

Specialty Drugs are Forecasted to be 50 Percent of All Drug Expenditures in 2018

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Background

- Specialty drugs include biologics and other drugs that require special handling, are typically injected, and are more expensive than traditional small molecule oral drugs. Billed via either the medical or pharmacy benefit, specialty drugs were historically associated with rare medical conditions such as hemophilia. More recently, specialty drugs have come to dominate the treatment of more common chronic conditions such as rheumatoid arthritis and multiple sclerosis.
- In 2012, specialty drugs comprised 0.5 percent of claims but 17.6 percent of all pharmacy benefit expenditures across Prime Therapeutics' commercial 10.9 million member book of business.¹ Average per-prescription cost was \$3,016 and total paid per capita increased 19.1 percent from 2011.¹
- During 2012, within Prime Therapeutics' commercial book of business, the proportion of all prescriptions filled with a generic drug (generic utilization rate [GUR]) was 77.4 percent.¹ The average total paid amount per 30-day supply generic drug claim was \$19.66.
- Specialty drugs are generally not available in generic form, and the increased use of generics for conditions not treated with specialty drugs (e.g., depression, hyperlipidemia and hypertension) has made specialty drugs an increasingly important driver of costs.
- A 2011 report on specialty pharmacy predicted specialty drugs would account for 40 percent of all drug spend by 2020.²
- With the GUR approaching 80 percent, recent and anticipated future new specialty drug approvals, and progressive specialty drug price increases, the need for payers to update specialty drug expenditure forecasts is evident.

Objective & Purpose

To integrate medical and pharmacy drug expenditures from January 2009 through October 2012, trend these expenditures by specialty and non-specialty drugs, and forecast when specialty drugs will become 50 percent of all drug expenditures.

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Methods

- Using Prime Therapeutics' integrated medical and pharmacy database with complete data from 2009 to present for 6.8 million commercially insured members, the data was queried to identify quarterly drug specialty and non-specialty expenditures.
- Specialty drugs were defined as all drugs on the Prime Therapeutics pharmacy benefit specialty drug management list and most medical benefit processed drugs (e.g., J-codes) with the complete exclusion of vaccines and diagnostics. All drug claims not classified as specialty were defined as non-specialty.
- Drug expenditures are defined as pharmacy benefit total paid (plan paid plus member paid) and medical benefit total allowed amounts (plan paid and member paid). All claims with a third party payer were excluded.
- For 1Q2009 to 2Q2012, the quarterly proportion of specialty drug expenditures out of the total drug expenditures from both the pharmacy and medical benefits was calculated.
- To obtain the expenditure trend, the specialty and non-specialty total paid per member per month (PMPM) percentage increase in expenditures using year versus year ago quarter method was calculated from 1Q2009 to 2Q2012.
- The forecast was calculated from the combined specialty medical and pharmacy benefit and the non-specialty 2.5 year historic trends.

Pharmacy and medical benefits specialty drug expenditures

- To obtain specialty and non-specialty drug expenditures, integrated pharmacy and medical data from 8.8 million commercially insured members were queried from October 1, 2011 through September 30, 2012 (12 months).
- Total 2012 expenditures for the top 10 drugs were calculated separately within the pharmacy benefit and for each health care common procedure coding system (HCPCS) drug code (e.g., J-code) within the medical benefit. The top 10 were ranked as a percent of expenditures and reported.
- Specialty drugs were placed into the following categories: autoimmune, injectable cancer, multiple sclerosis, human immunodeficiency virus and immunosuppressants, oral cancer, blood modifiers, anticoagulants, intravenous immunoglobulin and other serums, growth hormones, hemophilia, nausea and vomiting, lung disorders, infertility, cystic fibrosis, hepatitis C, pulmonary hypertension, enzyme deficiencies and macular degeneration. For each category, the proportion of expenditures from the pharmacy and medical benefits are reported.
- Members were not required to be continuously enrolled.

Results

October 1, 2011 to September 30, 2012 (12 month) pharmacy and medical benefits specialty drug expenditures

