IN THE EYE OF THE BEHOLDER
A STRATEGY AND POLICY PERSPECTIVE
ON PRESCRIPTION DRUG PRICING

Kim Slocum and Jennifer Colamonico
Strategic Health Perspectives
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TODAY’S SPEAKERS

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Chair, Strategic Health Perspectives, Nielsen Healthcare
WHAT IS STRATEGIC HEALTH PERSPECTIVES℠?

Strategic Health Perspectives (SHP) is a U.S. health care intelligence service offering data-enabled and consultant-generated insights on key market trends.

- CONSULTANT industry experiences
- PRIMARY DATA from stakeholders
- MULTI CLIENT perspectives

SHP helps health care businesses better plan for the future by anticipating it.
THE PHARMA PRICING CONUNDRUM

INNOVATIVE TREATMENTS AND CURES...

increase in patient survival rates
higher life expectancy
halting disease progression
cure rates have almost doubled
treatment times have been cut

...BUT AT WHAT COST?

respondents said medication costs too much
because pharmaceutical companies set prices too high
compelling reasons...to consider price regulations for pharmaceuticals
Explain, explain, explain and disclose, disclose, disclose

WHAT IS THE “ACCEPTED WISDOM” OF PRICING?

Narrow “economics only” perspective (demand curve, ROI)

But the industry has other goals too

It is possible to “win the pricing battle and lose the policy war” with significant implications

Stakeholder views matter and will influence success or failure in broader policy discussions
“PATENT CLIFF” & EXPLOSION IN SPECIALTY SPENDING PUTS INDUSTRY IN THE SPOTLIGHT

Source: IMS Health, National Sales Perspectives, Dec 2014; U.S. Census Bureau; U.S. Bureau of Economics

![Graph showing Nominal Medicine Spending ($BN), Real Per Capita Spending Growth%, and Nominal Spending Growth% over time from 1995 to 2014. The graph illustrates the increase in spending and growth rates, with a notable decline in spending growth post-2009 and a recent rise in nominal spending.](Image)
THE CHANGING DYNAMICS TODAY
TRADITIONAL HEALTH ALLIANCES

Pharma manufacturers and health plans/PBMs historically have taken opposing stances in price negotiations.

**Silent Partners:**
Indirectly influenced proceedings, historically either neutral or supportive of Rx industry.
CHANGING HEALTH ALLIANCES

Stakeholders are shifting alliances, leaving Pharma more vulnerable as policy questions emerge
EMPLOYERS: IMPORTANT PAYERS FOR <65 POPULATION

Employers provide insurance to ~50% of Americans

Provide health benefits for ~150MM Americans—nearly all include Rx coverage

Concerned both about cost of health benefits and attracting/retaining qualified workers

Now facing a “floor” and “ceiling” on health benefits due to ACA provisions
  • 60% “actuarial value”
  • “Cadillac Tax” (2018)

Being advised by benefits consultants to pay close attention to Rx spending—especially for specialty Rx products
EMPLOYERS KEEPING TRACK OF SPENDING FOR SPECIALTY PHARMACEUTICALS

Tracking of specialty Rx spending has steadily increased

SOURCE: Strategic Health Perspectives, 2014 Employer Research, Nielsen Consumer Insights
EMPLOYERS MORE CONCERNED ABOUT SPECIALTY RX SPENDING

More concern than any time in past 5 years

CONCERN REGARDING SPECIALTY RX SPENDING
(Among Those Who Offer Specialty Drug Benefits)

<table>
<thead>
<tr>
<th>Year</th>
<th>Not at all concerned</th>
<th>Slightly concerned</th>
<th>Somewhat concerned</th>
<th>Very concerned</th>
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<tr>
<td>2010</td>
<td>19%</td>
<td>46%</td>
<td>24%</td>
<td>25%</td>
</tr>
<tr>
<td>2011</td>
<td>5%</td>
<td>46%</td>
<td>45%</td>
<td>5%</td>
</tr>
<tr>
<td>2012</td>
<td>5%</td>
<td>45%</td>
<td>35%</td>
<td>16%</td>
</tr>
<tr>
<td>2013</td>
<td>7%</td>
<td>37%</td>
<td>35%</td>
<td>27%</td>
</tr>
<tr>
<td>2014</td>
<td>8%</td>
<td>33%</td>
<td>33%</td>
<td>33%</td>
</tr>
</tbody>
</table>

SOURCE: Strategic Health Perspectives, 2014 Employer Research, Nielsen Consumer Insights
EMPLOYERS CONFLICTED ON EMPLOYEE COST SHARING

About half (51%) of employers agree that cost sharing is an important tool AND that they have reached their limit on their ability to ask employees to pay.

