Advancements in the Pharmacy Pipeline and Novel Contracting Strategies for Drug Pricing

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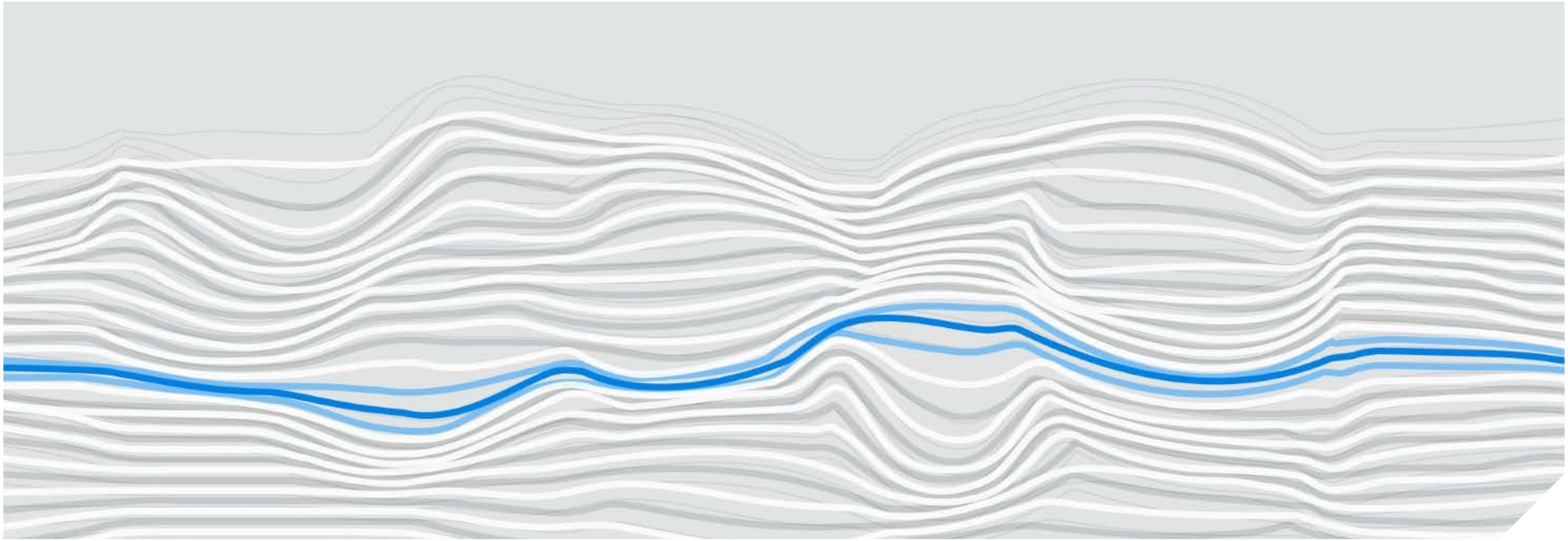


