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Welcome

Welcome to Prime Therapeutics’ (Prime’s) 2011 Drug Trend Insights report. This annual publication takes a look back at Prime’s 2010 performance and presents guidance for the future. In these pages you will find proof of the tremendous results our clients continue to achieve through partnership with Prime.

In 2010, our distinctive approach produced industry-leading drug trend of 2.9 percent across our commercial book of business. Our commercial performance is eclipsed by Medicare drug trend of just 1.8 percent, evidence of our strong commitment to government programs and skill in delivering lowest net cost. Despite significant manufacturer price increases, Prime's net ingredient costs grew only 1.1 percent in 2010.

From this low net cost foundation, Prime's integrated approach — the result of a unique relationship between Prime and its health plan partners — is helping clients achieve total cost management. As data in this report confirm, better medication adherence not only improves health, it can reduce medical costs.

Proving the value of pharmacy is particularly critical in specialty drug management, where a significant portion of drug spending takes place through the medical benefit. In these pages you’ll find insights about specialty drugs and approaches to managing pharmacy across both medical and pharmacy benefits that no other PBM can provide.

Our solutions reflect insights gleaned through rigorous scientific inquiry — we presented six posters at the most recent AMCP meeting — and a commitment to transparency. At Prime, getting to the right answer is not enough, we also demonstrate clearly how we got there. By showing our work, we make more informed health care decisions possible.

Informed decisions are crucial in an environment of constant change. As health care reform accelerates the pace of change, Prime remains focused on continuing to provide affordable access and fantastic service to members, beneficiaries and clients. Everything we do adds up. And when you see our work, you’ll know why Prime truly is the smart pharmacy benefit management choice.

Eric S. Elliott  
President and Chief Executive Officer  
Prime Therapeutics LLC

Peter J. Wickersham  
Senior Vice President, Cost of Care  
Prime Therapeutics LLC
it all + adds up

“Prime is very dependable and very helpful. You can truly count on them.”—Member, California

The result = value for our clients and better health for our members
Pharmacy benefit management that is greater than the sum of its parts

Today pharmacy benefit management supports a broad array of health care decisions and services. In this complex environment, it is important to be sure one is getting true value. Prime provides lower-cost, higher-quality pharmacy management focused on the total health dollar, with the resulting value passed on directly to our clients.

**Prime offers an integrated approach to health care**

Integration delivers a better standard of care and elevates our clinical expertise. Medical trends are viewed as key pieces of information in pharmacy program development and integrated data figure in clinical decisions. A comprehensive view of members’ medical history lifts our provider and member outreach to new levels.

Our brand of integration goes beyond clinical expertise to touch every area of pharmacy benefits—from collaborating in an account-management capacity to insightful performance reporting. We offer industry-leading real-time processing of shared deductibles to prevent gaps in the administration of benefits. Member service delivers a seamless customer experience, with pharmacist consultation available 24 hours a day. Collaboration with health plan wellness and disease-management programs expands the reach of member engagement and education. And we are constantly searching for additional connection points to simplify the health care system and improve overall care.

**Prime’s approach produces tangible results**

*Our Drug Trend Insights* report proves that our unique approach and transparent philosophy really work. In it you'll find numbers that reflect Prime’s success and examples that show how our targeted programs and execution are helping to reduce the total cost of care.

The sum of smart pharmacy benefit management equals more

- **Savings**
- **Safety**
- **Guidance**
- **Satisfaction**
- **Partnership**
“Ordering regularly used medications online and receiving them by mail is a true time saver. The cost is less for better service—you can’t beat that.”
—Member, Illinois

Pharmacy trend for 2010
Industry-leading trend management is just one variable in our savings formula. When combined with low ingredient costs, strong generic use and efficient interventions, it produces better health at a lower cost.
Manufacturer drug prices increased 6.9 percent on average in 2010.¹ Commercial health care costs grew 8 percent.² Today, saving money is the top priority for all stakeholders: members, employers, health plans and government. Prime’s savings calculation begins with low net ingredient costs. Add in a strong generic rate and effective cost-reduction programs; the result is industry-leading pharmacy trend management—year after year (see Figure 1).

Trimming expenditures is one way to slow the upward trend in health care costs. But sometimes measures intended to cut costs make it more difficult for members to get the drugs they need. Finding the right balance is all part of perfecting the formula. Prime’s proven ability to hold pharmacy costs in check, combined with a strong record of customer service, are strong indicators of our success.

Some PBMs measure and report trends across a few select top-performing groups. Comparison across different PBMs can thus be challenging (even folly, according to some observers).³ For example, if other PBMs reported pharmacy trend the way we do (as shown by adjusted averages in the chart), our results would look even better. Our mission is to empower clients to make informed health care decisions. We believe accurate information guides smart pharmacy management, and we refuse to obscure results simply to make ourselves look good. This is why Prime’s data reflects our entire commercial book of business.
Drug mix is a measure of the effect drug selection has on total costs. When use shifts from expensive to less-expensive medications, the resulting drug mix is a negative value. For plan sponsors, every 1 percent increase in generic use can reduce total cost by more than 2 percent.
A negative drug mix is a huge positive—multiply savings with smart generic use

IMS Health estimates that $25.4 billion in U.S. drug sales are at risk of generic competition this year as patents expire on iconic brands such as Lipitor® and Plavix®. Another $26.1 billion in sales—about 9 percent of the $300 billion market—will lose patent protection next year.¹

**Converting those losses into savings for members and clients is one of the things we do best**

It begins long before a new generic is introduced, with benefits structured to make generic drugs the most attractive option and clinical programs to ensure members begin therapy with the most effective, lowest-cost agents. We make it as easy as possible for members to move to the generic. As a result, our 2010 generic rate averaged 69.2 percent for the year. By December, it had grown to 70.9 percent.

Defining generic drugs may seem simple, but in reality, this is where a lot of profit games are played. Through an aligned approach, proactive pricing and transparent reporting, Prime avoids these pitfalls, turning potential negatives into real positives for our clients.

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**Fig. 2  Generic Rate, 2010**

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
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<td>67</td>
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<td>71</td>
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**Fig. 3  Prime’s Aligned Approach to Generics**

<table>
<thead>
<tr>
<th>Potential</th>
<th>Prime’s aligned approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>pitfall</td>
<td></td>
</tr>
</tbody>
</table>

- Generic drug classifications can be manipulated to inflate discounts
- Consistent use of Medi-Span classifications results in data you can trust
- Typical contracting schedules lag market changes
- Proactive contract negotiation means lower costs are passed to clients in real-time
- Pricing games can be played with maximum allowable cost (MAC) lists
- Broad, aggressive MAC list delivers the industry’s lowest generic ingredient cost
“The pharmacist helped me understand my prescriptions and suggested ways I could save money. Now I can afford to stay on my medications.” — Member, Kansas

Our analysis found a clear relationship between drug therapy adherence and lower medical costs for patients with diabetes. Not only did patients with optimal adherence have fewer medical expenses, their risk of being hospitalized was 31 percent lower.
Partnering to improve health — not just a fraction of health care

The ability to integrate medical and pharmacy data is not what makes Prime different. Other pharmacy benefit managers can — and do — incorporate medical data into their programs. What sets Prime apart is more than simply swapping data. What distinguishes us is how we use the numbers to improve the safety and quality of pharmacy, how our connection with providers behind the scenes and through our clients adds up to more comprehensive care, and how our coordination with health plans multiplies positive outcomes and decreases health care costs.

In health care, one plus one does not always equal two

How do we know? Because we have confirmed it through analysis of clients’ total health care spend, not just pharmacy spend. We combine pharmacy expertise, smart clinical rules and a deep understanding of the pharmaceutical industry with our plan partners’ health-management programs and medical expertise to help solve the total cost-of-care equation.

Regardless of the type of drugs managed, our total health perspective uses medical data to make smarter pharmacy decisions. We consider the medical impact when making formulary recommendations. We apply a full range of proven pharmacy tools to specialty drug management, delivering opportunities for savings while supporting improved condition management that leads to better health and quality of life for specialty patients.

Today the nation’s growing pharmacy bill represents 15 to 20 percent of total health care costs. By uniting medical and pharmacy information and connecting people and technology, we are nurturing health for our members — not just managing a fraction of their care.
“The pharmacist noticed a problem and contacted my doctor to change my prescription to avoid a bad reaction. Thank goodness for Prime.” — Member, Texas

Research conducted by Prime in 2010 found that an automatic safety edit at the point of sale reduced use of Avandia® in combination with insulin or nitrates by 31.8 points. Not only does the program limit use of this risky drug, but by stopping an unsafe combination at the point of sale, it avoids the unnecessary medical cost of treating serious adverse drug reactions.
Knowing the numbers is the first step in improving medication safety

Approximately 1.3 million people experience a “medication error” each year in the United States. On average, each adverse drug event—the profession’s language for drug-driven harm to the patient—costs $8,750 to treat. Improving medication safety is one of the most urgent issues facing health care today.

Industry data indicate 37 percent of patients have at least one drug therapy problem; a third of these are safety issues. More than 20 percent are taking too much or too little of the right medication. Nearly one in four is taking either the wrong drug or an unnecessary drug.

Preventing medication misuse and averting potential safety issues are important, but not sufficient to ensure complete member safety. A holistic approach to pharmacy also means looking at medication safety as part of the overall picture of health. Integrated analysis reveals issues not visible in pharmacy data—such as the 25 percent of patients who fail to receive treatment for a diagnosed medical condition.

21 percent of patients with a drug-therapy problem are at immediate risk for a potentially serious reaction. Traditional safety programs such as comprehensive drug utilization review remain central to our core pharmacy mission. Preventing medication misuse not only reduces costs, it can save lives.

Medication safety will not improve if we do not learn where the dangers are and develop ways to eliminate them. Knowing the numbers is just the first step; it must be followed by effective management. There is greater safety in numbers—and we can help you find it.
{start} with + a common denominator
Achieving exceptional results
one relationship at a time

It used to be that managing health and managing pharmacy were two different things. Increasing rates of chronic disease and the rise of specialty drugs are changing that. The connection between pharmacy and medical outcomes and costs is growing stronger every day. Our model gives us a unique ability to execute on the close kinship between pharmacy and medical care.

**It begins at the core, with who we are and how we work**

Prime is collectively owned by a select group of market-leading health plans. Working together to advance the health of members and communities is a natural outgrowth of our identity. Our approach is rooted in transparent business practices and true alignment with customers.

**It inspires everything we do**

Different from the ground up, we deliver a better experience for clients — and for members.

Overall satisfaction in 2010 was 93 percent; members consistently rated the courtesy, friendliness and helpfulness of Prime's staff higher than competitors' members. The intensity of Prime members' overall satisfaction — at 65 percent very satisfied — is also much higher. Client satisfaction is also above average overall, with exceptional ratings for people-centered, responsive service and providing relevant, actionable information to guide smart pharmacy decisions.

More than 17 million members depend on us every day for simple, straightforward pharmacy solutions that save money and keep them well. Because we share a common denominator with our clients, we are committed to supporting total health with smart pharmacy management and a quality of service unmatched in the industry.
Methodology

This report examines changes in drug costs, utilization and other key measures that have an impact on total pharmacy spend. Data between January 1 and December 31, 2010 were compared with the same period in 2009. Unless otherwise noted, data represent our commercial book of business across all full-service clients. Clients initiating coverage mid-year 2010 have been excluded.

Other important considerations for interpreting data:
• Drug spend is defined as the total adjudicated amount (including pharmacy network discounts, dispensing fees and taxes) paid per member per month (PMPM).
• Manufacturer rebates are not included, unless noted.
• 90-day prescriptions have been weighted (converted to carry the same weight as retail 30-day fills).
• Unless otherwise noted, case studies and insights presented throughout the report are derived from Prime analyses of client data.

Terminology

Rapidly increasing specialty spend has heightened the need to isolate and examine certain drug trends individually. To simplify this discussion, we use the following terms:

• **Specialty** — the drug list managed through our specialty pharmacy program, Triessent®. These are typically high-cost drugs generally prescribed for rare or complex, ongoing medical conditions. Often injected or infused, these drugs have unique storage or shipment requirements. This definition excludes low-cost drugs that don’t meet the technical definition of specialty, anti-nausea therapies and most immunosuppressant drugs (refer to Chapter 5).

• **Traditional** — all non-specialty drugs.
  + **Spectrum** drugs represent a wide variety of treatments from acute drugs and antibiotics to maintenance medications for chronic conditions (refer to Chapter 3).
  + **Focus** drugs treat five common chronic conditions — high blood pressure, high cholesterol, diabetes, respiratory disorders and depression (refer to Chapter 4).

• **Total** — all drugs combined.

• **Ingredient Cost Per Prescription** — the total amount paid for drugs, less dispensing fees and taxes; claim counts are assigned according to the days’ supply.
  + Average ingredient cost per prescription reflects pharmacy discounts.
  + Net ingredient cost per prescription includes manufacturer rebates and manufacturer administration fees.
1 Managing Trend

Quantifying the effect of smart pharmacy benefit management

As a nation, we spend about $300 billion on prescription drugs each year. In many cases, prescription drugs have the ability to dramatically improve outcomes.

In the context of total health care costs, prescription drugs offer tremendous value. As a leading pharmacy benefit manager, Prime’s primary objective is to help plan sponsors leverage this value in smart, thoughtful ways. This is why we work to hold pharmacy trend in check—and employ our low net-cost approach to deliver significant savings on the cost of drugs.

In 2010, our pharmacy trend across traditional and specialty drugs was 2.9 percent—a decrease of 0.5 points from 2009 (see Figure 4). This marks the eighth year in a row of single-digit trend for Prime and its clients.

Manufacturer price inflation was the primary factor driving pharmacy trend in 2010. The average price increase was 6.9 percent in 2010, according to investment bank Barclays Capital, which analyzed the list prices of the 130 top-selling drugs by sales. Brand-name drug prices rose rapidly, reaching the steepest rate of the decade. Even generic drugs experienced price spikes, fueled by volatility in the generics industry. Against this backdrop, Prime continued to guide members to clinically proven, cost-effective medications, as evidenced by steady utilization and strong negative drug mix.

