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Prescription Medicines: Costs in Context

Presentation to the New Mexico Legislative Health and Human Services Interim Committee

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August 10, 2022

Who is PhRMA?

The Pharmaceutical Research and Manufacturers of America

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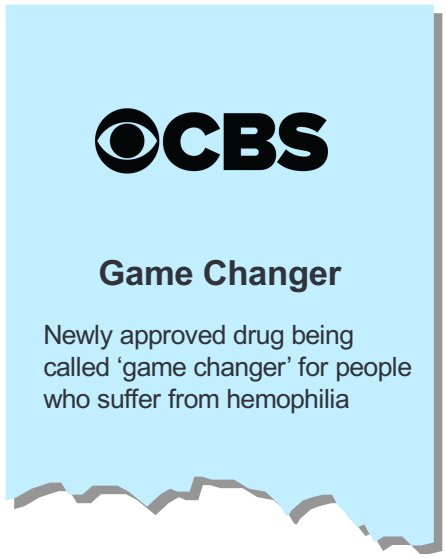
We are in a New Era of Medicine Where Breakthrough Science is Transforming Patient Care

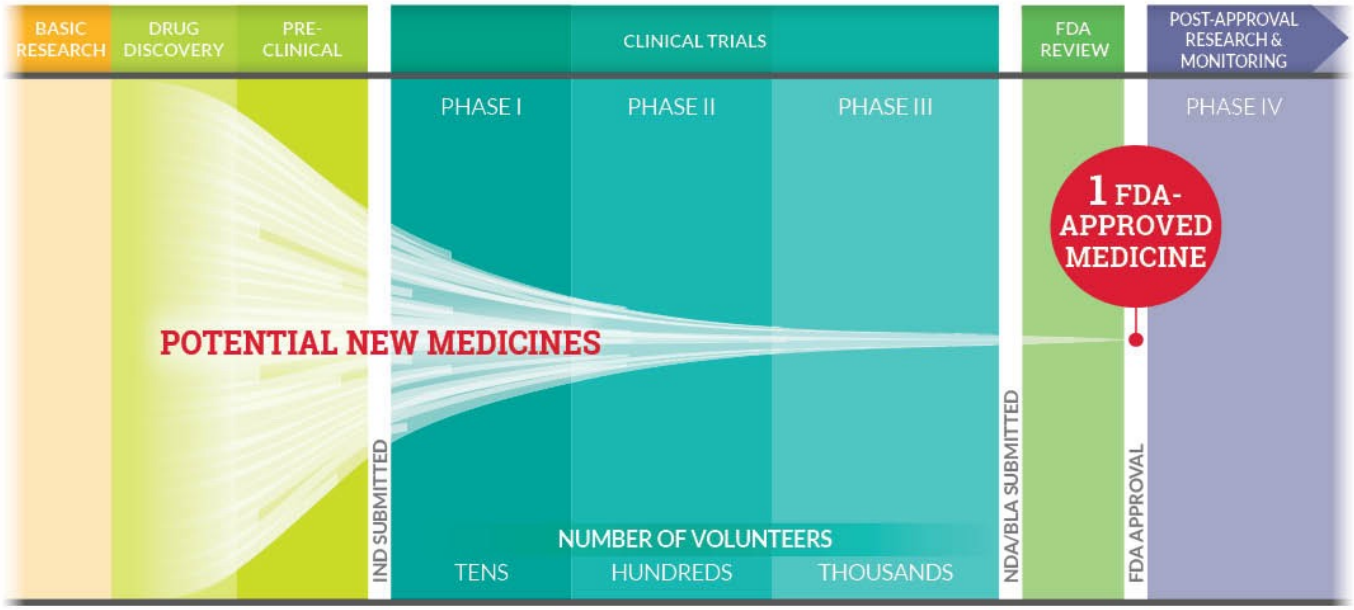
60 new medicines were approved by the FDA in 2021.



Source: US FDA. Center for Drug Evaluation and Research (CDER) Advancing Health through Innovation. 2021 New Drug Approvals.
Note: Due to lack of data availability, novel approvals are not inclusive of medicines approved by the Center for Biologics Evaluation and Research (CBER) in 2020.

The R&D Process for New Drugs Is Lengthy, and Costly, with a High Risk of Failure

From drug discovery through FDA approval, developing a new medicine takes, on average, 10 to 15 years and costs $2.6 billion. Less than 12% of the candidate medicines that make it into Phase I clinical trials are approved by the FDA.