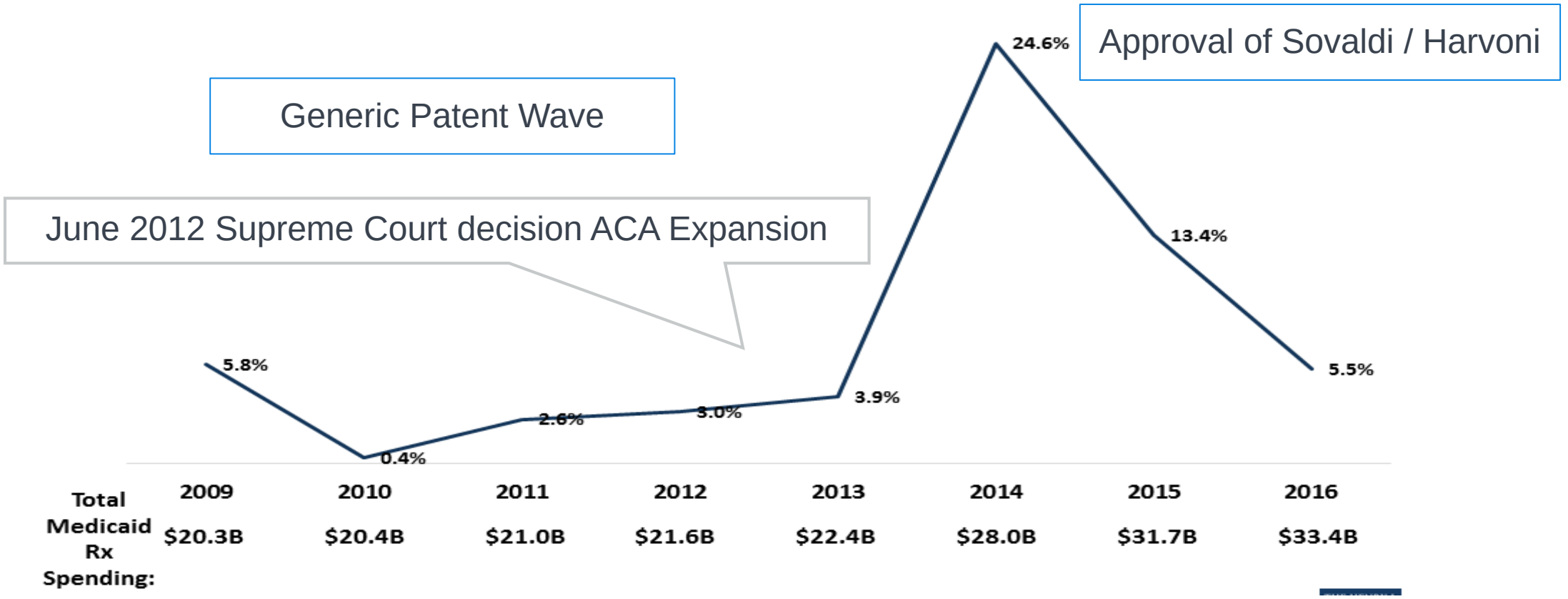
Discussion objectives

1. **Advancements in the pharmacy pipeline**
2. Novel drug contracting strategies
3. Case study: Florida PDHRP

