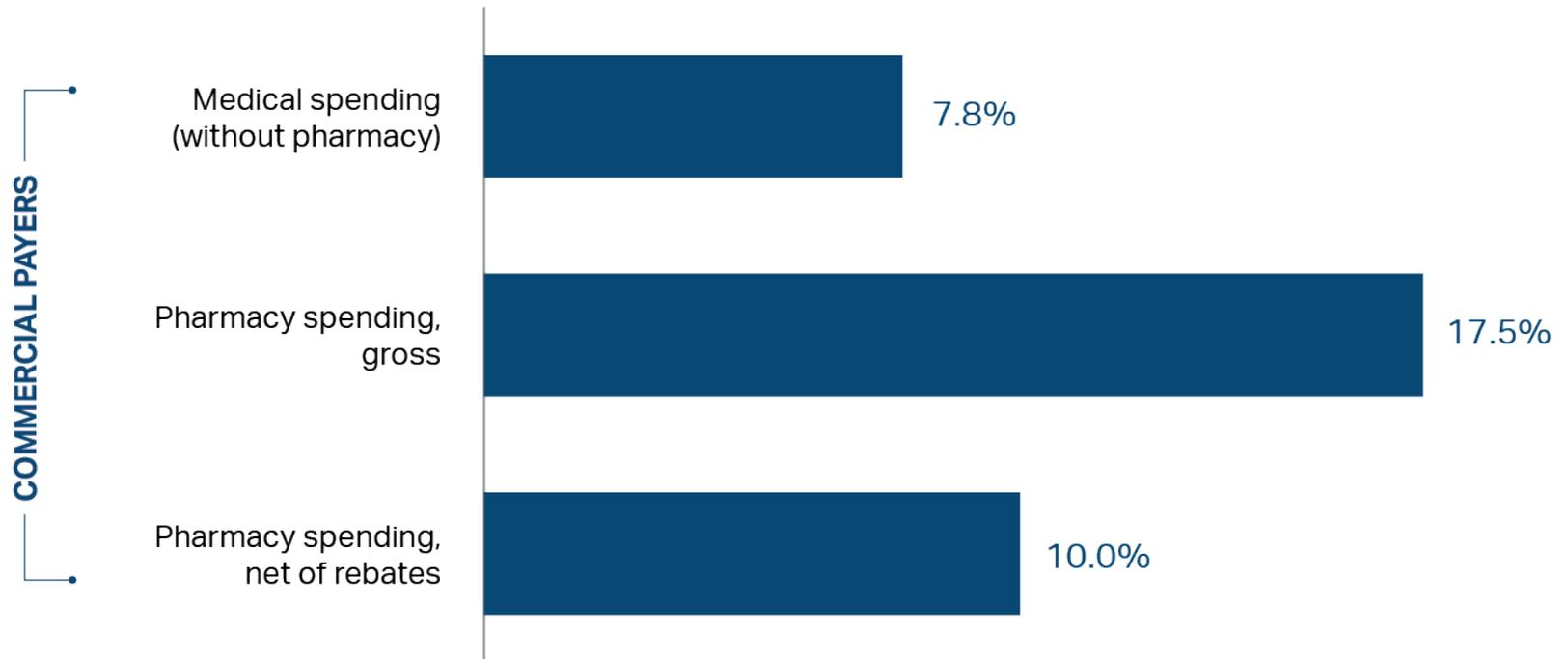


For commercial payers, pharmacy spending growth exceeds medical growth over recent years

