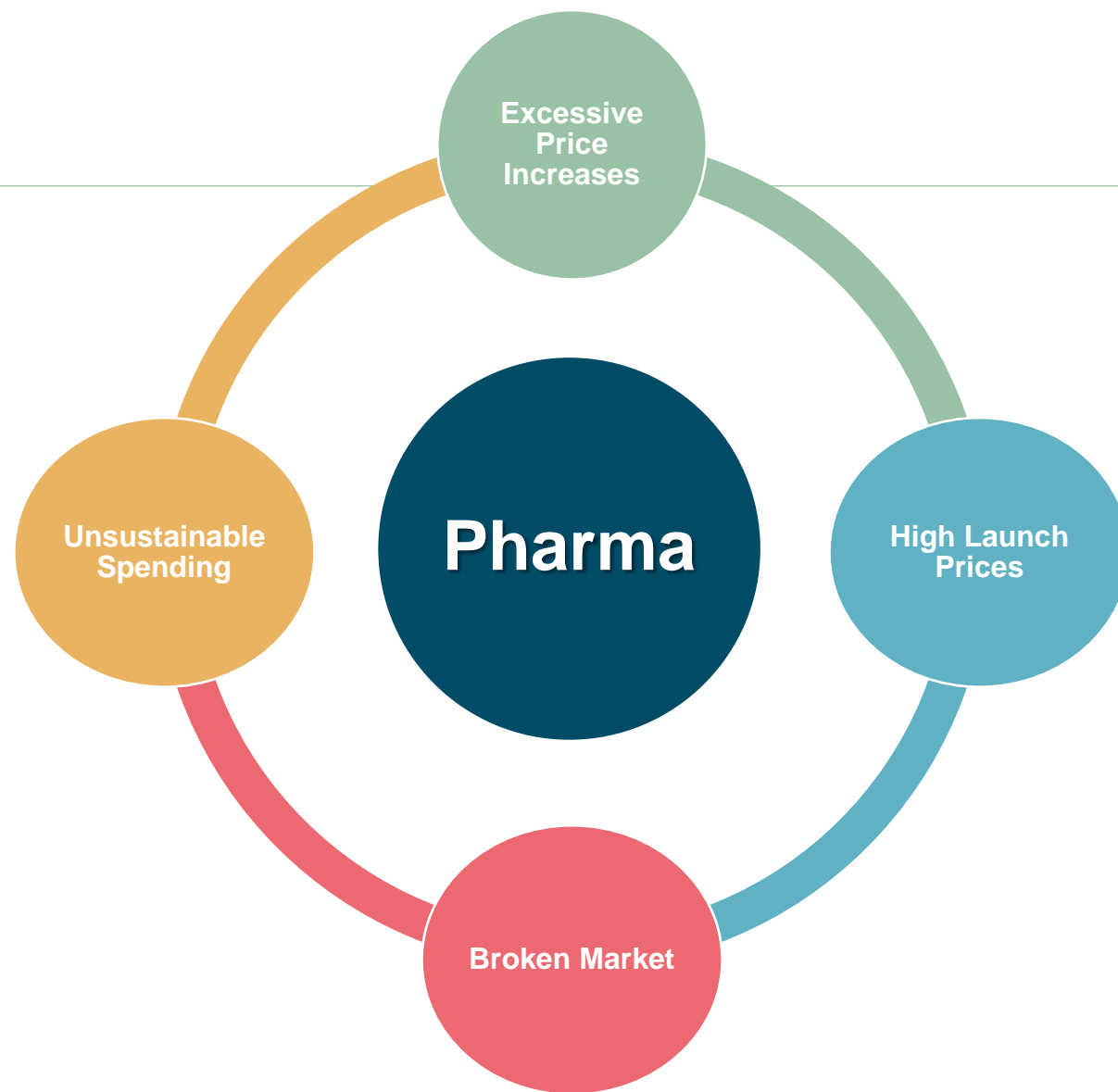
Medical Costs:

- Doctor's visits
- Other health care provider visits (i.e. physical therapy)
- Hospital stays
- Prescription drug costs (net rebates)
- Medicaid equipment and supplies
- Quality Improvement activities

If 85% MLR is not met,
health plans provide
rebates to policyholders

Small Group & Individual MLR is 80:20

What Drives High Drug Prices: Four Themes



What Does NOT Drive Higher Drug Prices: Rebates

- Health insurance providers are Americans' bargaining power, negotiating lower drug costs for everyone. Insurers pass on those savings directly to consumers through lower out-of-pocket costs and premiums.
- Some claim that negotiating for lower drug costs for millions of Americans makes drug prices go up. Common sense – and a growing body of research – says that's not true.
- Drug manufacturers only offer rebates to drugs that have competition so they can get better placement on formularies and be prescribed to more patients.
 - The most expensive drugs – those that have no competition – do not offer rebates.
- A recent [analysis](#) compared price increases for rebated and non-rebated drugs and found that price increases were roughly the same for both groups, so rebates were not driving higher price increases.
- The U.S. House Oversight Committee's multi-year [Drug Pricing Investigation](#) also concluded:
 - “This data, which has never before been shared with the public, **undermines industry claims that price increases are primarily due to increasing rebates and discounts paid to pharmacy benefit managers (PBMs).**”
 - “In addition, documents show that **PBMs secured contractual provisions that disincentivized drug companies from raising list prices. Without those provisions secured by PBMs, drug companies likely would have raised list prices more.**”