Historical Medicaid pharmacy trends

Annual Growth in Medicaid Spending on Prescription Drugs, 2008-2016

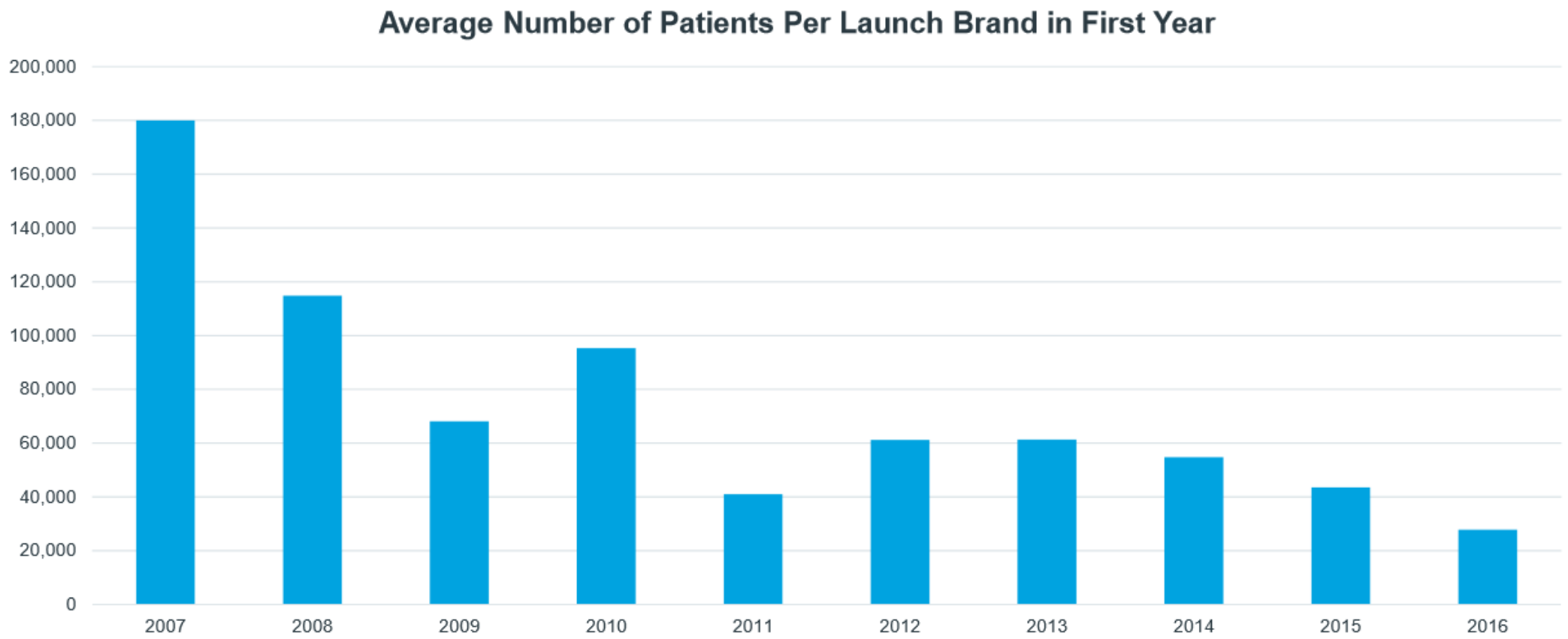
% Change in Spending



Source: CMS National Health Expenditure Accounts, https:www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/nationalhealthaccountshistorical.html

Advancements in the pharmacy pipeline

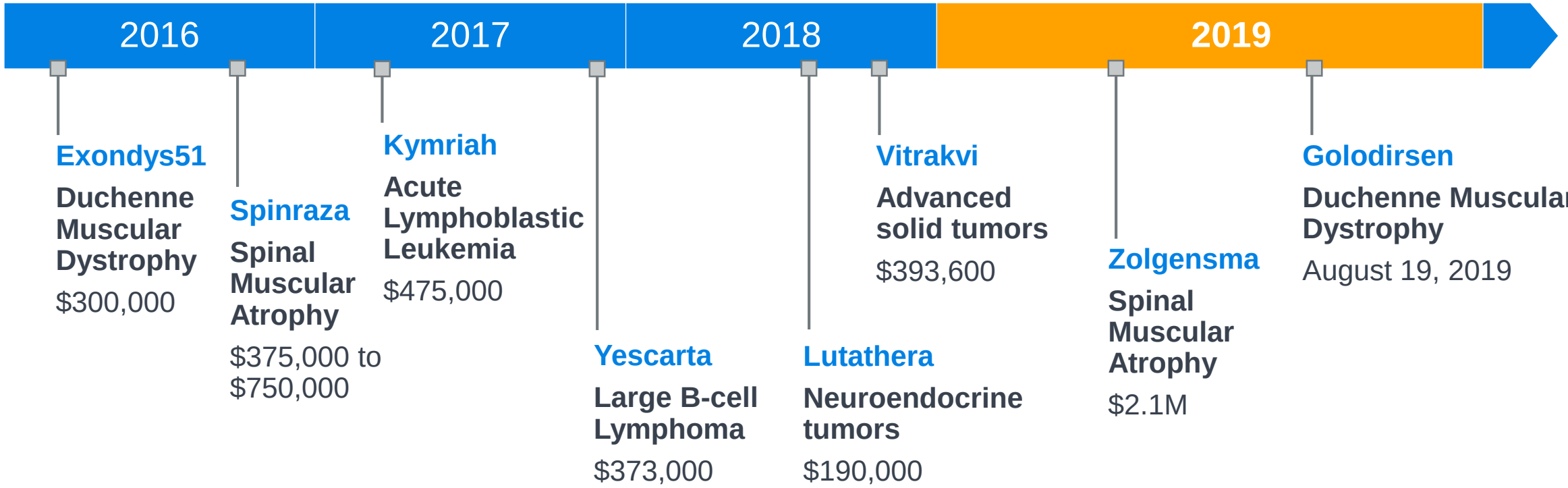
New drug approvals are focused on patient populations with unmet need



Source: IQVIA SMART New-to-Brand (NBRx)