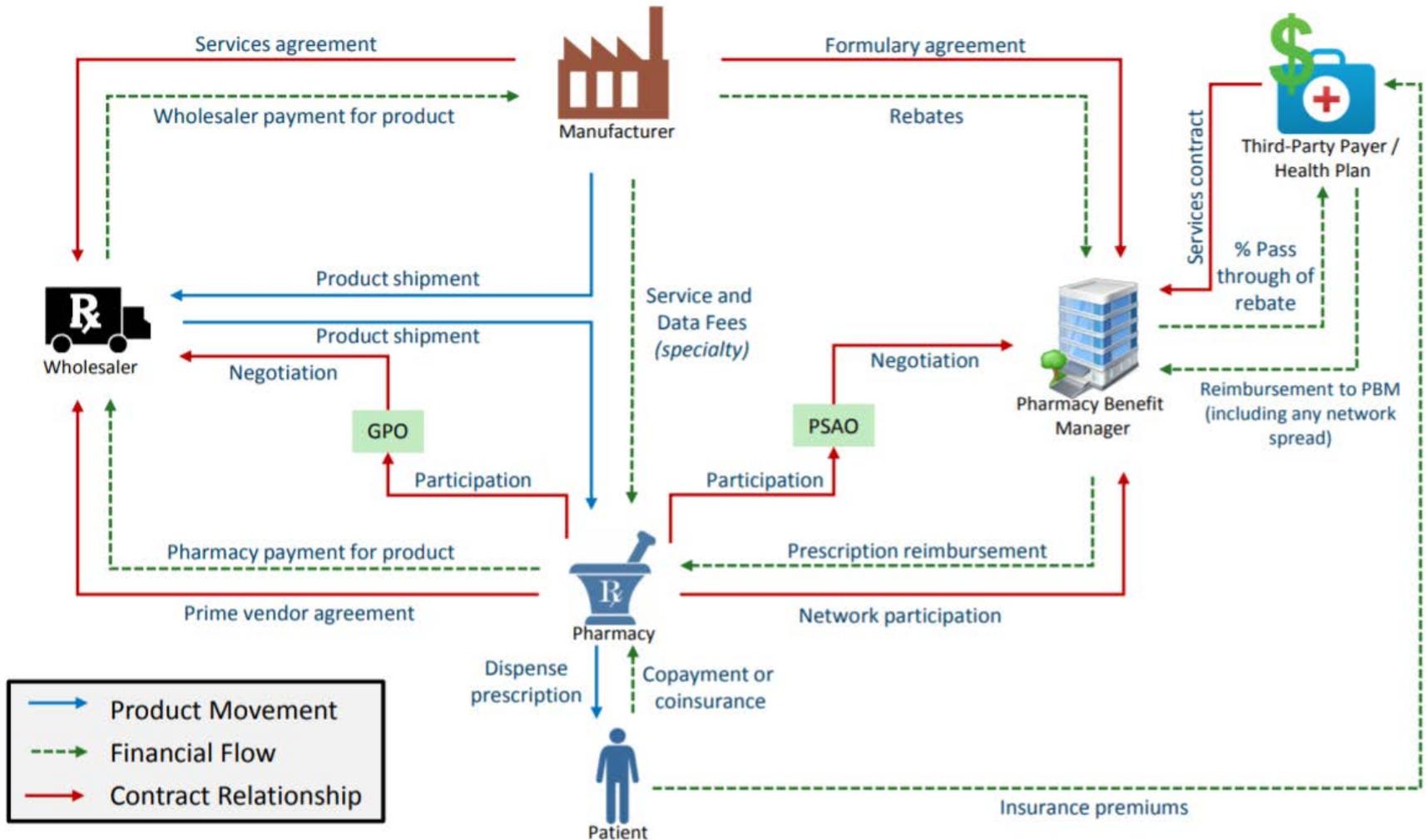
3 year cumulative spending growth per member per month for commercial payers (full claims), 2015 – 2017



Net of rebates, prescription drug spending (pharmacy only) represented 17% of health care spending for commercial payers in 2017

