

AN INTERVIEW WITH DAVID DROSS, MERCER MANAGED PHARMACY PRACTICE LEADER

Specialty prescription drugs are driving up benefit costs every year. How can you protect your company and employees? Read more.



You've heard the stories about specialty drugs, and they're enough to make any employer shudder:

- \$4,000 a month for rheumatoid arthritis medication¹
- \$100,000 for a year of chemotherapy²
- \$84,000 for 12 weeks of hepatitis C treatment³

New drugs designed to treat chronic or complex health conditions, such as hepatitis C, cancer, diabetes or multiple sclerosis, are emerging every year. But these specialty drugs come with stratospheric price tags. Hepatitis C drugs, for example, can range from \$54,600 to \$94,500 for a 12-week course of treatment.⁴

Then there are the even more highly specialized drugs that are breaking the bank:

- Soliris[®], a drug used to treat a rare, life-threatening blood disorder, costs about \$440,000 per year per patient.⁵
- Spinraza[™], a medication to treat spinal muscular atrophy, will cost patients at least \$750,000 in the first year of treatment and \$350,000 per year afterward.⁶
- Glybera[™], a drug developed to treat a rare enzyme disease, was priced at \$1.4 million per patient.⁷

Even if all your employees are perfectly healthy, these specialty drugs still drive up your prescription benefit costs. Why? For one thing, prices like these set trends in the market. For another, even a few seriously ill people — or their family members — can sock your insurance carrier with hefty costs. The result: Everyone's premiums rise.

It might seem like you have no control over this phenomenon. But there are some strategies you can leverage. Read more about specialty pharmacy drugs and how you can protect yourself from their skyrocketing costs.

¹ Rubenfire A. "Rheumatoid Arthritis Drug Prices on the Rise." *Modern Healthcare* (April 1, 2016).

² Barlas S. "Are Specialty Drug Prices Destroying Insurers and Hurting Consumers?" *Pharmacy & Therapeutics*, 2014; 39(8): pp. 563-566.

³ Johnson CY, Brady D. "How an \$84,000 Drug Got Its Price: 'Let's Hold Our Position... Whatever the Headlines.'" *The Washington Post*, December 1, 2015.

⁴ "MassHealth to Pay for Hepatitis C Drugs for All Infected Members." *Boston Globe*, June 30, 2016.

⁵ Nordrum A. "Drug Prices: World's Most Expensive Medicine Costs \$440,000 A Year, But Is It Worth the Expense?" *International Business Times*, February 13, 2016.

⁶ Levisohn B. "Biogen: Starting the New Year Off With a Bang?" *Barron's*, December 29, 2016.

⁷ Ylä-Herttua S. "Glybera's Second Act: The Curtain Rises on the High Cost of Therapy." *Molecular Therapy*, February 2015; 23(2): pp. 217-218.

Q: How much are specialty drugs costing the United States each year?

David: Specialty drug costs are rising so much that some analysts worry they could bankrupt the American healthcare system. Here are just a few of the startling statistics:

- Specialty drugs alone have contributed 70% of the overall growth in pharmacy costs over the past five years, reaching an all-time high of \$160 billion in spend in 2016.⁸
- These drugs are expected to comprise half of all pharmacy costs by 2020, up from 40% today.
- Pharmacy costs jumped 10.2% between 2013 and 2014, driven mostly by a 19.2% spike in specialty drug costs.⁹

Here's another way to put it: 1.8% of all drugs make up 43.2% of all drug spending in the United States.¹⁰

Q: How are these costs affecting employers?

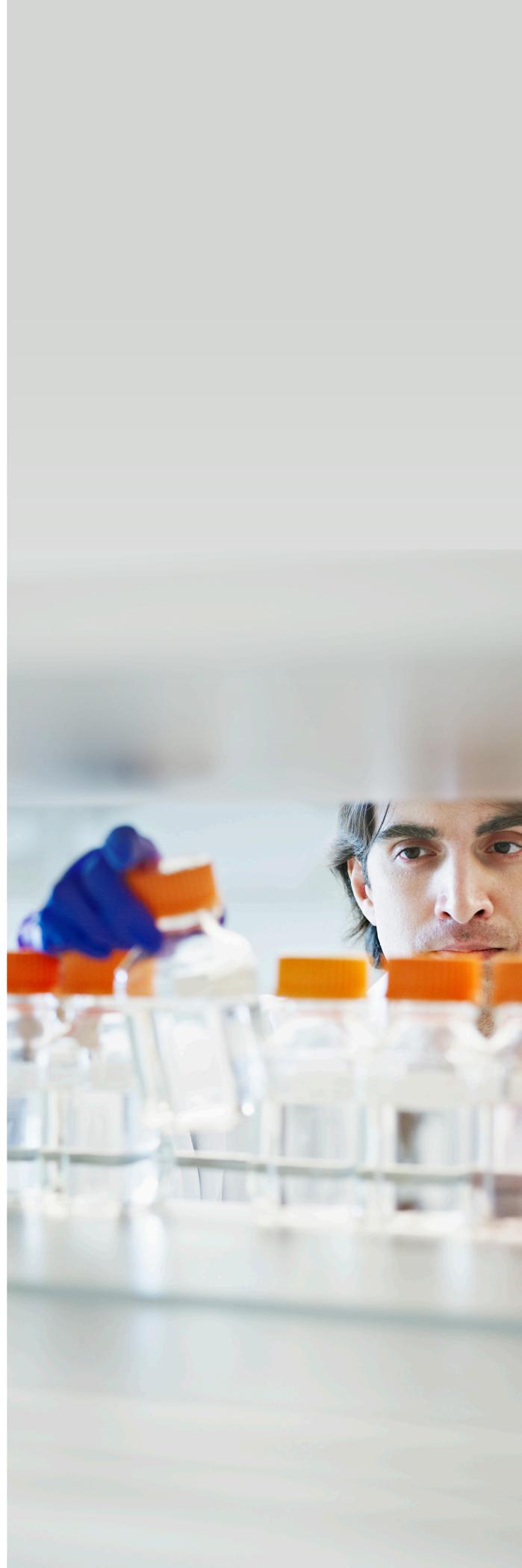
David: Have you ever seen a mixed martial arts match? It's something like that — getting hit, kicked and slammed at the same time. Some 32% of large employers reported an increase in their per-employee cost of specialty drugs in 2015. About 49% don't have a specialty pharmacy strategy in place.¹¹