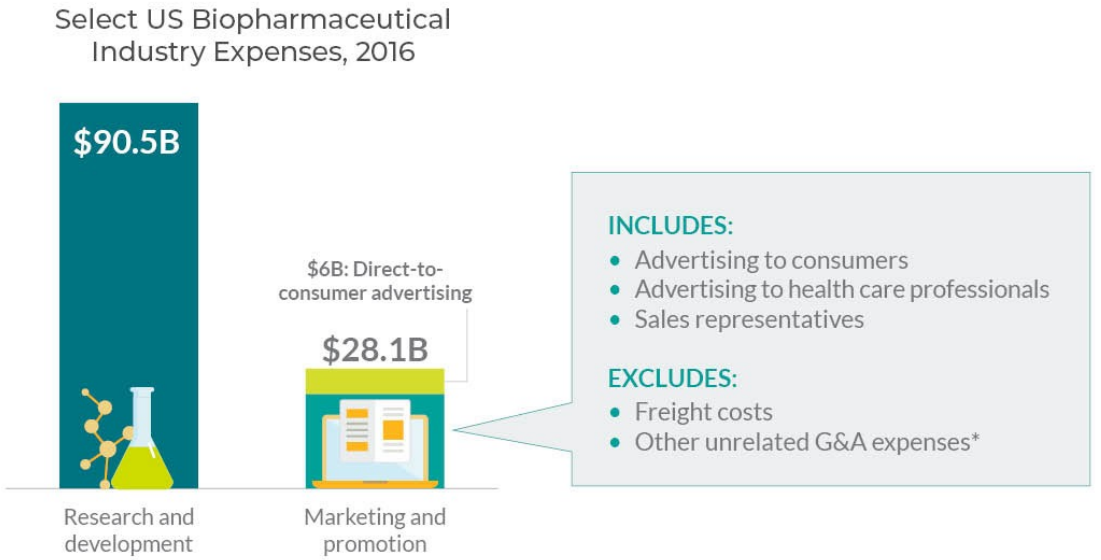
Key: IND=Investigational new drug application, NDA=New drug application, BLA=Biologics license application

*The average R&D cost required to bring a new FDA-approved medicine to patients is estimated to be $2.6 billion over the past decade (in 2013 dollars), including the cost of the many potential medicines that do not make it through to FDA approval.

Sources: PhRMA adaptation of DiMasi JA et al[12]; Tufts CSDD[13]; FDA[14]

Industry Actually Spends 3x more on R&D vs DTC

Inflated estimates of marketing and promotion spending has created the false impression that the biopharmaceutical industry spends more on marketing than on R&D. More precise estimates show the opposite to be true.



*Indicates general and administrative (G&A) expenses unrelated to marketing and promotion, such as finance and office staffs, rent, utilities, and supplies. Some have inaccurately used sales and G&A expenses as a proxy for industry marketing and promotion expenses.

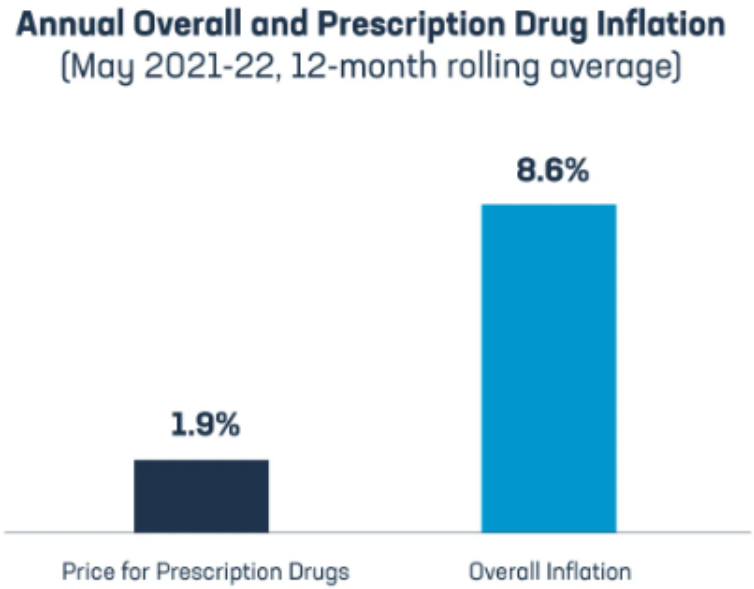
Schwartz LM, Woloshin S. Medical marketing in the United States, 1997-2016. *JAMA*. 2019;321(1):80-96.