- The average monthly membership was 8,800,053
- Total medical and pharmacy benefit drug expenditures were \$77.98 PMPM (Table 1)
 - Non-specialty \$55.61 PMPM (71.3%)
 - Specialty \$22.37 PMPM (28.7%)
- Pharmacy benefit specialty \$11.77 PMPM (52.6%) of \$22.37 PMPM
- Medical benefit specialty \$10.60 PMPM (47.4%) of \$22.37 PMPM
- The top two pharmacy expenditure drugs adalimumab (Humira®) and etanercept (Enbrel®) accounted for a combined 23.2 percent of all pharmacy benefit specialty expenditures. Both drugs are in the autoimmune category. (Table 2)
- The highest expenditure medical benefit specialty HCPCS drug code was infliximab (Remicade®) HCPCS code J1745, in the autoimmune category, representing 11.2 percent of all medical benefit drug expenditures. (Table 3)
- The autoimmune category was the highest expenditure category accounting for more than \$600 million in expenditures (25.7%) of all specialty drug expenditures. (Figure 3)
- The injectable cancer category had five of the top 10 medical benefit specialty drug HCPCS codes accounting for 23.8 percent of all medical benefit specialty drug expenditures. (Table 3)
- Injectable cancer accounted for approximately \$450 million (18.6%) of pharmacy plus medical benefit specialty expenditures. (Figure 3)

Pharmacy and medical benefits specialty drug expenditure forecast

- From 2010 through 2Q2012, non-specialty drug PMPM year versus year ago quarter trend values remained in the single digits, starting at 4.5 percent in 1Q2010 and ending at 0.3 percent in 2Q2012. The year versus year ago quarter specialty drug trend PMPM values averaged 14.1 percent, starting at 13.7 percent in 1Q2010 and ending at 18.1 percent in 2Q2012. (Figure 1)
- In 2009, specialty drugs represented 20.0 percent of all drug (medical and pharmacy benefit) expenditures and by September 2012 specialty drugs had become 28.7 percent of all drug expenditures. (Table 1 and Figure 2)
- Assuming a specialty PMPM trend of 14.1 percent and a non-specialty trend of 1.0 percent, specialty drug expenditures are forecasted to be 50 percent of total drug spend by 2018. (Figure 2)

Table 1. Overall spend from October 2011 through September 2012 (12 months) for 8.8 million commercially insured members

	Total paid PMPM	Specialty* total paid PMPM	Specialty PMPM percent of total
Medical Benefit Drug Claim	\$10.60	\$10.60	100.0%
Pharmacy Benefit Claim	\$67.38	\$11.77	17.0%
Total	\$77.98	\$22.37	28.7%

PMPM = per member per month; pharmacy dollars are total paid (plan paid plus member paid) and medical dollars are total allowed amounts (plan paid plus member paid).
*Specialty drugs were defined as all drugs on the Prime Therapeutics pharmacy benefit specialty drug management list and most medical benefit processed drugs (e.g., J-codes) with the complete exclusion of vaccines and diagnostics

Figure 1. Medical and pharmacy benefits year versus year ago quarter change in per member per month (PMPM) trend for non-specialty and specialty drugs for 6.8 million commercially insured members