Pharmacy trend is governed by utilization, inflation and drug mix. Changes in these factors all affect the end cost to plan sponsors.
Utilization measures change in the number of prescriptions used by members.

Prescription drug use in the U.S. has been rising steadily in the past decade and shows no signs of slowing.\textsuperscript{15}

Use of prescription drugs increased at Prime in 2010. On average, members filled prescriptions at a rate of 12 prescriptions per year, a 1.6 percent increase in utilization over 2009 (see Figure 5).

Prescription drugs are essential to treat increasingly common chronic conditions. The rate of increase in chronic disease suggests we should expect to see a corresponding increase in drug utilization. However, some increase in utilization may be the result of excessive prescribing. Taking too many medications can lead to safety issues and contributes to increased health care costs. The challenge is making sure the right individuals are getting the right amount of the right drugs.

Focus drug use increased 2.9 percent in 2010, much faster than overall utilization. Focus drugs treat five of the most common chronic conditions. Our goal is to improve adherence to focus drugs, so higher utilization is a good thing — potentially leading to better management of chronic conditions and lower medical costs.

Smart pharmacy management optimizes drug use in a targeted way, using a total health perspective to help plan sponsors overcome the challenges of both overuse and underuse.
Inflation corresponds to changes in the wholesale cost of drugs.

Between 2011 and 2015, more than 30 percent of Prime’s drug costs (10.3 percent of claims) will be affected by the shift toward a primarily generic marketplace. Industry-wide, IMS Health estimates that $25.4 billion in U.S. drug sales are at risk of generic competition this year, with another $26.1 billion set to lose patent protection next year.5 As patents expire on blockbuster brands such as Lipitor® and Plavix®, drug makers have been raising prices in an effort to replace shrinking revenues. In addition, drug maker deals that delay or limit generic competition have become increasingly common.19 These tactics contribute to inflation by allowing higher-cost brand-name drugs to retain market share.

While brand-name drugs saw the biggest increases, competitive and supply issues among generic drug manufacturers also contributed to inflation in 2010.17 Exclusive and authorized launches of generic drugs limit the number of manufacturers competing to supply a new generic drug, as was the case with Teva’s exclusive introduction of generic Effexor XR® in 2010. At-risk launches and protracted legal issues also limit generic competition. For example, since the introduction of generic Protonix® (pantoprazole) in 2008, ongoing patent disputes limited the number of manufacturers. Until recently, this lack of competition kept the cost of pantoprazole higher than is typical for generic drugs.18

Price increases in brand-name and generic drugs are reflected in Prime’s book of business, where unit costs grew 6.2 percent from 2009.

As drugs near patent expiration, their prices increase faster than other brand-name drugs. Researchers at AARP’s Public Policy Institute found that between 2005 and 2009, the average retail price for a one-year supply increased $762 for drugs facing generic competition in 2010. The majority of this price increase took place in the last two years before patent expiration. Similar trends were found among brand-name drugs that went off patent in 2009.19
Drug mix reflects the effect of member choices on total costs.

The collective result of members’ many individual drug choices on pharmacy trend is the “drug mix effect.” When members choose less expensive treatment options, pharmacy spending decreases. This is why a negative drug mix is ideal.

Improving generic utilization is a direct way to increase the drug mix effect and drive down costs. Our generic rate reached 70.9 percent by December 2010 (see Figure 6). Results for many plan sponsors exceeded those of our book of business; several plans ended the year with generic utilization of more than 75 percent.

Every 1 percent increase in the generic rate has the potential to deliver savings of 2 percent or more.

The book-of-business generic rate is likely to top 74 percent by the end of 2011 as new generics become available. However, top-performing clients who work closely with Prime are achieving generic rates in excess of 80 percent. A generic rate of more than 85 percent is possible today. We provide the tools to get there; it simply requires definitive action that employs smart pharmacy benefit management.
Formulary management

Formularies are lists of drugs that are preferred by a health plan or employer. Prime offers several formularies aligned across our owner plans and more than 17 million members. Smart use of formulary management lowers costs for our health plan-owners, as well as plan sponsors who partner with Prime.

A formulary that delivers a 10-point increase in the generic rate is nothing to scoff at. To illustrate the significance, consider a self-funded employer with 5,000 members who spends about $3 million on pharmacy each year. Implementing this formulary would save this employer approximately $550,000 in one year. That half-a-million dollars could be used to purchase new equipment, launch a new product or hire several employees.

While formulary management is an effective way to subtract costs, smart formulary management can add up to better health. Our formulary process incorporates both medical and pharmacy data to ensure formulary recommendations reflect a complete view of the impact to members’ health and health care costs. The result is smart formulary management with a total cost-of-care perspective.
Net ingredient cost per prescription

Combating cost inflation is a central mission of pharmacy benefit management. Assessing pharmacy trend is one way to look at how successfully a PBM is fighting this battle. Another way is by taking a closer look at the actual ingredient costs. This is especially important because plan sponsors and members experience pharmacy trend through real-world changes in the cost of individual prescriptions, not a representative average.

In 2010, the ingredient cost per prescription for brand-name drugs, including specialty, increased 9.5 percent across Prime’s book of business (see Figure 8). Prime’s generic ingredient cost per prescription increased 7.5 percent. Because Prime continually pushes our generic cost per prescription as low as possible—without playing games to increase margins or obscure the true cost of generics—the uncertainty and volatility in the generic market have a significant impact on our base costs.

Fig. 8 Net Ingredient Cost Per Prescription, 2010

<table>
<thead>
<tr>
<th></th>
<th>$ Net Cost/Rx</th>
<th>Change from 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand</td>
<td>$146.46</td>
<td>9.5%</td>
</tr>
<tr>
<td>Generic</td>
<td>$19.58</td>
<td>7.5%</td>
</tr>
<tr>
<td>Total</td>
<td>$58.48</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

Despite rapid ingredient price increases, Prime’s net ingredient cost per prescription increased only 1.1 percent. This points to the power of drug mix. Strong growth in generic utilization kept per-prescription ingredient costs low.
While driving use of lower cost drugs is an effective way to trim pharmacy spending, we also reduce ingredient costs by negotiating the best possible rates from retail pharmacies and using our leverage to obtain better prices on brand-name drugs. Through these negotiations, we have held ingredient costs stable over the past three years, even as wholesale prices increased (see Figure 9).

**Fig. 9  Prime Net Ingredient Cost vs. Average Wholesale Price, 2008 – 2010**

Most pharmacy benefit managers will not publicly disclose their pharmacy net ingredient costs because this measure includes all network discounts, manufacturer rebates and administrative fees. However, it most accurately reflects true ability to manage pharmacy costs. Publicly sharing this number is a declaration of confidence in our expertise and a demonstration of our honest, straightforward approach.

Pharmacy benefit management can be incredibly complex, so focusing on net costs can be a simpler way to approach cost management. To help plan sponsors predict and manage costs, Prime has created Reliance, a benefit package with a net cost per prescription guarantee.

---

**Refer to Chapter 6 to learn more about Reliance and other benefit tools designed to achieve maximum health and savings.**
Specialty drugs in the mix

In 2010, specialty drugs represented less than 0.5 percent of Prime’s overall prescriptions but accounted for 13.1 percent of total expenditures. Specialty pharmacy costs increased 12.6 percent, a slightly slower rate than in previous years.

As shown in Figure 10, without specialty drugs, traditional pharmacy costs grew only 1.6 percent. Clearly, these high-cost medications are a major contributor to overall pharmacy trend.

Fig. 10  PMPM Trend by Drug Type, 2010

<table>
<thead>
<tr>
<th></th>
<th>Specialty</th>
<th>Traditional (non-specialty)</th>
<th>All Drugs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in total cost PMPM (drug trend)</td>
<td>12.6%</td>
<td>1.6%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Number of drugs used (utilization)</td>
<td>2.1%</td>
<td>1.6%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Cost of drugs (inflation)</td>
<td>9.7%</td>
<td>5.7%</td>
<td>6.2%</td>
</tr>
<tr>
<td>High-cost vs. low-cost drugs used (mix)</td>
<td>0.6%</td>
<td>-5.3%</td>
<td>-4.5%</td>
</tr>
</tbody>
</table>

Use of specialty drugs increased 2.1 percent in 2010, a slower rate of increase than the nearly 3 percent in 2009. Unit costs increased 9.7 percent, about the same rate as the previous year. With few specialty generic drug options available, drug mix is not able to offset increasing specialty-drug utilization and higher drug prices.

Aggregate specialty inflation was 9.7 percent in 2010, but several specialty drug classes experienced extraordinary price increases. Inflation for drugs used to treat multiple sclerosis was 15.4 percent, while both oral oncology and pulmonary hypertension had inflation above 10 percent. Compounded by increasing utilization, these price increases are a big factor contributing to overall specialty trend of 12.6 percent.

Refer to Chapter 5 for a more detailed look at specialty trends and pharmacy management solutions.
Trends in Medicare Part D

The 2010 ingredient cost per prescription in Medicare Part D was $41.17, $17 less than our commercial book of business (see Figure 11). This in spite of Medicare members being much older (73 years old on average compared with 34 years for commercial members) and using four times as many prescription drugs (48 prescriptions per year vs. 12).

Why are Medicare ingredient costs so much lower? The Medicare benefit is based on a highly structured, generics-centric formulary to focus use on the lowest-cost treatments. It employs four- and five-tier benefit designs that offer more opportunity to encourage use of lower-cost drugs. A variety of smart utilization management programs are used to direct seniors to the drugs that are right for them while reining in costs.

Strong generic incentives lifted the Medicare generic rate 3 points from 2009 to an average of 77.7 for the year (vs. 69.2 percent commercial). As a result, pharmacy trend was only 1.8 percent — 1.1 points lower than the commercial book of business (see Figure 12).

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### Fig. 11  Net Ingredient Cost Per Prescription — Medicare, 2010

<table>
<thead>
<tr>
<th>$ Net Cost/Rx</th>
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<tbody>
<tr>
<td>Brand</td>
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<tr>
<td>Generic</td>
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<tr>
<td>Total</td>
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</table>

### Fig. 12  Total Cost PMPM

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>High-cost vs low-cost</td>
<td>4.2%</td>
</tr>
<tr>
<td>drugs used (mix)</td>
<td>6.5%</td>
</tr>
<tr>
<td>Cost of drugs (inflation)</td>
<td>0.1%</td>
</tr>
<tr>
<td>Number of drugs used (utilization)</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

Change in total cost PMPM
Sylvia is a spirited 83-year-old living in Des Moines, Iowa. Poor health may have limited her mobility, but it hasn't dimmed her enthusiasm for life. She remains vivacious and chatty, with a hearty laugh.

Sylvia takes 12 different medications to treat her ongoing health conditions. She is careful to follow the instructions she receives from each of her doctors and her trusted local pharmacist, but a complex medication regimen puts her at risk for serious—and costly—medical events.

Fortunately, Sylvia is enrolled in Medication Therapy Management (MTM), a special program for Medicare members that provides clinical prescription review and counseling by expert pharmacists.

Prime's MTM pharmacist, Ron, conducted a comprehensive review of Sylvia's medications and identified several potentially dangerous drug combinations. Through careful and kind questioning, Ron learned that Sylvia was experiencing problems with her kidneys, a cause for serious concern. Working with Sylvia's providers, Ron helped resolve multiple medication concerns. He also put together an action plan so that Sylvia would be able to continue getting regular exercise.

MTM encourages members like Sylvia to become active participants in their health care. It also builds more effective partnerships among members, their pharmacists and health care providers. The benefits are improved safety and better health care.

“Thank you for the time you’ve spent discussing my complex medications. Since we first talked, I’ve stopped taking Celebrex because it was causing kidney problems. Recent tests have shown my kidney function has improved. Walking isn’t comfortable, but I do alternative exercise on a regular basis.”
The results are impressive: Medication Therapy Management saved $377,000 in 2010 through the avoidance of unnecessary medical care and improved members’ quality of life.

Research validates the benefit of MTM to both members and plan sponsors. An MTM program implemented in a large integrated health care system determined that 85 percent of members had at least one drug therapy problem; the most common problem was underuse of effective medications. By identifying and solving these problems, MTM improves members’ quality of life.

MTM also saves money by increasing safety, improving adherence and helping members avoid unnecessary medical care. The health system found an estimated return on investment of $1.29 per $1 in MTM costs. Over a 10-year period, each MTM encounter saved the health system $86.

The benefits of greater engagement and improved partnership between plans, providers and pharmacists are not unique to Medicare. In 2012, Prime will launch a new tool — the GuidedHealth™ care engine — to elevate patient-centric pharmacy in the commercial market. This new platform will integrate Prime’s pharmacy expertise, smart clinical rules and deep understanding of the industry with existing programs provided by health plans and health management companies. Members will benefit from holistic pharmacy and medical support with a total health view. Plan sponsors will appreciate enhanced member engagement using programs they already have in place.
Drug trend drivers and moderators

While overall pharmacy trend connects directly to total pharmacy costs, it is useful to know how individual drugs and drug classes figure in pharmacy trend. An effective pharmacy management strategy must address the unique market factors that affect each individual drug category. The amount of PMPM contribution (or reduction) is determined by the same factors that drive overall pharmacy trend: inflation, utilization and drug mix.

The categories contributing most to pharmacy trend experienced increased use, significant unit cost inflation—or both. Diabetes was the strongest trend driver in 2010; both use and unit costs increased, adding $0.45 to PMPM pharmacy spend (see Figure 13).