Medicine Prices Fell and Medicine Spending Grew Under Inflation After Rebates and Discounts in 2020

Brand Medicine Prices	Medicine Spending
2.9% decline	**0.8%** increase

IMS Health & Quintiles are now IQVIA™

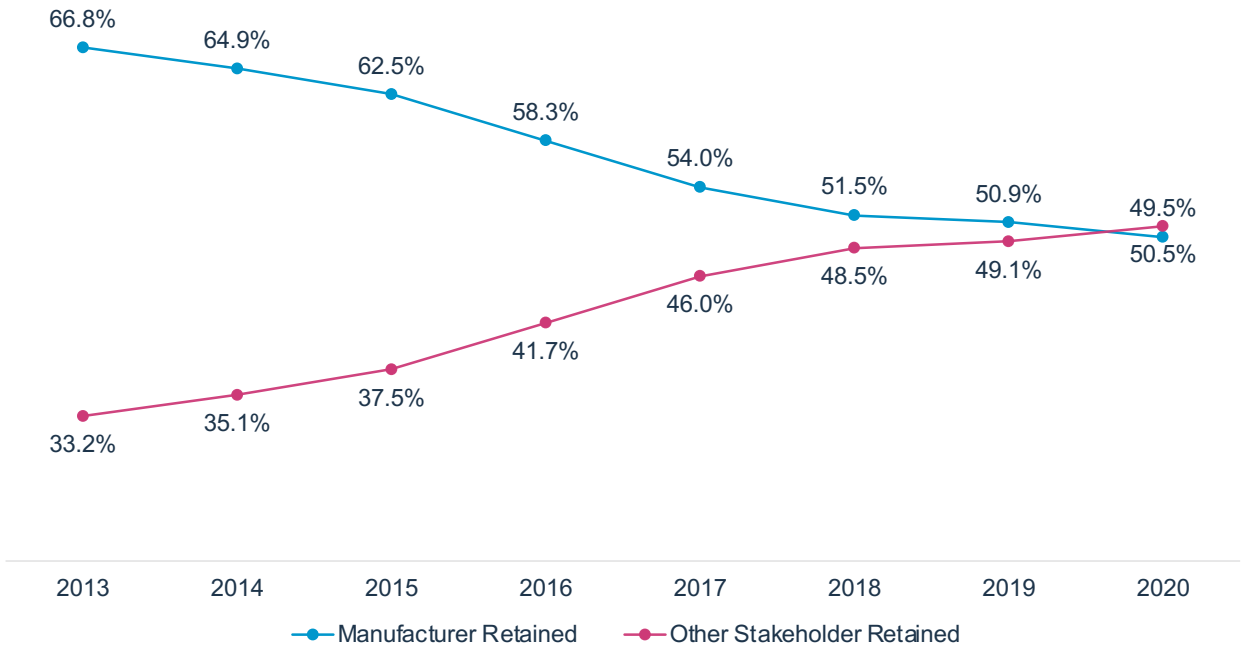
Medicine Prices Continued to Grow Below the Rate of Inflation in 2021



Source: Bureau of Labor Statistics (BLS). Consumer Price Index May 2022. https://www.bls.gov/news.release/archives/cpi_06102022.htm.

More than half of every $1 spent on brand medicines went to non-manufacturer stakeholders in 2020

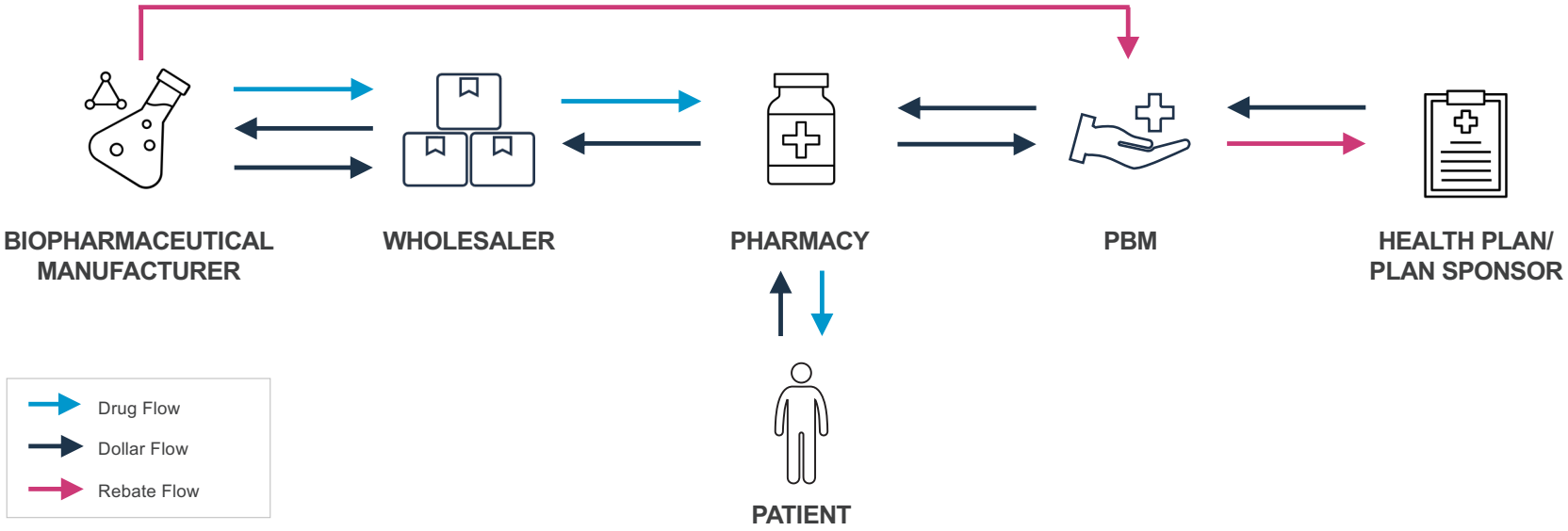
Total Brand Medicine Spending ($B) by Manufacturer and Other Stakeholders, 2013-2020