Advancements in the pharmacy pipeline

Higher price tags for drugs



Approximate costs shown as per patient per year

Pharmacy pipeline Highlights: 2020 and beyond

Additional high cost drugs to consider

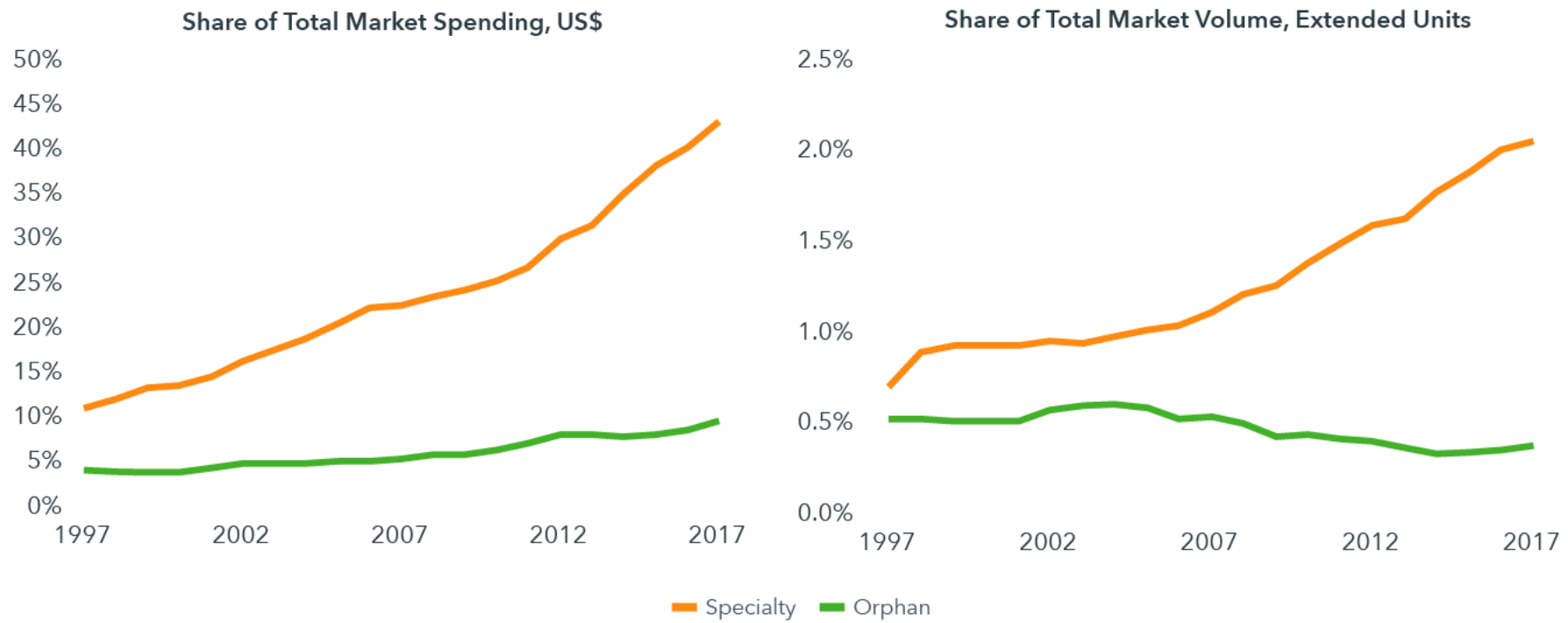
- **Viltolarsen**
  - **Duchenne Muscular Dystrophy**
- **Lisocabtagene Maraleucel**
  - **CAR-T therapy for Diffuse Large B-Cell Lymphoma (DLBCL)**
- **Valoctocogene Roxaparvovec and AMT-061**
  - **Hemophilia Gene Therapy**
- **VX-445 and VX-659**
  - **Cystic Fibrosis**

- **Oncology**
- **Non-alcoholic steatohepatitis**
- **Alzheimer's disease**

Advancements in the pharmacy pipeline

Spend is shifting to specialty and orphan drugs

Specialty and Orphan Shares of Total Spending and Volume, 1997–2017



Source: IQVIA Institute for Human Data Science, Medicine Use and Spending in the U.S.: A Review of 2017 and Outlook to 2022, Apr 2018

Notes: Specialty and orphan shares are based on total market spending or volumes. Specialty and orphan segments overlap, however, some orphan drugs are considered traditional using IQVIA's specialty pharmaceutical definition. Extended units refer to the smallest dose unit of a medicine, typically a pill, vial, or ampoule.