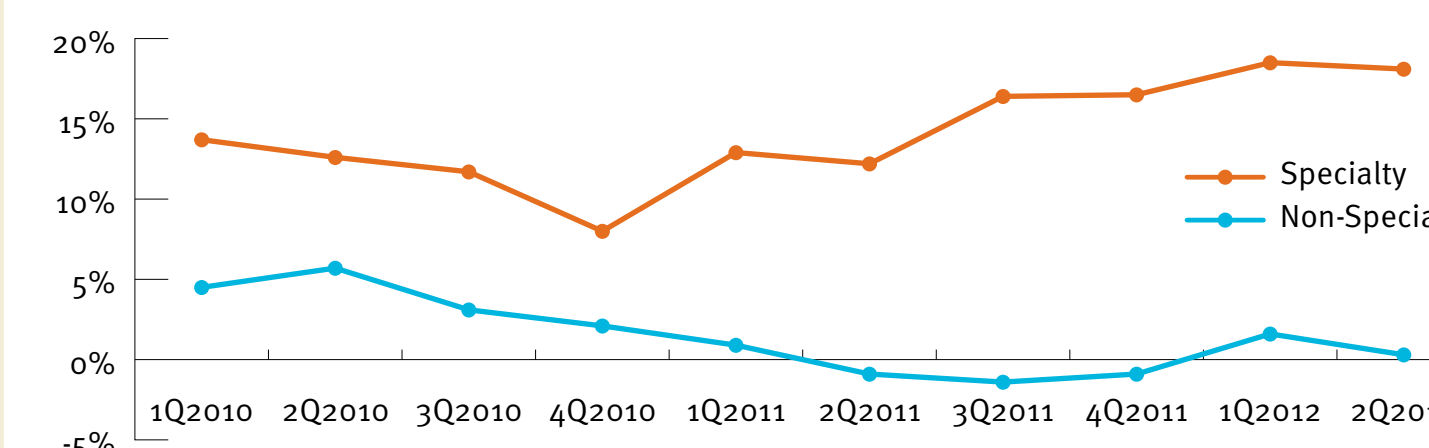
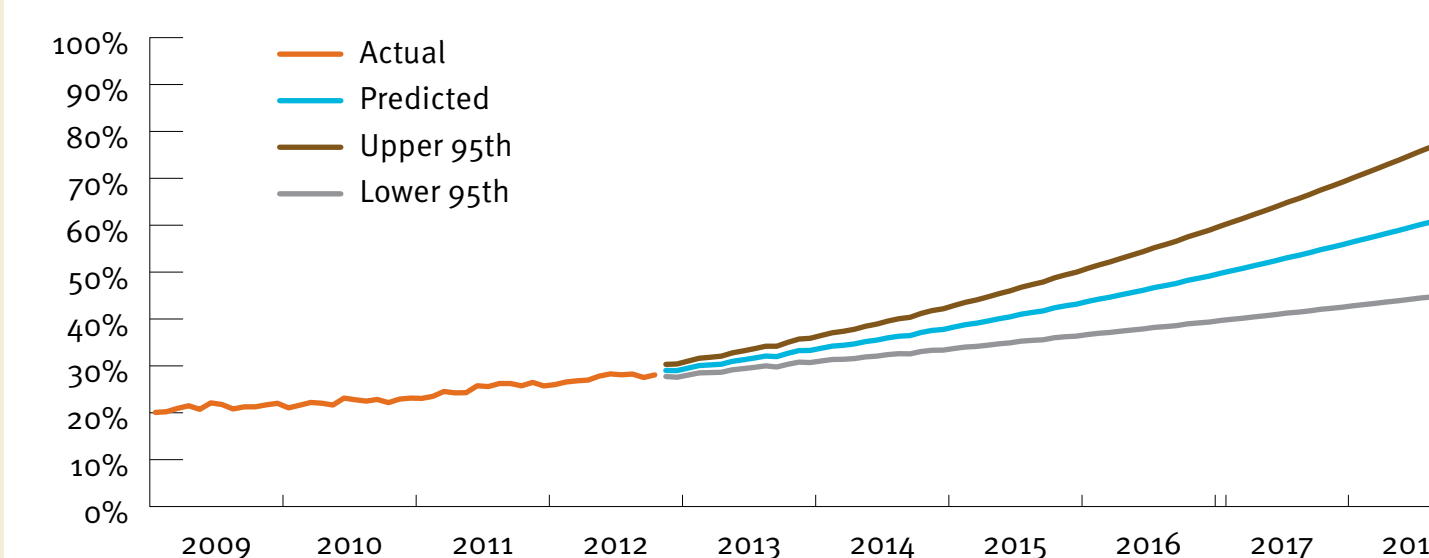


Figure 2. Medical and pharmacy benefit specialty drug expenditures as a percent of total drug spend: forecasted to be above 50% in 2018*



*Forecast using the historic non-specialty and specialty expenditure trends from 2009 through 2Q2012 among 6.8 million commercially insured members

Figure 3. Specialty drug expenditures by category and benefit, October 2011 through September 2012 among 8.8 million commercially insured members