2020 marks the first year on record that the supply chain and other stakeholders received a **larger share of total brand medicine spending than the companies that developed them.**

Source: BRG Supply Chain Report 2013-2020. January 2022

Many Stakeholders Have a Role in the Prescription Medicine Supply Chain



Source: PhRMA, Nov 2017. *Follow the Dollar: Understanding How the Pharmaceutical Distribution and Payment System Shapes the Prices of Brand Medicines.*

Vertical Consolidation in PBM Market

1. Cigna partners with providers via its Cigna Collaborative Care program. However, Cigna does not directly own healthcare providers.
2. AllianceRx Walgreens Prime is jointly owned by Prime Therapeutics and Walgreens Boots Alliance.
3. Since 2020, Prime sources formulary rebates via Ascent Health Services. In 2021, Humana began sourcing formulary rebates via Ascent Health Services for its commercial plans.

Source: Drug Channels Institute research; Companies are listed alphabetically by insurer name.

This chart appears as Exhibit 210 in *The 2021 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers*. Available at http://drugch.nl/pharmacy

DRUG CHANNELS INSTITUTE

March 2021

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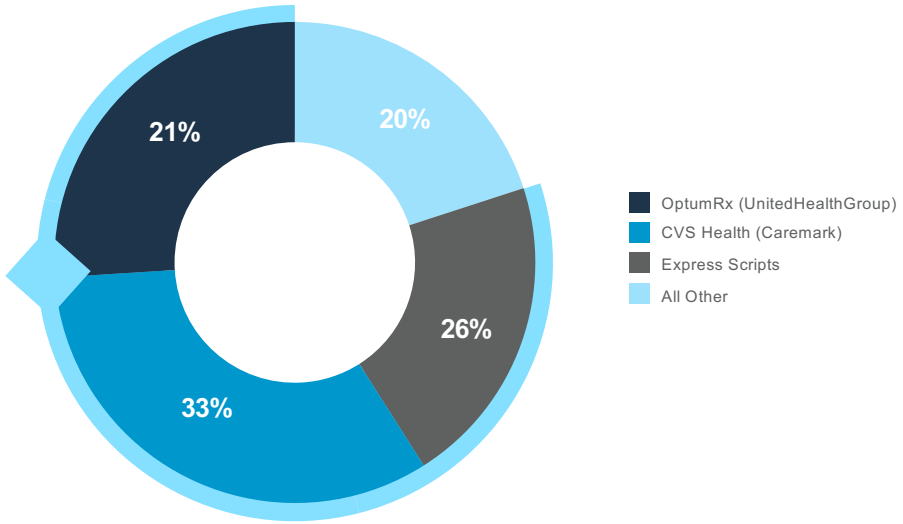
Insurers and PBMs Have a Lot of Leverage to Hold Down Medicine Costs

Negotiating power is increasingly concentrated among fewer pharmacy benefit managers (PBMs).

Top 3
Market Share:
80%



Insurers determine:

FORMULARY
if a medicine is covered

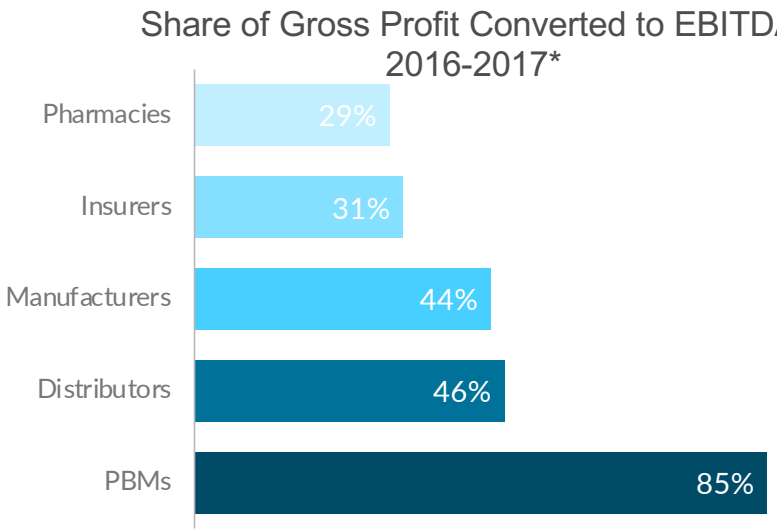
TIER PLACEMENT
patient cost sharing

ACCESSIBILITY
utilization management through prior authorization or fail first

PROVIDER INCENTIVES
preferred treatment guidelines and pathways

Source: Drug Channels Institute, March 2022.

