



# Drug Benefit Analytics

Understanding and Managing Drug Benefit Risk

February 2013

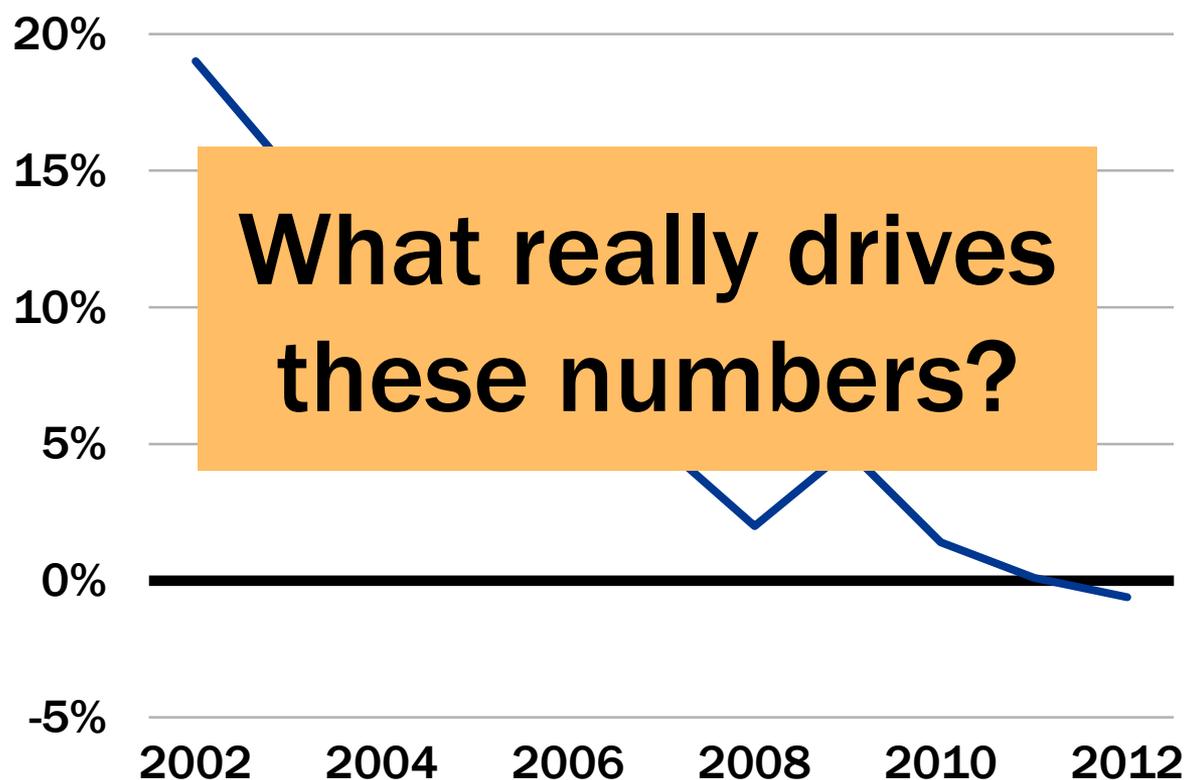
# Overview

- Drug trend
- Factors that drive drug trend
- Market and behavior analysis
- Benefit plan