Other Factors Driving High Costs for Patients

Government-
Granted
Monopolies



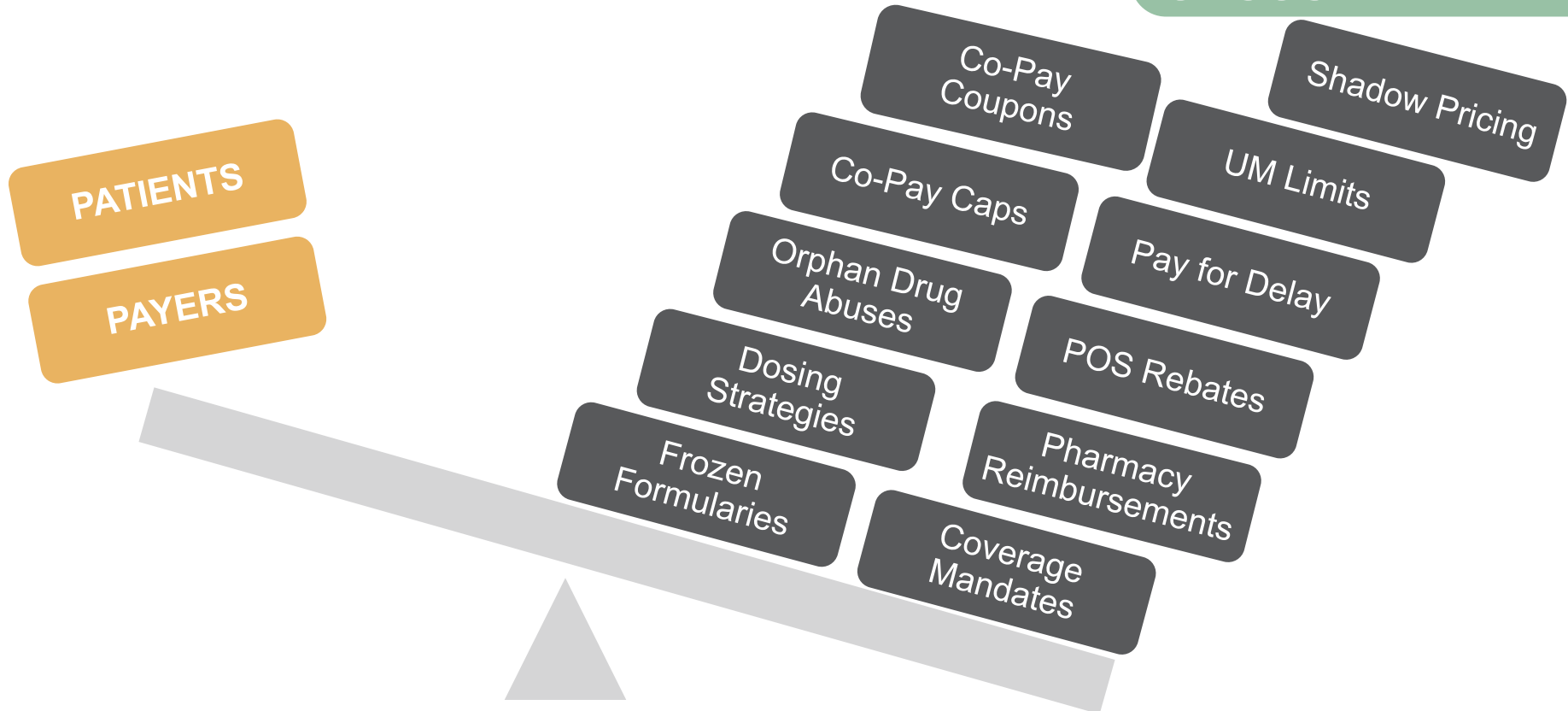
Market
Dysfunction



Limits on Insurers'
Cost-Saving
Measures



**HIGH LAUNCH PRICES
LARGE INCREASES
UNSUSTAINABLE SPEND**



Case Study: Copay Coupons

The House Oversight Committee's Drug Pricing Investigation found that **drug makers use patient assistance programs as a sales tool** – focusing on their rates of return, encouraging patients to stay on branded drugs, and subsidizing third-party foundations to drive sales and attract patients who otherwise might not have used the high-priced drug.

The Committee stressed that these programs **“do not provide sustainable support for patients and do not address the burden that the company’s pricing practices have placed on the U.S. health care system.”**

Studies prove that these promotions are used to increase sales, fueling increased drug spending.

- Drugs with coupons had a higher annual price growth (12-13%) than drugs without coupons (7-8%).
- Drug makers use coupons to keep prices high, even after lower-cost generics come to market. After a generic alternative entered the market, coupons increased spending on branded drugs by \$30-\$120 million per drug over 5 years.
- For one cancer treatment, one manufacturer projected a potential rate of return of \$8.90 for every \$1 spent on their copay assistance program.
- A National Bureau of Economic Research working paper studied MS drugs to estimate the broader impact of coupons and found:
 - Coupons raise negotiated prices of multiple sclerosis drugs by 8% and results in just under \$1 billion in increased U.S. spending annually.
 - Combined, the results suggest coupons increase spending on couponed drugs without bioequivalent generics by up to 30 percent.

Other Proposals That Perpetuate a Broken Market

Copay Caps

- Sets a maximum or fixed amount for a patient's cost sharing for a drug
- Balloon effect – may bring temporary relief to one patient while raising costs of other services and premiums for all
- Does nothing to address the underlying cost of the drug but instead empowers drug companies to raise their prices even more because there's less public visibility

Frozen Formulary

- Prohibits removal of a drug from a formulary or moving it to a higher cost tier
- Plans cannot replace drugs with new, clinically appropriate, and less expensive alternatives
- Health plans are committed to providing notice and alternatives for consumers when there is a change in formulary

Point of Sale Rebates

- Requires rebates to go to specific patients at the pharmacy counter
- Insurers already pass on negotiated savings directly to consumers through lower out-of-pocket costs and/or premiums
- Delivering rebates to a small number of patients means taking those savings away from all consumers that receive them today
- Focusing on how savings are distributed is a deliberate tactic to avoid addressing the more serious issues surrounding the lack of competition, transparency, and accountability in drug pricing

Physician-Administered Specialty Drugs

A double-whammy of high prices and exorbitant markups

What are physician-administered drugs?

- Physician-administered drugs are those that cannot be self-administered by the patient or a caregiver. These drugs are typically infused or injected by a health care provider in a physician's office, clinic, infusion center, or hospital.
- These are commonly specialty drugs – high-priced medications that treat complex, chronic, or rare conditions (e.g., cancer, multiple sclerosis, rheumatoid arthritis) that commonly have special handling and/or administration requirements.
- The number and price of specialty drugs have rapidly increased in recent years. The price of a specialty drug can range from thousands to tens of thousands of dollars per regimen.
 - [AARP](#): In 2020, specialty drugs were 13x more expensive than brand prescription drugs
 - [JAMA](#): Specialty drugs are a leading contributor to drug spending growth
- Traditionally, these drugs are provided by hospitals or physicians' offices who purchase these drugs directly from the wholesaler and then bill the health insurer for both the drug and the administration cost.
 - This practice (often called “buy and bill”) is wasteful and expensive for everyone except for the hospitals and doctors who are administering these drugs at their sites of care
 - As noted recently by the Journal of the American Medical Association (JAMA), under buy-and-bill practice, **“physicians and hospitals face limited incentives to mitigate spending.”** ([JAMA](#))

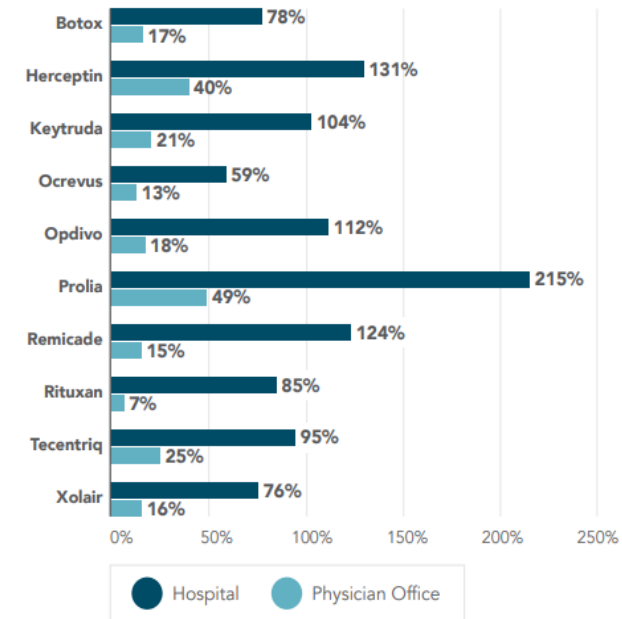
The Result: Exorbitant Markups

- AHIP recently released a [study](#) that analyzed the cost of 10 physician-administered drugs. The study found:
 - **Hospitals, on average, charged double for the same drugs, compared to specialty pharmacies.** On average, physician offices charged 22% more for the same drugs.
 - Costs per single treatment for drugs administered in hospitals were an average of \$7,000 more than those purchased through specialty pharmacies. Drugs from physician offices were an average of \$1,400 higher.
- AHIP’s findings confirm similar studies by other well-respected publications:
 - [JAMA Internal Medicine](#) (2021): The median negotiated prices for the 10 drugs studied ranged from 169% to 344% of the Medicare payment limit.
 - [Bernstein](#) (2021): Some hospitals mark up prices on more than two dozen medicines by an average of 250%.
 - [The Moran Company](#) (2018): Most hospitals charge patients and insurers more than double their acquisition cost for medicine. The majority of hospitals markup medicines between 200-400%.

Hospital Price Hikes: Markups for Drugs Cost Patients Thousands of Dollars

Everyone should be able to get the medications they need at a cost they can afford. But drug prices are out of control, and hardworking families feel the consequences every day. Health insurance providers have developed innovative solutions to make prescription drugs more affordable, including leveraging lower-cost specialty pharmacies to safely distribute physician-administered drugs (sometimes called “white bagging” or “brown bagging”). These solutions help reduce Americans’ out-of-pocket costs and what they pay in premiums – making health care more affordable and accessible for everyone.