PBM Profit Margins Are Well Above Others in the Medicine Distribution and Supply Chain



*Calculated as EBITDA (earnings before interest, taxes, depreciation, and amortization) margin divided by gross margin

> Analysts at Bernstein tried to get a better picture of how profitable these [supply chain] companies are by excluding the cost of the drugs that are included in their revenue. . . . By this analysis, pharmacy-benefit managers are exceptionally profitable."
>
> **Charley Grant, *Wall Street Journal***

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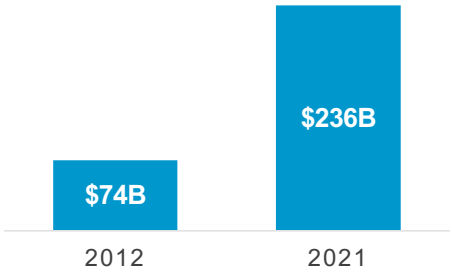
Source: Bernstein Research; NDP Analytics; Grant C

Rebates and Discounts Lower the Net Prices of Medicines

Increasing Discounts and Rebates

Rebates, discounts, fees, and other price concessions have tripled since 2012



Large Difference Between List and Net Prices

On average, a brand medicine's net price is

49%

lower

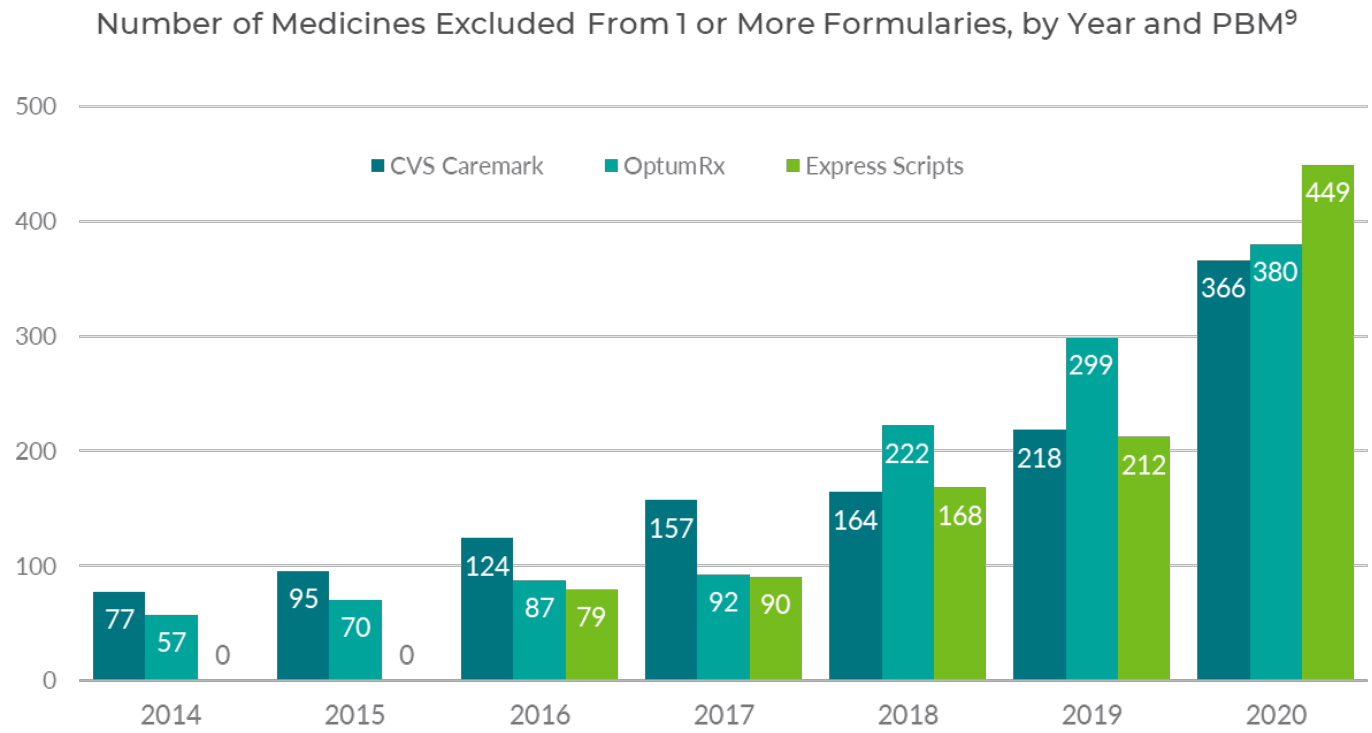
than its list price

Source: IQVIA. Use of Medicines in the U.S. 2022.