Cost Sharing as an Important Tool
- Employees will accept paying more if given tools to be healthier: 70%
- Cost sharing is an important tool to encourage employees to make smarter health care choices: 80%

Cost Sharing as a Burden
-Reached the limit on ability to ask employees to pay more out of pocket: 63%
- Don’t want to burden employees with higher cost sharing, but it’s the only way to afford health insurance benefits: 68%

SOURCE: Strategic Health Perspectives, 2014 Employer Research, Nielsen Consumer Insights
EMPLOYERS WANT ACCESS TO INNOVATIVE RX PRODUCTS

Believe government involvement may be needed

AGREEMENT ON PHARMACEUTICAL INNOVATION

The government is going to have to play a role in ensuring that innovative medicines are affordable for both employees and employers

86%

Employers can no longer bear the cost burden of paying for expensive medicines, no matter how valuable they are

71%

SOURCE: Strategic Health Perspectives, 2014 Employer Research, Nielsen Consumer Insights
CONSUMERS: THE ULTIMATE DRIVERS OF ELECTIONS AND HEALTH POLICY

“Squeezed and frustrated”

- Increasingly asked to direct their own healthcare
- Often lack sufficient knowledge or financial resources to do so
- Growing frustration at the system—including biopharma
- Attitudes may empower other stakeholders to take action
CONSUMERS FEEL LESS EMPOWERED AND ACCEPTING OF THEIR HEALTHCARE

NEUTRAL 28% 24%
RESIGNED/ GIVEN UP 15% 17%
POWERLESS 23% 31%
DEPRESSED 11% 14%
ANGRY 14% 18%

8% 37% 62% 43% 52%

“Borderline” consumers are even more negative

SOURCE: Strategic Health Perspectives, 2015 Consumer Research, Nielsen Consumer Insights
LIMITED LIQUID ASSETS TO PAY BILLS

A large and growing proportion of consumers lack the liquid assets to pay their deductibles

HOUSEHOLDS WITHOUT ENOUGH LIQUID ASSETS TO PAY DEDUCTIBLES
(Non-elderly, private insurance)

<table>
<thead>
<tr>
<th>Income Range</th>
<th>All Households</th>
<th>100% - 250% FPL</th>
<th>250% to 400% FPL</th>
<th>Over 400% FPL</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>24%</td>
<td>55%</td>
<td>35%</td>
<td>11%</td>
</tr>
<tr>
<td>$23,550 to $58,875</td>
<td>35%</td>
<td>68%</td>
<td>51%</td>
<td>19%</td>
</tr>
<tr>
<td>$58,875 to $94,200</td>
<td>35%</td>
<td>51%</td>
<td>19%</td>
<td></td>
</tr>
<tr>
<td>$94,200+</td>
<td>11%</td>
<td>19%</td>
<td></td>
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</table>

RX OUT OF POCKET COSTS INCREASED FOR NEARLY 40% OF CONSUMERS

The increase is significantly more than last year, yet a small but significant number are seeing Rx costs decrease.
SIGNIFICANT SUPPORT FOR PRICE CONTROLS
Not just for biopharma—but for hospitals and even physicians as well

LEVEL OF SUPPORT FOR HEALTH INSURANCE COVERAGE IN U.S. FOR CONSUMERS UNDER AGE 65

- Price controls or caps on pharmaceutical/medical device manufacturers: 72%, +8
- Price controls or caps on hospitals: 68%, +7
- Price controls or caps on physician payment: 70%, +5

SOURCE: Strategic Health Perspectives, 2015 Consumer Research (June), Nielsen Consumer Insights
CONSUMERS’ VIEWS

Actions Congress and the president should take with regard to healthcare

Drug pricing is in the cross-hairs with consumers

“Government action to lower prescription drug prices” (Percent Support)

60% 51% 57% 68%

SOURCE: Kaiser Health Tracking Poll: April 2015
HUGE MAJORITY FAVOR ALLOWING CMS TO NEGOTIATE DRUG PRICES FOR MEDICARE

SUPPORT FOR VARIOUS CHANGES TO MEDICARE, BY AGE

“Allowing the federal government to negotiate with drug companies to get a lower price on medications for people on Medicare” (Percent Agree)

- Age 18-54: 88%
- Age 55-64: 88%
- Age 65+: 83%

SOURCE: “Medicare and Medicaid at 50” Kaiser Family Foundation 7/17/15
PROVIDERS: A TRADITIONALLY POWERFUL INDUSTRY ALLY

“Taking risk and getting worried about costs”

Industry’s strongest traditional supporter

Now being asked to manage population health and manage resources efficiently

See problems patients face in paying for care—including Rx

Increasingly willing to support government action against biopharma
COST OF BIOLOGICS MOST ACUTE THREAT FOR HOSPITALS/HEALTH SYSTEMS

BIGGEST THREAT TO HOSPITALS IS:
Escalating costs of biological/injectable drugs

- NOT A THREAT | 21%
- MINOR THREAT | 45%
- MAJOR THREAT | 35%

SOURCE: Strategic Health Perspectives, 2015 Hospital Executive Research, Nielsen Consumer Insights
PHYSICIAN ATTITUDES ABOUT BIOLOGICS

Most physicians agree that pharma companies provide value through R&D, willing to do whatever it takes to get innovative medications for their patients.

