looking back moving forward

2014 Report on prescription drug costs

PRIME THERAPEUTICS®

Our purpose

To help people get the medicine they need
to feel better and live well

looking back moving forward

2014 Report on prescription drug costs

Contents

DATA AND INSIGHTS

- This report looks closely at changes in drug costs, utilization and other key measures that affect pharmacy spending. Data from Jan. 1 – Dec. 31, 2013 is compared with data from the same period in 2012. Unless otherwise noted, all insights come from Prime's analyses.
- Pharmacy trend data represents close to 145 million commercial claims processed in 2013. Claim counts are assigned based on days supply, and 90-day fills have been converted to carry the same weight as 30-day retail fills.
- Medical trend data comes from combined medical and pharmacy benefit data for 10.8 million commercial members.

KEY TERMS

Pharmacy spend: the total amount paid under the pharmacy benefit per member per month (PMPM); this includes pharmacy network discounts, dispensing fees and taxes

Specialty: all drugs managed through our specialty pharmacy program

Traditional: all drugs not on our specialty drug management list

Overall: all drugs combined

Total drug spend: combined spend for drugs covered under the pharmacy and medical benefits

Net ingredient cost per prescription (net ingredient cost): total amount paid for drugs, less dispensing fees and taxes; includes manufacturer rebates and administrative fees

A NOTE ON THE NUMBERS

Definitions matter

All pharmacy benefit managers (PBMs) face the same challenges: high costs, steep inflation and rising use. But not all pharmacy benefit managers measure these challenges in the same way. This is particularly true of specialty drugs. There is no single definition of "specialty." In the past, many commonly used and low-cost drugs were excluded from specialty classifications. Today, these drugs are frequently being included, a redefinition that makes specialty drug trend appear lower.

Given the extreme variability of specialty drug costs, the definition truly makes a difference.

welcome

Driving toward a clearer view of the pharmacy benefit landscape

Welcome to the Prime Therapeutics (Prime) *2014 Report on prescription drug costs*. Each year, Prime takes time to pause and review the path we've traveled and the milestones we've encountered along the way. Looking back helps us map our way forward through the evolving health care landscape.

Pharmacy benefit managers (PBMs) typically use drug trend — the change in pharmacy spending over the course of a year — as their primary gauge. Drug trend provides insight into how fast pharmacy costs are moving and why. This metric can be useful, but it doesn't offer a true picture of how drug costs compare.

We think net ingredient cost offers a clearer picture of where costs start and how they compare across plans and PBMs. By stripping away outside factors and fees, it clarifies the real cost of drugs used by Prime's members. We're dedicated to sharing vital information with plan sponsors at every stage, and because of this, we've based this report on net ingredient costs first and foremost.

At 3.3 percent in 2013, Prime's drug trend was higher than that of the past several years. This confirms our expectation that drug spending will grow steadily as specialty drugs continue to gain traction. However, we're happy to report that our net ingredient cost — already among the lowest in the industry — grew just 2.2 percent. And on this journey, the starting point matters just as much as the speed at which costs are moving.

With the advent of specialty-driven care, the terrain we're navigating has become more challenging. Through it all, our vision for moving forward remains clear and simple: We will help people get the medicine they need to feel better and live well. And in doing so, we will maximize the health value of every dollar spent on drugs.

Join me in looking back at what happened with pharmacy spending in 2013 — and preparing for what's ahead in 2014 and beyond.

Eric S. Elliott
President and Chief Executive Officer
Prime Therapeutics

looking back at 2013

A more precise gauge

Discussion of pharmacy costs often centers on drug trend — the change in total costs from one year to the next. Drug trend is a useful way to monitor how quickly pharmacy costs are growing, but it doesn't show how costs actually compare.

Net ingredient cost per prescription provides a more precise picture of drug costs, with all network discounts and manufacturer rebates included. Because it's the clearest assessment of actual costs, we believe it is a key indicator of PBM performance.

Net cost

In 2013, Prime's overall net ingredient cost was $58.99. This represents an increase of 2.2 percent over 2012. Specialty drugs were the clear driver of this cost increase. Specialty net ingredient costs increased 14.4 percent, reaching an average cost of $3,149.25. Inflation was the main factor, but increased adoption of more expensive specialty treatments also played a role.

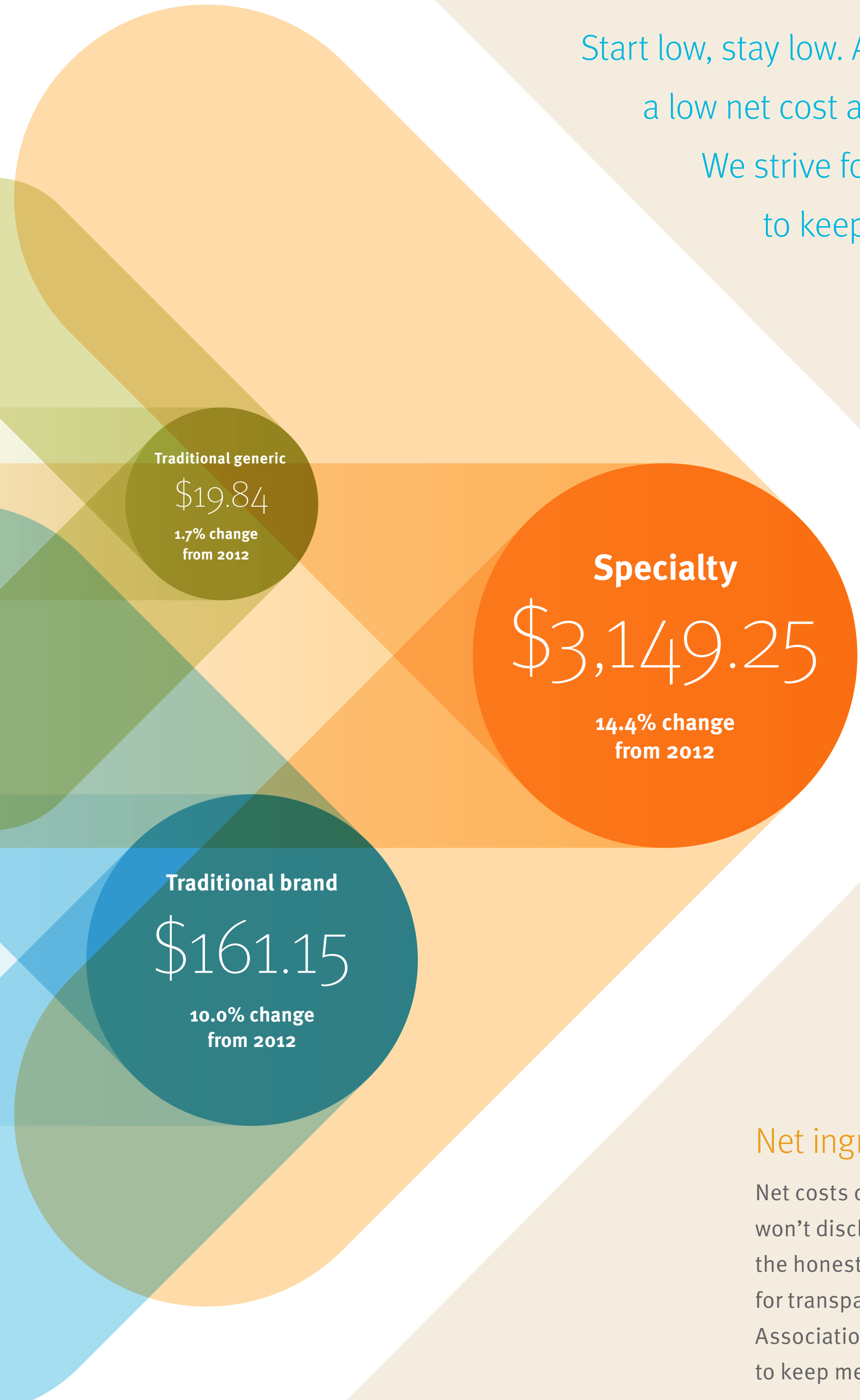
Despite higher ingredient costs for both brand-name and generic drugs, traditional drug costs actually decreased in aggregate (–1.0 percent). This is because of a continued shift toward generics and other less expensive traditional drugs.

$58.99

Rising specialty drug costs drove up Prime's overall net ingredient cost per prescription in 2013.

Ingredient costs, 2013 vs. 2012	2013 net ingredient cost	Change from 2012
All traditional	$47.23	–1.0%
Brand-name	$161.15	10.0%
Generic	$19.84	1.7%
Specialty	$3,149.25	14.4%
Overall	**$58.99**	**2.2%**

Start low, stay low. As pharmacy costs accelerate, a low net cost approach is the key to staying ahead. We strive for low ingredient costs and work hard to keep those costs low.