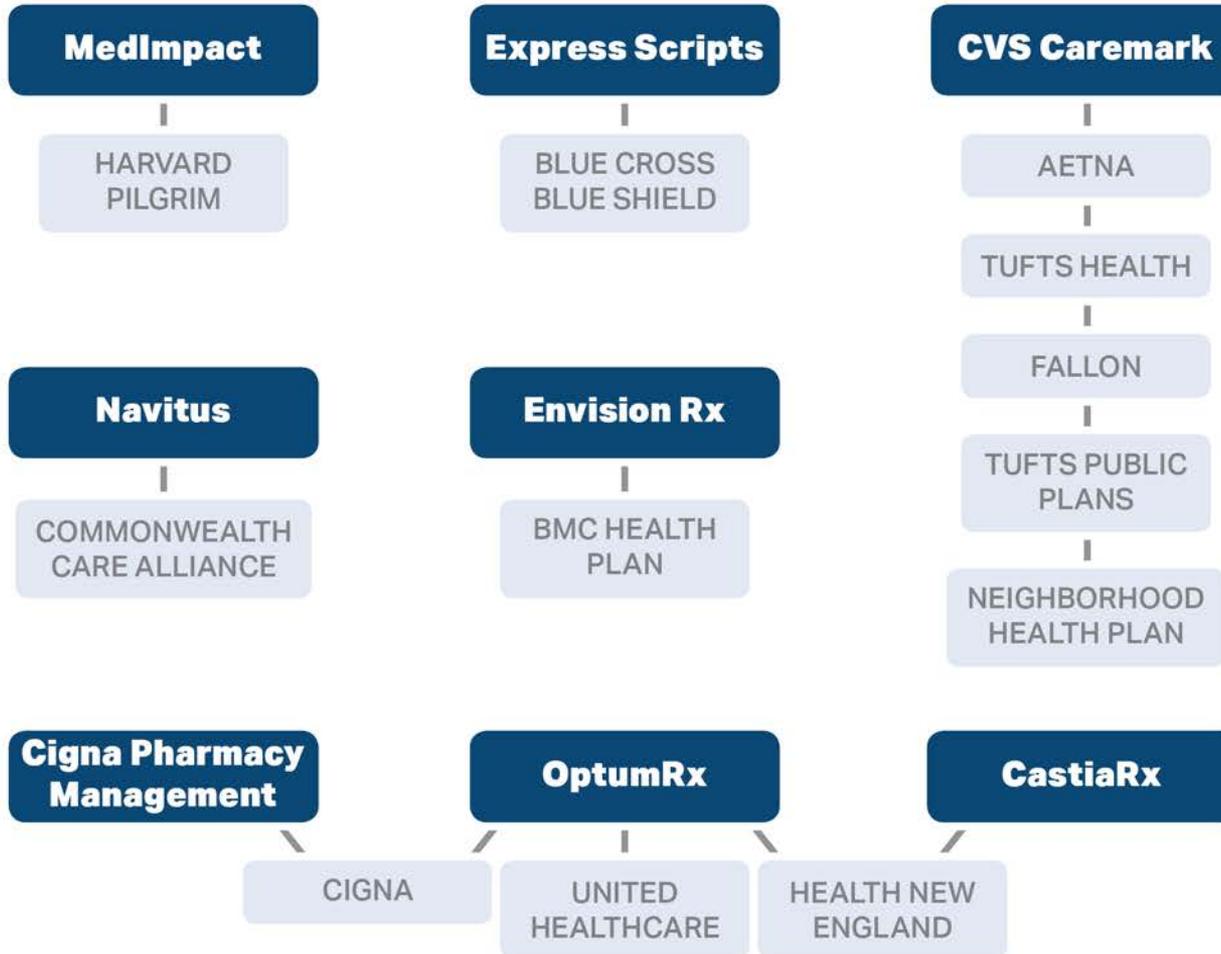
The complexity of the drug distribution and sales chain illustrates the need for transparency and action at many levels

Flow of drug products, services, and funds for drugs purchased in a retail setting*



* Notes and Source: Fein, Adam J., The 2018 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers, Drug Channels Institute, 2018. Chart illustrates flows for patient-administered, outpatient drugs. GPO = Group Purchasing Organization; PSAO = Pharmacy Services Administrative Organization

Multiple pharmacy benefit managers (PBMs) contracting with different health plans for a variety of functions adds to the complexity in MA



PBMS PERFORM A VARIETY OF FUNCTIONS FOR THE 12 PAYERS SURVEYED

12
pharmacy contracting

12
pharmacy claims processing

11
negotiate prices and discounts with drug manufacturers

11
negotiate rebates with drug manufacturers

7
provide clinical management care programs to clients

5
develop and maintain the drug formulary

Drug spending a top concern for payers and providers

In pre-filed testimony (PFT), most payers (12 of 14) and half of providers (17 of 35) listed **rising pharmaceutical costs as a top area of concern** for the state's ability to meet the cost growth benchmark, with an emphasis on prices including:

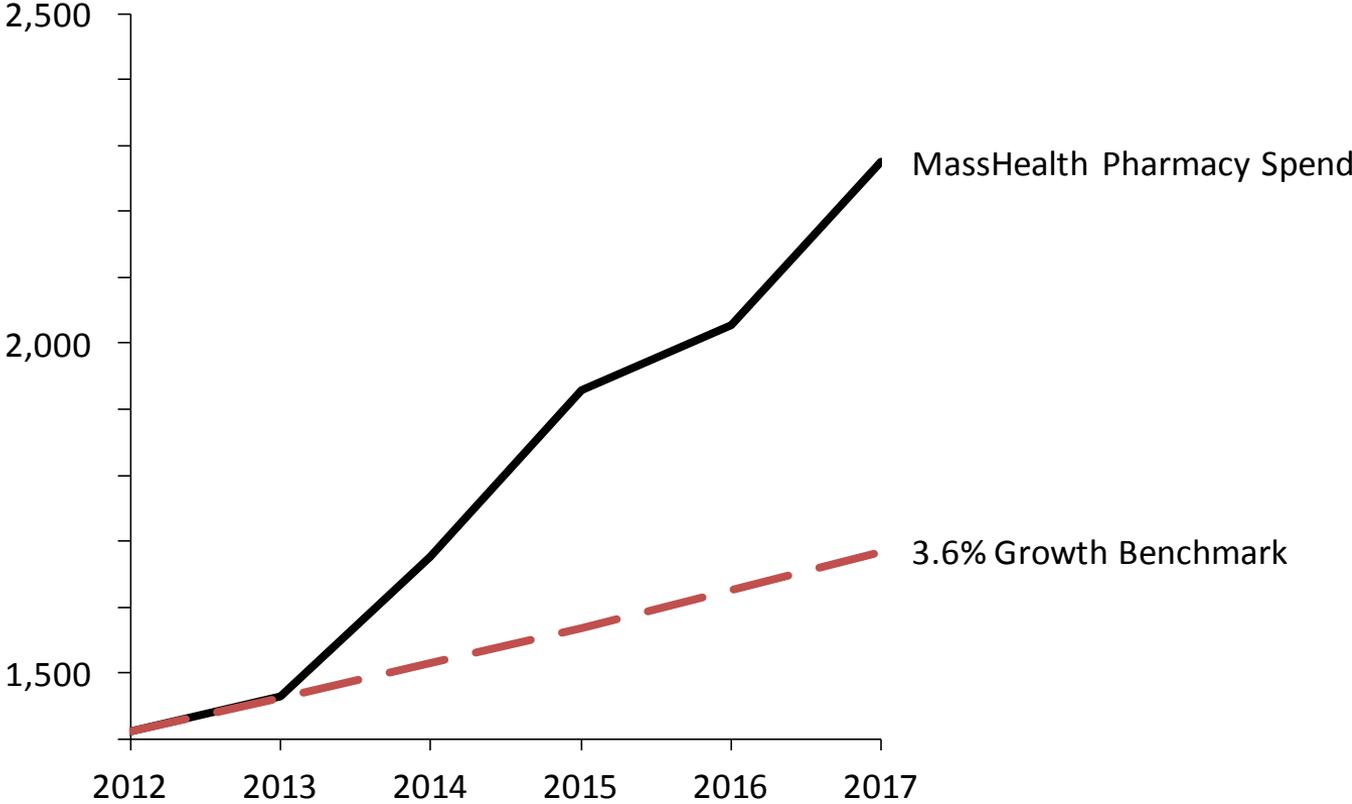
- High prices for new, specialty drugs
- Price increases for existing drugs

Payers and providers recommended numerous strategies to contain cost growth, such as:

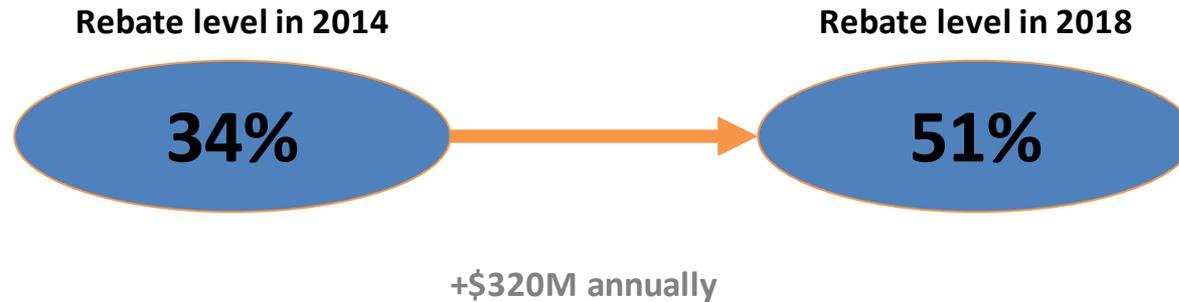
- Maximize high-value, low cost drugs through **formulary design**, prior authorization requirement for certain high-cost drugs
- Greater availability of biosimilars and generic specialty drugs
- Increasing **competition and transparency from manufacturers and pharmacy benefit managers**, e.g., notice and rationale for price increases
- Enhancing government oversight and monitoring of market tactics: “evergreening”, “pay-for-delay”, “product hopping”
- Promote clinical guidance on appropriate prescribing and **best practices for medication adherence** and medication reconciliation for complex patients

