

Pharmacy Benefit News

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Commentary: Rx Spending Growth In 2016

US drug spend in 2016 grew at 4.8% to \$323b. This was less than $\frac{1}{2}$ of the rate in the prior two years when off-invoice discounts and rebates are factored into the calculation. Fewer than $\frac{1}{2}$ as many new drugs were launched than in 2014-2015 which contributed to the decline. The decline in new patients treated for Hepatitis C was also a factor.

The total use of prescriptions grew 3.3% over 2015, despite the reduced growth in 2016 and amounted to 6.1b in prescriptions dispensed. Net prices (including rebates and other manufacturer price breaks) increased an average of 3.5% in 2016 vs. 2.5% in 2015. Half of the total spending growth in 2016 was due to new medications for cancer, auto-immune diseases, HIV, multiple sclerosis, and diabetes.

What about the future? There are over 2,300 late stage novel products including more than 600 cancer treatments. As a result, net total spending is predicted to increase 2% to 5% through 2021. Total spend is expected to reach \$375b to \$405b.

These predictions are based on net spend including rebates and other discounts that do not show up in point-of-sale payments. Be careful how you interpret the information.

Source: QuintilesIMS

Analytics at Work: A Real World Example

Your Piece of the Pie

Problem:

A Health Plan CFO contact Pro Pharma with the request to produce an analysis of the payments for every penny spent on the pharmacy benefit every month. He explained that he wanted to cost-account for every dollar spent on the pharmacy benefit. A parallel analysis was also developed to match the drugs covered under the pharmacy benefit with the Specialty Rx covered under the medical benefit. Pro Pharma developed an analysis called "Market Share" for the impact of each drug, strength, dosage form, etc.

Methodology:

Pro Pharma set up analyses that accounted for every drug spent every month. The analyses included every drug by type (brand, generic, multisource, Specialty Rx, etc.), drug category, strength, dosage form, cost/unit, total drug cost, number of claims, PMPM, Rx PMPM, PUPM, RxPUPM, etc. The drugs were also compared by month-to-month and year-to-year cost and utilization changes.

Outcomes:

The CFO used the data to target high utilization, high cost variance, formulary coverage, rebate contributions, and alternative drug options. These analyses allowed the CFO to report to the C-level suite on targets for financial interventions as well as clinical counter-detailing. The CFO also used the analyses for predicting the impact of new therapies. The coordination of the pharmacy and medical benefits allowed the CFO to evaluate and predict total costs of care for every diagnosis, procedure and service across all locations-of-service.

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Commentary: Financial Pressures Increasing for Hospitals

There are about 5,564 hospitals registered with the American Hospital Association (AHA) as of May 2017. How does this impact cost break downs?

1. Adjusted total expenses per inpatient day were \$2,271 in 2015. This is a 106% increase from 1999.
2. The percentage of inpatient costs attributed to employee salaries, wages and benefits (SWB) is 60%.
3. Average percent increase in annual inpatient drug spend is 23% from fiscal year FY2013 to FY2015.
4. The average cost increase per hospital admission for private insurance in noncompetitive markets vs. markets with four hospitals is \$2,000.

What are hospitals doing? Hospitals are merging. There were 1,200 hospital mergers since 1994 with almost half occurring between 2010 to 2014. What should also be counted are the approaches to minimizing hospital admissions by ambulatory practices that prevent and manage chronic disease. Yet, this data is not commonly available.

Source: Modern Healthcare, 5/15/17

Commentary: Certificate Of Need (CON) Versus Price Transparency

The commentary above talked about what hospitals are doing to lower cost pressures. A broader movement is when states eliminate certificate-of-need laws (CON) and push for price transparency. CON laws regulate new health care facilities and services and require new providers to make their case for entry into the market. However, 15 states have eliminated the CON laws. Florida and West Virginia have introduced bills in 2017 to eliminate these laws.

The US Department of Justice and the Federal Trade Commission believe that the CON laws limit consumer choice giving incumbent hospitals a competitive benefit. What replaces the CON laws? Price transparency. States that eliminated CON laws require new specialty practices to submit performance, operations and volume data.

In Pennsylvania patients can look up data on cost and quality of care and performance data on providers and nursing homes. They also require licenses for certain procedures, and newly constructed inpatient facilities must maintain ERs to allow access for uninsured individuals.

States that have removed CON laws think that price transparency is a much better measure to drive quality than limiting access through CON. At its most fundamental this movement is another push for transparency to provide patients with more information as they are assuming a greater share of cost through greater copays and deductibles.

Source: Modern Healthcare, 4/11/17



MSA

Market Share Analyses™

Cost accounting for every penny spent is important to the Plan to allow for benefit planning, management of the overall spend, and prioritizing management objectives to the highest value therapeutic categories. Pro Pharma analyzes all spend every month to identify where every dollar is spent and by whom. Analyses include discounting for every category and medication.

Spend is analyzed by multiple criteria including bases of cost (e.g., AWP, WAC, MAC, ASP) and indexed by the population (PMPM, RxPMPM, PUPM, RxPUPM).

Important client benefits are –

- *Compare discounts to contract guarantees*
- *Prioritize targets for managing drug spend*
- *Assist with budgeting projections*

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Pro Pharma Pharmaceutical Consultants, Inc. has assisted payers and providers for over 31 years to maintain quality while controlling costs.

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