# Looking Back: *Drug Trend Report*



YTD 2012 Traditional Drug Trend -0.6%



# New Approach to Trend Analysis

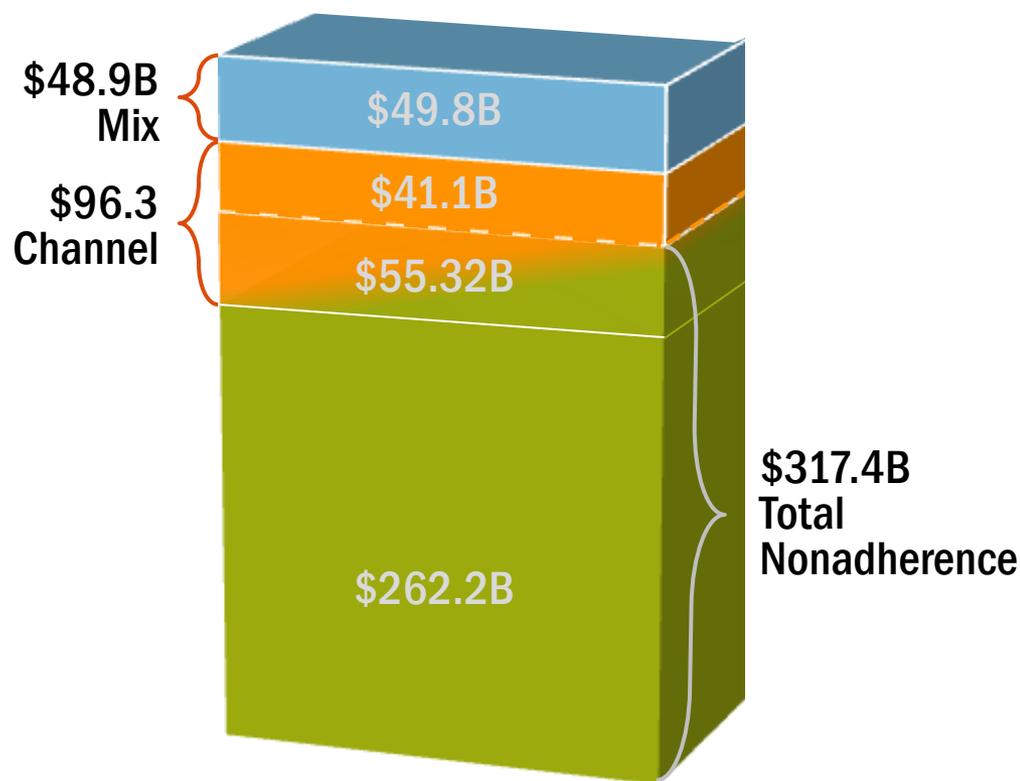
<b>Market and Behavioral Analysis</b>	
<b>Market Forces</b>	<b>Behavioral Factors</b>
Prevalence	Drug mix
Cost per unit	Channel
Units per Rx	Therapy adherence
Patent expirations	Total behavioral savings opportunity
New drug entrants	

# What's Behind the 2012 Numbers

	Trend							
	PMPY Spend		Utilization		Unit Cost		Total Trend	
	YTD	Q3	YTD	Q3	YTD	Q3	YTD	Q3
Traditional	\$639.66	\$612.81	0.6%	0.4%	-1.2%	-4.0%	-0.6%	-3.6%
Specialty	\$167.52	\$166.50	9.4%	5.7%	13.2%	10.8%	22.6%	16.5%
Total	\$807.18	\$779.32	0.7%	0.4%	2.8%	-0.3%	3.5%	0.1%

# Annual Pharmacy-Related Waste

More than \$408 billion



Three ways to **drive out** pharmacy-related waste

- Optimize Channel
- Optimize Drug Mix
- Maximize Adherence

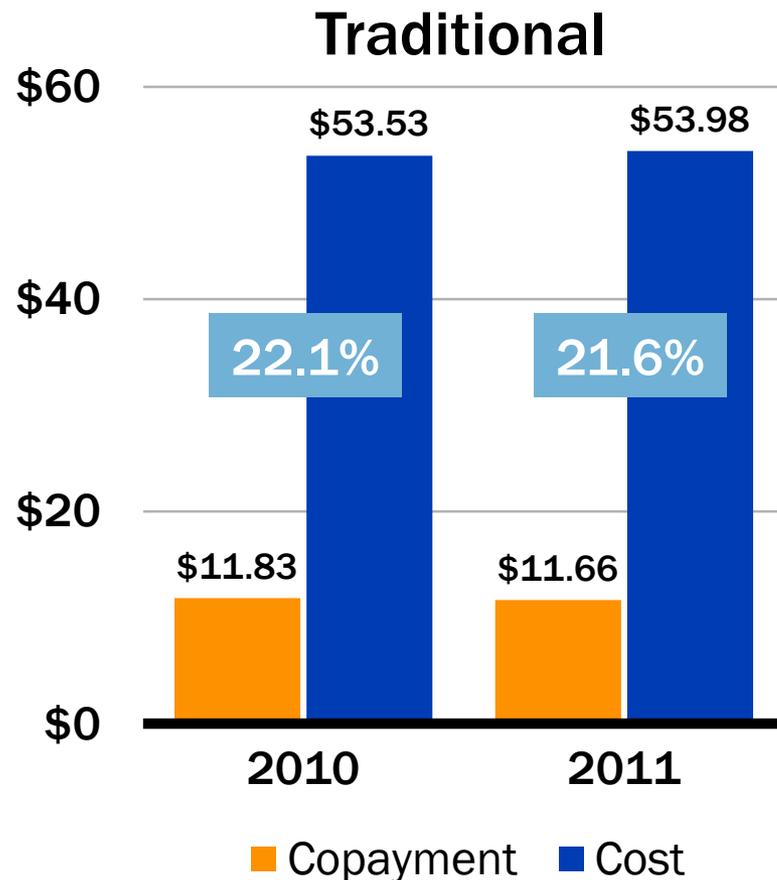
Source: Express Scripts 2011 *Drug Trend Report*. \$55.2B of waste could be avoided due to improved therapy adherence with the use of home delivery. This is not double-counted in the \$408B of total waste.