Figure 1. Average Markups for Drugs in Hospitals and Physician Offices Over Pharmacies (2018-2020)



Note: Drugs with the highest total spend in 2019, which are also commonly delivered through specialty pharmacies. The drug cost estimate in physician offices and hospitals does not include the cost of administering the drugs

FEBRUARY 2022

\$7,000

Costs per single treatment for drugs administered in hospitals (2018-2020) were an average of \$7,000 more than those purchased through pharmacies.

Drugs administered in physician offices were an average of \$1,400 higher.

108%

Hospitals, on average, charged double (108%) the prices for the same drugs, compared to pharmacies. Physician offices charged 22% higher prices for the same drugs, on average.

Specialty pharmacies lower a patient’s health care costs by preventing hospitals and physicians from charging exorbitant fees to buy and store specialty medicines themselves. Secure, direct delivery is more efficient and effective and reduces health care costs.



What are health plans doing to address high specialty drug costs?

- To combat the growing price of specialty drugs and exorbitant facility markups, payers (including public and private employers) are adopting innovative solutions to provide patients access to these expensive medications at lower costs.
- This includes contracting with specialty pharmacies to distribute these physician-administered drugs at lower costs.
 - **White bagging:** specialty pharmacy ships a patient's prescription directly to the provider (i.e. hospital or physician office) where it is held until the patient arrives for administration of the medication.
 - **Brown bagging:** specialty pharmacy ships the drug directly to the patient, who then brings the medication to the physician for administration.
 - In both programs, the health plan pays the provider for the service of administering the medication.

Health plans only use white or brown bagging when the drugs can be safely dispensed this way and only when the patient is an appropriate candidate for such forms of dispensing.

How does white & brown bagging help patients?

- **Lower Cost:** According to the AHIP study of physician-administered drugs commonly dispensed by specialty pharmacies, the hospital markup can be as much as \$19,000 over the specialty pharmacy price for one MS drug.
- **Seamless:** These programs are designed to be totally seamless and invisible to the patient. Thousands of patients successfully receive their drugs through brown and white bagging each year without issue.
- **Care Coordination:** Specialty pharmacies work with providers to ensure a seamless experience for patients and many health plans and specialty pharmacies provide patients and providers with 24/7 access to clinical specialists to provide additional support.
- **Protect Patient Safety:** Specialty pharmacies must meet extremely stringent safety requirements –they are subject to the same “supply chain safety” requirements as any other dispensing pharmacy but must also meet additional FDA requirements and additional accreditations. Specialty pharmacies employ sophisticated supply chain processes to ensure products shipped are equipped in packaging able to withstand adverse weather conditions for days after delivery.
- **Safeguards:** Health plans build in additional safety features and exceptions processes into their programs to ensure that there are no safety issues or delays in care for patients.

What are states doing to mitigate high specialty drug costs?

- Specialty drugs should be included in any consideration of drug price growth.
- Several states have adopted specialty pharmacy programs in their public employee programs with strong, positive results:
 - In a report from Indiana’s Department of Health, Purdue University detailed its history of cost saving with white bagging:
 - In January 2020, Purdue University began white bagging by carving out specialty drugs for employees to a single pharmacy benefit manager. The carve out **started with a single drug and resulted in a savings of more than \$179,000 over that year**. Per Purdue’s report, patient safety was not sacrificed.
 - The second round of prescriptions carved out resulted in savings of over \$100,000 within the first four months of transition.
 - **As of January 1, 2021, Purdue gained approval from the Indiana State Budget Director to move all specialty drugs to their PBM; this strategy saved them \$2.5 million on specialty medications in the first quarter of 2021.**
 - According to the report, “As with many transitions, disruptions did occur. Purdue reports that communication to providers and members was not as initially robust as it should have been. This was remedied, and a new communication process was implemented. This improved communication process resolved most concerns for members and providers.”

Questions?

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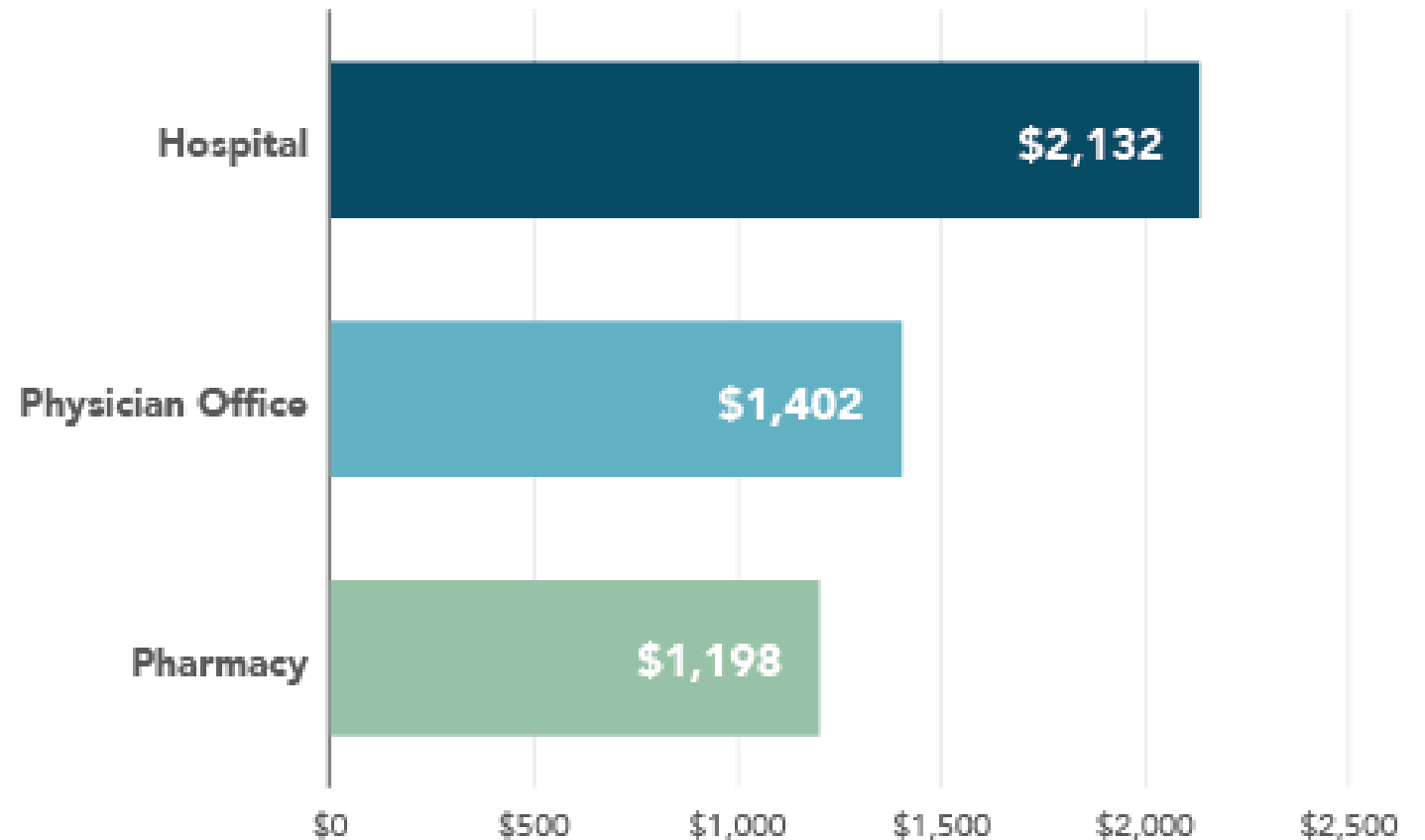


Appendix

BOTOX

- **US Sales (2020):** \$1.2 billion (excludes cosmetic use)
- **Manufacturer:** AbbVie
- **Indications:** chronic migraine, overactive bladder, incontinence, cervical dystonia, spasticity, hyperhidrosis
- **Average Markup Over Pharmacy (per single treatment):**
 - Physician Office: \$200 (17%)
 - Hospital: \$900 (78%)

Average Cost Per Single Treatment (2018-2020)