Note: Includes single-source brand medicines.
Source: Fein, A. "The 2021 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers," Drug Channels Institute. March 2021.

PBM Formulary Exclusions

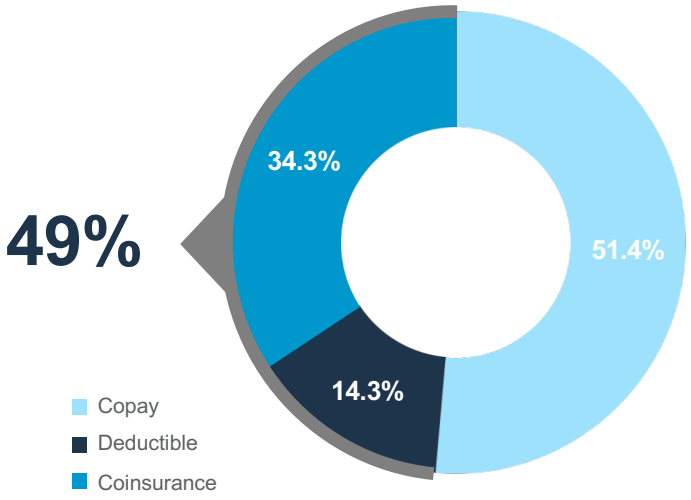
PBM actions can interrupt the continuity of a patient's treatment as well as their provider's ability to make prescribing decisions that best meet the patient's needs.



Sources: Tufts CSDD[8]; Xcenda[9]

Too Often, Negotiated Savings Do Not Make Their Way to Patients at the Pharmacy Counter

Half of commercially insured patients' out-of-pocket spending for brand medicines is based on the full list price

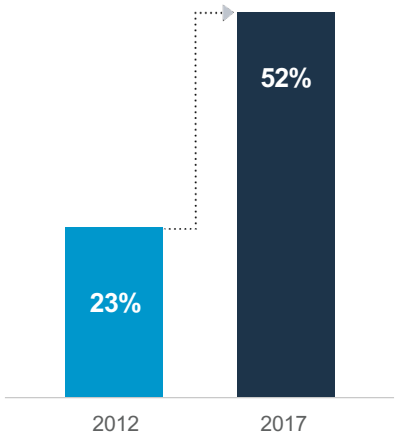


Cost sharing for nearly 1 in 10 brand prescriptions is based on list price

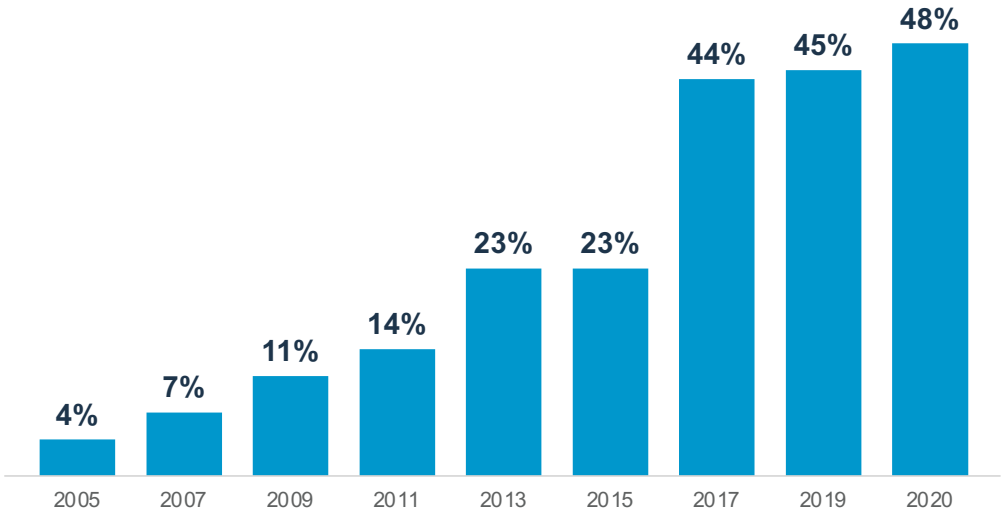
Source: IQVIA. August 2020.