$58.99

Prime's 2013 net ingredient cost per prescription

2.2% change from 2012

Net ingredient cost per prescription

Net costs can't be manipulated. That's one reason many PBMs won't disclose them. Sharing our net ingredient costs demonstrates the honest, straightforward approach that has won us a reputation for transparency and recognition from the Human Resources Policy Association.[1] It's also a declaration of confidence in our ability to keep medicine more affordable for members and clients.

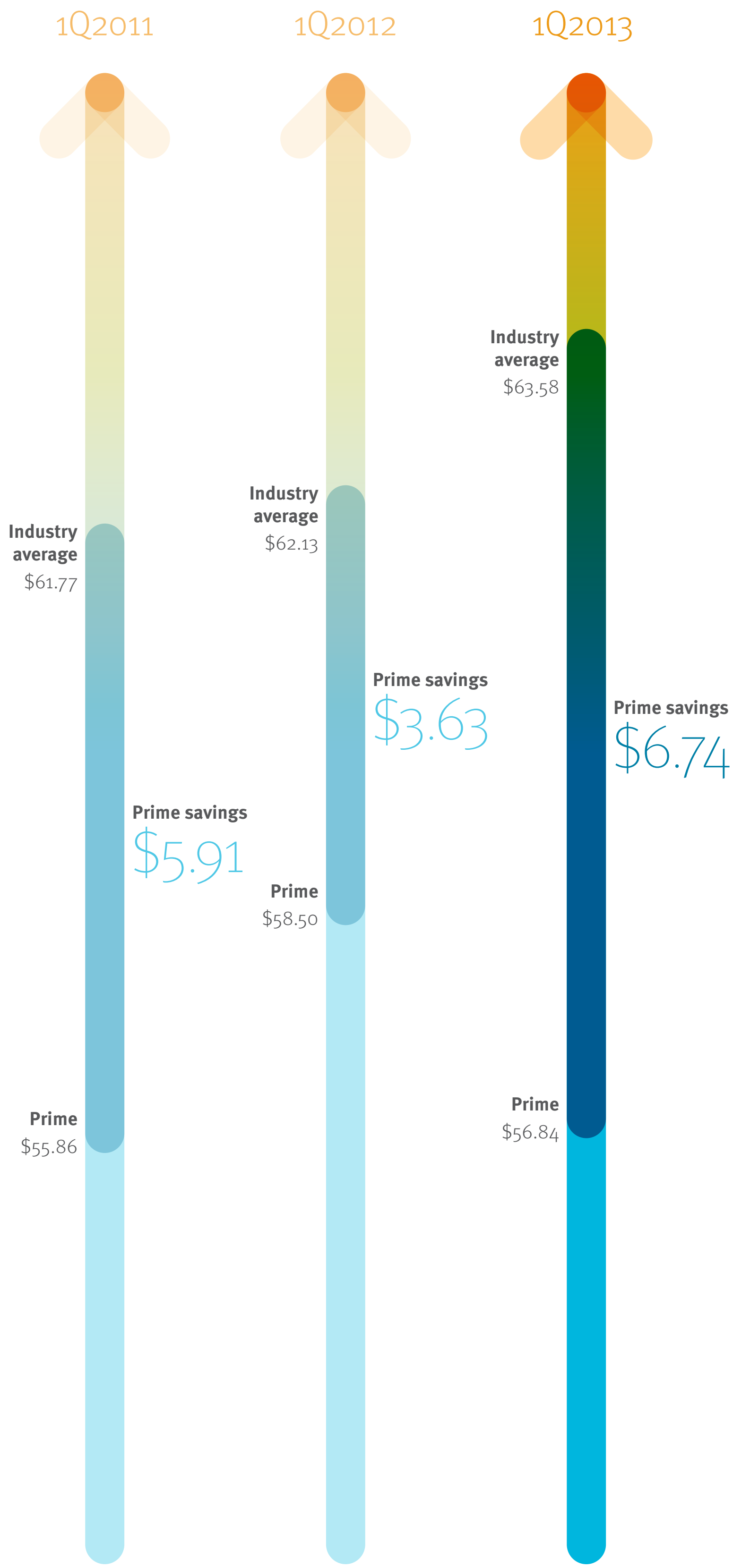
Lower costs from the start

Prime gets — and stays — ahead with consistently lower costs

Combating cost inflation is a central mission of pharmacy benefit management. By boiling drug spend down to the ingredient-cost level, we are better able to see and understand the influence of price inflation and drug selection on costs. And by comparing ingredient costs, we are able to assess which PBMs are most successful in achieving low net costs.

In 2013, Prime commissioned a study comparing the generic rates, network discounts and ingredient costs of leading PBMs. The study found that Prime's net ingredient cost was the lowest — beating the competitor average by more than $6 per prescription.[2] Analysis showed that Prime's net ingredient costs were consistently the lowest over the last three years.

High generic dispensing rates and strong generic discounts play a role in Prime's low ingredient costs. But that doesn't mean that we're only saving our clients more on traditional drugs. The study also found Prime's average specialty ingredient costs to be lower than competitors'.



More affordable medicine starts with low net costs

Integration fuels more successful pharmacy benefit management

A history of low ingredient costs is the result of Prime's unique connections with participating Blue Cross and Blue Shield Plans (Blue Plans). By focusing and aligning the power of our Blue Plan clients, we can negotiate competitive discounts with pharmacies and manufacturers.

Integrated benefit data and Blue Plan participation in key drug list, utilization management and benefit decisions also help make medicines more affordable for the 25 million members we serve.

Updated tools for the road ahead

Rising use of specialty drugs represents an extraordinary challenge to pharmacy cost management. Yet many of the same pharmacy benefit management tools that have proven effective for traditional drugs still apply.

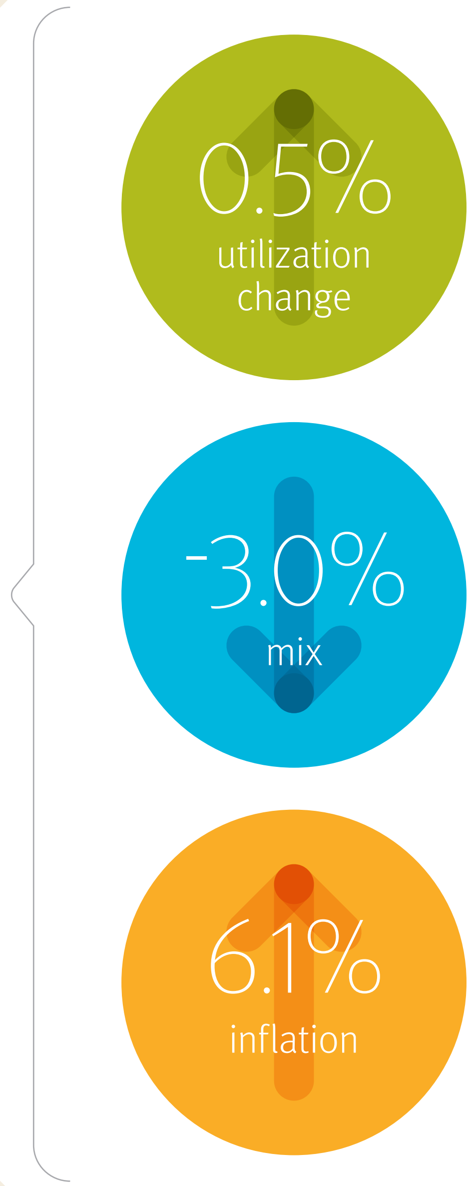
Drug spending can be reduced through network management, contract negotiation and effective promotion of preferred products. The next frontier for pharmacy benefit management lies in adapting these tools to the unique specialty landscape.

From traditional drugs	To specialty drugs
Managing a retail pharmacy network	Building and managing networks for limited distribution products and medical distribution
Securing competitive network discounts	Securing competitive specialty network discounts
Directing members to preferred channel (mail, retail)	Directing members to preferred specialty pharmacy and the most cost-effective sites of care
Negotiating rebates	Negotiating rebates, price protections and outcomes-based contracts
Driving use of preferred products	Establishing preferred/non-preferred specialty products, guiding patients and doctors to preferred products
Promoting generic use	Full implementation of the biosimilar pathway
Focusing on appropriate use	Focusing on adherence to therapy, waste reduction and care management

3.3%

2013 trend

Drug trend is determined by three main factors: the demand for drugs (utilization), the type of drugs used (mix) and the cost of those drugs (inflation). All three were on the rise in 2013, driving a 3.3 percent increase in commercial pharmacy spend.



