CareForum 2022

The WellSky® Conference

Emerging Trends For Payers

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Agenda

- Medicare Advantage market
- Commercial and ACA markets
- Prescription Drug market

Medicare Advantage

The emerging dominance of Medicare Advantage

Medicare Advantage is likely to have more enrollees than FFS by end of decade

- MA plans offer extra benefits—dental, vision, OTC, wellness, etc.
- MAPD plans have lower premiums than FFS + MediGap + Part D
- The market is highly concentrated and has huge marketing / sales capabilities
- The parent firms (holding companies) are huge and profitable

What makes MA so successful?

- Increase income by “optimizing” risk adjustment—finding more diagnoses than FFS increases federal payment above FFS *(unquestionable)*
- The benchmark includes the induced utilization of MediGap / supplemental insurance, which has been estimated at 20% *(some debate over how much)*
- Selection of healthier risks via benefit designs (less certain than a. and b.)
- Selection of healthier risks by profiling providers for inclusion in network *(some debate over how much)*

Future of Medicare FFS: Death spiral of adverse selection

- As MA attracts more lives and better risks, the worse risks in FFS will increase per-capita FFS spending
- As FFS spending increases, the benchmarks increase, which increases federal payments to MA plans
- Higher payments to MA plans can fund more generous supplemental benefits, which will attract more beneficiaries.
    - MA benefits addressing SDoH (housing, food, etc.) may be seen as part of safety net.
- Larger MA plans will have more negotiating power with independent providers

Dominance of MA: Implications

- Providers will continue to consolidate to build negotiating power
- Private equity will fund physician consolidation as they can pay owners above-(traditional) market and marginalize earlier career physicians
- Supply chain will become more consolidated and powerful, which will lead to shortages
- Prices will increase as waste is converted into profits
- Anti-monopolists may focus on healthcare