## Traditional Trend: -0.6%

Key driver of negative trend: lower prices brought on by a change in drug mix to more generics

- Mental/neuro disorders and antidepressants class (-1.9%)  
Many commonly used antidepressants and antipsychotics now available as generics
- High blood pressure and high cholesterol (-7.7%)  
Continued patent expirations for blockbuster drugs like Lipitor

# Member Cost-Share Continues to Fall



Dollar amounts all PMPY

# Reduce Drug Trend and Protect Against Variability

- Get access to your data
  - Better data gives better insight
- Drive reduced trend through best-in-class programs
  - Mix
  - Channel
- Get market-based PBM pricing
- Utilize best-in-class products that align to your needs

# Components of Prescription Drug Cost



# Express Scripts Pricing Model

## Base utilization data

- No data
- Summary data
- Detailed data

- + Utilization trend (1-3% annually)
- + AWP inflation (7% brand, 1% generic annually)
- + Industry trends
- + Expected contracting improvements (suppliers, providers, manufacturers)

## Projected utilization over term of deal

- + Pricing
- + Business risk and up sell opportunity assumptions

## Express Scripts margin projection

# Current Market Pricing Issues

- Shortening contract terms: Price checks
- A claim by any other name
- Rate guarantees: To offset or not to offset
- What are zero balance due claims (ZBDs) and how do they impact price
- Specialty: Our shared challenge
- Mix matters
- “Transparency”

# Discount Guarantees

## Risk versus accuracy

### ■ Elementary school math:

“Show your work!”

Does it include soft savings from clinical programs or formulary compliance

### ■ Stand-alone guarantees

■ “Heads you win, tails I lose” – focusing on the means rather than the end

■ 90:10 probability

### ■ Offsetting guarantees

■ The way RFPs are evaluated

■ Calculates total cost at guarantee level

■ Allows for ongoing provider negotiation flexibility

■ 50:50 probability

### ■ Underwrite risk, or risk the company

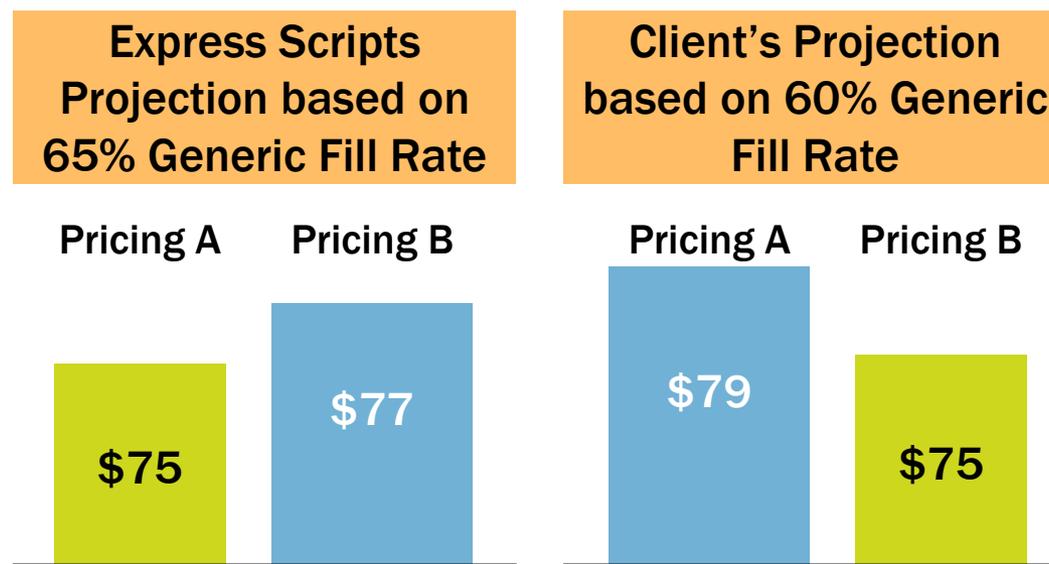
# Specialty Pricing Considerations

- Mix
  - Cost-vs-AWP varies by drug class, so utilization mix impacts pricing
  - Some providers do not fill all drug classes
  - Are discounts based on using pre- or post-September 2009 AWPs
- Rebates
  - Rebates built into discounts can result in 2%+ additional discount value on some drugs
- 90-day fills
  - Reduced cost to fill can result in up to 2% improved discount
  - Increased waste can lead to higher client cost
  - 30-day fills improve care management and reduce waste
  - Consider shorter fills until therapy is stabilized