Specialty drugs drive up drug trend

Drug trend is a measure of the change in total pharmacy spending over the course of a year. It adds to our understanding of how price inflation and drug choice affect ingredient costs. By incorporating the key variable of utilization, drug trend reveals the speed at which total costs for a given population are changing over time.

Combined drug trend for Prime's commercial book of business was 3.3 percent in 2013. At 6.1 percent, drug price inflation was the single biggest contributor to trend.

However, as we saw with ingredient costs, specialty drugs were a key factor in increased spending.

It's clear that the pharmaceutical market's focus is shifting away from traditional drugs and toward specialty. Evidence of this shift can be seen in every trend factor. At the same time, generic opportunity for traditional drugs may have reached its peak. Future opportunities for generic savings will be fewer and potentially less significant. The intersection of these events represents a turning point for pharmacy benefit management.

Overall		Specialty	Traditional
0.5%	Number of drugs used (utilization)	4.0%	0.5%
-3.0%	High-cost vs. low-cost drugs used (mix)	2.6%	-5.0%
6.1%	Cost of drugs (inflation)	12.1%	4.7%
3.3%	**Change in total cost PMPM (drug trend)**	**19.5%**	**-0.1%**

Specialty drugs make up just 0.4 percent of Prime's total claim volume. Some PBMs identify 1 percent or more of total claims as specialty. Given the high cost of some specialty drugs, a broad or narrow definition will affect the trend. Without a consistent definition of specialty, comparisons can be misleading.

Mix

Losing ground against inflation

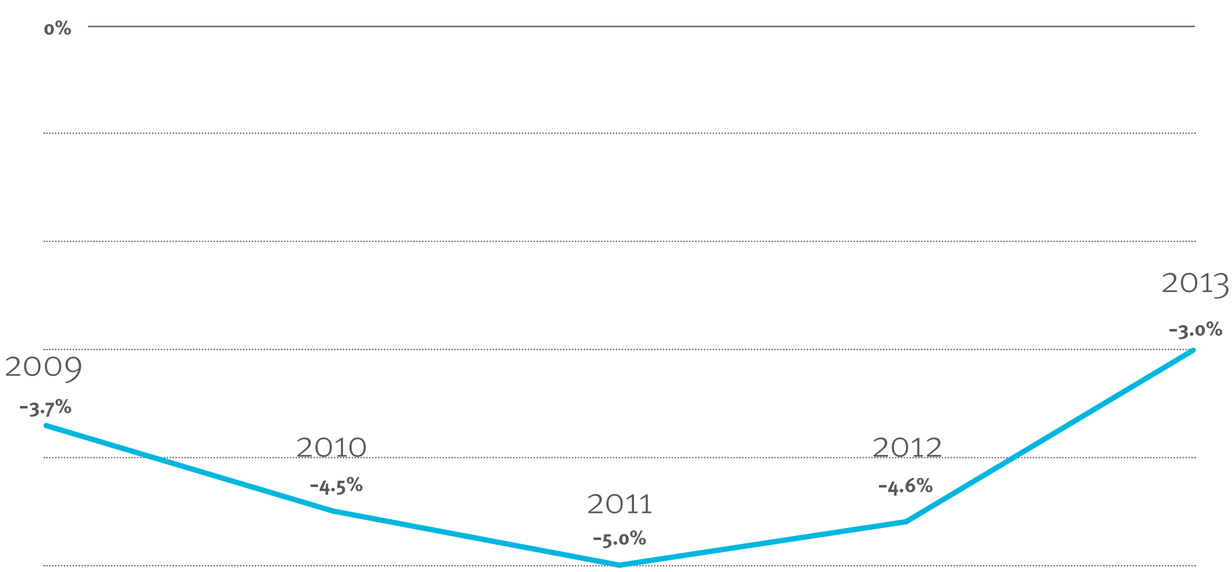
A key factor in higher pharmacy spending is growing use of more expensive drugs. Evidence of this shift is seen in the "drug mix" — the ratio of high-cost versus low-cost drugs used. Every time a new treatment is chosen, the mix changes. The result of these choices is called the "mix effect."

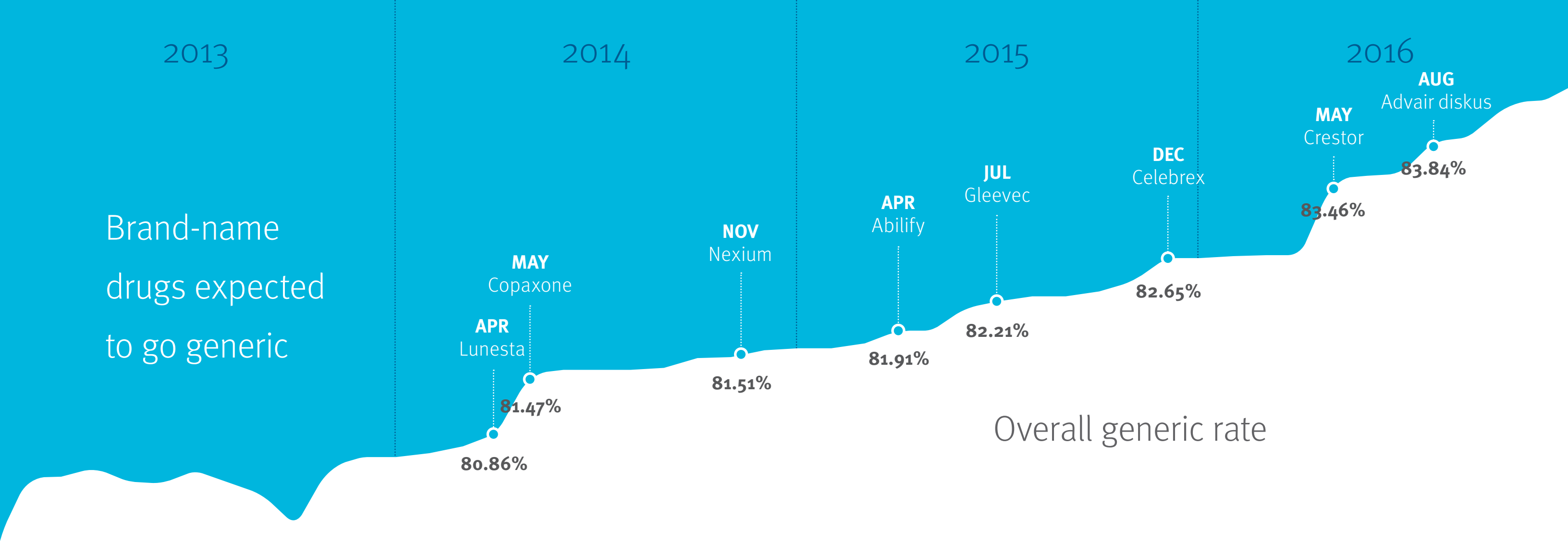
In recent years the mix effect has been strongly negative. This is because large numbers of generic drugs have become available and more people have opted to use these less expensive drugs. In fact, savings from generics have almost entirely offset pharmacy cost increases over the past several years. This helped keep ingredient costs down and led to very low drug trend.

In 2013, Prime's drug mix effect rose to -3.0 percent, up from -4.6 percent in 2012. While still negative, this higher number reveals that fewer costs were offset by the mix effect. It is evidence of drug mix's diminishing ability to combat the headwinds of inflation. As the number of generic drugs used approaches its expected maximum, the influence of costly specialty medicines in the mix will grow.

-3.0%

Although still negative, Prime's 2013 mix effect offset fewer costs than in years past.





Generic rate

Generic use climbs as patents tumble

During this decade, many brand-name drugs have faced or will face the loss of patent protection. This has been dubbed the "patent cliff" because many drug manufacturers saw their revenues plummet. As patents expired, Prime's generic rate continued to climb. From 2010 to 2013, our generic rate grew 16 percent. In 2013, it reached 80.6 percent.

In 2012, more than 40 drugs — worth a combined $35 billion — went off patent.[3] Activity slowed in 2013, with drugs worth about $17 billion losing patent protection.[4] A final surge over the next three years will put another $40 billion in brand-name drug sales up against generic competition.[5] By 2016, Prime's average generic rate for commercial clients is expected to top 84.5 percent.

Approaching the peak

Prime views 85 – 90 percent as the probable maximum generic rate. At this point, most of the brand-name drugs still in use will be under patent protection. Many will be specialty drugs.