That could hurt in the long run. With 40 to 50 new specialty drugs approved each year, specialty pharmacy costs are predicted to rise by \$25 billion annually for the next five years.¹²

Q: Does this mean large employers face the greatest costs?

David: Not necessarily. Even if you're not a very large company, you could get hit hard. One or two employees who suddenly require high-cost specialty drugs can create a dramatic spike in your premiums next year.

In fact, specialty pharmacy drugs cost employers roughly \$400 per member per year. And that number is not going down. It's expected to rise 15% to 20% annually by 2020.¹³



⁸ IMS Health National Sales Perspectives, Jan 2016. Includes oncology, autoimmune, viral hepatitis, multiple sclerosis, HIV antivirals, other specialty.

⁹ Mercer National Survey of Employer-Sponsored Health Plans, 2016.

¹⁰ University of North Carolina at Chapel Hill, 2014.

¹¹ Mercer National Survey of Employer-Sponsored Health Plans, 2016.

¹² IMS Health National Sales Perspectives, Jan 2016. Includes oncology, autoimmune, viral hepatitis, multiple sclerosis, HIV antivirals, other specialty.

¹³ Archimedes Drug Forecast, 2016-2020.

Q: How can businesses create a strategy for managing their pharmacy benefit costs?

David: The first thing you will want to do is conduct diagnostic analysis of both your medical and pharmacy plans to understand your baseline and identify opportunities. Then, with those results in hand, you will want take a look at four factors:

1. **Availability:** Which drugs are available at the lowest costs?
2. **Channel:** Where should employees get their medications? Which retailers and manufacturers offer the greatest discounts?
3. **Supplier:** How can you maximize your relationship with your pharmacy benefits manager (PBM)? For example, can your PBM supply marketing materials or campaigns that stress careful adherence to prescriptions? This could help your employees prevent health complications from occurring later.
4. **Care:** What other types of care (besides drugs) can help improve your employees' health? Can you offer benefits for chiropractic care and behavioral health, for example?

Q: Do all of these factors apply to specialty pharmacy drugs?

David: No, but making them all part of your strategy can help offset your costs. For example, if you have a benefits plan that requires patients to use generic drugs when medically appropriate, it could save your employees thousands of dollars — and keep your premiums from spiking.

Q: Let's say you employ about 1,000 people. Your "pool" is mostly young, so you don't anticipate big spikes in your drug costs. How important is it to watch your benefit cost trends?

David: Very. You don't want to be taken by surprise, and, remember, it takes only a few members to make costs spike. For example, one midsize employer recently received a tremendous shock when its pharmacy plan cost jumped by 30% in one year.

The company didn't have the time or resources to investigate, so it turned to a third party for help in finding the underlying factors driving the increase. The advisor helped put a strategy in place to deal with these factors.

If the company had had that partner in place to begin with, it might have avoided such a drastic cost hike. The third-party specialist might have foreseen the danger and steered the company toward a cost containment strategy.

Q: What if you already have a human resources specialist in place who's quite savvy about healthcare costs? Is an outside advisor really necessary?

David: An advisor can help on two other fronts:

- Staying ahead of legislative requirements — which are (a) fluid and unpredictable, (b) enormously complex and (c) capable of costing you a minor fortune if you're out of compliance
- Keeping abreast of all the emerging players in the pharmacy benefits market — and flagging the ones that can save you the most money and keep you well in front of the cost-savings curve

Q: What's the best way to find the right advisor?

David: Look for an advisor who can work across the entirety of the pharmacy supply chain to extract maximum savings, including:

- Offering both cost-saving strategies and excellent brokerage — don't settle for one who can sell you things but not save you money
- Understanding the business, tools, market and industry — ask potential advisors for references
- Having in-house experts in pharmacy, medicine, administration, finance, actuary, law and other important areas
- Being able to provide the same level of thought-provoking information and transparency as larger plans
- Offering proven communication techniques at enrollment and throughout the year
- Offering prescription drug purchasing coalitions for leverage in improving contract terms
- Implementing tools and choices that can help you select the most cost-effective therapies, plan management, supplier management, channel management and care management

Specialty drugs are a game-changer for those with complex and serious illnesses. But they're expected to drive up pharmacy prices for many years to come.

Don't be caught by surprise. Your company, regardless of its size, will be more competitive in the long run if you develop a proactive strategy to deal with these costs.

Thinking about your future specialty pharmacy costs? In just 8 to 12 weeks, Mercer's Managed Pharmacy practice could identify initial savings of up to 10% of your specialty spend.

Contact your Mercer consultant for a specialty pharmacy diagnostic today.