Fig. 13  Top 10 Trend Drivers by Category, 2010

<table>
<thead>
<tr>
<th>Impact Group</th>
<th>Category</th>
<th>% of Rxs</th>
<th>% of Spend</th>
<th>PMPM Change</th>
<th>$ PMPM Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Diabetes</td>
<td>5.7%</td>
<td>7.8%</td>
<td>9.8%</td>
<td>$0.45</td>
</tr>
<tr>
<td></td>
<td>Arthritis and skin*</td>
<td>0.2%</td>
<td>4.9%</td>
<td>13.8%</td>
<td>$0.38</td>
</tr>
<tr>
<td></td>
<td>ADHD*</td>
<td>1.5%</td>
<td>3.7%</td>
<td>14.9%</td>
<td>$0.31</td>
</tr>
<tr>
<td></td>
<td>Multiple sclerosis*</td>
<td>0.1%</td>
<td>3.1%</td>
<td>15.7%</td>
<td>$0.26</td>
</tr>
<tr>
<td></td>
<td>Respiratory*</td>
<td>3.3%</td>
<td>5.9%</td>
<td>7.1%</td>
<td>$0.25</td>
</tr>
<tr>
<td></td>
<td>Oral cancer*</td>
<td>0.1%</td>
<td>2.0%</td>
<td>18.7%</td>
<td>$0.20</td>
</tr>
<tr>
<td></td>
<td>Psychosis*</td>
<td>0.5%</td>
<td>2.3%</td>
<td>11.1%</td>
<td>$0.14</td>
</tr>
<tr>
<td></td>
<td>Blood thinner*</td>
<td>1.1%</td>
<td>1.5%</td>
<td>12.9%</td>
<td>$0.11</td>
</tr>
<tr>
<td></td>
<td>High cholesterol</td>
<td>8.2%</td>
<td>8.0%</td>
<td>2.2%</td>
<td>$0.11</td>
</tr>
<tr>
<td></td>
<td>High blood pressure</td>
<td>16.9%</td>
<td>6.4%</td>
<td>1.3%</td>
<td>$0.05</td>
</tr>
</tbody>
</table>

*Classes with inflation > 8 percent.
Categories with negative trend help to contain or reduce pharmacy costs. In 2010, six of the top trend moderators were classes with generic-utilization growth of three percentage points or more. Use of generic gastrointestinal medications increased 13.6 points in 2010, cutting $0.43 from pharmacy trend (see Figure 14).

**Fig. 14  Top 10 Trend Moderators by Category, 2010**

<table>
<thead>
<tr>
<th>Impact Group</th>
<th>Category</th>
<th>% of Rxs</th>
<th>% of Spend</th>
<th>PMPM Change</th>
<th>$ PMPM (Reduction)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gastrointestinal*</td>
<td>3.1%</td>
<td>5.2%</td>
<td>-11.5%</td>
<td>($0.43)</td>
</tr>
<tr>
<td></td>
<td>Seizure*</td>
<td>2.3%</td>
<td>2.1%</td>
<td>-17.1%</td>
<td>($0.28)</td>
</tr>
<tr>
<td></td>
<td>Pain</td>
<td>7.5%</td>
<td>5.2%</td>
<td>-5.6%</td>
<td>($0.20)</td>
</tr>
<tr>
<td></td>
<td>Depression*</td>
<td>7.5%</td>
<td>5.9%</td>
<td>-2.4%</td>
<td>($0.10)</td>
</tr>
<tr>
<td></td>
<td>Womens’ health*</td>
<td>6.8%</td>
<td>4.5%</td>
<td>-1.5%</td>
<td>($0.05)</td>
</tr>
<tr>
<td></td>
<td>Allergy*</td>
<td>1.2%</td>
<td>1.1%</td>
<td>-5.0%</td>
<td>($0.04)</td>
</tr>
<tr>
<td></td>
<td>Hepatitis C</td>
<td>0.0%</td>
<td>0.3%</td>
<td>-15.2%</td>
<td>($0.03)</td>
</tr>
<tr>
<td></td>
<td>Growth hormone</td>
<td>0.0%</td>
<td>0.8%</td>
<td>-2.6%</td>
<td>($0.01)</td>
</tr>
<tr>
<td></td>
<td>Insomnia*</td>
<td>1.5%</td>
<td>1.1%</td>
<td>-0.8%</td>
<td>($0.01)</td>
</tr>
<tr>
<td></td>
<td>Lung disorder</td>
<td>0.0%</td>
<td>0.2%</td>
<td>-3.2%</td>
<td>($0.004)</td>
</tr>
</tbody>
</table>

*Focus  Spectrum  Specialty  *Classes with generic rate increases >/= 3 percent.
Most non-specialty drugs have generic alternatives, which represent an opportunity to reduce plan costs (see Figure 15). Among classes on this list, significant generic potential exists for the drug classes of depression, gastrointestinal, high cholesterol and high blood pressure.

### Fig. 15  Top 20 Drugs by Percent of Spend, 2010

<table>
<thead>
<tr>
<th>Impact Group</th>
<th>Drug</th>
<th>Category</th>
<th>PMPM</th>
<th>PMPM Change</th>
<th>% of Spend</th>
<th>Generic Alternatives</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nexium®</td>
<td>Gastrointestinal</td>
<td>$1.41</td>
<td>-9.3%</td>
<td>2.2%</td>
<td>omeprazole, pantoprazole, lansoprazole</td>
</tr>
<tr>
<td></td>
<td>Enbrel®</td>
<td>Arthritis</td>
<td>$1.36</td>
<td>2.6%</td>
<td>2.1%</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Lipitor®</td>
<td>High cholesterol</td>
<td>$1.31</td>
<td>-6.9%</td>
<td>2.0%</td>
<td>simvastatin, pravastatin, lovastatin</td>
</tr>
<tr>
<td></td>
<td>Humira®</td>
<td>Arthritis</td>
<td>$1.22</td>
<td>17.9%</td>
<td>1.9%</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Singulair®</td>
<td>Respiratory</td>
<td>$1.18</td>
<td>9.6%</td>
<td>1.8%</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Crestor®</td>
<td>High cholesterol</td>
<td>$1.09</td>
<td>22.3%</td>
<td>1.7%</td>
<td>simvastatin, pravastatin, lovastatin</td>
</tr>
<tr>
<td></td>
<td>Advair Diskus®</td>
<td>Respiratory</td>
<td>$0.99</td>
<td>0.1%</td>
<td>1.5%</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Lexapro®</td>
<td>Depression</td>
<td>$0.88</td>
<td>2.4%</td>
<td>1.4%</td>
<td>sertraline, citalopram, fluoxetine</td>
</tr>
<tr>
<td></td>
<td>Plavix®</td>
<td>Blood thinner</td>
<td>$0.88</td>
<td>11.6%</td>
<td>1.4%</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Actos®</td>
<td>Diabetes</td>
<td>$0.78</td>
<td>5.0%</td>
<td>1.2%</td>
<td>metformin, glipizide er, glimepiride</td>
</tr>
<tr>
<td></td>
<td>Cymbalta®</td>
<td>Depression</td>
<td>$0.77</td>
<td>7.0%</td>
<td>1.2%</td>
<td>sertraline, citalopram, fluoxetine</td>
</tr>
<tr>
<td></td>
<td>Copaxone®</td>
<td>Multiple sclerosis</td>
<td>$0.77</td>
<td>21.3%</td>
<td>1.2%</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Assure®</td>
<td>Diabetes</td>
<td>$0.67</td>
<td>7.1%</td>
<td>1.0%</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Lantus®</td>
<td>Diabetes</td>
<td>$0.67</td>
<td>15.9%</td>
<td>1.0%</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>pantoprazole sodium tab*</td>
<td>Gastrointestinal</td>
<td>$0.62</td>
<td>-7.8%</td>
<td>1.0%</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Abilify®</td>
<td>Psychosis</td>
<td>$0.60</td>
<td>17.6%</td>
<td>0.9%</td>
<td>risperidone</td>
</tr>
<tr>
<td></td>
<td>Adderall XR®</td>
<td>ADHD</td>
<td>$0.56</td>
<td>27.1%</td>
<td>0.9%</td>
<td>amphetamine/dextroamphetamine</td>
</tr>
<tr>
<td></td>
<td>Effexor XR®</td>
<td>Depression</td>
<td>$0.53</td>
<td>-42.1%</td>
<td>0.8%</td>
<td>sertraline, citalopram, fluoxetine</td>
</tr>
<tr>
<td></td>
<td>valacyclovir HCL tabs*</td>
<td>Antiviral</td>
<td>$0.52</td>
<td>1204.4%</td>
<td>0.8%</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Avonex®</td>
<td>Multiple sclerosis</td>
<td>$0.47</td>
<td>9.2%</td>
<td>0.7%</td>
<td>N/A</td>
</tr>
</tbody>
</table>

**Focus**  **Spectrum**  **Specialty**  *Generic

Refer to Chapter 6 for tools to capitalize on existing and future generic opportunities.
2 Total Cost of Care

Pharmacy’s place in the total cost-of-care equation

Almost half of the increase in life expectancy achieved over the past 15 years in the industrialized world has been attributed to new drugs. Taking the right medication at the right time can keep a healthy person healthy, make a sick person better and help someone who is very ill live more vibrantly. Used properly, prescription drugs have the potential to dramatically alter both health and quality of life.

When consistent medication use helps avoid more serious medical events, it can also prevent unnecessary health care spending. This is why plan sponsors should look at pharmacy and medical care as variables in the same equation.

Smart pharmacy has the potential to change the total health equation — both for members with high health care costs and for those whose health care costs are less.

Optimal cost = (medical cost + pharmacy cost) x health outcomes

True total cost of care is the sum of all medical and pharmacy expenditures. Traditional pharmacy benefit managers focus solely on reducing pharmacy’s contribution by managing drug cost, access channels and drug mix. Prime takes a more holistic approach. We focus on managing pharmacy to achieve optimal outcomes. Sometimes this means investing in pharmacy in order to drive down medical costs. The end goal is a balanced equation and an optimal total cost of care.

Prime works on both sides of the equation, guiding members to clinically proven, effective treatments to improve their health — while using our pharmacy expertise to drive down the cost of drugs.
Bending the total cost-of-care curve

When total health expenditures are plotted against the population of patients treated, the result is a curved line representing the distribution of total costs (see Figure 16). The total-cost curve is a pattern seen repeatedly in health economics and confirmed through Prime's analysis of integrated client data.22

Fig. 16 Distribution of Total Health Care Costs

Zone 1

Zone 2

- Total cost
- Projected cost

- 20% of patients = 80% of spend
- 20% of spend = 80% of patients
Use smart pharmacy benefit management to bend the total-cost curve

Along the total-cost curve, each individual point represents two unique values: the percent of total costs and the percent of total patients. The coordinates tell a story about health care spending that generally conforms to a universal rule: about 80 percent of health care dollars are spent on about 20 percent of patients.

As previously noted, the total-cost curve includes both medical and pharmacy costs. However, the proportion of medical versus pharmacy expenditures varies at each coordinate.

**Zone 1:** The right side of the curve reflects the cost of care for relatively healthy patients with few medical expenses. At this end of the curve, pharmacy represents a larger share of expenditures. Smart pharmacy management focused on driving down drug costs will reduce total health care costs.

**Zone 2:** On the left side of the curve, the bulk of expense is medical care—often for people with significant health issues or multiple chronic conditions. While pharmacy represents only a fraction of the total cost for these individuals, improved drug therapy has the potential to promote better condition management and avert additional medical expenses. Smart pharmacy interventions in this zone can reduce the total cost of care for these patients.

A holistic approach is more effective than concentrating on pharmacy costs alone. By focusing pharmacy on activities appropriate for each zone, smart pharmacy management is able to “bend the cost curve” and help plan sponsors manage the total cost of care.
Measuring pharmacy’s effect on the total cost of care

Prime partners with health plans and plan sponsors to close gaps in care, address drug therapy issues and improve adherence—all with the goal of optimizing each individual member’s prescription drug use. Fewer emergency room visits, hospitalizations and costly medical procedures will be needed by members as a result.

How do we measure what didn’t happen? This is where a big-picture perspective is helpful. Ongoing exchange of medical and pharmacy information affords us a complete view of members. Not only does this make it easier to monitor the quality and safety of pharmacy care, it allows us to connect the dots between medication use and medical costs.

After only one year of observation, the data show a small reduction in annual medical costs for patients who sustain optimal adherence to therapy (see Figure 17).

![Fig. 17 Annual Medical Costs by Rate of Adherence](image)

<table>
<thead>
<tr>
<th>Condition</th>
<th>&lt;80%</th>
<th>≥80%</th>
<th>Prime difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>High cholesterol</td>
<td>$8,240</td>
<td>$7,344</td>
<td>$896</td>
</tr>
<tr>
<td>High blood pressure</td>
<td>$9,671</td>
<td>$8,766</td>
<td>$905</td>
</tr>
<tr>
<td>Diabetes</td>
<td>$11,688</td>
<td>$9,702</td>
<td>$1,986</td>
</tr>
</tbody>
</table>

Of course, drugs aren’t free. Individuals who consistently take their medications spend more on prescription drugs than those who are erratic in their adherence. This is where superior pharmacy trend management and a focus on lowest net cost become even more important.
**Improving outcomes through pharmacy interventions**

In the total cost-of-care equation, improving outcomes is just as important as reducing costs. We have been able to document decreased hospitalization risk corresponding to improved medication adherence (see Figure 18).

![Figure 18: Risk of Hospitalization by Adherence Rate](image)

We address adherence through benefit design, clinical programs and outreach appropriate for each condition. Using combined medical and pharmacy data, we identify the right members for targeted support and partner with the health plan and plan sponsor to close gaps in care—all with the goal of improving adherence in a smart pharmacy way.

The average hospitalization costs $14,427, so fewer hospitalizations is not only a sign of better care—it is also another way pharmacy helps to reduce total health care costs.

---

Prime uses medication possession ratio (MPR) to measure adherence. MPR is calculated by dividing the number of days' supply of medication by the number of days in the observation period, then multiplying by 100. Prime uses 80 percent adherence as a book-of-business threshold because it is often referenced as an indicator of good adherence. However, we focus every outreach on helping each member achieve optimal adherence based on diagnosis, drug type and other factors.
Drug impact groups guide smart pharmacy management

Pharmaceutical products can have a powerfully positive effect on members’ health. But not all drugs provide the same level of health benefit—or have the same total-cost impact.