The effects of the patent cliff will be felt well into the future. Traditional brand-name drugs under patent are likely to cost more as manufacturers try to make the most from them. Heavy competition and small profits could prompt some generic drug makers to drop products or leave the market altogether. This could lead to higher generic drug prices.

Meanwhile, the many new biologic and niche drugs in development are less likely to face generic competition. As a result, they will command high prices. Generic specialty drugs — known as biosimilars — are likely to be available in the future, but they are not expected to offer the same deep discounts as traditional generic drugs do.

Past the tipping point

Generic rate and drug mix are tightly linked. Growing generic use results in a more negative mix effect. As the peak generic rate is reached, it will become harder to keep the mix effect negative. Having already passed its lowest point, we expect the mix effect to grow positive. This will contribute to higher drug trend in the future.

Utilization

Demand for specialty gaining momentum

Prescription drug use has increased for the past several years, but it has grown more slowly than in the past. In 2013, commercial members filled an average of 12.7 prescriptions. That's just one more prescription than five years ago.

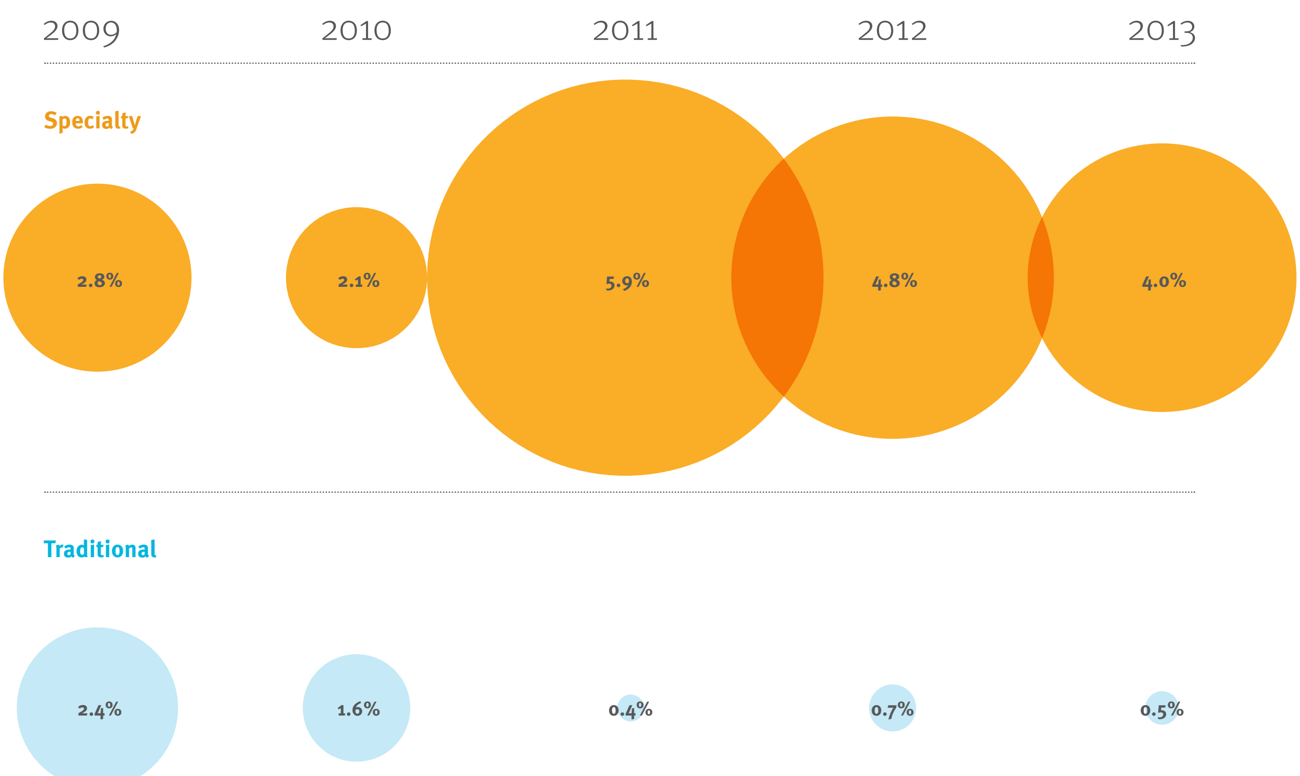
Hidden within the slow overall growth, one important factor is rising quickly — specialty drug utilization. Although few people use specialty drugs, the cost impact of rising use is huge.

Over the last five years, the rate of specialty use has outpaced traditional. In 2013 alone, it grew 4.0 percent — eight times faster than the traditional rate.

Right now, more than 900 specialty drugs are in development.[6] As the pharmaceutical industry sharpens its focus on specialty, use of these costly medicines will likely continue to grow. Growing demand for these costly drugs is expected to have a big impact on costs.

Expanded access will add to utilization

The Affordable Care Act created a new route for people to gain access to health care coverage. This will likely expand utilization of both traditional and specialty drugs. And even though traditional drug use hasn't been a major part of spending growth, it will continue to increase as the population ages.



Among traditional drugs, nine categories saw increased use in 2013. However, just three categories — medicines for diabetes, attention deficit hyperactivity disorder (ADHD) and seizure — had utilization increases that, when paired with inflation, produced higher drug spending. Decreased utilization in six categories held traditional drug utilization to just 0.5 percent.

Utilization increased in most specialty drug categories. This was expected, given that specialty utilization grew eight times faster than traditional drug utilization. Hemophilia drugs saw the most intense increase in use. While this drove a higher drug trend for hemophilia drugs, the small user population size meant the effect on overall drug costs was relatively small.

If utilization change is viewed alongside the relative proportion of pharmacy spend, a more meaningful picture emerges. Based on this view, increased use of biologic anti-inflammatory drugs, multiple sclerosis medicines and oral cancer treatments were the most notable factors affecting overall drug trend.

8:1

Specialty drug use grew eight times faster than traditional drug use in 2013.

Inflation

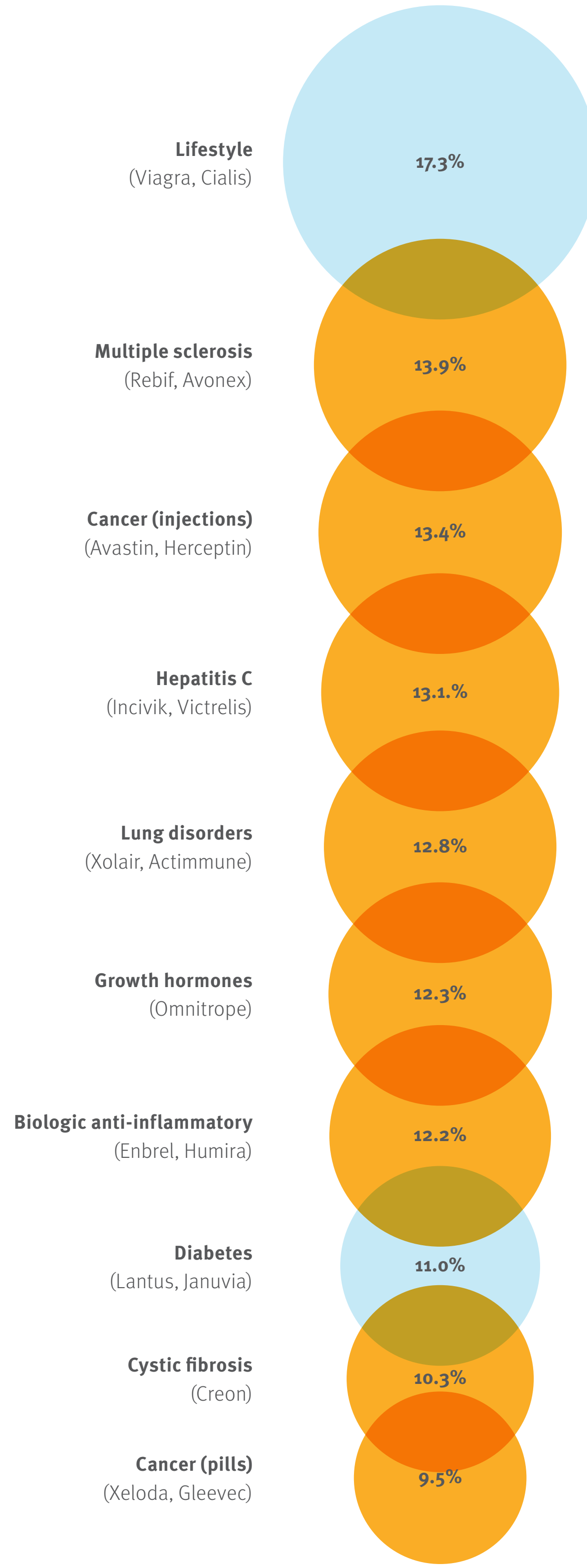
Price increases drive higher traditional and specialty spend

Price hikes for existing drugs increased Prime's total pharmacy costs by 6.1 percent in 2013. While inflation is the biggest driver of drug trend each year, its influence is expanding as the number of specialty drugs in the market grows.