# How Express Scripts Judges Competitiveness of Offer

- Key is to understand client's projections – assumptions vary widely
- Set pricing to maximize value to client based on their future expectations

## Client's Drug Cost PMPM



While Express Scripts would normally quote based on 'Pricing A', in reality 'Pricing B' is of more value to the client based on their projections.

## Generic Fill Rate Guarantees

- 1% GFR improvement = 1% – 1.5% annual Rx spend savings
- Dollar-for-dollar payout, if guarantee is missed
- Express Scripts underwrites risk — it is not a given that the guarantee will be achieved
  - Express Scripts believes guarantees should be valued at more than amount of risk priced into deal
  - More value to increasing GFR than pricing improvements with equivalent impact on Express Scripts pricing model
- GFR guarantee threshold = 50,000 adjusted Rxs per year

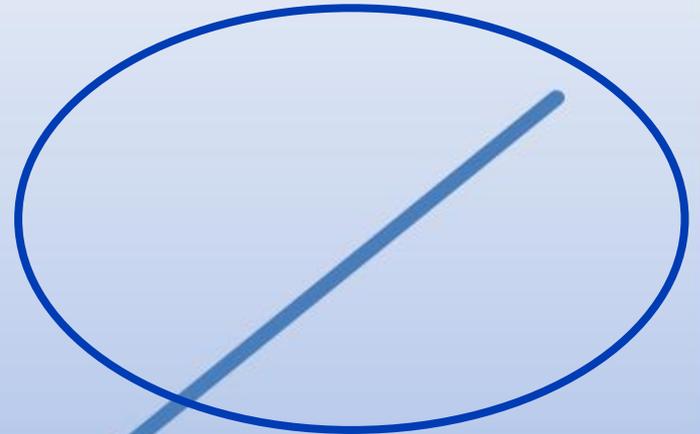
# Mitigate Variability

Through a “Pharmacy Savings Guarantee”

Limit Drug Trend Variability

## Total Drug Spend Guarantee

- ✓ Competitive Pricing
- ✓ Market aggressive “Minimum Aggregate Attachment Points”
- ✓ Protect against unexpected variability



# Pharmacy Savings Guarantee Basics

- The PSG provides market competitive rates with additional protection against unexpected drug utilization and unknown market factors
- The PSG is essentially a Pharmacy Stop Loss product
- Express Scripts actuaries will use the available drug spend data to underwrite an attachment point
- If the total drug spend exceeds the attachment point during the contract period, Express Scripts will reimburse the full amount exceeded by the client

# Pharmacy Savings Guarantee

## Example

### ■ Client demographics

- Fully insured
- 900 covered lives
- \$1 million current pharmacy spend
- Limited data available from carrier for analysis and management
- Premiums continue to increase

### ■ Client condition

- Find savings
- Aware of carve-out potential
- Hesitant in assuming risk

- Express Scripts willing to develop and financially back total spend corridor
  - \$1 million current pharmacy spend
    - New drug pricing
    - Programs that limit disruption and drive desired behavior
    - Newly assumed base spend target \$750,000
    - Client base spend ceiling of \$940,000
- Express Scripts covers next \$940,000 of drug spend
  - Ample protection and comfort for client
  - Essentially create \$250,000 in savings for client

# Key Takeaways

- Better data and analytics lead to better decisions
- Trend is comprised of two major components:  
market and behavior impacts
- Understanding PBM pricing is a critical component  
of managing drug trend
- Utilize best in class products