Commercial and ACA

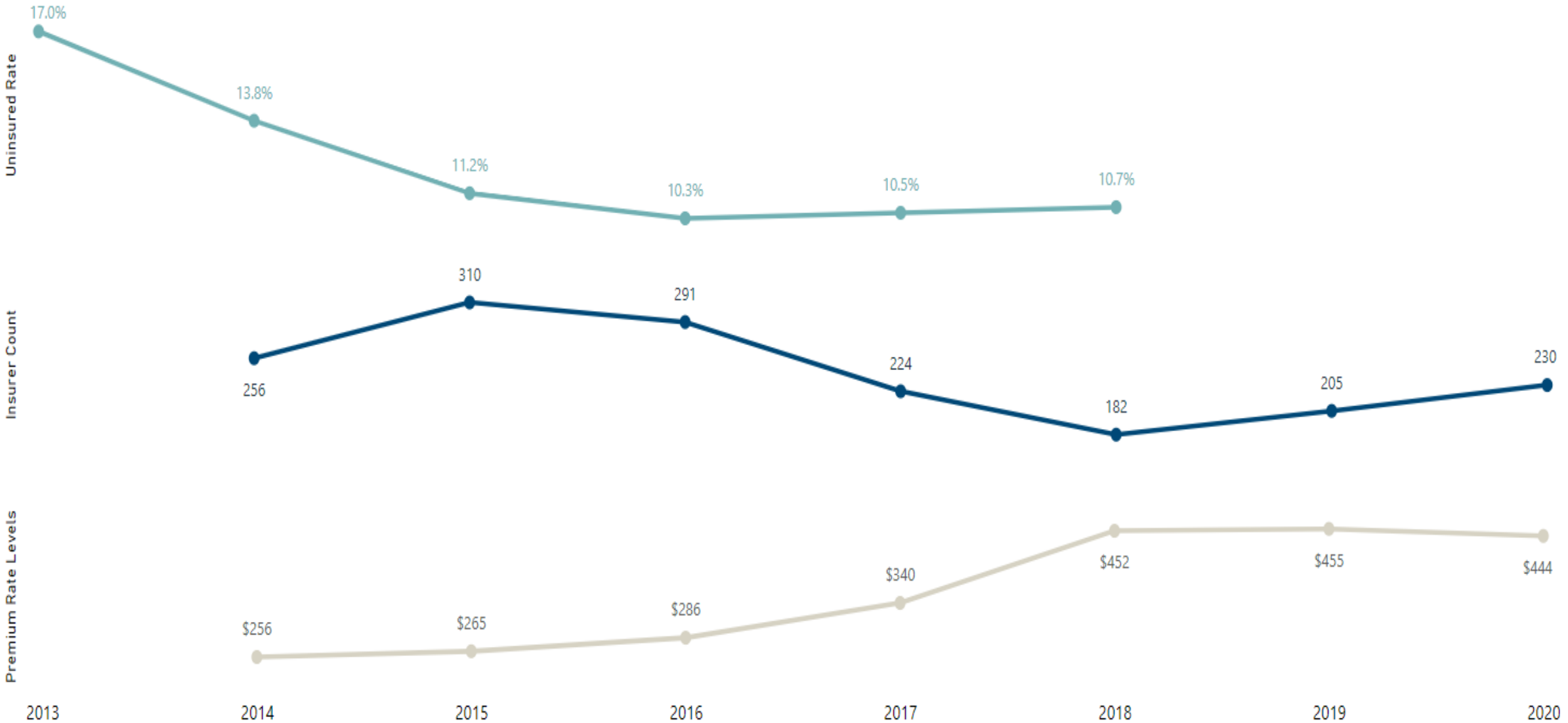
Topics covered

- Evolution of ACA
- Commercial health insurance enrollment changes
- Commercial insurer financial results
- Where is the market headed?

ACA goals

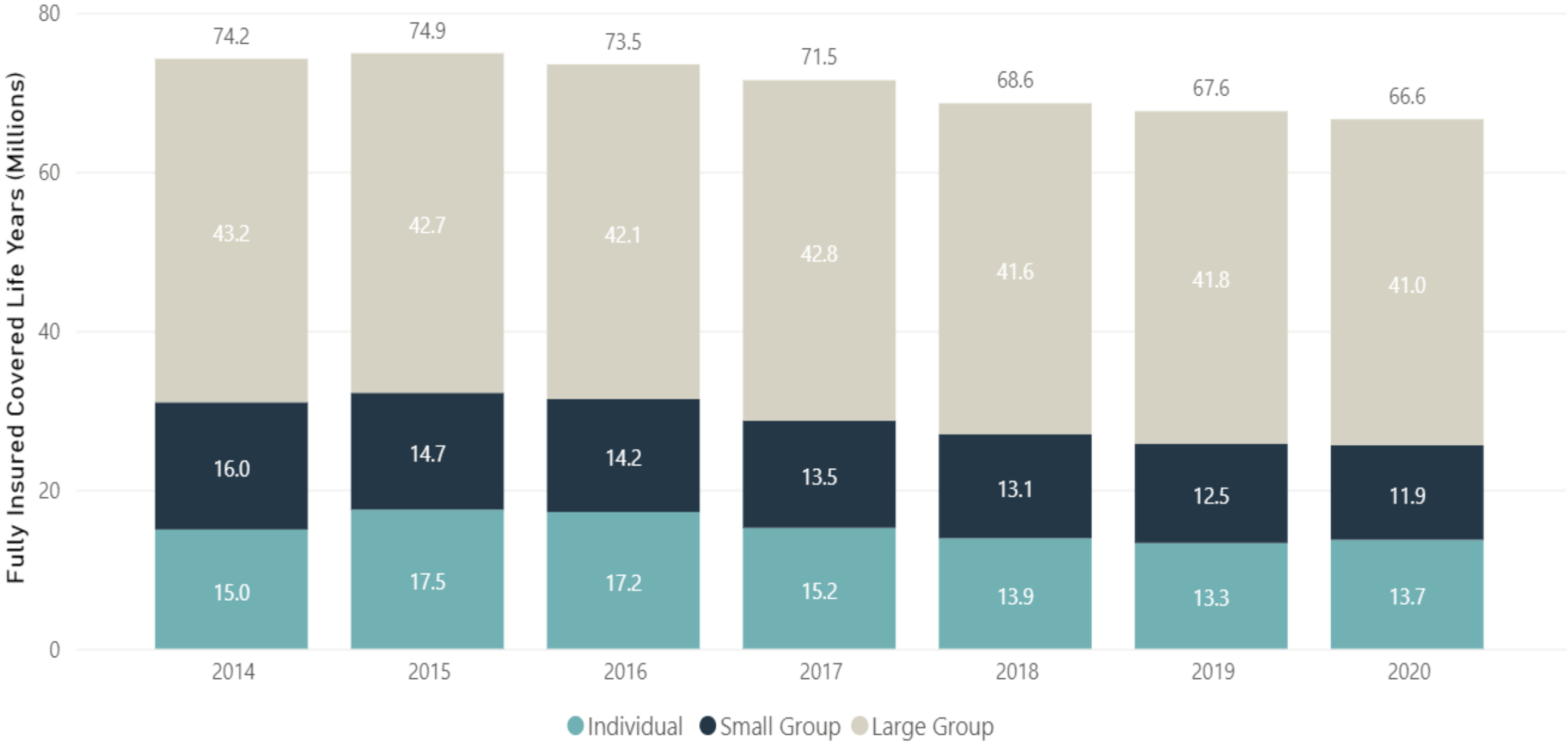
- Lower uninsured rate
- Increasing competition in the market
- Premium stability and affordability