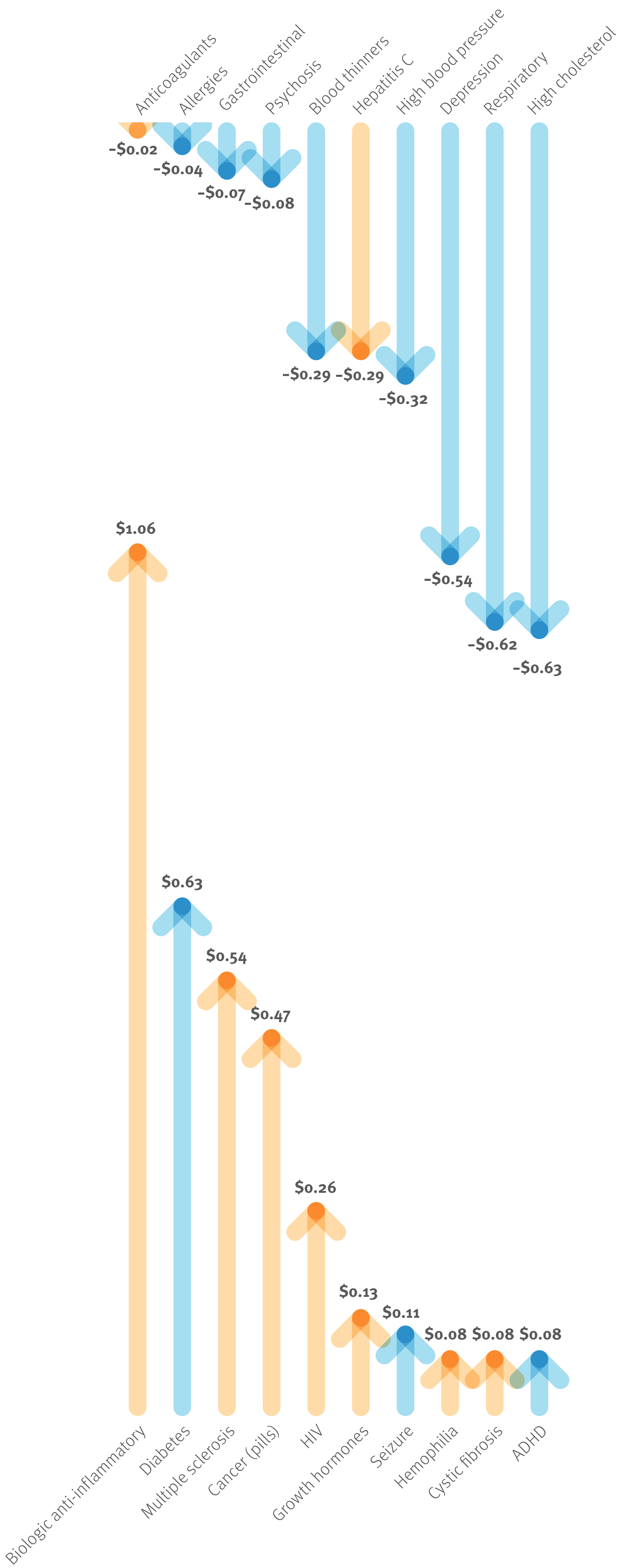
Both traditional and specialty drugs experienced inflation. But at 12.1 percent, specialty inflation was more than twice that of traditional drugs (4.7 percent). For specialty drugs, high inflation is often on top of already steep price tags. Four drugs approved in 2012 carried an annual cost of more than $200,000 per member using them.[7] A 12-week course of Sovaldi, a hepatitis C treatment approved in 2013, costs more than $84,000.

Eight of the top 10 inflation-driven drug categories in 2013 were specialty. Most of these categories saw average price increases of more than 10 percent in 2013. As the market continues to shift toward specialty, aggressive action is needed to offset inflation.

Eight of the top 10 inflation-driven drug categories in 2013 were specialty.



Note: Drugs mentioned are examples of leading drugs in these categories; they do not represent a complete list.



Drug trend drivers and moderators

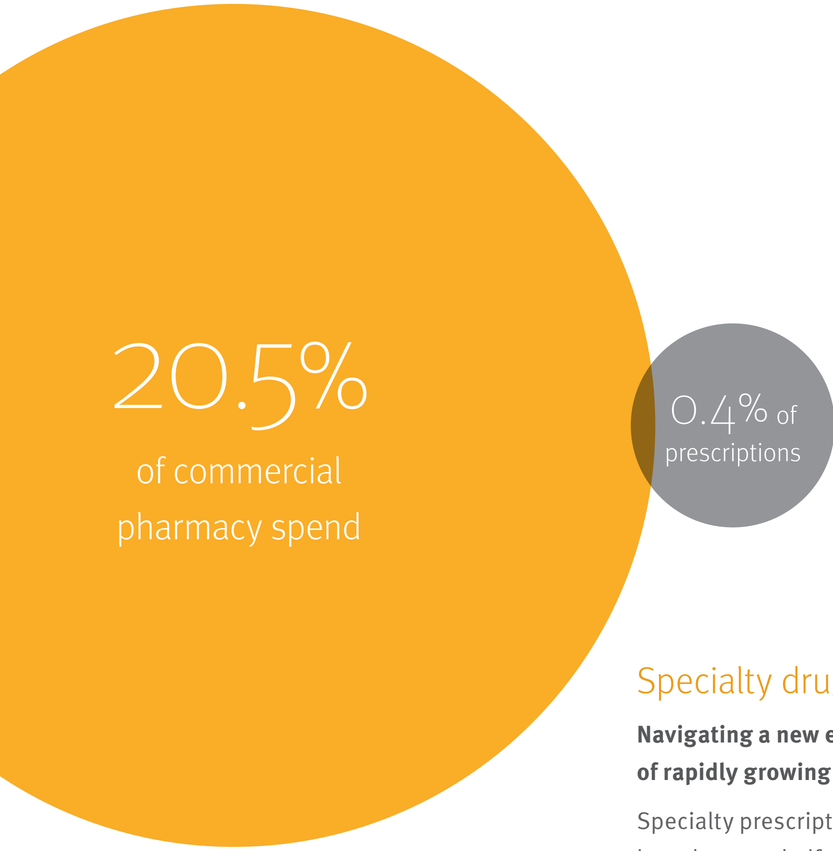
Traditional and specialty trends traveling in opposite directions

Total pharmacy costs increased $2.33 PMPM in 2013. Seven of the top 10 categories that added costs were specialty. At the other end of the spectrum, most of the savings that drove down costs came from traditional drug categories.

Biologic anti-inflammatory drugs (BAIs) used to treat rheumatoid arthritis and other immune system diseases were responsible for nearly half of the increase in total pharmacy costs. Traditional diabetes medicines were the second-largest contributor to increased costs. This was primarily the result of double-digit inflation.

Riding the hepatitis C roller coaster

Hepatitis C drug costs have risen and fallen over the past few years. Costs decreased in 2013, as patients concluded therapy with Incivek and Victrelis, treatments introduced in 2011. During 2013, many patients postponed therapy while awaiting the new oral drugs, Sovaldi and Olysio. These expensive drugs were approved late in 2013 and will make hepatitis C a major driver of drug trend in 2014 and 2015.



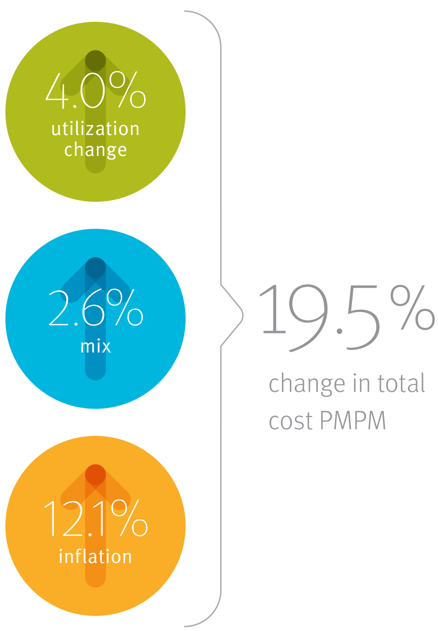
Specialty drug trend

Navigating a new era of rapidly growing costs

Specialty prescriptions made up less than one half of 1 percent of Prime's commercial claims in 2013. But their effect on overall drug trend was significant: Spending on specialty drugs paid under the pharmacy benefit increased 19.5 percent. As a result of this rapid growth, specialty drugs now account for more than 20 percent of Prime's commercial pharmacy-benefit spend.