Insurers are Increasingly Shifting Costs to Patients Through the Use of Deductibles and Coinsurance

Percent of plans with deductibles on prescription drugs



The use of four or more cost-sharing tiers is becoming more common on employer plans



Source: PWC, KFF

Trends in Employer Insurance Costs, 2010–20: New Mexico

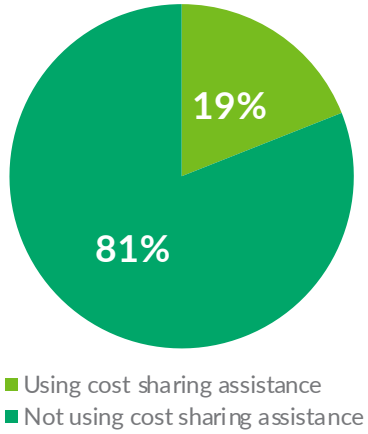
	Year				Average annual change		
	2010	2015	2019	2020	2010–20	2015–20	2019–20
Employee Premium Contributions & Deductibles — Weighted for Family Type Distribution (% of median income)							
Employee Premium Contribution[2]							
New Mexico	**$3,225 (7%)**	**$3,705 (8%)**	**$5,052 (10%)**	**$5,173 (11%)**	**4.8%**	**6.9%**	**2.4%**
United States	*$2,975 (6%)*	*$3,849 (7%)*	*$4,606 (7%)*	*$4,813 (7%)*	*4.9%*	*4.6%*	*4.5%*
Employee Deductible Costs[2]							
New Mexico	**$1,604 (4%)**	**$2,434 (5%)**	**$3,395 (7%)**	**$3,537 (7%)**	**8.2%**	**7.8%**	**4.2%**
United States	*$1,713 (3%)*	*$2,573 (4%)*	*$3,199 (5%)*	*$3,257 (5%)*	*6.6%*	*4.8%*	*1.8%*
Employee Premium Contribution + Deductible Costs[2]							
New Mexico	**$4,829 (11%)**	**$6,139 (13%)**	**$8,447 (17%)**	**$8,710 (18%)**	**6.1%**	**7.2%**	**3.1%**
United States	*$4,688 (9%)*	*$6,422 (11%)*	*$7,806 (12%)*	*$8,070 (12%)*	*5.6%*	*4.7%*	*3.4%*
Median Income							
New Mexico	**$44,000**	**$46,000**	**$48,620**	**$48,027**			
United States	*$51,410*	*$58,000*	*$68,063*	*$69,804*			

The Commonwealth Fund

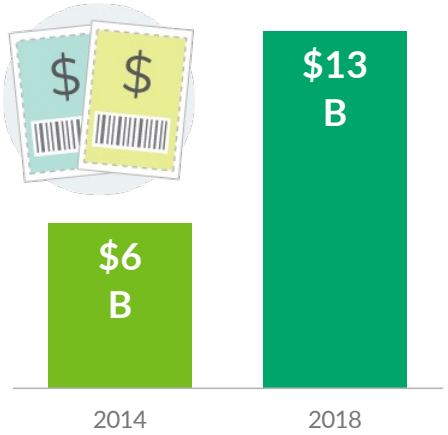
The Commonwealth Fund. January 12, 2020. State Trends in Employer Premiums and Deductibles, 2010–2020.

Manufacturer Cost Sharing Assistance Is an Important Source of Financial Help for Commercially Insured Patients

Percentage of Commercially Insured Patients Using Manufacturer Cost Sharing Assistance for Brand Drugs, 2018[16]



Manufacturer Cost Sharing Assistance Helps Commercially Insured Patients Pay Out-of-Pocket Costs[16]



PhRMA RESEARCH + PROGRESS + HOPE Source: IQVIA Institute[16]

PhRMA Created the Medicine Assistance Tool, or MAT, To Help Patients Navigate Medicine Affordability

MAT makes it easier for those struggling to afford their medicines to find and learn more about various programs that can make prescription medicines more affordable.

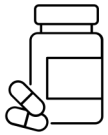
The Medicine Assistance Tool Includes:

A search engine to connect patients with

950+

assistance programs offered by biopharmaceutical companies, including some free or nearly free options

Resources to help patients navigate their insurance coverage



Links to biopharmaceutical company websites where information about the cost of a prescription medicine is available

Negotiations of Supplemental Rebates

Supplemental rebates could significantly reduce New Mexico's drug spending.

- Medicaid rebates are statutorily determined.
  - For brand name drugs, the rebate is 23.1% of Average Manufacturer Price (AMP) or the difference between AMP and the manufacturer's "best price"* for a drug, whichever is greater.
- SB253 (2002)[1] gave New Mexico the authority to negotiate supplemental rebate arrangements with manufacturers.
- 47 states and the District of Columbia participate in supplemental rebate arrangements with manufacturers.[2]
- Negotiating supplemental rebates in New Mexico Medicaid could save $6-12 million annually.[3]

*Best price is defined as generally the lowest price available to any wholesaler, retailer, or provider, excluding prices paid by certain government programs, such as the US Department of Veterans Affairs and discounts negotiated under Medicare Part D.

