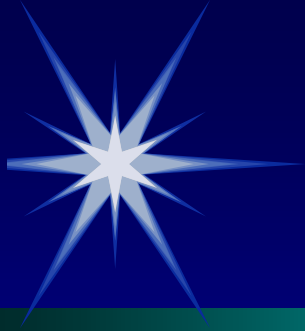


HEALTH INSURER STRATEGIES FOR MANAGING BIOTECH COSTS

Professor James C. Robinson
University of California, Berkeley



OVERVIEW

- Challenges posed by biotech, devices
- Contemporary cost control strategies
 - Choice of product
 - Product prices
 - Site of care
- Future directions for strategy



COST CHALLENGES

- Costs/premiums rising 3X increase in economic productivity, wages
- Employment-based insurance eroding
- Medicare, Medicaid payment cutbacks?
- Insurers must moderate cost trajectory



Technology Challenges

- Most of cost growth is due to innovation
 - New biologics, medical devices, oral drugs
 - New procedures, sites of care
 - This is (mostly) good stuff
- Hence no easy wins against inflation
- Focus on inappropriate use patterns, excessive prices, misaligned incentives
- Searching for new strategy



Challenges and Strategies for Biologics, Injectable Drugs

- Choice of product
 - Formulary, prior auth, step therapy
 - Consumer insurance benefit design
- Unit prices
 - Price negotiations with manufacturers
 - Distribution: specialty pharmacy
- Site of care



Choice of Product: Challenges

- Innovation: 350 biologics in Stage 2,3 trials
- Extensive off-label use
- Use of biologic when cheaper drug effective
- Vendor marketing
 - Physicians: detailing, consulting, etc.
 - Patients: DTC advertising beginning



Choice of Product: Strategies

- Formulary management
 - P&T review of comparative efficacy
 - FDA only focus on efficacy v. placebo
 - Cover all on-label (FDA approved) uses
 - Prior authorization by diagnosis, specialty
 - Step therapy with oral drugs, other treatments
 - Limit off-label use to registry, RCT patients?



Choice of Product: Benefit Design

- General trend towards cost sharing
 - Deductibles, Health Savings Accounts
 - Three tiered formulary copays
- For injectibles, fourth tier with coinsurance
- Out-of-pocket annual maximum?
- Reverse insurance: “limited benefit plans”



Biologics Prices: Challenges

- Prices for biologics set at “value-based” levels, with origin in need to cover R&D costs for “orphan drugs”
- Now for common, chronic conditions
- Few therapeutic equivalents, no generics
- Manufacturers unwilling to discount prices
- Price mark-up by MDs: “buy and bill”



Biologics Prices: Strategy

- Negotiate prices where possible
 - Specialty pharmacy volume purchasing
 - Limit formulary or use PA (RA, MS, hep C)
- Limit MD price mark-up
 - Shift from “buy and bill” to specialty pharmacy
 - Pay same price (cost-based) regardless of site
 - Encourage self-administered over office drugs



Biologics Site of Care: Challenges

- Biologics moving from research to community settings
 - Cheaper than hospital OPD
 - Variable capabilities to infuse drugs, report data, use EHR, support patients
- Hospitals, some physicians consolidating to raise prices, protect markups



Biologics Site of Care: Strategies

- Insurers generally support community providers (MD practices, home infusion) as alternative to hospital outpatient dept.
- Fear that efforts to limit mark-ups will drive office-injectibles to outpatient dept.
- Continuing concern over consolidation



Future Options: Better Data

- Better coding is the basis for studies of use
- Data on use are the basis for studies of outcomes
 - Drug non-response, adverse effects, cost-effectiveness
 - Device failure, recalls, repeat procedures
- Outcomes data are the basis for guidelines
- Guidelines are the basis for studies of patterns of appropriate/inappropriate use



Future Options: Financial Incentives

- Price discounting may emerge in crowded therapeutic niches
 - Anti-immune disease, multiple-sclerosis?
- Increased consumer cost sharing may increase social pressure on prices
- Medicare Part D coverage may increase social pressure on prices