SELECT NATIONWIDE METRICS ASSOCIATED WITH ACA'S STATED GOALS



Source: https://www.soa.org/49be6c/globalassets/assets/files/resources/research-report/2020/50-states-50-stories.pdf

NATIONAL COMPREHENSIVE HEALTH INSURANCE ENROLLMENT, 2014 TO 2020

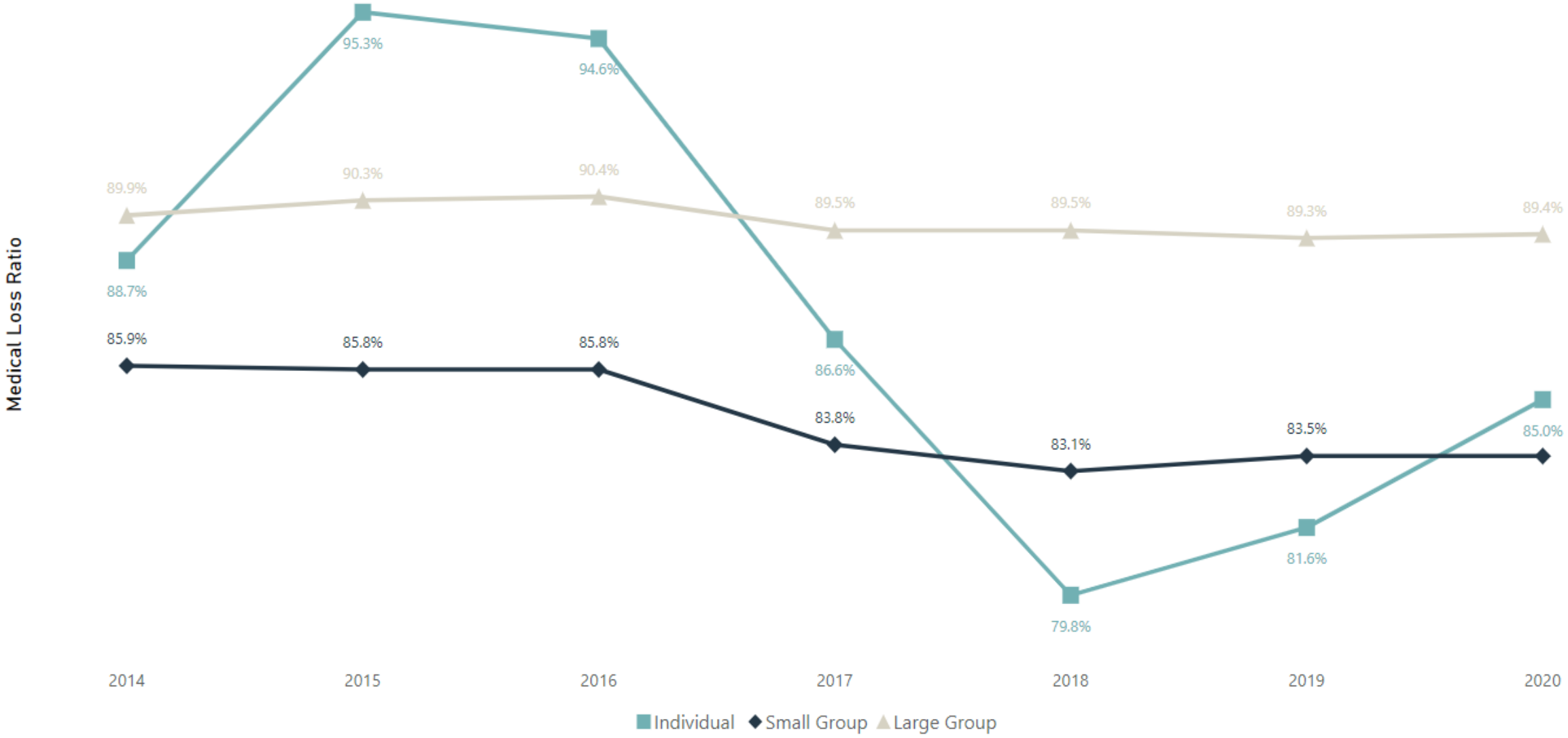


Source: https://www.milliman.com/-/media/milliman/pdfs/2022-articles/7-18-22_commercial-health-insurance-2020-financial-result.ashx