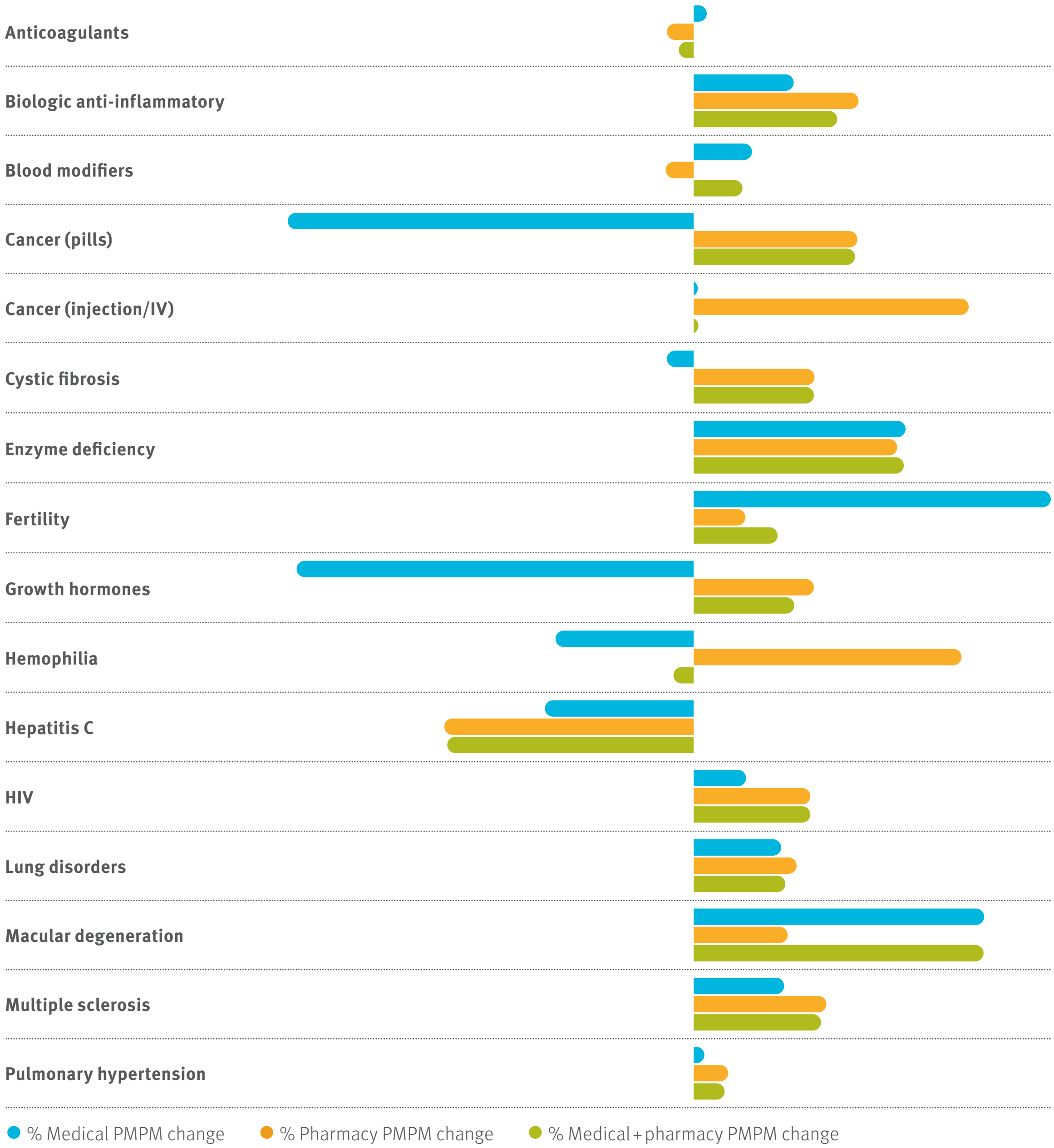
Prime is unique in that we are connected with health plans. So it's our responsibility to help manage all drug spending — even specialty costs hidden in the medical benefit. Our health plan clients' medical-side specialty costs increased just 6.6 percent in 2013.

As we continue to help clients make smart choices about how and where specialty drugs should be administered, covered and paid, we continue to help them manage a bigger share of their medical-side drug spend. As specialty treatments further blur the line between medical and pharmacy coverage, it will become even more important to be able to see — and manage — total specialty spending, not just the drugs that fall under the pharmacy benefit.



Medical and pharmacy specialty trends

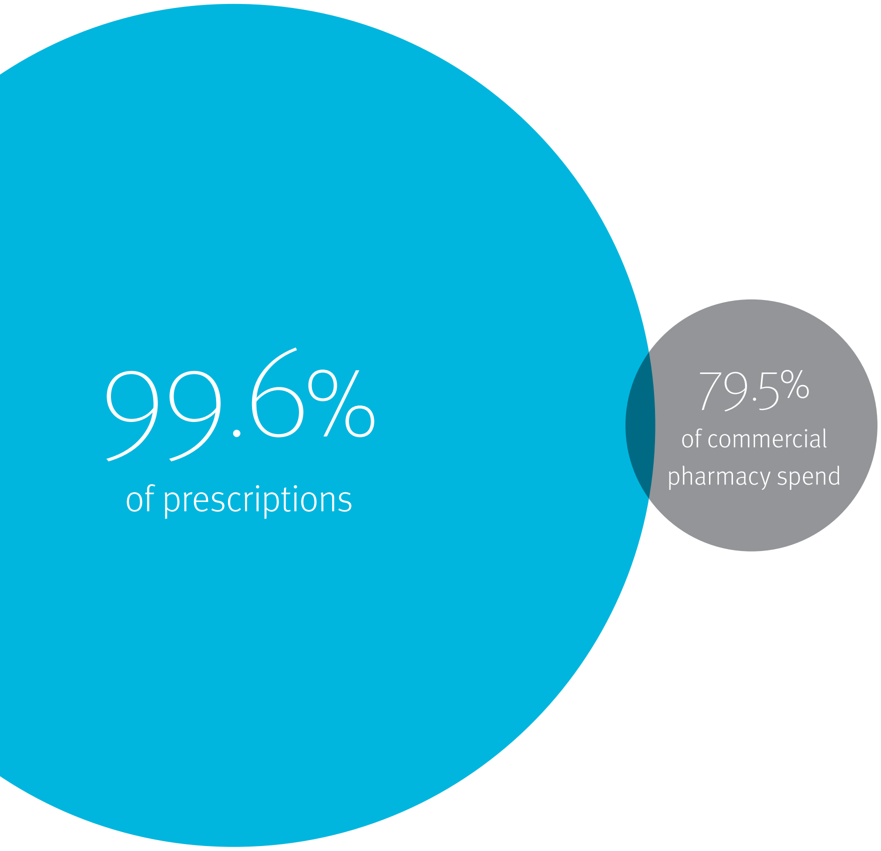
The chart on page 15 shows both medical- and pharmacy-benefit spending trends in each drug category. This is a view exclusive to Prime, made possible by our unique connection with health plans. The combined (medical + pharmacy) trend aligns with the largest number of dollars. Thus, the combined trend figure reveals where the majority of spending in each category takes place. For growth hormones and hemophilia, low medical trend and high pharmacy trend may reflect shifting coverage from the medical to the pharmacy benefit, which Prime recommends for these drugs.



Medical- and pharmacy-benefit specialty trends

In 2013, total costs increased in nearly every specialty category. The notable exception was hepatitis C, which saw costs drop as courses of therapy with Incivik and Victrelis (drugs introduced in 2011) were completed. Things will look very different in 2014 because of demand for the newest treatments, Sovaldi and Olysio.

Specialty spending remains highly concentrated in a few key areas. About 60 percent of total specialty costs are related to autoimmune disorders (rheumatoid arthritis, plaque psoriasis, psoriatic arthritis and Crohn's disease), multiple sclerosis and various forms of cancer. The dominance of these conditions means that many treatment alternatives exist, and more are arriving each year. The availability of alternatives gives benefit managers a firm foothold from which to manage the cost of treating these conditions.



