PlanDesign Strategy
Comparing a Medication’s Price to Effectiveness

Ever-higher drug launch prices are pushing spending on specialty drugs up even as more such drugs continue to be developed to treat non-specialty, chronic conditions. Many are so-called “me too” therapies – drugs that are similar to those already on the market, but do not provide new mechanisms of action or treat new indications. Yet, even me-too drugs routinely come to market at very high prices, set solely at the manufacturer’s discretion.

$178K
average annual price of the three most recently approved oral oncology drugs to come to market

$300K
-$500K
per quality-adjusted life year (QALY) for U.S. based on new drug launch prices

25.1%
annual operating margin for the top 15 pharmaceutical manufacturers

Cost-Effectiveness Plan Design

Until now, pharmacy benefit managers (PBMs), such as CVS Caremark, have had no ability to impact the initial launch price of a drug, which is set solely by the manufacturer. Our new plan design to exclude medications that exceed a certain threshold for cost per quality-adjusted life year (QALY) from the benefit is another tool our clients can choose to use as one of the ways to reduce the total cost of benefits.

We utilize cost-effectiveness research and analysis published by the Institute for Clinical and Economic Review (ICER) to determine coverage of high-cost drugs. Cost-effectiveness is measured as the QALY ratio — time added to a patient's life or improvement in the quality of life — or effectiveness of the drug to its price tag.

Our program:

✔️ Targets new drugs that come to market at a QALY ratio higher than $100,000
✔️ Applies to high-cost “me-too” drugs while continuing to include Breakthrough Therapies
✔️ Provides payors the choice to not cover drugs launched at high prices that DO NOT provide a significant incremental clinical benefit

CVS Health.
A pharmaceutical company can easily use the ICER value assessment to determine where the price of a drug should be set to ensure coverage and patient access. Some pharmaceutical manufacturers may still prefer to price their therapy high and risk limiting access. However, over time, as more payors adopt this program or ones similar to it, the logic of the market will dictate more reasonable launch pricing overall.

**What is a QALY ratio?**

Quantitative methods like QALY ratios are statistical value assessments, or analysis, of the incremental cost-effectiveness of a health care intervention compared to its cost.

**QALY ratios are a measure of a drug’s cost-effectiveness – not price**

The framework of these value assessments was created by ICER, and its purpose is “to form the backbone of rigorous, transparent evidence reports that, within a broader mechanism of stakeholder and public engagement, will help the United States evolve toward a health care system that provides sustainable access to high-value care for all patients.”

The intent of the program is not to say whether a particular drug is valuable or not, rather it is a matter of bringing the pharmaceutical industry to some sense of rationality around drug pricing. We want to help ensure appropriate access while encouraging manufacturers to initially price their drugs at what is widely seen as a reasonable value in health care. To do so, we have designed our program to only target new drugs coming to market at unsustainably high cost-per-QALY.

**QALY ratios and cost-effectiveness analyses take into account:**

- The cost of a drug
- The length of time it adds to a patient’s life
- The improvement in patient quality of life

To understand the precision with which we designed our program, consider what its impact would be if the cost-effectiveness plan design had been implemented in 2016:

- **119** total new drug approvals from 2016 to June 2018
- **84** non-Breakthrough Therapies with ICER evaluations
- **13** non-Breakthrough drugs with ICER evaluations
- **6** non-Breakthrough Therapies that exceeded the $100,000 per QALY ratio and would have been excluded based on ICER evaluations

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