MassHealth Rx spending has grown \$900M over 5 years

MassHealth pharmacy spend
\$ Millions



MassHealth has emerged as a national leader in pharmacy cost management



Initiatives

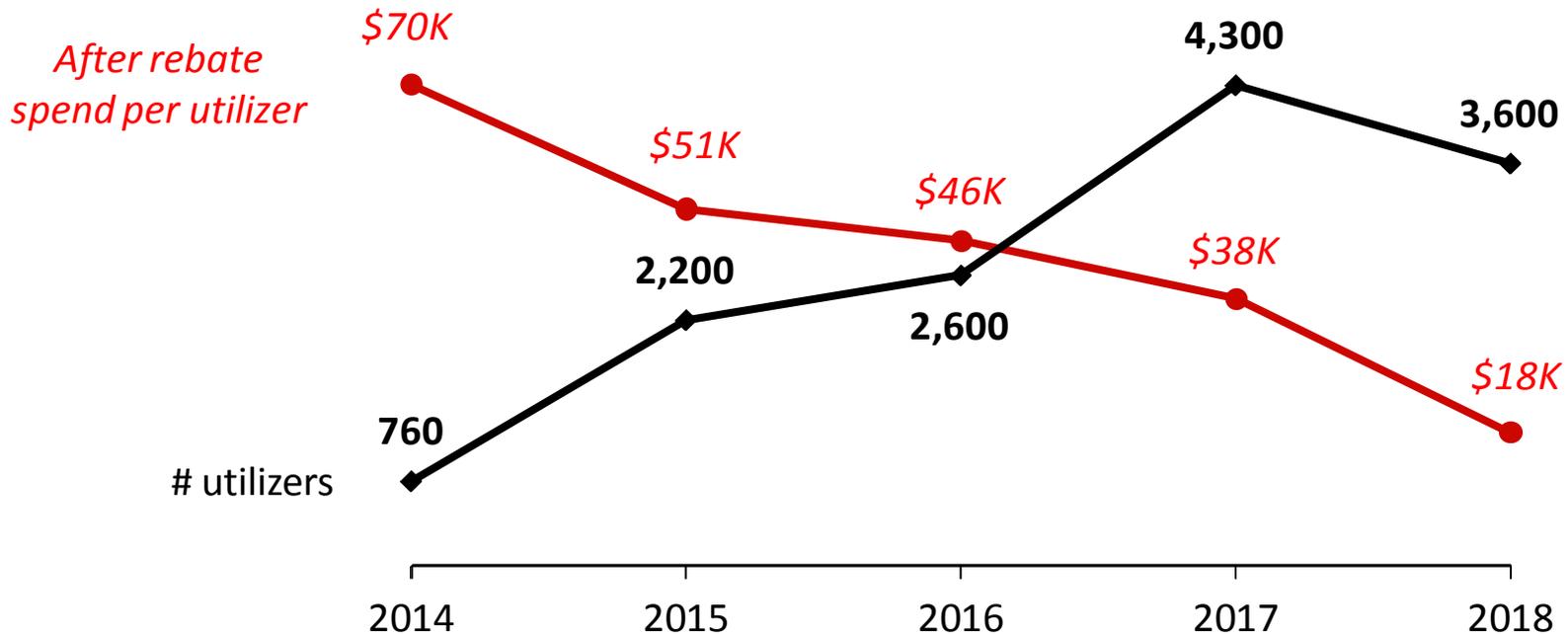
- Aggressive rebate negotiations has led to +\$320M annually
- Established preferred drug list
- Leveraged purchasing power to expand rebates



The Positive Effect of Competition: Hepatitis C drug example

MassHealth Hep C net spend per utilizer & utilizers

\$ spend, # utilizers



Drug Launches

No competition	Some competition	High competition
GILEAD (1)	GILEAD (2) abbvie (1) MERCK (1)	GILEAD (3) abbvie (2) MERCK (1)

Reaction Panel 3

Strategies to Address Pharmaceutical Spending Growth



MASSACHUSETTS
HEALTH POLICY COMMISSION

Reaction Panel 3: Strategies to Address Pharmaceutical Spending Growth

Panelists

Ms. Sarah Emond, Executive VP and COO

Dr. Rochelle Henderson, VP of Research

Ms. Amy Rosenthal, Executive Director

Mr. Daniel Tsai, Assistant Secretary for MassHealth

Ms. Leslie Wood, Deputy VP for State Policy

Institute for Clinical and Economic Review

Express Scripts, Inc.

Health Care For All

Executive Office of Health and Human Services

PhRMA

Goals

Building off the preceding expert presentation, the goal of this panel is to discuss emerging policies and strategies that can be implemented at the state level to promote greater affordability and value in pharmaceutical spending. Focus areas will include: enhancing the transparency of pharmaceutical prices, promoting value-based contracting and pricing, establishing high-value formularies, improving consumer affordability, supporting innovation, and understanding the role of pharmacy benefit managers.