Prime uses the concept of drug impact groups to help plan sponsors think strategically about pharmacy management. By segmenting drugs and the conditions they treat into impact groups, we can manage utilization in ways that lower the cost of care while driving the best health outcomes.

Prime recognizes three drug impact groups, each with its own unique management objectives:

- **Spectrum** drugs represent a wide variety of treatments from acute drugs and antibiotics to maintenance medications for chronic conditions. Used appropriately, these medications provide important health benefits and improve quality of life.

- **Focus** drugs treat five common chronic conditions: high blood pressure, high cholesterol, diabetes, respiratory disorders and depression. Research has proven that adherence to these drugs has the potential to reduce medical costs.

- **Specialty** drugs are high-cost medications used to treat complex or ongoing medical conditions such as multiple sclerosis, hemophilia, hepatitis C and rheumatoid arthritis. Sustained adherence can reduce or delay disease progression, enhance quality of life, keep employees in the workforce longer and decrease long-term health care costs.
3 Spectrum Trends

Calibrating pharmacy management for savings across the spectrum

Spectrum drugs treat a wide variety of health conditions and account for nearly half of all pharmacy expenditures.

Nearly 40 percent of spectrum drugs are antibiotics and other drugs used frequently to treat acute, short-term conditions. Other spectrum drugs include maintenance medications that are taken regularly to manage chronic conditions such as epilepsy and mental disorders. Still others are used to relieve symptoms of common persistent conditions—such as allergies, insomnia and heartburn.

Despite the wide range of conditions addressed, these medications are relatively affordable: per-prescription costs for spectrum drugs average $53 in Prime’s book of business. Yet members and plan sponsors may still be spending too much on spectrum drugs. Significant generic opportunity remains unrealized in many categories. Increased use of benefit levers like formulary and utilization management can capture generic savings and drive down per-prescription costs. In addition, more consistent use of mail service for maintenance medications has the potential to decrease both out-of-pocket and plan-sponsor spending.

Management of spectrum drugs should be calculated to sustain safe and appropriate use of medications. Use smart benefit design and thoughtful incentives to encourage selection of generic alternatives and use of the lowest-cost delivery channel.

For spectrum drugs, consistently guiding members to the most affordable options pays dividends. More aggressive management of benefit levers is proven to reduce pharmacy spending.

→ Refer to Chapter 6 to explore benefit design options and recommendations that can be applied to spectrum drugs.
In 2010, spectrum drugs represented 57.4 percent of all prescriptions across our book of business and nearly half of overall drug spend (see Figures 21 and 22). Both figures are down slightly from 2009, reflecting decreasing use in spectrum drug classes considered “optional” by some members. These include treatments for allergies and gastrointestinal distress, as well as lifestyle drugs and hormones for women.

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Rxs</td>
<td>57.4%</td>
<td>58.1%</td>
</tr>
<tr>
<td>% of spend</td>
<td>48.1%</td>
<td>49.6%</td>
</tr>
<tr>
<td>% generic</td>
<td>73.3%</td>
<td>69.2%</td>
</tr>
<tr>
<td>Average cost/Rx</td>
<td>$53.08</td>
<td>$53.28</td>
</tr>
</tbody>
</table>

For the second year, ADHD medications, blood thinners and drugs used in the treatment of psychosis (everything from bipolar disorders and schizophrenia to aggressive behavior in the elderly) increased in share of total spend (see Figure 21). These classes also logged the highest trend in the spectrum group, the result of growing utilization combined with increasing prices.

While use in several other spectrum drug classes also increased, strong leverage and negotiation helped drive down the generic ingredient cost of spectrum drugs. The joint execution of generic promotions with our health plan partners drove up the generic fill rate for these drugs to 73.3 percent. These factors resulted in reduced trend and lower ingredient costs for this group as a whole.

Utilization of both allergy and gastrointestinal medications decreased in 2010 as more low-cost over-the-counter (OTC) options became available. Encouraging use of OTCs versus prescription drugs can create significant savings for plan sponsors. Prime can help craft smart benefit-design strategies to ensure OTCs are used safely and effectively by the right members at the right time.
One of the nation’s leading beef and pork processing companies sought help trimming its annual pharmacy costs. Prime suggested a limited pharmacy network — something a lot of plan sponsors ask about but seldom implement. After careful consideration, the company chose to go ahead with the idea. Their annual savings are expected to exceed $722,000.

When the limited network was presented to management, they were very interested in the savings opportunity. However, as with any change in the health plan, the company carefully reviewed member disruption before making a final decision. After determining that a limited network provided sufficient access to in-network pharmacies for members, the company decided to move forward.

The network proposed would exclude one major chain in exchange for lower prices from pharmacies remaining in the network. A competitive bidding process was established, and pharmacies were asked to provide rates to participate in the network.

This employer will save more than $722,000 annually by implementing a limited pharmacy network.

The company represents approximately 95,000 lives across the entire country with primary operations in Colorado, Georgia and Texas. Secrets of this client’s success:

• Clear about goals and business needs
• Open to new programs that save money
• Favors aggressive management of health and pharmacy benefits but able to balance business needs with member concerns

“The decision was easy — significant savings and sufficient in-network pharmacy access for our members. We experienced very little ‘noise’ from employees following implementation of the limited pharmacy network.”
Spectrum drugs: Key category trends

**Gastrointestinal disorders** [5.2% of spend]

The blockbuster purple pill, Nexium®, remains a commonly used drug at Prime, and medications to treat gastrointestinal distress remain the dominant class among spectrum drugs. Within this class, Nexium has a market share of nearly 25 percent.

Despite the continued popularity of gastrointestinal drugs, the cost of these medications is dropping. Savings from the 2009 launch of two lower-cost versions of Prevacid® were realized in 2010. Generic use skyrocketed nearly 14 points to 63.2 percent. This drove an 11.5 percent reduction in total cost PMPM. Spending will continue to decrease with the release of generic Protonix® by several manufacturers in early 2011.

While generic use is expected to continue to increase, future savings may be undercut by new products entering the market. Combination product Vimovo™ was approved in April 2010 to help reduce gastric ulcers associated with use of aspirin, ibuprofen and similar products.

**Pain** [5.2% of spend]

Americans spend more than $100 billion annually to relieve pain, so it is little wonder pain medications consume more than 5 percent of annual pharmacy expenditures.\(^{25}\)

Pain medications include Celebrex®, the only COX-2 inhibitor remaining after the 2004 market withdrawal of Vioxx, as well as opiates and migraine products. Utilization of pain medications remained essentially unchanged from 2009 to 2010, so decreasing generic ingredient prices were the sole reason for lower total PMPM costs.

Decreasing expenditures for pain medication may be short-lived. Five branded pain drugs were introduced in the past year, and two others are expected to launch in 2011. The availability of these new treatments is likely to increase costs in this category.
Women's health [4.5% of spend]

This category spans a large part of the female life cycle, from estrogen and/or progestin for birth control and menopause to drugs for prevention and treatment of osteoporosis. Utilization of these drugs dropped sharply in 2010. The mid-year release of generic versions of popular birth-control medications Yaz® and Yasmin® helped lift the generic rate three points. Together, these factors offset brand unit cost inflation.

The FDA approved several new products late in 2010: Atelvia® for postmenopausal osteoporosis and birth-control drugs Lo-Loestrin® FE, Safyral™ and Beyaz™. These new birth control medications are reformulations of existing products calculated to protect manufacturer market share. Placing these drugs on higher benefit tiers will help to limit the effect of these drugs on overall pharmacy costs.

ADHD [3.7% of spend]

Use of attention deficit disorder medications continues to increase rapidly. When combined with significant price increases for household names such as Adderall XR®, Concerta® and Vyvanse®, the result is the highest PMPM trend in the spectrum drug group.

Non-stimulant agent Kapvay® was approved in October 2010. While generally considered second- or third-line therapy for ADHD, non-stimulants may be prescribed if a patient does not respond to stimulants, if side effects are too great or if the patient’s history dictates an alternate form of treatment.
Psychosis [2.3% of spend]

More use and higher prices drove the trend in this class. Lacking new generics, the generic rate remained flat. Latuda®, an atypical antipsychotic for the treatment of adult schizophrenia, was introduced late in 2010. This medication has the potential to increase spending on anti-psychotic drugs. Also, anti-psychotics are used increasingly to treat resistant depression and other indications outside of schizophrenia and bipolar disorder, further adding to costs.

New generics are expected in late 2011 and 2012 (starting with Zyprexa® in October), which will help moderate psychosis trend in the coming years.

Seizure [2.1% of spend]

Generic use continues to generate dramatic PMPM declines for seizure medications. In 2010, significant deflation in generic unit costs augmented this trend, and offset the cost of higher utilization. With the exception of Lyrica®, most of the top brand-name drugs in this category have gone generic (e.g. Topamax®, Depakote®, Keppra®) and are continuing to drive down pharmacy trend. Strong generic use will continue in 2011, with generic Keppra XR® expected in 3Q2011.

Off-label use is noteworthy in this class. Plan sponsors may consider working with Prime to implement relevant utilization management protocols to ensure safe and appropriate use of these drugs. In the pipeline is Onfi™, an adjunctive therapy that treats seizures from Lennox-Gastaut syndrome, a difficult-to-treat form of childhood-onset epilepsy. Given the relatively small number of patients affected, this niche drug is not expected to significantly affect seizure medication costs.
Blood thinners [1.5% of spend]

With rapidly increasing expenditures, blood thinners are a category to watch in 2011. Use of both brand-name blood thinner Plavix® and generic competitor warfarin increased in 2010. Brand inflation was also a big factor in this category’s 12.9 percent cost increase. Overall, blood thinners contributed an additional $0.11 PMPM to pharmacy spend in 2010. Plavix is expected to go generic in 2Q2012, but the recent approval of several new drugs and a strong development pipeline will likely add up to several more years of higher spending on these blood-thinning drugs.

Pradaxa® was approved in late 2010 for the prevention of stroke and clots in patients with abnormal heart rhythm. Marketed as a competitor to warfarin, its market share is growing quickly, impairing the generic rate and adding to overall costs. Several new blood-thinning agents are in the pipeline. If approved, Brilinta™ will be a major competitor to Plavix. The first available orally active, direct factor Xa inhibitor, Xarelto®, is seeking FDA approval for multiple indications, which would allow it to compete with warfarin, Pradaxa and low-molecular-weight heparin. These agents will likely drive drug trend higher in 2011 and the coming years.

Unlike warfarin, Pradaxa does not require regular blood tests to monitor blood thickness. However, the average annual cost of this new agent is $2,465 — more than ten times the pharmacy cost of warfarin. Our analysis of both pharmacy and medical costs showed that despite the additional medical expense of warfarin-related blood monitoring, the average cost of treatment with Pradaxa is still four times greater than warfarin. There is no mechanism for reversing Pradaxa’s blood-thinning effects, so its use could also create serious safety issues for patients. Integrated research led to our conclusion that benefit drivers and utilization management should be used to promote warfarin as the preferred treatment when appropriate.
Targeted communication multiplies safety at minimal cost

Prime constantly monitors clinical evidence and research in order to keep members safe. Recent data suggest that combining certain gastrointestinal drugs called proton pump inhibitors (PPIs) with clopidogrel, a blood-thinning medication used to prevent stroke and heart attack, can increase a person’s risk for a cardiac event.26 Prime and one of its Blue Cross and Blue Shield clients retrospectively analyzed 1.3 million member claims and found 1,316 members were actively combining clopidogrel with a PPI.

Concerned about overuse of PPIs as well as the safety of these members, Prime worked with the plan to send the members’ primary health care providers a letter. Providers were asked to re-evaluate the need for PPI therapy in their patients and consider another type of heartburn medication as an alternative treatment. To determine the effectiveness of intervention, Prime also tracked a control group of 2,740 patients who met intervention criteria but whose providers did not receive a letter.

Six months after the letter was sent, actively enrolled members in both groups were assessed for the presence of a PPI, clopidogrel, or both. Analysis showed a significant 7.5 percent reduction in the number of members using the drugs in combination.27 The total cost per successful change was $17.22. Because the average cost to treat a serious cardiac event is $29,340, this letter was a relatively inexpensive method to improve safety and avoid the potential for more expensive medical intervention.28

This study shows that insurers, in partnership with pharmacy benefit managers, can increase member safety using simple and cost-effective tactics. For spectrum drugs in particular, this is an affordable way to reduce unsafe drug combinations and ensure patients continue to receive safe, high-quality care.

A letter intervention to targeted providers reduced a potentially unsafe drug combination by 7.5 percent. For every 14 letters mailed, one member was positively affected.
**Allergy [1.1% of spend]**

Changing usage patterns helped trim allergy costs despite inflation in both brand and generic unit costs. With the 5-milligram strength of Xyzal® becoming available as a generic in late 2010, additional generic savings are expected in 2011. Clarinex® is the only significant brand remaining on the market. The entire line of Allegra® products converted to OTC status in 1Q2011. Because the majority of these drugs are now available OTC, benefit exclusion of this drug class is a practical option for those interested in reining in pharmacy spending.

**Insomnia [1.1% of spend]**

Despite increased use and higher prices for sleep aids, selection of zolpidem over its branded equivalent, Ambien®, drove generic use up and costs down. An extended-release version launched late in 2010 knocked Ambien CR® from its former post as the top brand-name drug in this class. This, along with additional generic entries expected in mid-2011, will help to further decrease PMPM spend going forward. Approval of a new formulation, Intermezzo®, is expected mid-year. Intermezzo is a pill placed under the tongue for treating patients who awake in the middle of the night and have difficulty falling back to sleep.
Lifestyle [1.0% of spend]

Lifestyle drugs span quite a few areas. Brand-name drugs for impotence lead in this category; weight loss, hair loss, smoking cessation and fungal infections are also part of this designation. Few, if any, of these treatments are considered medically critical, which may explain lower use given the current economic climate. However, even with lower utilization, brand-drug inflation drove lifestyle drug spending up.