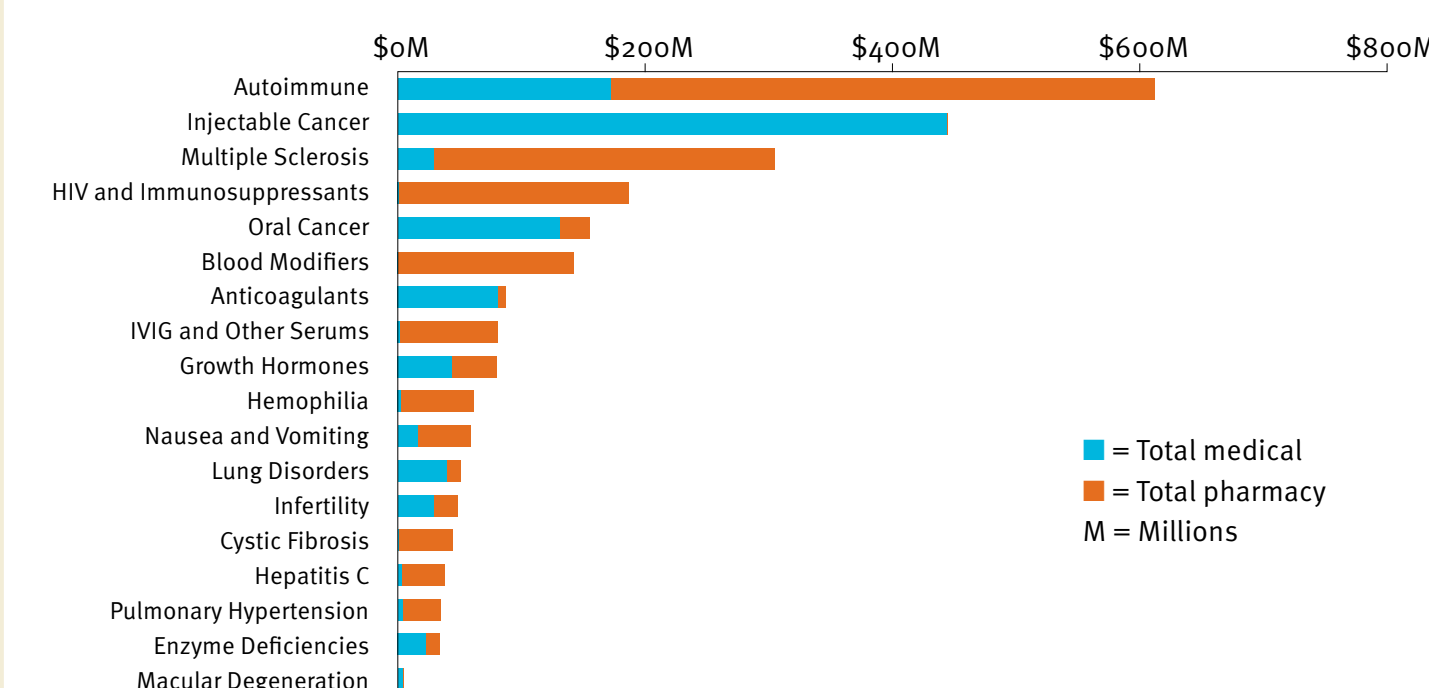


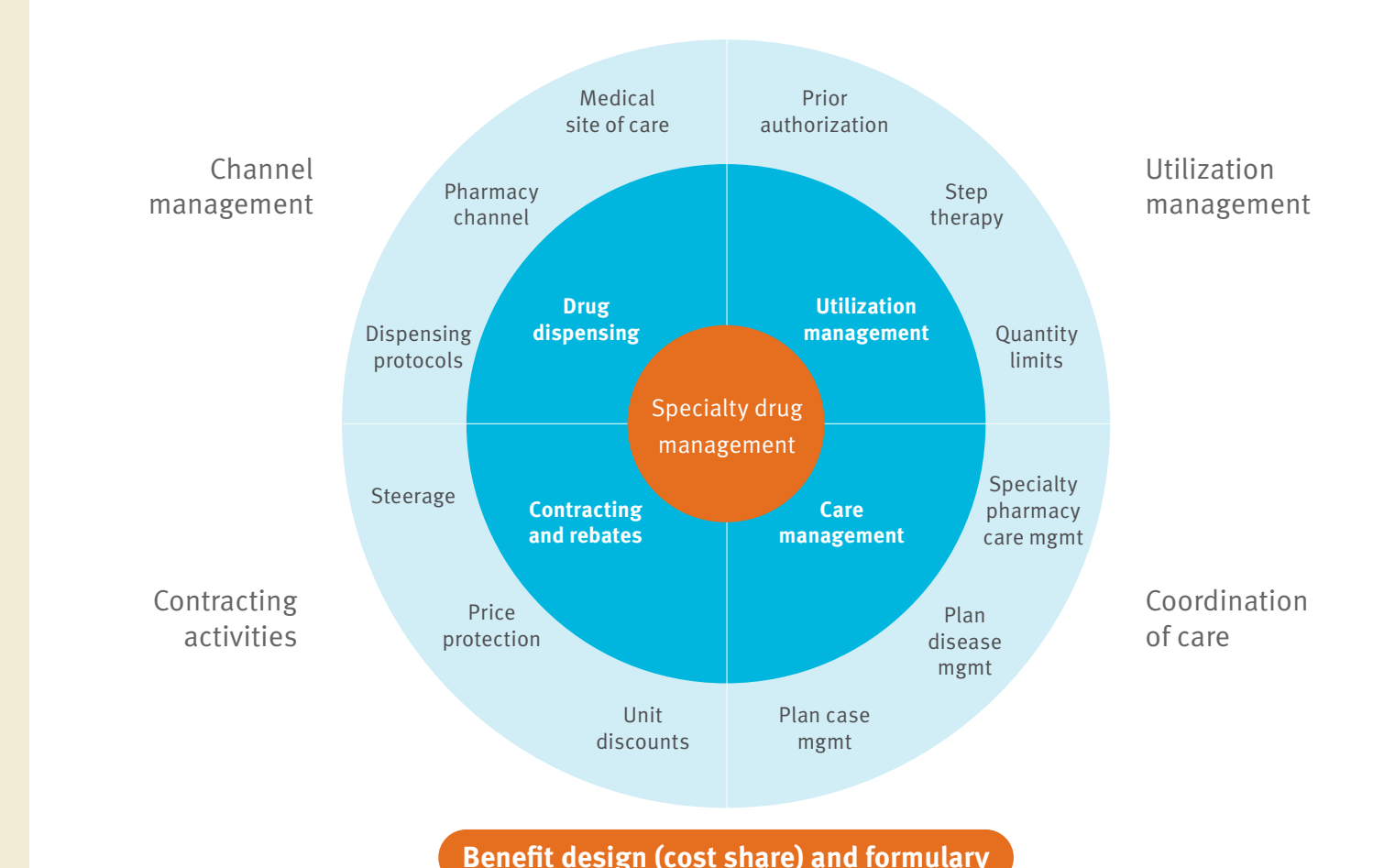
Table 2. Top 10 pharmacy benefit specialty drugs among 8.8 million commercially insured members during October 2011 through September 2012