Clinical Programs

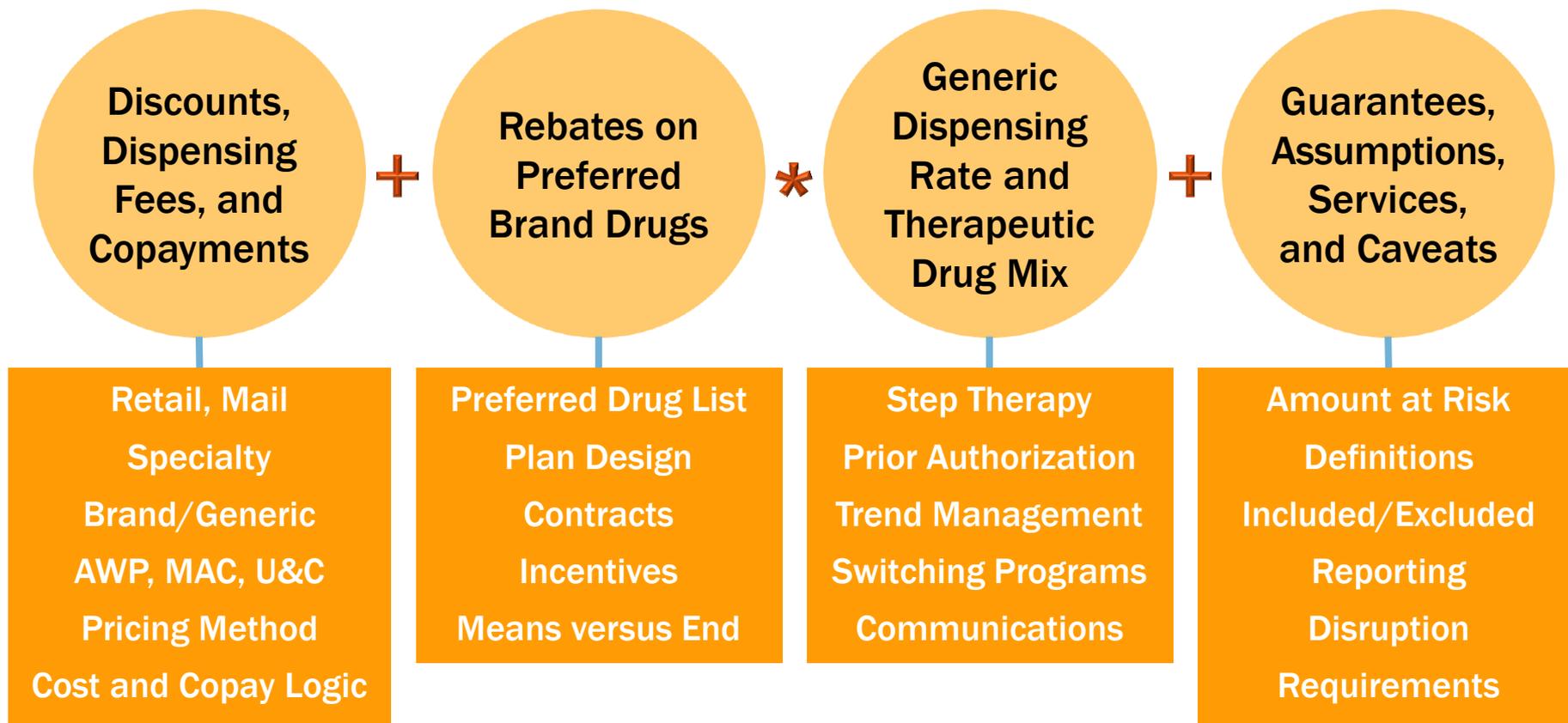
Trend Programs

Pharmacy Savings Guarantee

# Appendix

Understanding the Dynamics of Pricing

# “Optic” Opportunities in Every Stage of Pricing



≡ **Actual, Expected, or Guaranteed Cost?**

# Zero Balance Due Claims

## An illustration

	Rx1	Rx2	Rx3	Billed and Paid Total	(ZBD) Rx4	(ZBD) Rx5	All Claims Total
<b>AWP</b>	\$40.00	\$55.00	\$30.00	\$125.00	\$50.00	\$20.00	\$195.00
<b>MAC</b>	\$15.00	\$25.00	\$20.00	\$60.00	\$10.00	\$8.00	\$78.00
<b>Discount from AWP</b>	63%	55%	33%	52%	80%	60%	60%
<b>Copay</b>	\$12.00	\$12.00	\$12.00	\$36.00	\$12.00	\$12.00	\$60.00
<b>Balance</b>	\$3.00	\$13.00	\$8.00	\$24.00	\$ -	\$ -	\$18.00
<b>Net Cost Discount</b>	93%	76%	73%	81%	100%	100%	92%

