High-Cost Drugs

The Growth of Prescription Drug Spending and How to Mitigate It

Spending on prescription drugs grew 9 percent in 2015 – faster than any other health care product or service – and accounted for 10 percent ($324.6 billion) of overall health care costs. While the rate of increase was slower than in 2014, what is staggering is that 52 percent of the growth came from price increases.1

Prescription drug price increases have drawn public ire and congressional attention, leading a number of manufacturers to pledge to hold price inflation to under 10 percent a year for their products. Given that some high-profile products have posted increases of 100 percent and more in recent years, that’s good news. But even a change to a 10 percent rate of inflation for pharmaceutical prices far outpaces other consumer commodities with the exception of gasoline. Concern about high price increases for potentially life-saving products is understandable and justified.

Frequent Price Hikes

Price increases for branded drugs have averaged 12 to 15 percent a year based on an analysis of the book of business for CVS Health pharmacy benefit clients. Price inflation has consistently been the top trend driver, even though brand drugs account for only a small portion of the drugs dispensed. An emerging trend in the last few years has been multiple price increases each year for branded drugs. In some categories, prices for competing products are raised in near lockstep.
Higher Prices for New Products

With much of the public focus being on price inflation for existing products, rising launch prices for new drugs are less often discussed. Yet the market has experienced an order-of-magnitude increase in launch prices over the past two decades, particularly among specialty drugs.

For instance, Sovaldi, the breakthrough hepatitis C treatment, was launched in 2014 at a cost of $84,000 for a 12-week treatment cycle. The next year, a breakthrough breast cancer therapy Ibrance was launched with a monthly price tag of $9,850. Yet another first-in-class drug to treat chronic lymphocytic leukemia, Venclexta, came to market at $109,500 for the first year of treatment.
Role of a PBM

As a pharmacy benefit manager (PBM), our role is to develop and implement strategies that help our clients control their drug spend. We use our expertise and scale to negotiate lower drug prices from manufacturers, recommend lower-cost, clinically appropriate alternatives through formulary management and work with our clients to help develop solutions that are right for their population.

We track market events and the drug pipeline continuously to identify factors that will drive costs for our payor clients as well as opportunities to help curb those costs. Market competition is critical, as shown by our clients’ experience with the hepatitis C therapies. Quick action when a competitor for Sovaldi was approved and launched benefited payors by helping cut the cost of a standard course of therapy by nearly half. While Ibrance is one of most expensive drugs on the market today, we are monitoring the progress of competitive drugs in the pipeline with the aim of reducing costs for payors as soon as they become available.

Over the past three years, we’ve been able to significantly reduce the impact of pharmaceutical trend for our clients. While unmanaged trend continues to grow at about 12 percent, the rebates and price protection that we negotiate with manufacturers, along with our utilization management and clinical tools, consistently helped protect our clients from bearing the brunt of that inflation.

The U.S. Food and Drug Administration (FDA) recognized each of these products as truly innovative, potentially offering substantial improvement over existing therapies. Biologic therapies and specialty drugs overall are expensive to develop, and many target rare diseases affecting relatively small patient populations. Nonetheless, these high-priced products are a huge challenge for a health system already heavily burdened by rising costs.

 CVS Health PBM Solutions Help Keep Payor Trend in Check

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<thead>
<tr>
<th>Year</th>
<th>Unmanaged Inflation and Utilization Impact</th>
<th>Post-Rebate Trend</th>
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<tbody>
<tr>
<td>2014</td>
<td>14.2%</td>
<td>11.8%</td>
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<tr>
<td>2015</td>
<td>12.4%</td>
<td>5.0%</td>
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<tr>
<td>As of Sept. 2016</td>
<td>11.8%</td>
<td>3.3%</td>
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Looking Ahead

In the last year, pharmaceutical pricing has become a focus of public attention, and that attention apparently has had some impact. Our analysis indicates that recent market events have already led to lower rates of inflation, but price increases are still a concerning trend.

In the current climate of change, it’s important to distinguish solutions that will support competition and lower prices. CVS Health actively supports market reform, and we participate in coalitions with various industry partners to advocate for policies to further bring down drug spend and trend.

We recently announced the launch of the Coalition for Affordable Prescription Drugs, of which CVS Health is a founding member. The coalition will lead a targeted and proactive effort to get facts on the table and address the real issues at the root of rising drug cost. It will:

- Represent American employers, unions and PBMs who are working to keep drug prices affordable for the people they serve in the private and public sector
- Deliver a strong, positive message to show how coalition members are working to lower prescription drug prices for millions of Americans
- Defend against misinformation and attacks to make sure the record is accurate and the narrative is balanced

Through all these efforts, we can help ensure that recent unsustainable launch prices and price hikes remain outliers and don’t become a trend that the health care system, and payors, cannot afford.

Jon Roberts
President, CVS Caremark