[1] NM Code: 2002 N.M. Laws ch. 105 (codified at N.M. Stat. § 27-2C-4(A)).

[2] Centers for Medicare and Medicaid Services (CMS). Medicaid Pharmacy Supplemental Rebate Agreements as of March 2022.

[3] Center For American Progress. Policies to reduce prescription drug spending. June 2019.

“Delinking” Supply Chain Compensation From the Price of Medicines Would Better Align Incentives in the System

Rather than receiving compensation based on the price of a medicine, supply chain entities should receive a fixed fee based on the services they provide.

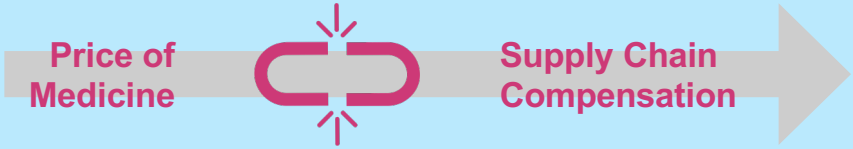
Today: Current System

Compensation for supply chain entities is often tied to the price of a medicine.

When the price of a medicine goes up, supply chain payments go up.

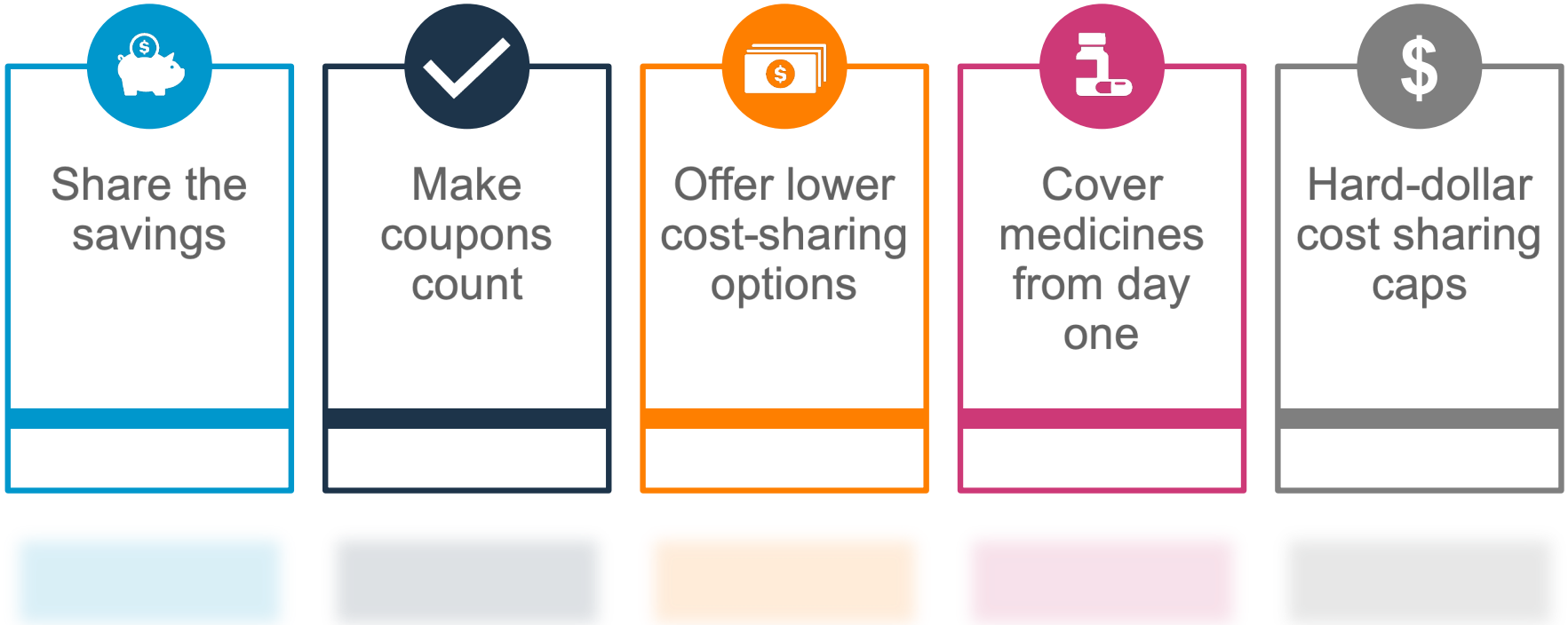
Tomorrow: With “Delinking” Reforms

Supply chain members receive fixed fees based on the services they provide.



No relationship between supply chain compensation and the price of a medicine.

Policies That Help *Patients Pay Less*



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