Weight-loss drugs had a tough year in 2010. Meridia® was pulled from the market after a U.S. Food and Drug Administration review of data showed it increased risk for heart attack, stroke and death. Three other drugs — Contrave®, lorcaserin, Qnexa®— failed to receive FDA approval. As with Meridia, safety issues were the main concern.
**Brand-name Drugs**

In general, if approved, these drugs are likely to raise drug trend by increasing prices. New drugs have the greatest impact on drug spend two to five years after approval because of such factors as marketing, uptake and formulary placement.

*Anticipated dates are predictions made by Prime Therapeutics based on market data.*

<table>
<thead>
<tr>
<th>Brand-name Drugs</th>
<th>Spectrum Category</th>
<th>Anticipated Date*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acurox® (oxycodone immediate-release)</td>
<td>Pain</td>
<td>2Q2011 (June)</td>
</tr>
<tr>
<td>Remoxy® (oxycodone extended-release)</td>
<td>Pain</td>
<td>2Q2011 (June)</td>
</tr>
<tr>
<td>Civanex™ (zucapsaicin)</td>
<td>Pain</td>
<td>3Q2011 (July)</td>
</tr>
<tr>
<td>Xarelto™ (rivaroxaban)</td>
<td>Blood thinners</td>
<td>3Q or 4Q2011</td>
</tr>
<tr>
<td>Intermezzo™ (zolpidem sublingual)</td>
<td>Insomnia</td>
<td>3Q2011 (July)</td>
</tr>
<tr>
<td>Brilinta™ (ticagrelor)</td>
<td>Blood thinners</td>
<td>3Q2011 (July)</td>
</tr>
<tr>
<td>Zelrix™ (sumatriptan)</td>
<td>Pain (migraine)</td>
<td>3Q2011 (July)</td>
</tr>
<tr>
<td>Onfi™ (clobazam)</td>
<td>Seizure</td>
<td>3Q2011 (Sept)</td>
</tr>
<tr>
<td>Procheive® (progesterone gel 8%)</td>
<td>Women’s health</td>
<td>4Q2011 (Oct)</td>
</tr>
<tr>
<td>alendronate effervescent</td>
<td>Women’s health</td>
<td>4Q2011 (Oct)</td>
</tr>
<tr>
<td>fentanyl sublingual spray</td>
<td>Pain</td>
<td>1Q2012 (Jan)</td>
</tr>
<tr>
<td>Dymista™ (azelastine/fluticasone nasal spray)</td>
<td>Allergy</td>
<td>1Q2012 (Feb)</td>
</tr>
</tbody>
</table>
### Spectrum Drugs: Pipeline Watch (continued)

<table>
<thead>
<tr>
<th>Generic Drugs</th>
<th>Spectrum Category</th>
<th>Anticipated Date*</th>
</tr>
</thead>
<tbody>
<tr>
<td>triamcinolone (Nasacort® AQ)</td>
<td>Allergy</td>
<td>2Q2011 (June)</td>
</tr>
<tr>
<td>levetiracetam (Keppra® XR)</td>
<td>Seizure</td>
<td>3Q2011 (Sept)</td>
</tr>
<tr>
<td>tiagabine (Gabitril®)</td>
<td>Seizure</td>
<td>3Q2011 (Sept)</td>
</tr>
<tr>
<td>olanzapine/fluoxetine (Symbyax®)</td>
<td>Psychosis</td>
<td>4Q2011 (Oct)</td>
</tr>
<tr>
<td>olanzapine (Zyprexa®, Zyprexa® Zydis)</td>
<td>Psychosis</td>
<td>4Q2011 (Oct)</td>
</tr>
<tr>
<td>levocetirizine solution (Xyzal®)</td>
<td>Allergy</td>
<td>4Q2011 (Nov)</td>
</tr>
<tr>
<td>ibandronate (Boniva® injection and Boniva® 2.5 mg)</td>
<td>Women's health</td>
<td>1Q2012 (Mar)</td>
</tr>
<tr>
<td>quetiapine (Seroquel®)</td>
<td>Psychosis</td>
<td>1Q2012 (Mar)</td>
</tr>
<tr>
<td>clopidogrel (Plavix®)</td>
<td>Blood thinner</td>
<td>2Q2012 (May)</td>
</tr>
<tr>
<td>desloratadine (Clarinex®)</td>
<td>Allergy</td>
<td>3Q2012 (July)</td>
</tr>
</tbody>
</table>

*Anticipated dates are predictions made by Prime Therapeutics based on market data.

**Generic Drugs**

As these drugs gain market share, they are likely to reduce drug trend by helping to offset brand price increases and decrease costs.
4 Focus Trends

Focused solutions calculated to reduce the toll of chronic illness

In 2010, Prime’s clients and members spent $2.3 billion on medications to treat high blood pressure, high cholesterol, diabetes, respiratory disorders and depression. This represents more than one-third of total pharmacy spend and more than 40 percent of prescriptions (see Figure 24).

That five conditions consume such a huge amount of pharmacy spend is astounding. But while the pharmacy cost of chronic disease is high, the medical costs resulting from unmanaged diabetes and other common chronic illnesses are much higher.

Appropriate treatment can significantly reduce both medical costs and the indirect costs of ill health. This is why we classify medications used to treat the most common chronic conditions as focus drugs. Our focus is on improving adherence, educating members and partnering with providers to improve the management of chronic illness.

Treating chronic disease takes nearly $0.75 of every health care dollar and adds $1.3 trillion in cost to the economy each year. By 2050, it is projected that the annual economic burden of chronic disease will total $6 trillion.  

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Fig. 24 Focus Drug Group

<table>
<thead>
<tr>
<th>Percent of Total Spend, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.9% Respiratory</td>
</tr>
<tr>
<td>5.9% Depression</td>
</tr>
<tr>
<td>6.4% High blood pressure</td>
</tr>
<tr>
<td>7.8% Diabetes</td>
</tr>
<tr>
<td>8.0% High cholesterol</td>
</tr>
<tr>
<td>34.0% Total</td>
</tr>
</tbody>
</table>
The total cost PMPM for focus drugs increased 3.6 percent in 2010. Higher prices for many brand-name (and some generic) drugs were the primary reason for spending growth. Increased use in four of the five focus drug categories also contributed to the trend.

However, as a result of working together to take advantage of a growing number of generic alternatives, the average ingredient cost of focus drugs was only 0.8 percent higher year over year (see Figure 25). Generic use in the focus drug group increased nearly four percentage points in 2010.

Fig. 25  Focus Drug Group: Key Data, 2010 vs. 2009

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Rxs</td>
<td>41.2%</td>
<td>40.6%</td>
</tr>
<tr>
<td>% of spend</td>
<td>34.0%</td>
<td>33.8%</td>
</tr>
<tr>
<td>% generic</td>
<td>64.3%</td>
<td>60.5%</td>
</tr>
<tr>
<td>Average cost/Rx</td>
<td>$52.17</td>
<td>$51.88</td>
</tr>
</tbody>
</table>

Containing focus drug costs is a key factor in our total cost-of-care strategy. Keeping drug costs down helps to ensure patients can afford their medications. This can improve adherence. Lower drug prices also limit pharmacy’s contribution to the cost of chronic illness.

The cost of treating chronic illnesses represents a huge burden for society. The collective hospital bill for patients with diabetes totaled almost $83 billion in 2008. The average hospital stay for someone with diabetes costs $10,940—about $2,200 more than the average for people without the disease.31

Medical costs are only one part of the total bill. The indirect cost of diabetes to our country was recently estimated to be $58 billion, equal to about 248 million work days lost to absenteeism, disability and reduced productivity.32

Helping members remain adherent to therapy remains our top priority. Improving adherence may ultimately increase use of these drugs but can potentially improve outcomes and reduce both direct and indirect costs associated with chronic illness.
Mail service pharmacy offers greater simplicity, convenience and savings in a fast-moving world. Despite these advantages, the mail option is often overlooked.

Members benefit when they use PrimeMail. Orders arrive quickly—typically within three to five days—and accurately (99.99 percent of the time).

Refills are fast and easy, with reminders to take the worry out of remembering to refill on time. Best yet, members typically get a 90-day supply of medications with each order. That means fewer trips to the pharmacy and, depending on the benefit design, lower out-of-pocket costs.

Members aren’t the only ones who benefit from PrimeMail. Ninety-day supplies offer deeper discounts because of bulk purchasing and no dispensing fees. That translates to lower pharmacy costs for plan sponsors. In addition, 90-day prescriptions have been shown to improve medication adherence. This is especially important for members with chronic conditions, because taking medications as prescribed can lead to better health and fewer health complications. This means lower health care costs for plan sponsors.

“Nobody in our company had ever mentioned Prime to me, nor did I know anything about it. It is one of the best kept secrets in our company. We have over 40,000 employees who would benefit greatly by using this service!”

Offering convenience, quality, service and lower costs, PrimeMail is a smart plan sponsor’s engine for savings.

Using PrimeMail nets an average total savings of $74 per prescription over retail per year. Plus, our research has shown that members are more likely to adhere to their treatment using 90-day prescription services such as PrimeMail.
Focus drugs: Key category trends

**High Cholesterol [8% of spend]**

A substantial improvement in generic utilization helped mitigate sizable increases in use and price, resulting in a minimal PMPM trend in this category. Generic simvastatin continues to lead this class for Prime’s book of business. Merck & Co. is working to release anacetrapib, a new type of drug that combats heart disease by raising good cholesterol. The new drug may be the greatest advance in this category since the entry of Lipitor® and other statins.\(^{35}\)

Up to 100 million Americans may not have enough good cholesterol, which increases their risk for heart attacks and strokes. A U.S. study found that giving cholesterol-lowering statins to more people, even those who do not have high heart risks, could be a cost-effective way of preventing heart attacks.\(^{36}\)

While many generic options are currently available, the addition of more new generics will help offset expected increases in utilization in the coming years. Generic Lipitor is expected to launch in 2011, with competing manufacturers entering the market in mid-2012.

**PMPM up 2.2%**

GFR up 5.5 points to 52.8%

Utilization up 4.2%

Inflation up 5.5%

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Only 72 percent of members taking statins adhere to their prescribed therapy.\(^{37}\) Copayment waivers, value-based benefit designs and member and provider education represent opportunities to increase medication adherence, which is critical to managing chronic disease.
Diabetes [7.8% of spend]

With minimal generic use to offset increased utilization and brand-drug use (particularly high-cost injectable insulins) total PMPM in the diabetes category increased dramatically. Newsworthy in 2010, U.S. health advisors determined Avandia® should remain on the market with additional warnings after research connected the drug with increased heart attacks. In 2011, this guidance was updated to include new restrictions to the prescribing and use of rosiglitazone-containing medicines; these restrictions will further reduce use of Avandia.

With more aging and overweight adults, utilization in this category will continue to grow. Future trend will also be affected by the potential for new brand drugs and few generic opportunities in the near-term. An integrated approach to managing this class across both medical and pharmacy benefits is essential to lowering overall health care costs.

One in 10 Americans has diabetes. If present trends continue, more than half of Americans will have diabetes or be pre-diabetic by 2020, costing the U.S. health care system $3.35 trillion. With Prime’s first-year analysis already showing a connection between increased adherence to diabetes medications and lower annual medical costs, now is the time to focus on closing gaps in diabetes care.
**High blood pressure [6.4% of spend]**

Representing 16.9 percent of all prescriptions filled, this is the most used drug class. Continued growth in this category is expected because of our aging and obese population. At 12.1 percent, brand price inflation for this class was among the highest observed in 2010. Very strong generic use offset increased utilization and inflation, keeping PMPM trend in check.

The April 2010 entry of generic Cozaar®/Hyzaar®, the first available generic angiotensin receptor blocker (ARB), contributed to the increase in generic use. Multiple generic manufacturers of the ARB also launched in late 2010, further reducing price and moving market share. Two additional ARBs are expected to become available in 2012 along with generic Diovan®, the brand market-share leader for Prime’s book of business. Triple combination products, such as the launch of Tribenzor® in mid-2010, are a developing trend in this category.

**Respiratory (asthma/COPD) [5.9% of spend]**

Respiratory utilization remained relatively flat, but trend climbed significantly, driven by inflation resulting from the 2010 withdrawal of generic chloroflorocarbon (CFC) inhalers. The withdrawal led to the entry of more environmentally friendly but higher-cost entries in this category.

Daliresp®, a new oral treatment for chronic obstructive pulmonary disease (COPD), entered the market. An additional COPD treatment, Arcapta® Neohaler®, is expected to be released in mid 2011, with potential to further drive increased trend. However, the generic version of Singulair® is expected in late 2012 and may help mitigate the entry of high-cost brand-name drugs in this category.

Through integrated medical and pharmacy research, Prime discovered that patients with asthma or allergies initially prescribed montelukast (Singulair) instead of typical first-line therapy have low rates of adherence and may discontinue therapy altogether. Since ongoing drug treatment is essential for managing asthma, we recommend utilization management to ensure patients try other recommended medications before starting on montelukast. Appropriate medication use will help patients better manage their illness and trim asthma-related medical costs.
Depression [5.9% of spend]

Strong generic use completely offset increased utilization and manufacturer price inflation, resulting in a negative PMPM trend. The availability of generic Effexor XR® in July 2010 helped drive generic use. Both brand-name and generic selective serotonin reuptake inhibitors (SSRIs) continue to lead the market in this category. However, serotonin-norepinephrine reuptake inhibitors (SNRIs), including Cymbalta® and Pristiq®, are capturing market share through other diagnoses such as pain and fibromyalgia.