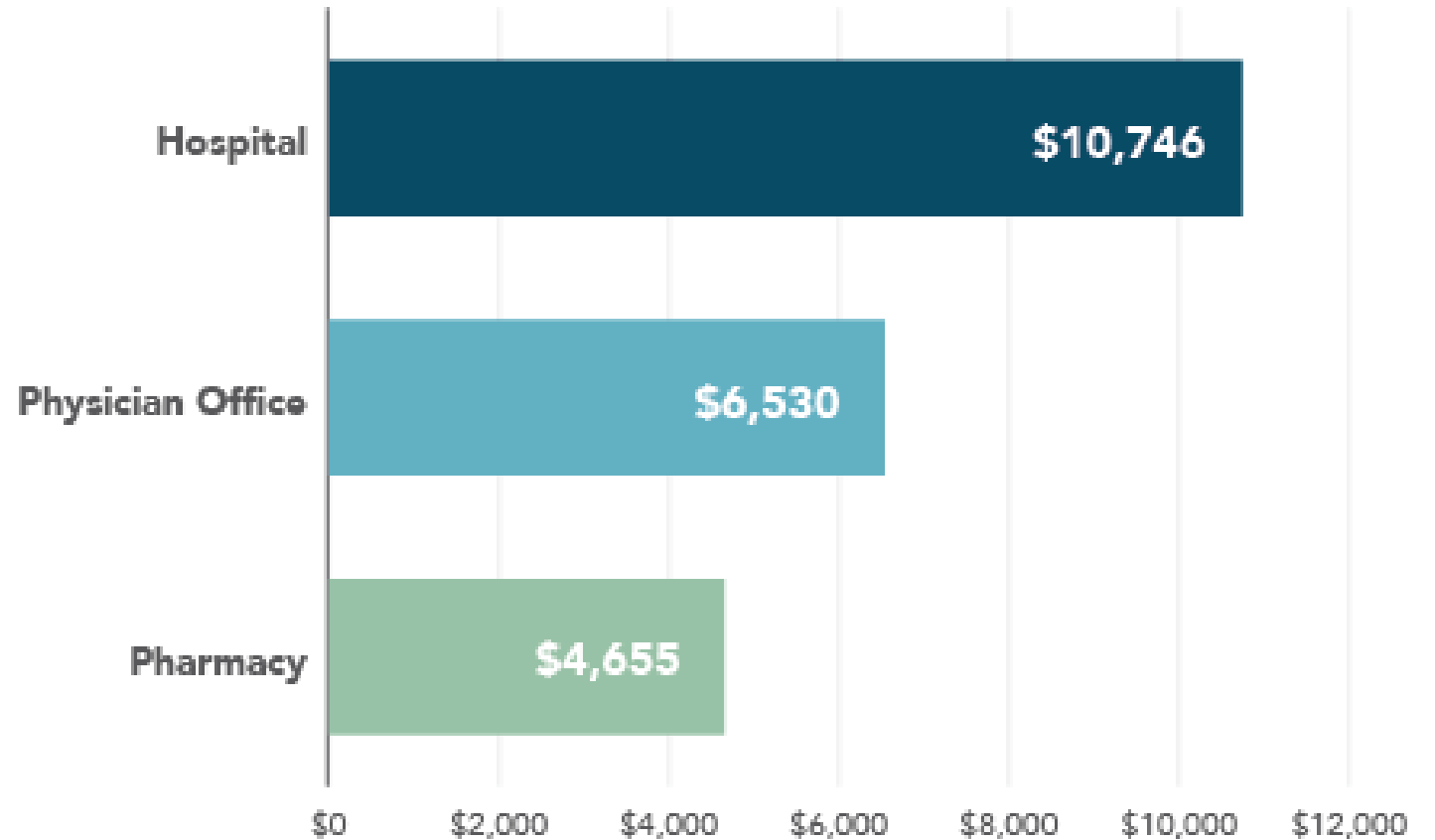
Source: IBM Commercial Database, SEC, FDA

Methodology: www.ahip.org/documents/202202-AHIP_1P_Hospital_Price_Hikes.pdf

HERCEPTIN

- **US Sales (2020):** \$1.4 billion
- **Manufacturer:** Roche
- **Indications:** cancer (various)
- **Average Markup Over Pharmacy (per single treatment):**
 - Physician Office: \$1,900 (40%)
 - Hospital: \$6,100 (131%)

Average Cost Per Single Treatment (2018-2020)



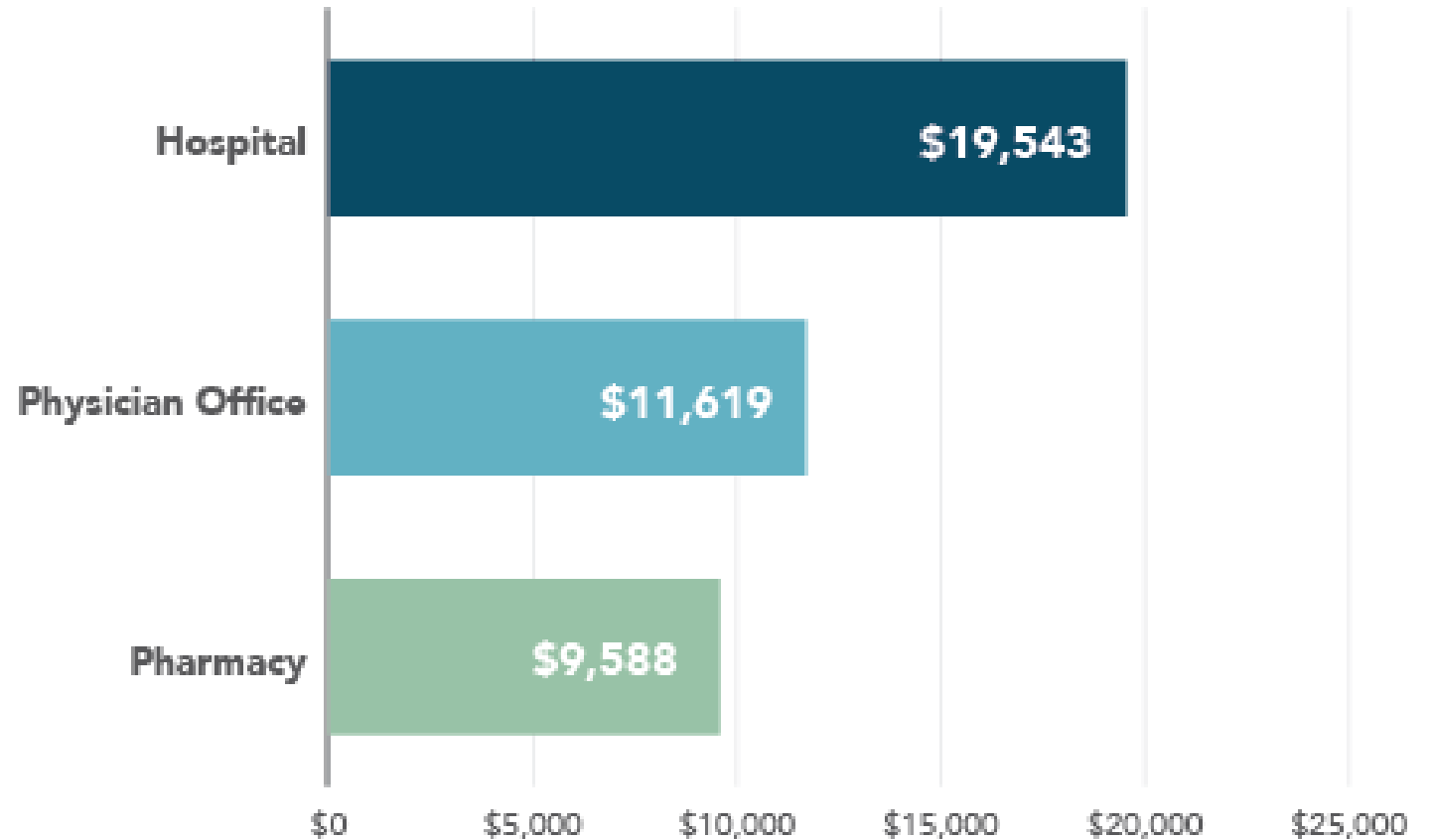
Source: IBM Commercial Database, SEC, FDA