86%
Pharmaceutical companies are providing a value to society through **innovative medicines that are prolonging life**

61%
Government is going to have to play a role in ensuring that innovative medicines are affordable for **both patients and payers**

SOURCE: Strategic Health Perspectives, 2015 Physician Research, Nielsen Consumer Insights, Level of Agreement with Statements on Biologic Injectable (% Somewhat/Strongly Agree)*
BIOLOGIC COST A BARRIER TO TREATMENT

Physicians report that cost to the patient is sometimes a barrier to prescribing biologics

PATIENTS WHO CANNOT AFFORD BIOLOGIC/INJECTABLE TREATMENT
(As Reported By Physicians Who Prescribe Biologics)

Often/Sometimes combined: 58%

<table>
<thead>
<tr>
<th>Year</th>
<th>2012 (n=327)</th>
<th>2013 (n=399)</th>
<th>2014 (n=424)</th>
<th>2015 (n=338)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Often</td>
<td>12%</td>
<td>9%</td>
<td>12%</td>
<td>14%</td>
</tr>
<tr>
<td>Rarely</td>
<td>46%</td>
<td>45%</td>
<td>51%</td>
<td>49%</td>
</tr>
<tr>
<td>Never</td>
<td>27%</td>
<td>32%</td>
<td>28%</td>
<td>22%</td>
</tr>
<tr>
<td>Never</td>
<td>9%</td>
<td>11%</td>
<td>6%</td>
<td>7%</td>
</tr>
</tbody>
</table>

SOURCE: Strategic Health Perspectives, 2015 Physician Research, Nielsen Consumer Insights
**"COST OF R&D" JUSTIFICATION FOR DRUG PRICES**
Does not stand up to close scrutiny

**SUPPORT FOR VARIOUS CHANGES TO MEDICARE (BY AGE)**
Average profit margins of five main industrial sectors, 2013

<table>
<thead>
<tr>
<th>Industry</th>
<th>Highest</th>
<th>Lowest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pharmaceuticals</td>
<td>42</td>
<td>10</td>
</tr>
<tr>
<td>Banks</td>
<td>29</td>
<td>5</td>
</tr>
<tr>
<td>Car Makers</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>Oil and Gas</td>
<td>24</td>
<td>2</td>
</tr>
<tr>
<td>Media</td>
<td>18</td>
<td>6</td>
</tr>
</tbody>
</table>

**SOURCE:** Forbes
Note: Highest/lowest profit margins achieved by individual company
THE VALUE ARGUMENT IS STRONGER, BUT THERE ARE MANY SLIPPERY WORDS

“Where you stand depends on where you sit” – Miles Law

Value  Quality  Safety  Outcome  Cost

“Value=Health outcomes achieved per dollar spent” (Porter)

The missing term in the equation — “Relevance”
DRUG PRICING IS NO LONGER A “ONE-WAY BET”

Executives must now walk a fine line

Consequences can be unpleasant

Even in the absence of formal price controls

Potential damage
SO WHERE DO WE GO FROM HERE?
SCENARIOS FOR CHANGE

**SCENARIO**

**CONSUMER BLOWBACK**
- Escalating costs shift burdens which eventually will no longer be masked by “cost sharing support programs”

**RESULT**
- Biopharma becomes a political target. CMS gets power to negotiate Rx prices for public sector (best case) or for all payers (worst case)

**VALUE-LIGHT HEALTHCARE**
- Bipartisan support for pushing financial risk to providers will grow, but infrastructure to measure “value” and administer such contracts will not

**RESULT**
- Drugs will be seen as a cost rather than an investment. Providers become “rationers in chief” and use unit cost as primary determinant of how patients are treated

**BERWICKIAN NIRVANA**
- “Enlightened” risk shifting to providers, supported by agreed definitions of “value” and robust supporting architecture

**RESULT**
- Biopharma takes clinical risk for payment, highly effective products continue to do well and are reimbursed accordingly and products without compelling value proposition compete on price
WHICH WAY FROM HERE?—“PLAY THE LONG GAME”

“Third party payment is the mother’s milk of medical innovation” —without it, there is no modern biopharma industry—so don’t break the bank

Broaden your focus on pricing decisions  
Identify and track the strategic issues for key stakeholders  
Spend heavily on direct-to-consumer discounting to support demand (short-term)

“How value” is king – how are we measuring it?  
New biopharma industry business models needed (i.e. risk sharing)

Build infrastructure, Remove obstacles
THE FUTURE CAN STILL BE BRIGHT

In the new world, innovation in science must be matched by innovation in commercialization and pricing practices

- Groundbreaking medications are still valued
- Views of “silent partner” stakeholders can still be influenced
- Willingness to meet industry half-way if industry is willing to engage in problem-solving discussions
DIFFERENT QUESTIONS INFORM NEW STRATEGY

Stated “likeliness to use or prescribe” is increasingly irrelevant to actual behavior

**THE PAST**

**Prescribers:** are they likely to write, recommend your brand?

**Patients:** are they likely to use, ask doctor for your brand?

If not... just tell your story better

- New messages and ads
- More sales reps

**THE FUTURE**

**Prescribers:** are they likely to advocate for your brand, direct staff to use resources to help patients get access to your brand?

**Patients:** are they willing/able to pay a higher copay, or use specialty pharmacy?

If not... tell a better story

- Which patients got better results with branded product, got helped with access and support programs
- How product is helping health systems reduce costs
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