Traditional drug trend

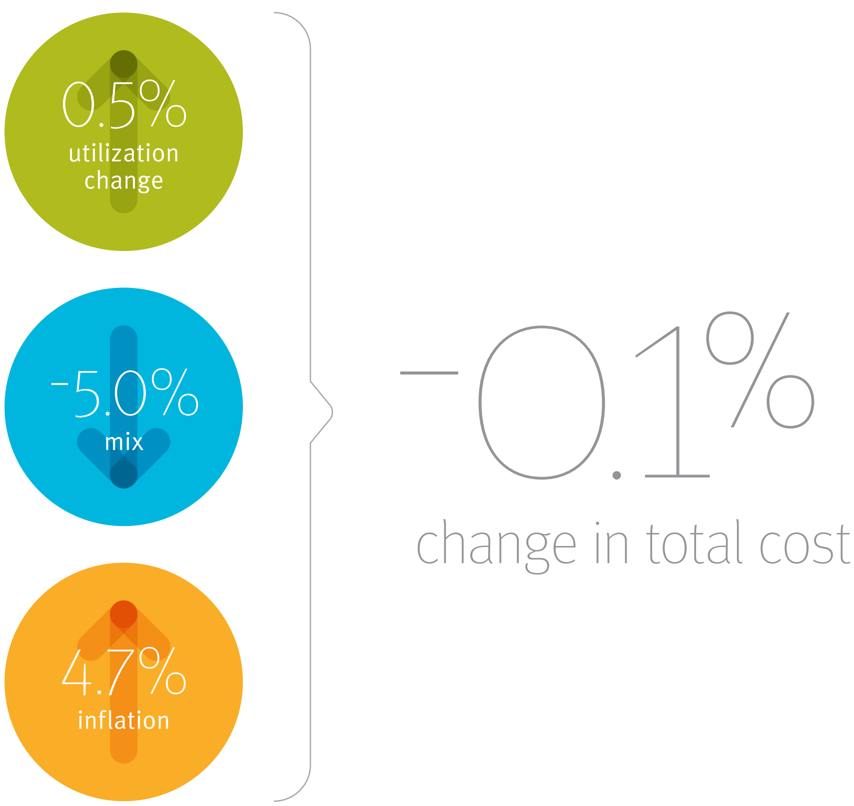
Shrinking share and falling costs, but still critical for care

With specialty drugs getting most of the attention these days, it's easy to forget that the vast majority of pharmacy claims are for non-specialty drugs. In fact, more than 99 percent of the claims Prime handled in 2013 were for traditional drugs.

Although traditional drugs continue to outnumber specialty drugs, their impact on pharmacy spending is shrinking. Over the past five years, traditional drugs' share of total pharmacy costs shrank by 10 percent. In 2013, less than 80 percent of Prime's commercial pharmacy spend came from traditional drugs.

Traditional drug spending decreased in 2013. At –0.1 percent, the change was small, but it represents the third straight year in which traditional drug costs fell. Negative trend demonstrates the power of drug mix to counteract costs.

Several key generic drugs hit the market in 2013 to compete with brand-name drugs (Aciphex for gastrointestinal issues, and Cymbalta for depression and anxiety). This created a favorable mix effect of –5.0 percent. This mix effect was strong enough to offset both inflation and a small increase in use.



Making inroads by focusing on appropriate use

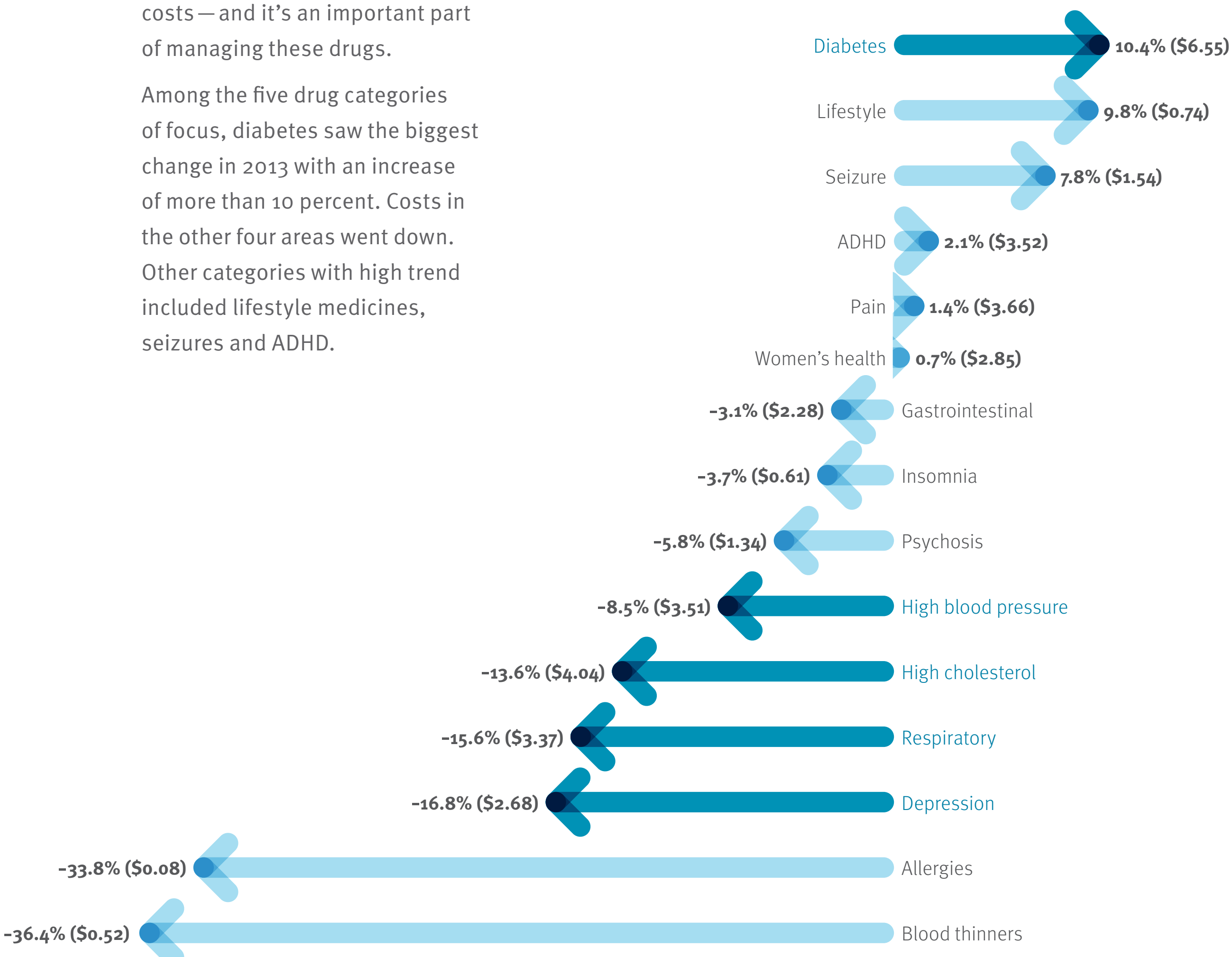
Five traditional drug classes stand out because they've been proven to help manage underlying health conditions. These classes — high blood pressure, high cholesterol, diabetes, respiratory disorders and depression — account for 41 percent of all prescriptions and nearly a third of all pharmacy dollars. Promoting adherence has been shown to improve health outcomes and lower medical costs — and it's an important part of managing these drugs.

Among the five drug categories of focus, diabetes saw the biggest change in 2013 with an increase of more than 10 percent. Costs in the other four areas went down. Other categories with high trend included lifestyle medicines, seizures and ADHD.

Although not part of the five focus categories, pain and ADHD drugs also call for special attention because of their potential for misuse or abuse. Each accounted for about 5 percent of pharmacy spending in 2013. Prime is making great strides in helping clients identify and address abuse of these drugs by applying GuidedHealth® analytics and outreach.

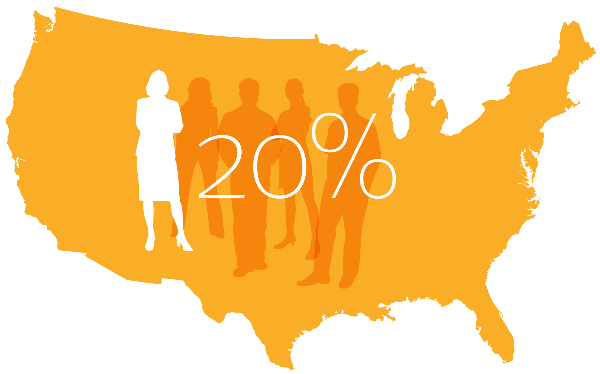
Better outcomes and lower costs are driven by informed choices

Traditional drugs are used to treat a variety of health issues. When used appropriately, these drugs provide important health benefits and improve quality of life. Prime works to connect and engage members, pharmacists and doctors so that each can make informed choices that improve health outcomes and lower health care costs.