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KEYTRUDA

- **US Sales (2020):** \$8.4 billion
- **Manufacturer:** Merck
- **Indications:** cancer (various)
- **Average Markup Over Pharmacy** (per single treatment):
 - Physician Office: \$2,000 (21%)
 - Hospital: \$10,000 (104%)

Average Cost Per Single Treatment (2018-2020)

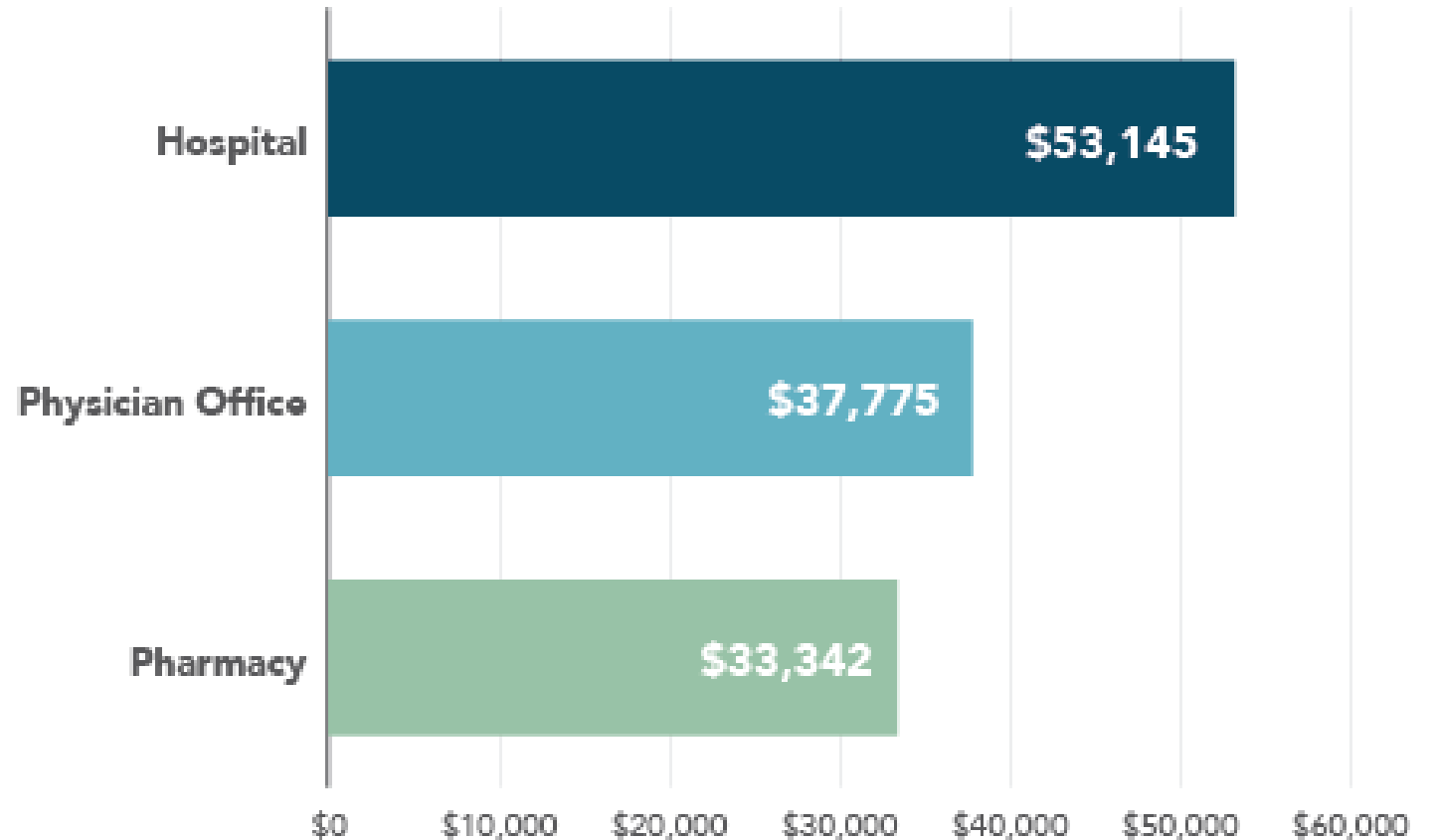


Source: IBM Commercial Database, SEC, FDA
Methodology: www.ahip.org/documents/202202-AHIP_1P_Hospital_Price_Hikes.pdf

OCREVUS

- **US Sales (2020):** \$3.6 billion
- **Manufacturer:** Roche
- **Indications:** multiple sclerosis
- **Average Markup Over Pharmacy** (per single treatment):
 - Physician Office: \$4,400 (13%)
 - Hospital: \$19,800 (59%)

Average Cost Per Single Treatment (2018-2020)

