Insightsbriefing

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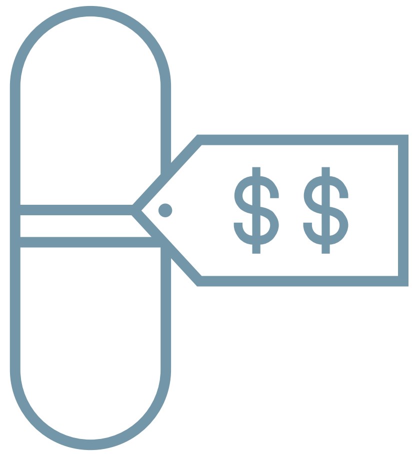

Paying for Drugs Based on Outcomes

Value-Based Pharmacy Management

In an earlier issue of *Insights*, we discussed an indication-based approach to value-based management. Other value-based management strategies include outcomes- and cost cap-based contracting approaches.

Manufacturers state that the high costs of prescription drugs are a return on investment for the research and development that goes into bringing these drugs to market and that the prices are justified because of their potentially life-saving characteristics. But paying high costs for drugs based on a pre-set static price tag is not sustainable.

Prescription drug pricing must align with the **effectiveness of a drug**, not the **manufacturer's perception of sales value**.

The need for a fee-for-performance system has gradually but surely been pushing health care toward a more value-based management approach, which requires manufacturers to align price to the effectiveness of a drug.

Outcomes- and cost cap-based contracting, like other value-based management approaches, present some challenges. However, each one helps us get closer to where health care needs to go: highest quality at the lowest net cost.

Outcomes-Based Contracting

Outcomes-based contracting strategies seek to maximize payor value by basing the reimbursement for a drug on the actual health outcomes it delivers. Consider diabetes, which is among the top trend drivers for payors. This therapy class includes many drugs with double-digit, year-over-year price inflation. Should such high price tags be justified regardless of whether a drug actually helped, for example, lower a patient's A1C level? If a drug does lower A1C levels, do the reductions meet a standard commensurate with the drug's price tag?

Under outcomes-based contracting, a manufacturer might be required, for example, to represent that A1C levels will be lowered by a certain percentage and in line evidence used for U.S. Food and Drug Administration (FDA) approvals. If that result isn't achieved, the manufacturers would be responsible for paying a larger rebate. This approach is still in its infancy and some of the challenges include determining the right outcome to measure and how to measure it. In addition, some drug classes lack a clinical marker that can be readily measured. The lag time between treatment and reliable outcomes data can also pose a potential hurdle.

Outcomes measures can vary by drug and disease state and include survival rates, side effects, quality of life and other similar measures. Adherence and the ability of patients to complete the course of therapy could also be factors in determining the drug's value.

CVS Health monitors research and available clinical trial data for a number of outcomes. Such data, and other information, can be used to determine "value."

For instance, if a patient drops off therapy or if a physician changes the prescription indicating that the patient couldn't tolerate the drug, a discount could be in order because the drug's effectiveness is clearly compromised. If a patient doesn't complete the set treatment course for a high-cost drug, like one to treat hepatitis C, the payor is not deriving the value of the drug and, therefore, could be entitled to a discount from the manufacturer.

Cost Cap-Based Contracting

Cost cap-based contracting is likely to be an important tool for therapy classes with large patient populations where a new drug comes to market at a much higher price tag than other drugs in the class. In such cases, CVS Health can negotiate formulary placement and a maximum per-member-per-month (PMPM) cost of the drug to clients. In addition to offering a favorable price and/or rebate, the manufacturer may also provide additional value if the PMPM cost exceeds the threshold.

Such an approach can also deliver value for therapy classes like oncology, which drove $4.1 billion in prescription spending in the U.S. from 2011-2016, with total cost increasing 88 percent during that period, in part because it is dominated by high-cost drugs. Oncology medications may also demonstrate vastly different outcomes and have other significant challenges, including side effects, adverse interactions and variations in tolerance. Prescribing patterns and preferences among oncology specialists can vary greatly.

A **cost cap-based contracting approach** could help mitigate payor risk through measures that encourage providers to prescribe the most clinically appropriate, cost-effective drugs with performance-based incentives.

By utilizing advanced technology tools, we can carefully monitor the regimen selection, duration of therapy, and use of generics and supportive agents. Another potential opportunity to control treatment costs for oncology is effective site-of-care management. Ambulatory infusion sites or at-home infusion are typically safer and more convenient for patients and lower cost for payors compared to outpatient facilities.

The CVS Health Difference

A number of value-based approaches and programs are emerging in the marketplace, many aimed at specific conditions such as hepatitis C, cancer, diabetes and some inflammatory conditions.

CVS Health takes a holistic approach. Our value-based management programs are targeted at the most costly and complex disease states, and aim not only to help control spend but also to help improve outcomes. The first of these, the Transform Diabetes Care program announced last year, delivers value for payors by focusing on appropriate drug use as well as targeted clinical support for patients to help achieve improved health outcomes. We will continue to develop innovative solutions for other complex, chronic disease states.

True **value-based management** means reaching for the highest quality of care at the lowest net cost.

When we look beyond the price tag, we uncover better health, which is key to reining in health care costs. That's good for payors and for patients.

Look for future issues of *Insights* for more on how payors can measure success and determine how well a value-based approach is working to help control their plan costs and ensure member access.

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