In late 2010, Cymbalta received FDA approval to be sold as a treatment for musculoskeletal pain such as arthritis and chronic lower-back conditions. Lexapro®, Prime’s top brand-name antidepressant, is expected to become available generically in early 2012, which will help ultimately keep trend in check. But an expandable scope of treatment for key drugs will increase utilization—and likely costs—in this category.

Concern about whether Effexor increased the risk of developing high blood pressure led Prime to compare the safety of various anti-depressants. Our analysis found no significant difference in blood pressure with Effexor. After confirming the safety of this treatment, the generic product, venlafaxine, was made a prerequisite in Prime’s utilization management program. Use of this product will help bring down the out-of-pocket cost of therapy for patients. Implementing the clinical program could save employers about $0.10 to $0.20 PMPM.
Fig. 26  **Focus Drugs: Pipeline Watch**

<table>
<thead>
<tr>
<th>Brand-name Drugs</th>
<th>Focus Category</th>
<th>Anticipated Date*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arcapta® Neohaler® (indacaterol)</td>
<td>Respiratory</td>
<td>3Q2011 (July)</td>
</tr>
<tr>
<td>Janumet® XR (sitagliptin/metformin extended-release)</td>
<td>Diabetes</td>
<td>3Q2011 (Sept)</td>
</tr>
<tr>
<td>sitagliptin/simvastatin</td>
<td>Diabetes/high cholesterol</td>
<td>3Q2011 (Sept)</td>
</tr>
<tr>
<td>dapagliflozin</td>
<td>Diabetes</td>
<td>4Q2011 (Oct)</td>
</tr>
<tr>
<td>azilsartan/chlorthalidone</td>
<td>High blood pressure</td>
<td>4Q2011 (Dec)</td>
</tr>
</tbody>
</table>

*Anticipated dates are predictions.

**Brand-name Drugs**

In general, if approved, these drugs are likely to raise drug trend by increasing prices. New drugs have the greatest impact on drug spend two to five years after approval because of factors such as marketing, uptake and formulary placement.
**Generic Drugs**

As these drugs gain market share, they are likely to reduce drug trend by helping to offset brand price increases and decrease costs.

<table>
<thead>
<tr>
<th>Generic Drugs</th>
<th>Focus Category</th>
<th>Anticipated Date*</th>
</tr>
</thead>
<tbody>
<tr>
<td>atorvastatin and atorvastatin/amldipine (Lipitor® and Caduet®)</td>
<td>High cholesterol</td>
<td>4Q2011 (Nov)</td>
</tr>
<tr>
<td>escitalopram (Lexapro®)</td>
<td>Depression</td>
<td>1Q2012 (Feb)</td>
</tr>
<tr>
<td>rosiglitazone and rosiglitazone combinations (Avandia®, Avandamet® and Avandaryl®)</td>
<td>Diabetes</td>
<td>1Q2012 (Mar)</td>
</tr>
<tr>
<td>irbesartan and irbesartan/hctz (Avapro® and Avalide®)</td>
<td>High blood pressure</td>
<td>1Q2012 (Mar)</td>
</tr>
<tr>
<td>fluvastatin (Lescol® and Lescol® XL)</td>
<td>High cholesterol</td>
<td>2Q2012 (June)</td>
</tr>
<tr>
<td>fenofibrate (Tricor®-145 mg)</td>
<td>Diabetes</td>
<td>3Q2012 (July)</td>
</tr>
<tr>
<td>pioglitazone (Actos®)</td>
<td>Diabetes</td>
<td>3Q2012 (July)</td>
</tr>
<tr>
<td>levalbuterol neb (Xopenex®)</td>
<td>Respiratory</td>
<td>3Q2012 (July)</td>
</tr>
<tr>
<td>valsartan and valsartan/hctz (Diovan® and Diovan® HCT)</td>
<td>High blood pressure</td>
<td>3Q2012 (Sept)</td>
</tr>
<tr>
<td>candesartan and candesartan/hctz (Atacand® and Atacand® HCT)</td>
<td>High blood pressure</td>
<td>4Q2012 (Dec)</td>
</tr>
</tbody>
</table>

*Anticipated dates are predictions.*
Mail service reduces waste, keeps focus on adherence

Prime’s clinical research team conducted a study of medication waste among members who used statins, drugs regularly prescribed to lower cholesterol. In particular, we wanted to learn how different prescription delivery channels affect waste. Pinpointing the sources of waste allows Prime to develop pharmacy benefit strategies to help eradicate it.

Prime’s researchers examined one year’s worth of statin claims for about 51,000 members. If a member had overlapping claims for statins of a different strength or type, this was defined as waste. Claims were categorized by delivery channel—either mail or retail—and number of days’ supply of medication received: 30- or 90-days supply.

Analysis found that retail 90-day prescriptions were the most wasteful, averaging 4.04 days waste per year. This was higher than mail 90-day (3.08 days waste/year) or retail 30-day prescriptions (1.68 days waste/year). If dispensing fees and ingredient costs are figured in, mail 90-day was shown to be the least costly option by a small margin.

<table>
<thead>
<tr>
<th>Claim Type</th>
<th>Retail 30-day</th>
<th>Retail 90-day</th>
<th>Mail 90-day</th>
</tr>
</thead>
<tbody>
<tr>
<td>Days waste per year</td>
<td>1.68</td>
<td>4.04</td>
<td>3.08</td>
</tr>
<tr>
<td>Additional annual cost (waste + dispensing fees)*</td>
<td>$21.18</td>
<td>$5.29</td>
<td>$5.21</td>
</tr>
</tbody>
</table>

*Annual cost calculated using 2Q2009 statin ingredient cost per unit, by channel.

This research suggests plan sponsors can reduce the potential for medication waste by encouraging members to use mail order for appropriate prescriptions, such as maintenance medications to treat high cholesterol.

Research has shown medication adherence improves when members obtain 90-day supplies of their medication. Plan sponsors can sustain adherence while reducing the potential for medication waste by encouraging members to use mail order.
Perfecting the formula for specialty management

Specialty drugs — the medications used to treat complex medical conditions such as multiple sclerosis, hepatitis C and cancer — make up less than 1 percent of all prescriptions, but account for about 20 percent of the $307 billion spent nationwide on drugs in 2010. According to some estimates, specialty drug expenses will make up almost half of total pharmacy spending by 2030.

Yet employers who look only at pharmacy spend may not realize the true cost of the specialty drugs for which they are paying. In fact, only about half of specialty drug costs are paid through the pharmacy benefit, with the other half paid through the medical benefit, which results in a distorted view of pharmacy cost and makes it difficult to control total specialty expenses.

When separated from the big picture, it is easy for a PBM to focus only on the management of the pharmacy benefit. Some PBMs attempt to shift all specialty medications to the pharmacy benefit, leading to member and provider disruption. Our approach, however, is to help the health plan understand and manage total pharmacy costs. With a total cost-of-care perspective, there is no reason to shift drugs or chase profit opportunities at the expense of medical benefits. This leaves us free to develop techniques for reducing specialty costs while remaining mindful of how these techniques affect the big picture.

The big picture is also particularly important for specialty patients who benefit from real-time matching of medical and pharmacy claims. Integration can lead to earlier risk identification and improved medication adherence.
In 2010, specialty drugs represented less than 0.5 percent of all prescriptions across Prime’s book of business but accounted for over 13 percent of total overall drug spend (see Figures 27 and 28). Unit cost inflation was the primary driver of specialty pharmacy trend. However, utilization also increased 2.1 percent.

Six drug classes represented the bulk of Prime’s specialty pharmacy spend: arthritis and skin, multiple sclerosis, oral oncology, growth hormones, blood modifiers and hepatitis C. These drug categories, along with intravenous immunoglobin (IVIG) and other serums, account for nearly 65 percent of total specialty drug spend across both the medical and pharmacy benefit for Prime’s book of business.

Prime’s research into the total cost of care for patients with multiple sclerosis (MS) vividly brings to life the importance of coordinated management of specialty conditions across both medical and pharmacy benefits. Biologics for the treatment of MS average more than $30,000 a year per patient. The recent FDA approval of two new medications has the potential to further increase drug-related MS costs. Since more than 57 percent of the direct health cost to treat MS is related to drug expenses, helping patients adhere to medications ensures the greatest health benefit for each dollar spent. We expect drug costs will grow to consume 70 percent of total MS costs. Without effective management of drug costs across both pharmacy and medical benefits, a health plan cannot say it is truly managing this serious and costly condition.
While it is well known that only about half of total specialty drug costs are paid through the pharmacy benefit, analysis of integrated data reveal that the distribution of specialty spending between pharmacy and medical benefits varies widely by drug class.

Six specialty classes comprise approximately 43.2 percent of all specialty drug spend in Prime’s book of business. For most of these categories, a significant portion of spend is in the pharmacy benefit (see Figure 29). Others, like blood modifiers, are almost entirely paid under the medical benefit. Our commitment to help clients manage the total cost of care mandates solutions to manage drugs on both sides of the benefit.

Prime is able to apply traditional pharmacy management levers to specialty drugs paid under the pharmacy benefit. These tools complement the high-touch components of our specialty management approach while helping to drive down drug costs.

For specialty drugs paid under the medical benefit, Prime partners with the health plan to support the administration of benefit designs and clinical programs. Prime’s expertise informs and guides medical policy, helping to improve care and reduce costs without unnecessarily disrupting patients, providers or health-plan protocols.
Growth hormones stimulate positive growth; cells, bones, muscles and organs all require this vital chemical to function normally. But growing costs and increasing use of growth hormones for conditions not approved by the FDA had become a negative for a Prime client, a large Midwestern health plan. They asked for help getting growth hormone costs under control.

Prime suggested implementing prior authorization, a clinical program that confirms medical necessity prior to filling the prescription. Members whose diagnosis does not match FDA-approved treatment guidelines need an exception in order to receive coverage for growth hormones. Prime’s program went further, also establishing a preferred medication for members who need growth hormones.

Prior authorization works well for growth hormones because there are several different options available, but all are clinically equivalent in terms of efficacy and safety. Preferring a lower-cost drug on the formulary encourages prescribers and members to choose the most affordable option. It also allows Prime to negotiate with manufacturers to obtain better pricing and higher discounts.

“Prime set everything up and took the lead in communicating the benefit change to employees and providers in advance. When the growth hormone program officially got started, it was as easy as flipping a switch. We saw an immediate change in our pharmacy costs.”
Utilization management maintains safety by ensuring clinically appropriate use of growth hormones and cuts costs by limiting off-label use. By establishing a preferred agent, this program also magnifies savings.

The client agreed, and within three months after implementing the program, the health plan had cut the cost of growth hormone therapy by two-thirds. More than 80 percent of growth hormone claims submitted by members were for the preferred growth hormone, Omnitrope®—saving nearly $3,000 per prescription.

Implementing a clinical program with a preferred agent reduced the cost of growth hormone prescriptions by 78 percent—a net savings of $2,946.19 per prescription.

Prime’s specialty pharmacy program, Triessent, proved vital in this process, promoting use of the preferred drug through

• Customized communication materials
• Targeted outreach calls to members and prescribers
• Clinical program management
• Essential benefit design support
Specialty drugs: Key category trends

**Arthritis** [4.9% of spend]

Increased utilization and inflation affected PMPM trend for this category. In the pipeline, manufacturers are seeking oral alternatives to injectable drugs such as market leaders Enbrel® and Humira®. However, FDA approval for these alternatives could take another two years. Smart formulary decisions and UM programs, such as step therapy, currently provide the greatest opportunities to manage costs in this category.

Members are more likely to walk away or abandon their prescribed arthritis medication at the pharmacy when out-of-pocket costs are more than $100.50

Plans may affect adherence and total health costs through thoughtful benefit design that limits member cost share in this and other specialty drug categories.

**Multiple sclerosis** [3.1% of spend]

Utilization and manufacturer price increases resulted in a double-digit trend. Increased utilization may be driven in part by existing patients who added therapy such as Ampyra®, a treatment approved in 2010 for improving walking distance in individuals with multiple sclerosis. Gileyna®, the first oral disease-modifying drug, entered the market in September 2010 with a significantly higher wholesale cost. Manufacturers of current therapies reacted by raising their prices.51 A robust pipeline of oral therapies will lead to a flood of new therapies in future years. It remains to be seen whether this increased competition will help to mitigate trend or simply drive trend higher.

Ampyra is a multiple sclerosis medication used to improve mobility. It is not considered safe for patients with seizures or kidney problems.

In addition, only a fraction of MS patients actually appear to benefit from this expensive therapy. A prior authorization to limit use of Ampyra to individuals who demonstrate improved walking time and show no evidence of decreased renal function may result in savings of up to $0.06 PMPM.
Oral oncology [2.0% of spend]

The slight increase in generic use in this category was not enough to offset increases in inflation and utilization, making targeted oral cancer therapy the fastest-growing specialty drug category at Prime. Cancer remains the second-leading cause of death in the U.S. While targeted cancer therapies have shown modest benefit in the treatment of cancer, they can cost thousands of dollars per month — and prices continue to rise. In fact, prices for therapies such as Gleevec®, Sutent®, Tarceva® and Nexavar® have increased 8 to 14 percent since 3Q2008.

The pipeline remains robust with nearly 860 oncology drugs in development. An increasing number of these are oral medications. Three new cancer drugs entered the market in 2010 and nine are expected to enter in 2011. As new oncology drugs — both oral and injected — are approved, Prime works with plans to use benefit design and formulary management to provide patients with access to the most cost-effective treatment available.

Escalating costs of targeted cancer therapies may be affecting patient care. The American Society of Clinical Oncology reports that some oncologists will forgo the discussion of an expensive treatment if they know it will cause financial strain. Thirty-three percent of families report difficulty in affording their cancer treatment. Smart management of oral oncology drugs should focus on reducing costs without negatively affecting patient care.
The Triessent touch yields savings and improved health outcomes

Specialty drug management is much more than a channel for providing access to high-cost drugs. Specialty drug management is a science — in that it requires a deep clinical understanding of how these drugs work — and an art. Helping members deal with serious illnesses and complex medication regimens requires creativity, skill and attention to detail. Done right, specialty pharmacy management helps members regain a sense of control over their health and helps plan sponsors gain control over escalating specialty drug costs.