% = Drug trend in 2013 **$** = Total cost PMPM in 2013

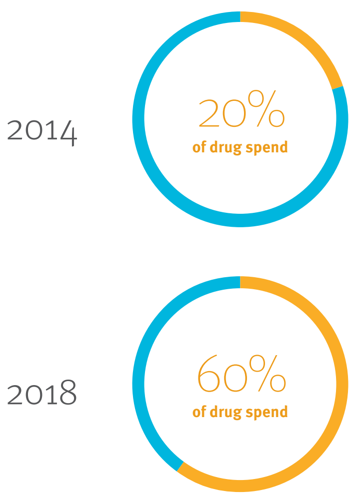
looking ahead



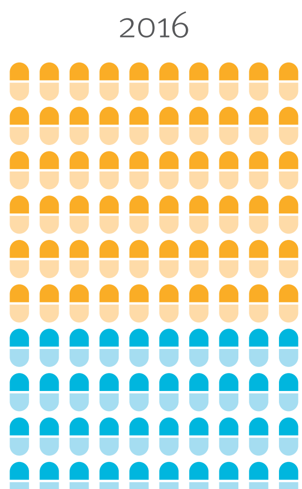
Five years ago, few people had high-deductible health plans. Now, 1 in 5 American workers do.[8] As the popularity of these plans grows, a strong focus on pharmacy care is needed. Wise use of pharmacy can play a critical role in improving overall health.

25%

Prime expects that combined drug expenses will account for more than a quarter of plan sponsors' total annual health care costs within the next three years. Expert guidance is needed to manage the fastest-growing piece of health care spending.



Specialty accounts for 20 percent of commercial pharmacy-benefit spending and a meaningful portion of medical-benefit expenses as well. By 2018, Prime expects specialty expenses to comprise more than half of all drug spend. Active management of specialty drugs — under both benefits — is essential.



Specialty drug approvals are outpacing traditional drug approvals. By 2016, three of every five new drugs approved will be specialty drugs.[9] Monitoring the pipeline and planning ahead for these drugs is an increasingly important part of pharmacy benefit management.

85%

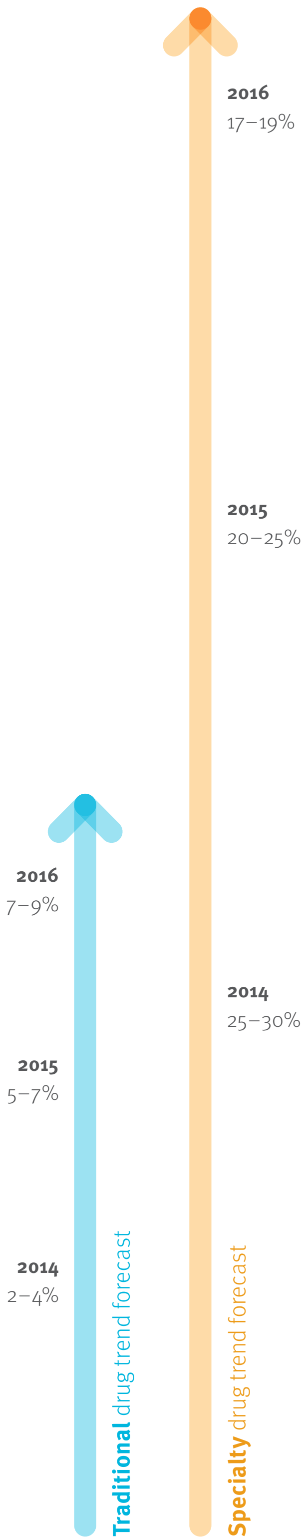
Although a few big patent expirations remain, the rate of generic adoption is slowing. Prime expects the average generic rate for commercial clients to peak at about 85 percent. Drug spending will increase quickly as specialty becomes the main driver of trend.

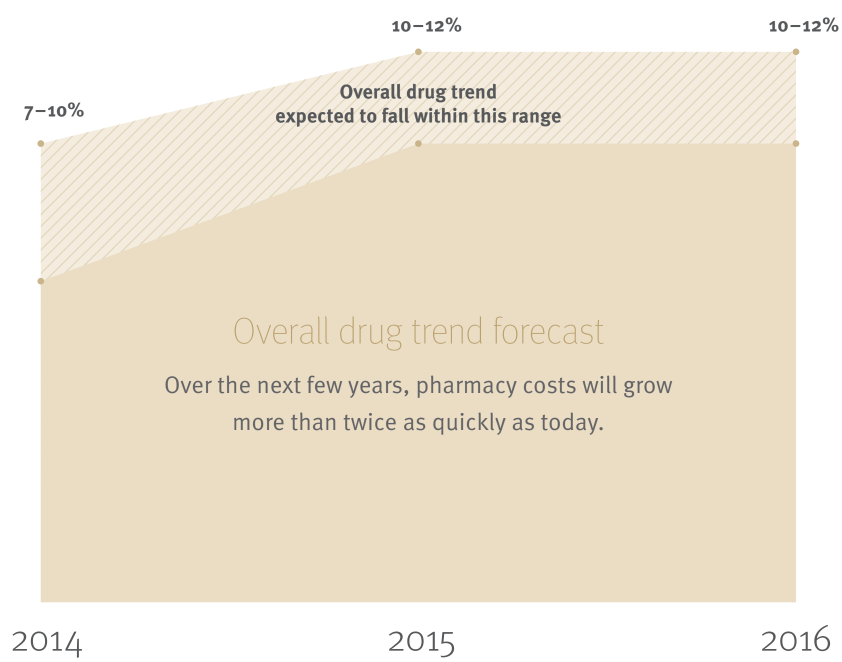
The sluggish economy of the past few years may have given employers one thing to celebrate: smaller increases in total health care costs. Health care costs rose only 1.3 percent per year between 2010 and 2013.[10] That's the lowest increase in a three-year period on record.

However, many complex issues lie hidden within these numbers. Insurers' increasing reliance on high-deductible health plans could be pushing costs to consumers. Plus, a stagnant job market may have held both business and families to tighter health care budgets. These trends appear to be leveling off, and health care costs are once again rising quickly.[11]

Pharmacy is an increasingly important part of total health care costs. And pharmacy spending is poised to accelerate. Until recently, widespread adoption of generic medicines helped rein in pharmacy spend. But untapped generic savings are shrinking, and the use of expensive specialty drugs is expanding.

The intersection of these trends has already begun to push spending upward, and that pattern will continue. In the next few years, Prime estimates that overall pharmacy costs will be growing at a rate of about 10 percent per year — more than twice as quickly as today.





looking forward

The future will be driven by specialty. Specialty drugs are unequalled in their complexity, their cost and their immense potential to change lives.

Consider the new hepatitis C drug, Sovaldi, which was approved in 2013. The drug's $1,000 per-pill price — about $84,000 for the recommended 12-week treatment regimen — caused public outrage and prompted a congressional inquiry.[12] Yet the drug's high cure rate has the potential to create savings for the health care system by preventing complications from liver disease and transplants.

Who decides whether specialty drugs are worth the price? How do health plans and employers balance budgets with demand? Who holds drug manufacturers accountable if their products fail to deliver promised results? The questions, trade-offs and tough choices are likely to become even more difficult as specialty care evolves.

A vision for moving forward. The road ahead holds both enormous challenges and tremendous opportunities. As the Affordable Care Act changes how millions of Americans access health care coverage, little is certain. One thing, however, is quite clear: Specialty medicines will continue to have a powerful influence on health care decisions, outcomes and costs.

As we navigate the changing health care landscape, Prime offers a vision for improving the quality of pharmacy care while maximizing pharmacy's overall value in the total health equation. By working seamlessly together with Blue Cross and Blue Shield clients, Prime helps plan sponsors see the big picture and tackle the even bigger questions. There is no other way to get — or stay — ahead of specialty drugs and their growing impact on overall health care costs.

About Prime Therapeutics

Prime helps people get the medicine they need to feel better and live well. The company manages pharmacy benefits for health plans, employers, and government programs, including Medicare and Medicaid. Prime processes claims and delivers medicine to members, offering clinical services for people with complex medical conditions. Headquartered in St. Paul, Minn., Prime serves more than 25 million people. It is collectively owned by 13 Blue Cross and Blue Shield Plans, subsidiaries or affiliates of those plans. Prime has been recognized as one of the fast-growing private companies in the nation.

For more information, visit PrimeTherapeutics.com or follow @Prime_PBM on Twitter.

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