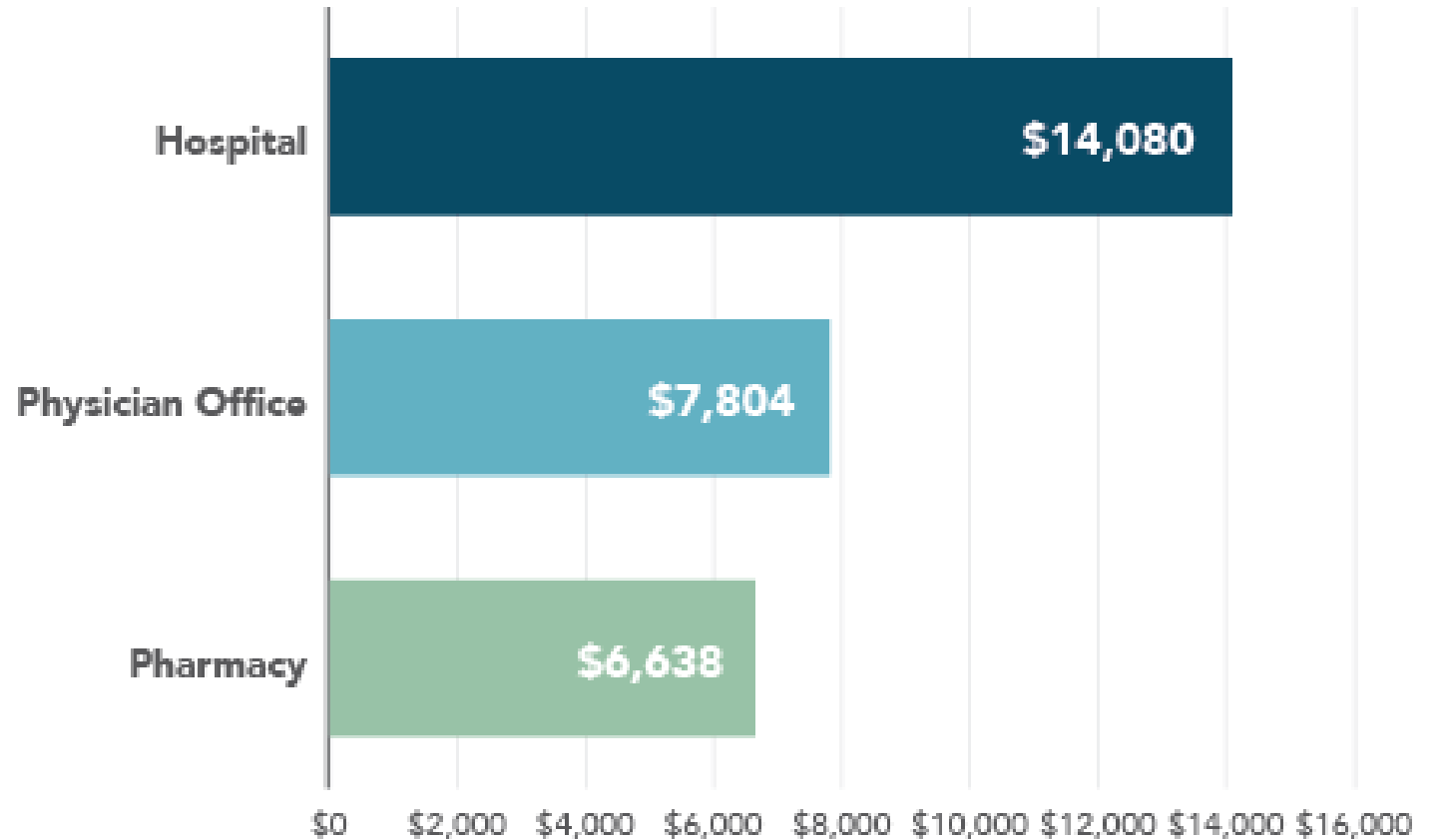


Source: IBM Commercial Database, SEC, FDA
Methodology: www.ahip.org/documents/202202-AHIP_1P_Hospital_Price_Hikes.pdf

OPDIVO

- **US Sales (2020):** \$3.9 billion
- **Manufacturer:** Bristol-Myers Squibb
- **Indications:** cancer (various)
- **Average Markup Over Pharmacy (per single treatment):**
 - Physician Office: \$1,200 (18%)
 - Hospital: \$7,400 (112%)

Average Cost Per Single Treatment (2018-2020)

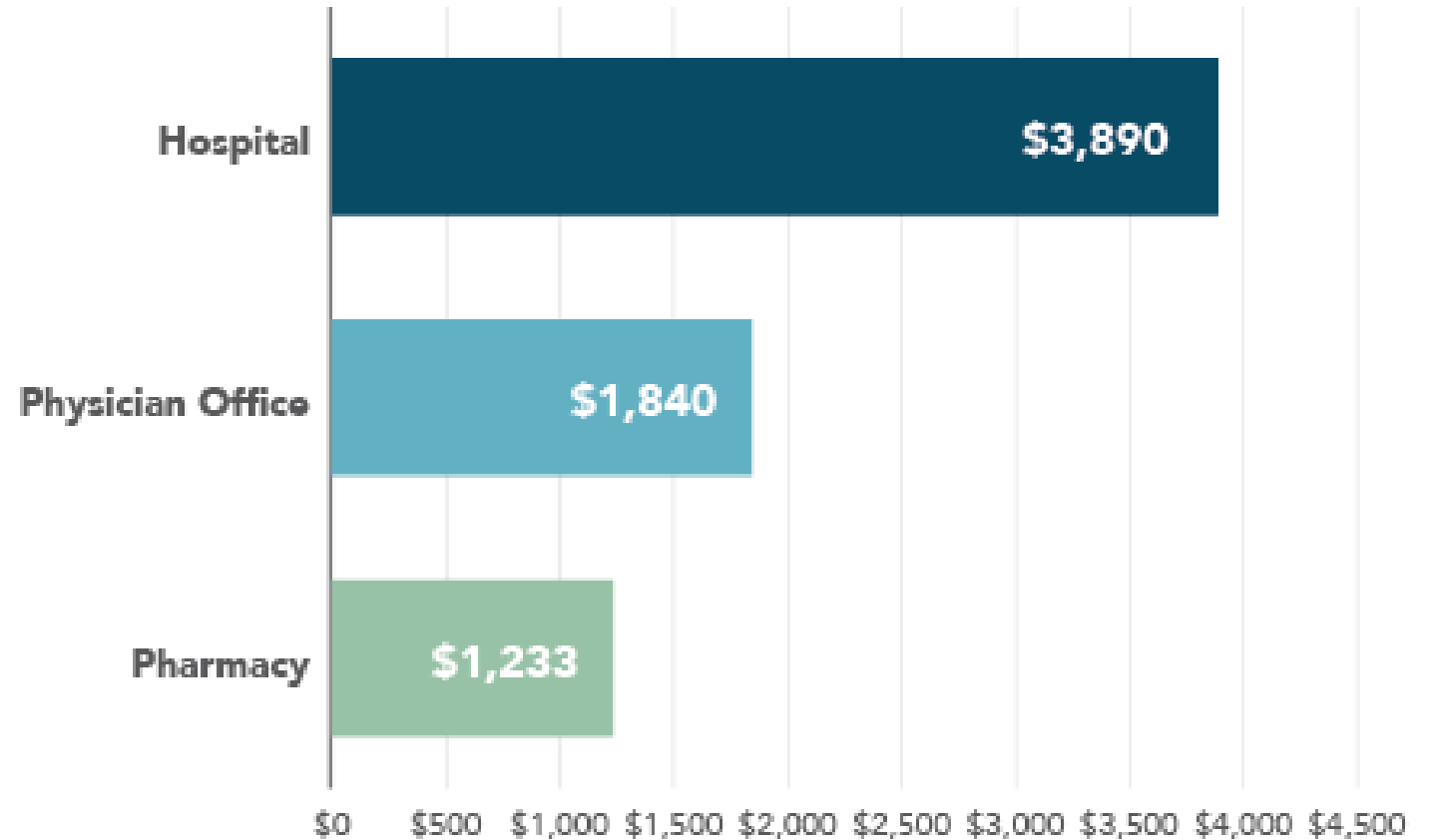


Source: IBM Commercial Database, SEC, FDA
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PROLIA

- **US Sales (2020):** \$1.8 billion
- **Manufacturer:** Amgen
- **Indications:** osteoporosis
- **Average Markup Over Pharmacy (per single treatment):**
 - Physician Office: \$700 (49%)
 - Hospital: \$2,700 (215%)

Average Cost Per Single Treatment (2018-2020)