Report: Orphan Drugs in the United States Growth Trends in Rare Disease Treatments. IQVIA Institute for Human Data Science, Oct 2018

Discussion objectives

1. Advancements in the pharmacy pipeline
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3. Case study: Florida PDHRP

Novel drug contracting strategies

Stakeholder rationale for states and manufacturers

State

- Reduce uncertainty around drugs
  - Cost of drug or class of drugs
  - Drug performance
- Align drug cost with clinical value
- Generate evidence on drugs that work
- Potentially improve outcomes for patients
- Lower medical costs through increased adherence

Manufacturer

- Differentiation from competitors
- Create barriers for competitors
- Accelerate or retain market acceptance
- Leverage stronger products to promote weaker products (portfolio)
- Obtain better formulary placement
- Collect more actionable data
- Build a better partnership with states

Novel drug contracting strategies

Rebating

- May be based on unit price as supplemental rebate or tied to volume discounts
- California to leverage its purchasing power (Medi-Cal and state enrollees) as the third-largest buyer in the country to negotiate lower prices / additional rebates
- New York has a spending growth cap, which may trigger a negotiation for additional supplemental rebates

Outcomes based contracting

- Typically based on adherence or clinical outcomes or cost avoidance
- Oklahoma develops contract with schizophrenia medication Aristada, which contracted price will be based on medication adherence
- Oklahoma also has an agreement for Orbativ, a drug used primarily to treat bacterial skin infections in which the state will list the drug as a first-line treatment and the manufacturer will ensure that oritavancin will not result in a net increase in costs

Capitated models

- Focused on paying a fixed cost for an unlimited drug utilization
- Louisiana and Washington adopt agreements in which the state pays a subscription fee to obtain broader access to hepatitis C drugs
- Other commercial models exist for diabetic insulins

Pricing transparency

- Aimed at preventing price gouging and making drug pricing information more broadly available
- Ohio ends spread pricing contracts with all PBMs and moves to pass-through pricing model
- Kentucky “opens the black box” and seeks pricing transparency

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Case study: Florida PDHRP

Key drivers and objectives of the new strategy

Why develop a new strategy?

- Significant increase in the number of high cost drugs
- Concern about overall level of funding in capitation rates
- Concern about funding for individual plans aligning with exposure to high cost drugs

Key priorities of the new strategy

- Address plan-specific risk of enrolling a disproportionate share of members with high drug costs
- Agreed upon by the Agency and the capitated plans

Case study: Florida PDHRP

Initial design options and considerations

	Status Quo	Kick Payment	Budget-Neutral Risk Pool	Non-Budget-Neutral Risk Pool	Risk Adjustment Component	FFS Carve Out
Addresses unanticipated cost increases	−	●	−	+	−	+
Addresses disparities by plan	−	+	+	+	+	+
Addresses risk of over / underpayments to plans in total	−	+	−	+	−	+
Cost certainty for the Agency	+	−	+	−	+	−
Tailored to each specific drug	−	+	−	−	+	+
Comprehensive approach	+	−	+	+	−	−
Administrative complexity	+	−	−	−	−	+

Case study: Florida PDHRP

Additional initial design considerations

- Differences by population, region, and plan
- Impact on pharmacy trends in capitation rates
- Remaining time left in current capitation rate year after release of a new drug
- Access to new drugs for members under a given reimbursement method
- Any known Federal CMS guidelines, restrictions, and funding policies

Case Study: Florida PDHRP

Key PDHRP design parameters

Parameter	Considerations
Definition of drug claims included	Setting of administration, type of claim billed, bundled payments, vaccines, subcapitated claims, settlements, non-state plan services, dual eligible members
Level of aggregation	Plan level, rate group level, member level
Claim threshold	Threshold for inclusion in the pool may vary by rate group to account for variations in typical cost patterns among cohorts
Risk sharing percentage	Excluding a portion of claim costs above threshold from the pool incentivizes plans to continue to provide effective care management
Withhold amount	Calculated based on design parameters

Case study: Florida PDHRP

Additional PDHRP design considerations

- Timing of settlement
- Treatment of members with less than a full year of exposure
  - New or terminating eligibility
  - Changing plans within a rate year
  - Changing rate groups within a rate year
- Reflection of pipeline drugs in the calculation of the withhold amounts
- Difficulty associated with predicting high-cost claims
  - Level of conservatism in calculated withhold amounts
- Treatment of excess or deficient withhold funds

Case study: Florida PDHRP

How the PDHRP addressed key drivers and objectives of the new strategy

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Addressed through capitation rate setting
Addressed through PDHRP

Milliman

Thank you

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