Top 10 pharmacy benefit specialty drugs	Category	% of total pharmacy benefit specialty drug expenditures
Humira®	Autoimmune	13.0%
Enbrel®	Autoimmune	10.2%
Rebif®/Avonex® (interferon beta-1a)	Multiple Sclerosis	7.2%
Copaxone®	Multiple Sclerosis	6.5%
Somatropin®	Growth Hormone	3.5%
Atripla®	HIV & Immunosuppressants	3.3%
Incivek®	Hepatitis C	2.7%
Gleevec®	Oral Cancer	2.5%
Enoxaparin®	Anticoagulant	2.2%
Reviimid®	Oral Cancer	2.1%

Table 3. Top 10 medical benefit specialty drugs among 8.8 million commercially insured members during October 2011 through September 2012

Top 10 medical benefit specialty drugs	Category	% of total medical benefit specialty drug expenditures
Remicade®	Autoimmune	11.2%
Neulasta®	Blood Modifier	8.0%
Avastin®	Injectable Cancer	6.4%
Rituxan®	Autoimmune/Injectable Cancer	5.2%
Herceptin®	Injectable Cancer	5.2%
Eloxatin®	Injectable Cancer	4.3%
Taxotere®	Injectable Cancer	2.7%
Tysabri®	Multiple Sclerosis	2.4%
Factor VIII R®	Hemophilia	2.3%
Gammagard®	Immune Globulin & Other Serums	2.0%

Figure 4. Specialty drug management opportunities



Limitations

- Data are from a commercially insured population pooled across various regions and results should not be generalized to Medicaid or Medicare. Furthermore, a region or plan specific analysis was not performed and plan level variations have been demonstrated in previous work.
- Specialty drugs were defined as all drugs on the Prime Therapeutics pharmacy benefit specialty drug management list and most medical benefit processed drugs (e.g., J-codes) with the complete exclusion of vaccines and diagnostics. Other definitions of specialty drugs will likely result in different expenditure proportions and forecasts.
- Forecasting expenditures is speculative. Forecasting is highly dependent upon continued historic trends that have been largely influenced by pharmaceutical manufacturer price inflation. However, specialty drug price inflation has been 10 percent or more annually since 2009 and most recently 12.6 percent in 2012. There is no evidence that pharmaceutical manufacturers will deviate from an annual specialty drug price increase of more than 10 percent.

Conclusions

- Currently approximately four of five prescriptions are filled with a generic drug at a cost of less than \$20. In the coming years, new generic drug market entrants are limited.
- Due to the increased use of generics, continued pharmaceutical manufacturer annual double digit price increases, increasing utilization, and future pipeline of new specialty drugs, specialty drug expenditures are expected to be 50 percent of all drug expenditures by 2018.
- The current top specialty category is autoimmune with the top expenditure drug on both the medical and pharmacy benefits. Health insurers and pharmacy benefit managers will need to focus initially on the autoimmune category to ensure expenditures are managed.
- Health insurers will need to increase their vigilance of specialty drugs and focus on four management opportunities: drug distribution channel, utilization management, contracting activities, and coordination of care. (Figure 4)

References

- 2013 Prime Therapeutics LLC. Internal Data.
- URAC Specialty Pharmacy White Paper: The Patient-Centered Outgrowth of Specialty Pharmacy. https://www.urac.org/Whitepaper/PQM-Specialty_Pharmacy.pdf. Accessed March 1, 2013.