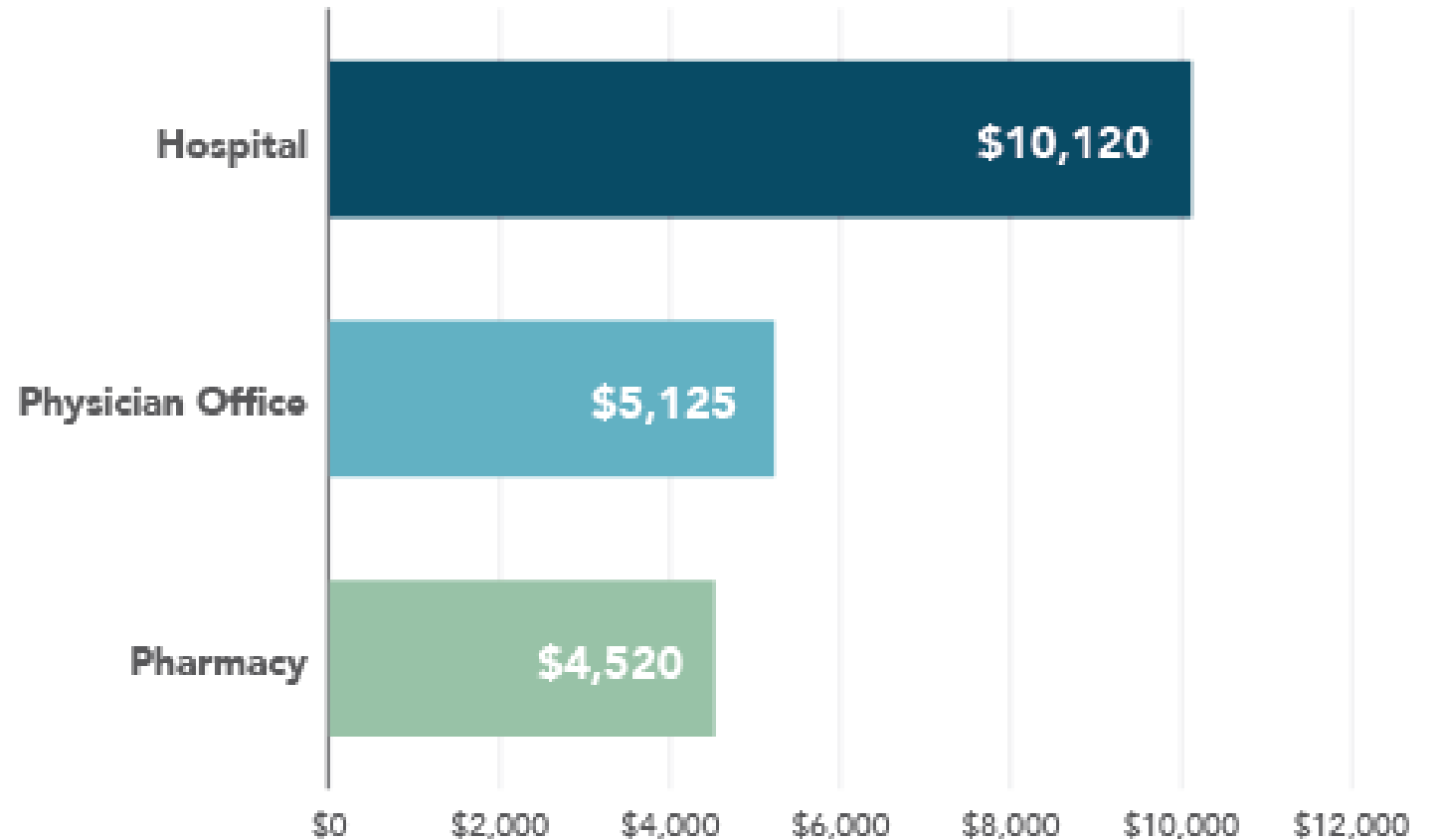
Source: IBM Commercial Database, SEC, FDA

Methodology: www.ahip.org/documents/202202-AHIP_1P_Hospital_Price_Hikes.pdf

REMICADE

- **US Sales (2020):** \$2.5 billion
- **Manufacturer:** Johnson & Johnson
- **Indications:** rheumatoid arthritis, psoriatic arthritis, ankylosing spondylitis, Crohn's disease, plaque psoriasis, and ulcerative colitis
- **Average Markup Over Pharmacy (per single treatment):**
 - Physician Office: \$700 (15%)
 - Hospital: \$5,600 (124%)

Average Cost Per Single Treatment (2018-2020)



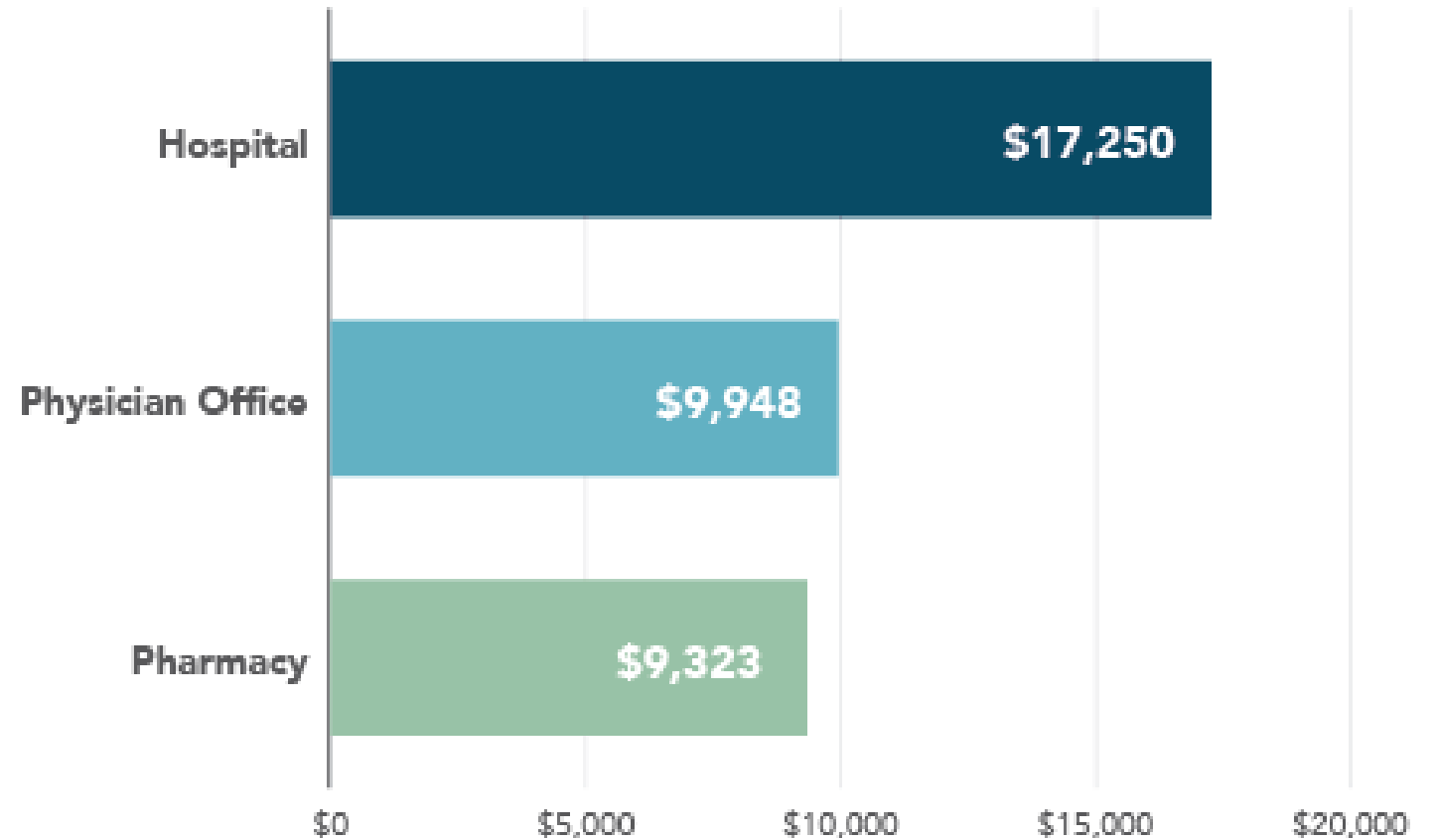
Source: IBM Commercial Database, SEC, FDA

Methodology: www.ahip.org/documents/202202-AHIP_1P_Hospital_Price_Hikes.pdf

RITUXAN

- **US Sales (2020):** \$3.0 billion
- **Manufacturer:** Roche
- **Indications:** rheumatoid arthritis, cancer (various)
- **Average Markup Over Pharmacy (per single treatment):**
 - Physician Office: \$600 (7%)
 - Hospital: \$7,900 (85%)

Average Cost Per Single Treatment (2018-2020)