Managing the specialty pharmacy benefit requires a holistic approach. Triessent delivers, providing a full range of smart drug-management levers to manage spend across medical and pharmacy while supporting patient needs.

Members receive comprehensive support from a therapy-focused care team regardless of benefit coverage. Knowledgeable pharmacists work to prevent dangerous medication errors, reduce medication waste and save money for both members and plan sponsors (see Figure 30 for an example).

Fig. 30 Sample Specialty Member Experience

- During the first call with a patient care coordinator, the member has questions about how to deal with injection site reactions.
- The patient care coordinator recognizes that this may be a sign of a non-response to therapy and transfers the call to a pharmacist.
- The member is counseled by our pharmacists and is also sent additional educational material.
- The pharmacist evaluates the case and contacts the physician to see if the medication should be changed.
- During a monthly refill call, the member complains of a relapse, a sudden worsening of symptoms.
- The physician prescribes a different medication; the member is sent their medication for the month.
Growth hormones [0.8% of spend]

These drugs treat children's growth disorders and adult growth deficiency. Decreased utilization and reduced ingredient costs resulted in a decrease in trend. Because of similarities among growth hormone products, utilization management can be highly effective in controlling costs in this class. Utilization management can also limit off-label use, which is increasing in this class.

A prior-authorization program ensures safe, clinically appropriate use and encourages members to choose the preferred product. The combination of better pricing and improved formulary compliance can cut the total cost of growth hormone therapy by nearly 80 percent (see page 60).

Blood modifiers [0.4% of spend]

Blood modifiers are primarily used to treat anemia and neutropenia in patients going through chemotherapy or with chronic kidney failure. FDA labeling restrictions and safety concerns are likely affecting utilization, which continues to decline. The majority of claims for this class process on the medical side. Prime partners with health plans to help reduce the cost of these drugs through utilization management to ensure safe and appropriate use.

Hepatitis C [0.3% of spend]

With fewer patients diagnosed and treated for hepatitis C, utilization decreased, resulting in a continued downward PMPM trend. However, utilization is expected to grow in 2011 with the recent approval of new oral protease inhibitors, Victrelis™ and Incivek™. These drugs are used in conjunction with peg-interferons and ribavirin and range from $30,000 to $59,000 per course of therapy. Studies support their use by many existing patients. Prime's management strategy includes utilization management, directing to the appropriate channel and adherence support.
### Brand-name Drugs

If approved, new specialty drugs typically raise drug trend by expanding specialty drug use to new indications or previously untreated conditions.

As more specialty drugs enter the market, smart formulary and utilization management can help to rein in these costs.

### Biosimilars

Today there are few generic specialty drugs. This is expected to change now that legislation establishing an abbreviated regulatory approval pathway for biosimilars ("generic" versions of biological medicines) has been signed into law.

Going forward, biosimilars offer the potential for pharmacy management that leverages competition to reduce specialty drug spending.

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**Fig. 31 Speciality Drugs: Pipeline Watch**

<table>
<thead>
<tr>
<th>Brand-name Drugs</th>
<th>Specialty Category</th>
<th>Anticipated Date*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nulojix (belatacept)</td>
<td>Prevention of graft rejection</td>
<td>2Q2011 (June)</td>
</tr>
<tr>
<td>crizotinib</td>
<td>Oral oncology</td>
<td>3Q2011 (July)</td>
</tr>
<tr>
<td>Zaltrap (aflibercept)</td>
<td>Macular degeneration</td>
<td>3Q2011 (Aug)</td>
</tr>
<tr>
<td>Recombinant factor XIII</td>
<td>Factor XIII deficiency</td>
<td>3Q2011 (Aug)</td>
</tr>
<tr>
<td>Firazyr (icatibant)</td>
<td>Hereditary angioedema</td>
<td>3Q2011 (Aug)</td>
</tr>
<tr>
<td>panobinostat</td>
<td>Oral oncology</td>
<td>4Q2011 (Oct)</td>
</tr>
<tr>
<td>vemurafenib</td>
<td>Oral oncology</td>
<td>1Q2012 (Mar)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Biosimilars</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ventavis (iloprost)</td>
<td>Pulmonary hypertension</td>
<td>4Q2011 (Dec)</td>
</tr>
</tbody>
</table>

*Anticipated dates are predictions made by Prime Therapeutics based on market data.
Benefit design brings employee health to life

Because prescription drugs play a central role in treating many health conditions, the pharmacy benefit should be seen as an essential part of the benefits package. Optimizing pharmacy coverage is central to building a vital and productive workforce.

Smart pharmacy benefit management guides medication use and trims spending, improving outcomes while saving precious health care dollars. Benefit design is the framework for pharmacy coverage. It includes levers to manage cost, access and use and establishes incentives to encourage desired member behaviors. Within this framework individual elements can be combined to achieve specific goals.

To illustrate the trade-offs between access and cost, consider pharmacy benefits on a continuum from lightly to aggressively managed.

**Lightly managed** (higher access) members have access to a wide variety of options at varying price points. Employers who want rich benefits to attract and retain employees tend to fall on this side of the continuum.

**Aggressively managed** (lower cost of care) members have access to only the most affordable of the recommended options. Employers motivated by savings often opt for benefit components from this side of this continuum.

The level of pharmacy management directly affect costs. For clients in our book of business, the PMPM for a “less managed” client was $63.51. At the other end of the spectrum, a “highly managed” client had PMPM of just $30.89. This suggests cost-focused employers who assertively manage benefit design and clinical programs have the potential to cut their pharmacy costs in half.
Recommendations

**Formulary**
A tiered open formulary — our recommended approach — covers almost all prescription drugs and uses cost share to guide utilization and control costs.

Within an open formulary, plan sponsors can limit access by restricting how many drugs are available at the lowest cost. More limited formularies are becoming popular in the market because of the tremendous cost savings they offer (see page 19). To alleviate employee concerns and improve acceptance, Prime emphasizes careful and consistent communication when transitioning to a more restrictive formulary.

**Utilization management**
Our expert clinicians have built more than 100 programs to target and eliminate unsafe, inappropriate or wasteful drug use. For best results, implement a program package designed to complement the selected formulary.

**Pharmacy access channel**
The pharmacy is where most members come into contact with pharmacy benefits. Limits on pharmacy access are deeply felt — and have a lot of influence over how benefits are perceived. Finding the right trade-off between cost and access can be challenging. Establishing clear business goals is helpful before fine-tuning this benefit lever. After benefit changes are identified, clear and open communication with employees can make these changes easier to implement.

Mail service consistently offers better prices than retail pharmacies — and has been shown to improve outcomes. Our research suggests that 90-day supplies, like those provided through PrimeMail®, are associated with 7 to 10 percent higher adherence rates when compared to 30-day supplies.33

For specialty drugs, we do not recommend an open network. While allowing members to obtain specialty drugs from any source without penalty may seem desirable, plan sponsors have the least cost control and oversight with this option. Members occasionally find the options overwhelming; this can result in poor decision making and higher costs.

**Cost share**
Most plans contain between two and four tiers. Prime recommends a four tier design because it offers coverage flexibility while maximizing opportunities for cost savings. Research shows it takes a noticeable cost difference for members to consider lower cost options. Prime recommends a difference of at least $20 between tiers; coinsurance percentages should be adjusted to preserve similar cost differentials.

For specialty, Prime recommends different tiers for preferred and non-preferred specialty drugs to retain ability to encourage use of lower cost options. We strongly recommend a $100 maximum on preferred drugs; our research has shown a dramatic increase in abandoned prescriptions above that price.50
The formula for smart benefit design

Utilization management

Cost share

Formulary

A formulary specifies which drugs are covered under the plan. Formularies promote coverage for the safest and most effective drugs and provide a mechanism for driving use of specific brand-name or generic drugs to maximize discounts and reduce costs.

The trade-off that must be made is how much to limit access to alternative treatments for the same condition. By narrowing choices, plan sponsors can significantly cut costs.

Utilization management

Utilization management consists of clinical programs used to guide members’ use of drugs at the individual claim level. Each program’s unique rules are written to encourage use of the most cost-effective treatments, while also making certain these are the safest, most effective drugs. Guidance is achieved through step therapy, prior authorization or quantity limit. While these methods operate differently, all limit access in some way, the benefit is greater control over costs.

Pharmacy access channel

Channels through which members can receive prescriptions include:

- Retail: local pharmacies fill traditional 30-day prescriptions
- Maintenance: 90-day supplies to treat long term or chronic conditions
- Specialty: source for high-cost drugs requiring special handling and therefore not typically available through traditional pharmacies

Each channel offers varying levels of access. Limiting members to fewer pharmacies increases the volume of prescriptions for the pharmacy. In return, the pharmacy reduces its prices for plan members. Thus, narrower access directly reduces costs.

Cost share

Pharmacy benefits are structured so members pay a portion of the total cost of their prescriptions. Plan sponsors use this benefit lever to encourage members to consider costs when choosing medications and access channels.

Benefit designs assign drugs into different tiers, each with a set copayment or coinsurance amount. The difference in cost between tiers provides motivation for choosing a lower cost option. While the plan sponsor chooses tiers and payment amounts, some of the trade-offs between access and cost are made by members, who decide how much they are willing to pay for access to certain drugs.
Recommendations

Formulary

A tiered open formulary — our recommended approach — covers almost all prescription drugs and uses cost share to guide utilization and control costs.

Within an open formulary, plan sponsors can limit access by restricting how many drugs are available at the lowest cost. More limited formularies are becoming popular in the market because of the tremendous cost savings they offer (see page 19). To alleviate employee concerns and improve acceptance, Prime emphasizes careful and consistent communication when transitioning to a more restrictive formulary.

Utilization management

Our expert clinicians have built more than 100 programs to target and eliminate unsafe, inappropriate or wasteful drug use. For best results, implement a program package designed to complement the selected formulary.

Pharmacy access channel

The pharmacy is where most members come into contact with pharmacy benefits. Limits on pharmacy access are deeply felt — and have a lot of influence over how benefits are perceived. Finding the right trade-off between cost and access can be challenging. Establishing clear business goals is helpful before fine-tuning this benefit lever. After benefit changes are identified, clear and open communication with employees can make these changes easier to implement.

Mail service consistently offers better prices than retail pharmacies — and has been shown to improve outcomes. Our research suggests that 90-day supplies, like those provided through PrimeMail®, are associated with 7 to 10 percent higher adherence rates when compared to 30-day supplies.33

For specialty drugs, we do not recommend an open network. While allowing members to obtain specialty drugs from any source without penalty may seem desirable, plan sponsors have the least cost control and oversight with this option. Members occasionally find the options overwhelming; this can result in poor decision making and higher costs.

Cost share

Most plans contain between two and four tiers. Prime recommends a four tier design because it offers coverage flexibility while maximizing opportunities for cost savings. Research shows it takes a noticeable cost difference for members to consider lower cost options. Prime recommends a difference of at least $20 between tiers; coinsurance percentages should be adjusted to preserve similar cost differentials.

For specialty, Prime recommends different tiers for preferred and non-preferred specialty drugs to retain ability to encourage use of lower cost options. We strongly recommend a $100 maximum on preferred drugs; our research has shown a dramatic increase in abandoned prescriptions above that price.50
## The formula for smart benefit design

### Lightly managed

<table>
<thead>
<tr>
<th>Formulary</th>
<th>Utilization management</th>
<th>Pharmacy access channel</th>
<th>Cost share</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PrimeChoice™ Plus</strong></td>
<td>No programs</td>
<td>Open network</td>
<td>Copayments or coinsurance with low differentials</td>
</tr>
<tr>
<td>Broad, inclusive coverage minimizes member disruption with access to a wide range of generic and targeted brand-name drugs. When aligned with appropriate benefit design and rebate management, this list optimizes rebates to help offset pharmacy costs.</td>
<td>Members encounter few clinical program limitations; clinical programs may be used periodically to address safety issues.</td>
<td>Full access to more than 62,000 traditional retail pharmacies nationwide.</td>
<td>Widest access; members do not pay a great deal more to obtain brand or non-formulary drugs.</td>
</tr>
<tr>
<td><strong>PrimeChoice™ Accord</strong></td>
<td>Tiered</td>
<td>Tiered</td>
<td>PrimeMail</td>
</tr>
<tr>
<td>Our standard list includes a wide range of brand and generic drugs, striking a balance between cost management and member choice. Vetted by clinical experts, this list forms the foundation for all of our formulary options.</td>
<td>Access to all network pharmacies, with higher discounts at preferred pharmacies (0.5 to 1.5 percent savings over an open network).</td>
<td>Access to all network pharmacies, with higher discounts at preferred pharmacies (0.5 to 1.5 percent savings over an open network).</td>
<td>PrimeMail: Promotes use of mail service, but does not include financial incentives to members. Example: Mail copayment = 3 x retail</td>
</tr>
<tr>
<td><strong>PrimeChoice™ Essential</strong></td>
<td>Recommended programs</td>
<td>Recommended programs</td>
<td>Recommended programs</td>
</tr>
<tr>
<td>Control pharmacy costs while maintaining clinical effectiveness and safety. Generic drugs dominate the list; however, a limited number of brand-name drugs are included to preserve clinically appropriate coverage.</td>
<td>A menu of clinical programs designed to work in tandem with the selected formulary will apply, based on individual drug level, members may need to obtain prior authorization to use certain drugs, may be subject to step therapy requirements or encounter quantity limits.</td>
<td>Eliminates at least one major pharmacy chain from the network for improved pricing (1.5 to 2.5 percent savings over an open network).</td>
<td>Promotes use of the Triessent channel for all specialty medications, but includes coverage for an alternate channel of the plan sponsor’s choosing.</td>
</tr>
</tbody>
</table>