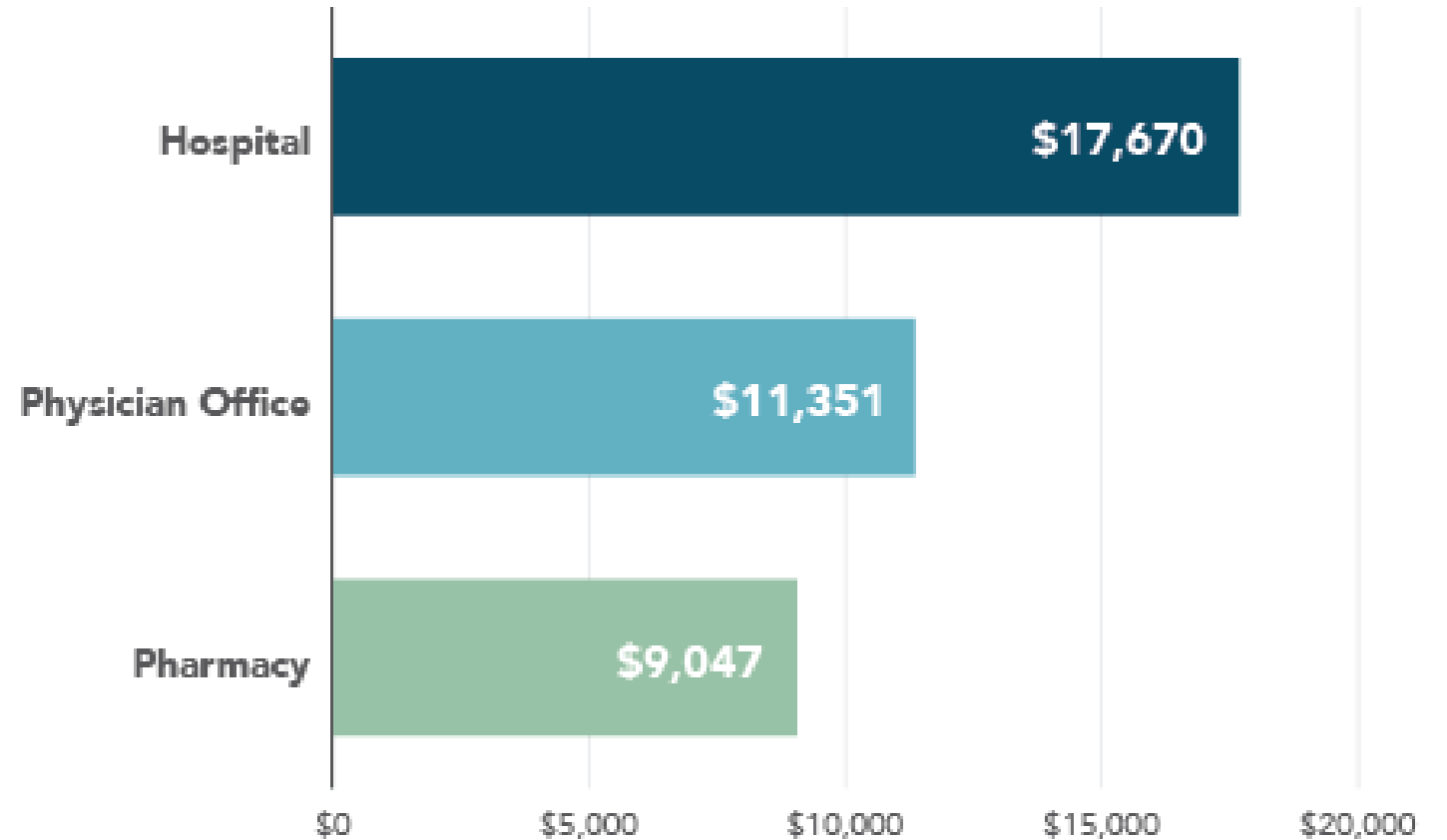
Source: IBM Commercial Database, SEC, FDA

Methodology: www.ahip.org/documents/202202-AHIP_1P_Hospital_Price_Hikes.pdf

TECENTRIQ

- **US Sales (2020):** \$1.7 billion
- **Manufacturer:** Roche
- **Indications:** cancer (various)
- **Average Markup Over Pharmacy (per single treatment):**
 - Physician Office: \$2,300 (25%)
 - Hospital: \$8,600 (95%)

Average Cost Per Single Treatment (2018-2020)



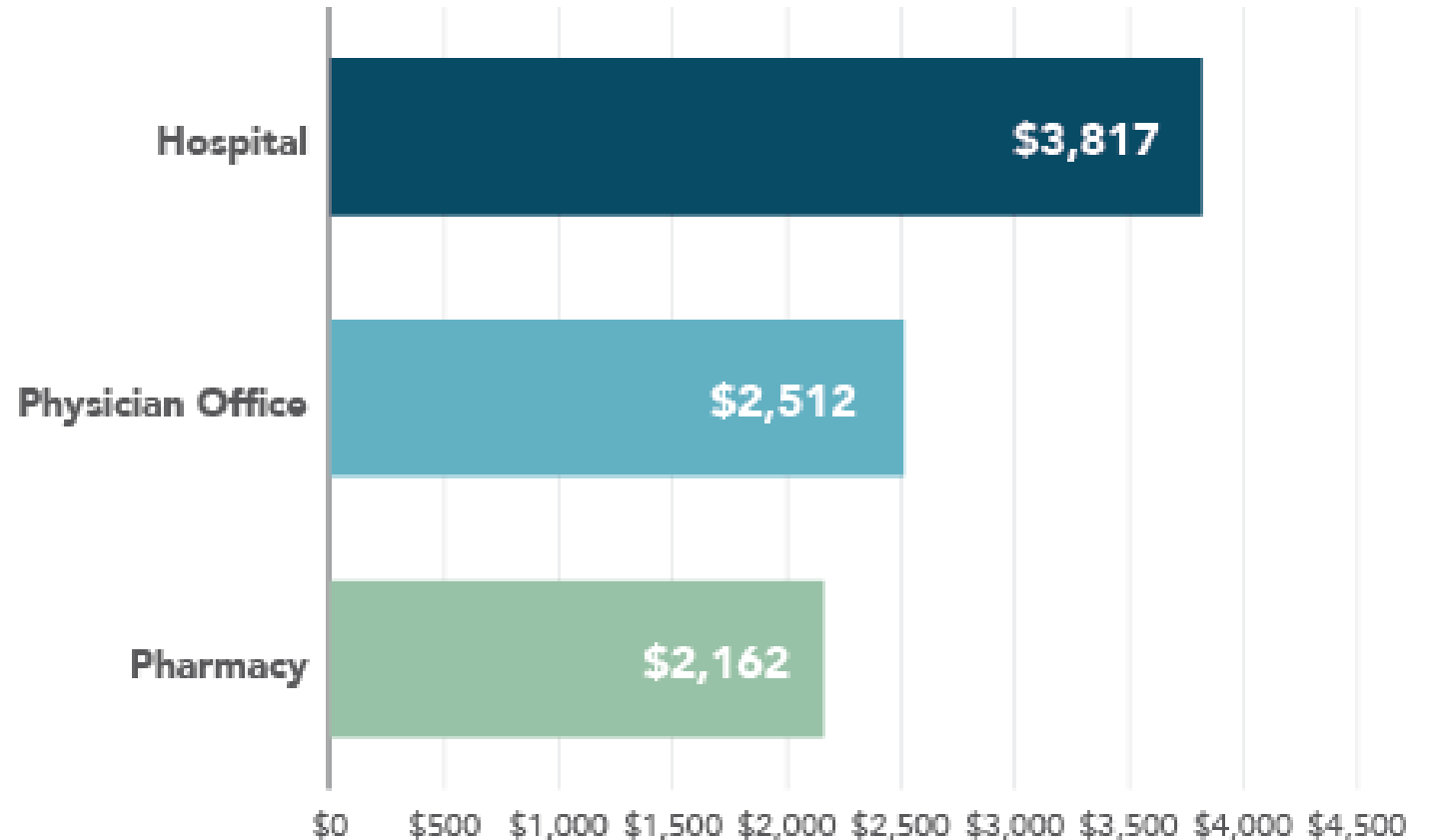
Source: IBM Commercial Database, SEC, FDA

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XOLAIR

- **US Sales (2020):** \$2.0 billion
- **Manufacturer:** Genentech & Novartis
- **Indications:** asthma
- **Average Markup Over Pharmacy (per single treatment):**
 - Physician Office: \$350 (16%)
 - Hospital: \$1,700 (76%)

Average Cost Per Single Treatment (2018-2020)



Source: IBM Commercial Database, SEC, FDA

Methodology: www.ahip.org/documents/202202-AHIP_1P_Hospital_Price_Hikes.pdf