### Aggressively managed

<table>
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<th>Cost share</th>
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<tr>
<td><strong>PrimeChoice™ Plus</strong></td>
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</tr>
<tr>
<td>Control pharmacy costs while maintaining clinical effectiveness and safety. Generic drugs dominate the list; however, a limited number of brand-name drugs are included to preserve clinically appropriate coverage.</td>
<td>Members encounter few clinical program limitations; clinical programs may be used periodically to address safety issues.</td>
<td>Full access to more than 62,000 traditional retail pharmacies nationwide.</td>
<td>Access varies; depending on the cost differentials established by the plan sponsor, members may have to pay significantly more to obtain brand or non-formulary drugs.</td>
</tr>
<tr>
<td><strong>PrimeChoice™ Accord</strong></td>
<td>Tiered</td>
<td>Tiered</td>
<td>PrimeMail Preferred</td>
</tr>
<tr>
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<td>Access to all network pharmacies, with higher discounts at preferred pharmacies (0.5 to 1.5 percent savings over an open network).</td>
<td>PrimeMail Preferred: Limits benefit coverage of maintenance medications to the mail channel to ensure lowest possible pricing. Example: Mail copayment = 3 x non-maintenance retail; members pay full price for maintenance medications at retail</td>
</tr>
<tr>
<td><strong>PrimeChoice™ Essential</strong></td>
<td>Recommended programs</td>
<td>Recommended programs</td>
<td>Recommended programs</td>
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</tr>
</tbody>
</table>

### Pharmacy access channel

<table>
<thead>
<tr>
<th>RETAIL</th>
<th>MAINTENANCE</th>
<th>SPECIALTY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open network</td>
<td>Extended supply network</td>
<td>Open</td>
</tr>
<tr>
<td>Full access to more than 62,000 traditional retail pharmacies nationwide.</td>
<td>Offers 90-day supply of maintenance medications at participating retail pharmacies.</td>
<td>Allows members to obtain specialty drugs from any source without penalty.</td>
</tr>
</tbody>
</table>

### Cost share

<table>
<thead>
<tr>
<th>RETAIL</th>
<th>MAINTENANCE</th>
<th>SPECIALTY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copayments or coinsurance with low differentials</td>
<td>PrimeMail: Promotes use of mail service, but does not include financial incentives to members. Example: Mail copayment = 3 x retail</td>
<td>Preferred/Non-preferred specialty tiers</td>
</tr>
<tr>
<td>Widest access; members do not pay a great deal more to obtain brand or non-formulary drugs.</td>
<td>Includes financial incentives to encourage use of mail service; the incentive amount is determined by the plan sponsor, with consultation from Prime. Example: Mail copayment = 2 to 2.5 x retail</td>
<td>Preferred specialty drugs are placed on a lower tier; non-preferred on a higher tier. Plan sponsors have the ability to adjust the cost differential, as well as minimum and maximum payments.</td>
</tr>
</tbody>
</table>

**PrimeMail:** Promotes use of mail service, but does not include financial incentives to members. Example: Mail copayment = 3 x retail

**PrimeMail Advantage:** Includes financial incentives to encourage use of mail service; the incentive amount is determined by the plan sponsor, with consultation from Prime. Example: Mail copayment = 2 to 2.5 x retail

**PrimeMail Excel:** A higher cost share for maintenance medications at retail encourages use of mail service whenever appropriate. Example: Mail copayment = 1 x retail; maintenance medications at retail = 3 x mail copayment

**PrimeMail Preferred:** Limits benefit coverage of maintenance medications to the mail channel to ensure lowest possible pricing. Example: Mail copayment = 3 x non-maintenance retail; members pay full price for maintenance medications at retail

**PrimeMail Excel:** A higher cost share for maintenance medications at retail encourages use of mail service whenever appropriate. Example: Mail copayment = 1 x retail; maintenance medications at retail = 3 x mail copayment

**Preferred/Non-preferred specialty tiers:** Preferred specialty drugs are placed on a lower tier; non-preferred on a higher tier. Plan sponsors have the ability to adjust the cost differential, as well as minimum and maximum payments.
Other benefit tools

Incentives

Benefit management is all about guiding members to choices that will achieve specific goals. But changing ingrained behavior is not an easy task. This is where incentives can help. Reducing out of pocket costs for drug therapy based on “value”—improved health or potential for savings—can alter the tipping point for members reluctant to make a change.

Incentives are designed to motivate people—and they often work. But incentives can prove costly. When members’ out of pocket costs are reduced, the shortfall is covered by the plan sponsor in expectation of future savings. Improperly applied, incentives can end up costing more than they save.

We recommend using incentives thoughtfully and sparingly. Targeting high-volume drug classes or specific conditions is a good way to begin. A more advanced approach uses the richer perspective of combined medical and pharmacy data to target only those members at the highest risk for an adverse medical event.

Incentives don’t fit easily on the pharmacy management continuum. This is because they are by nature a highly calculated component of benefit design. Prime has experience and expertise to guide this important decision and help determine the potential return on an incentive campaign.

Promotion

We recommend every plan sponsor incorporate promotion in their pharmacy benefit plan. Building understanding is the first step to engaging members in their health and health care costs.

We offer access to a robust catalog of materials about pharmacy benefits, health conditions and medications. Promotional materials alert members to potential savings opportunities, so they can take an active role in managing pharmacy costs. Education helps members understand how pharmacy benefits work so they can make informed decisions and teaches them about health conditions so they can take better care of themselves.

As with the other benefit levers, the level of management is up to each individual plan sponsor. More assertive communication leads to bigger changes in behavior, and better results.

Common pharmacy incentives include:

- Value based benefit designs adjust cost sharing to encourage use of drugs known to improve medical outcomes.
- A preventive drug list (for use with high-deductible health plans) extends coverage without requiring members to meet the deductible.
- Temporary copayment reductions motivate members to change to generic alternatives in order to save money.
Smart benefit design delivers reliable cost control. Guaranteed.

We think a smart approach to pharmacy benefit management should be straightforward — no guesswork.

To help plan sponsors predict and manage costs, Prime has created Reliance, a benefit package with a net ingredient cost guarantee of $47 per script.

The Reliance offering combines our most effective benefit design elements to deliver optimal results:

- **Formulary:** PrimeChoice Essential to maximize the generic rate
- **Utilization management:** a package of utilization management programs designed to work in concert with the PrimeChoice Essential formulary
- **Network:** plan sponsor’s choice
- **Pharmacy access channel:** PrimeMail Excel or PrimeMail Preferred, with mail copay equal to the 30-day retail copay to provide an incentive for choosing mail service; Triessent exclusive specialty pharmacy channel
- **Cost share:** four-tier benefit design with recommended cost share differentials
- **Promotion:** plan sponsor’s choice from among a wide array of available promotion and educational tools

By taking advantage of recommended formulary, pharmacy access drivers, cost share and promotions, Reliance encourages adoption of behaviors that help keep individuals healthy and hold down costs.

In Reliance, we have created an effective yet easy-to-understand benefit package designed for maximum health and savings — savings you can use to offset overall health care costs, build your business or strengthen your bottom line. It’s smart pharmacy management guaranteed to get results.
Keeping the total health equation in health care reform calculations

The 2,000-page Patient Protection and Affordable Care Act, and the Health Care and Reconciliation Act of 2010 (together known as “Health Care Reform”) will dramatically affect nearly every aspect of health care in the United States. As health reform is implemented, more than 30 million new patients will gain access to the health system. But before the full breadth of the affordable care act reaches the workplace, it must first withstand the challenges to its legitimacy in state and federal courts.

For employers, the decisions that must be made are complicated and the number of options dizzying:

- Will I cover the cost of health insurance for employees? According to the current mandate, choosing not to provide will result in a fine of $2,000 per worker.
- What sort of coverage will the tax credit (up to 35 percent for small businesses) allow me to provide employees? What happens after this incentive expires?
- If I choose not to provide insurance, what other options will my employees have? State-run health insurance exchanges are only one option, other ideas continue to bubble up from various sources.

Little is certain about what the final patchwork of state and federal solutions will look like. But Prime is absolutely certain of one thing: employers must remain mindful of the big picture as they make tough coverage decisions. There will need to be an even greater focus on maintaining quality of pharmacy care for patients while increasing its role in the total health equation.

There is an enormous potential to improve care in our country. Whether pharmacy’s potential is realized will depend to a significant degree on how well we do helping patients access and stick to their medications, while managing costs. The situation today calls on all of us to work together to navigate the changing times safely for patients, so that we may continue to deliver the right care, at the right time and at a reasonable price.
Looking Ahead

Guidance for the road in front of us

Prime works to anticipate how health care will evolve. We know complex forces will continue to shape our industry in new, perhaps even unexpected ways. Our mission is to provide insight to enable clients to navigate change with confidence. As changes unfold we stand ready with expert guidance and a complete set of smart pharmacy tools to help convert insight into action.

Within five years...

Most traditional drugs will be available in generic form
Pharmacy spending has slowed in recent years as large numbers of brand-name drugs have gone off patent. After this wave crests, it will be increasingly challenging to control pharmacy trend through generics alone. In preparation, Prime has expanded our toolbox of programs proven to drive down pharmacy costs, and is recommending more aggressive benefit management and plan designs.

New generic challenges and opportunities will arise
As the number of generic drugs in the market increases, drug makers have begun to undermine generic benefit incentives by subsidizing or reimbursing consumers’ copayments through coupon programs. Meanwhile, a pathway is being created that will speed the review and approval of biosimilar specialty drugs. We view these developments as opportunities for Prime to display thought leadership and innovation. Our recommended benefit design employs four tiers to allow for formulary management of specialty drugs; as biosimilar drugs reach the market, this leverage will become an increasingly important way to drive down drug costs. The future may also bring formulary management of generic drugs.

Specialty drugs will become the primary drivers of pharmacy trend
Managing growing specialty drug costs is challenging, but plan sponsors are not helpless. Specialty drugs require a special approach, but they also benefit from skilled pharmacy benefit management. Prime’s comprehensive approach offers both holistic patient support and tools to drive specialty drug prices to the lowest net cost. Unlike standalone pharmacy benefit managers, Prime can apply these tools whether the drug is processed through the medical or pharmacy benefit.
Health care cost challenges will intensify

For plan sponsors struggling to provide affordable coverage for employees, the projected cost increases seem insurmountable—and focusing on medication adherence seems like adding more. This is where Prime’s unique perspective is critical. Because of our integrated approach, we can target individuals who will benefit from better pharmacy care, rather than adding costs across the board. In light of rapidly increasing specialty drugs costs and rising rates of chronic illness, plan sponsors urgently need smarter pharmacy to help manage the total cost of care.

Research into the role of genetics will continue

Right now there is relatively little data proving the cost-effectiveness and clinical utility of pharmacogenomics products. But it will not remain this way for long. Genetic science will likely shape both drug development and delivery in the future. Prime is pursuing a balanced approach that achieves optimal use of genetic information in prescribing and drug delivery. As evidence of the clinical value of testing mounts, Prime will partner with health plans to integrate pharmacogenomics into medical care at the right time and in the right way.

Reform may lead plan sponsors to consider dropping or reducing benefits

While little about health care reform is certain, employers will certainly face tough coverage decisions. Prime encourages plan sponsors to remain mindful of the critical role pharmacy care plays in total health. As implementation of the Patient Protection and Care Accountability Act unfolds, we will continue to provide updates and guidance on key provisions affecting pharmacy benefits and benefit planning.

In conclusion

In the coming years, rising health care costs combined with economic and political uncertainty will fuel rapid changes in the health care system. The situation calls on all of us to be innovative and willing to evolve. Pharmacy is an important part of the solution to the challenges we face. Prime advocates an expanded role for pharmacy in improving health outcomes and helping plan sponsors gain control over total health care costs.

Smart pharmacy benefit management can improve the quality of pharmacy care while taking advantage of its value in the total health equation. Working together, we can make sure it all adds up.
Acknowledgements

We would like to acknowledge the contributions of the following individuals to the 2011 Drug Trend Insights report:

Leah Bailey, JD
John Beardsley, MBA
Kenneth Brooks
Scott Degeus
Eric Elliott, MBA
Jenna Elving
Tim Fink
Andy Gardner
Jeff Gianforte, MS
Nina Gines
Pat Gleason, PharmD, FCCP, BCPS
Brent Gunderson, PharmD
Emily Hafner
Curt Hedin
Nadine Howe
Kelly Jefferson
Jack Jerome
Steven Johnson, PharmD, BCPS
Varonda Johnson
Marlene Kadlec
April Kunze, PharmD
Susan LaFreniere, MBA
Will Lambert, MBA
David Lassen, PharmD
Colin McCarthy
Britt-Inger McDonnell
Jeanne Mettner, MA

Jean Moench
Jane Mosman, RN
Shawn Mullery
Alana Nistler
Gina O’Connell
Nils Oiseth
Cameron Olig
Susanne Patterson
Leslie Peabody-Barrett
Amy Renzulli
Mike Robb, MHA
Aaron Rodriguez, JD
Shelley Sánchez
Jeremy Schafer, PharmD, MBA
Michael Showalter
Catherine Starmer, PharmD, GCP, BCPS
Molly Sullivan
Cory Super, PharmD
Sheila Thelemann
Kirsten Tiberg
Rachelle Wan, RPh, MBA
Peter Wickersham, MapStat, MS, MSE
Jay Witter, MBA
Angie Wlaschin
Meredith Wolf
Matt Yordy, MBA
Patrick Zampogna, MBA
Footnotes

3 Competitor average derived from drug trends reported by the top three publicly-owned PBMs. Sources: CVS Caremark Insights 2011; Express Scripts 2010 Drug Trend Report; Medco 2011 Drug Trend Report.
5 Beasley, Deena. "Branded Drug Prices Soar as Generic Pressure Rises." Reuters. 23 March 2011.
12 2010 Annual Member Satisfaction Benchmark Study, conducted by Kenexa.
13 2010 Annual Client Satisfaction Study, conducted by Kenexa.
23 Prime analysis of health plan and member data, 2010.