CLAIMS EXPENSES AND EARNED PREMIUM, 2014 TO 2020

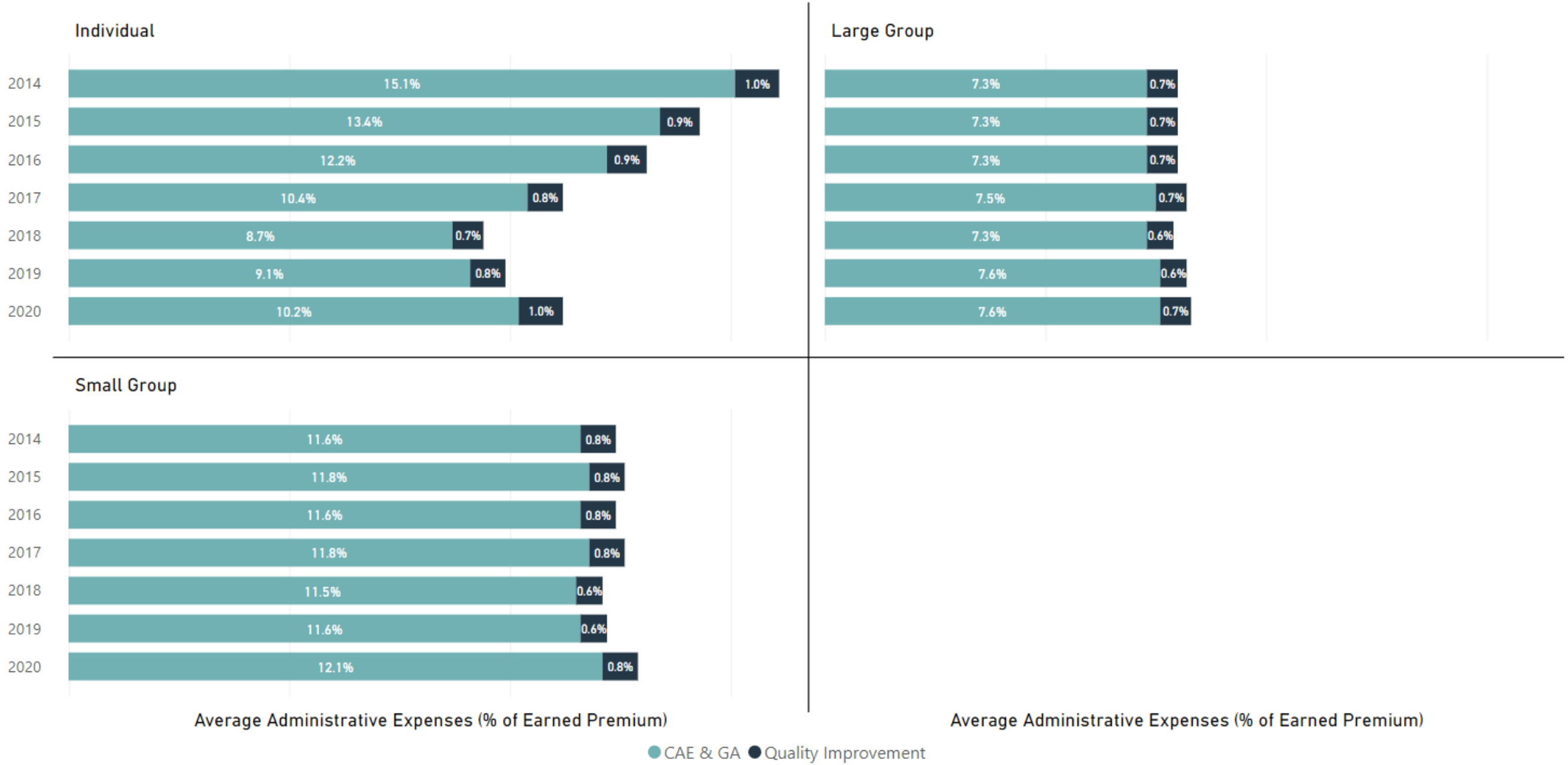
Source: https://www.milliman.com/-/media/milliman/pdfs/2022-articles/7-18-22_commercial-health-insurance-2020-financial-result.ashx

PRELIMINARY MEDICAL LOSS RATIO 2014 THROUGH 2020



Source: https://www.milliman.com/-/media/milliman/pdfs/2022-articles/7-18-22_commercial-health-insurance-2020-financial-result.ashx

ADMINISTRATIVE EXPENSE AS A PERCENTAGE OF EARNED PREMIUM



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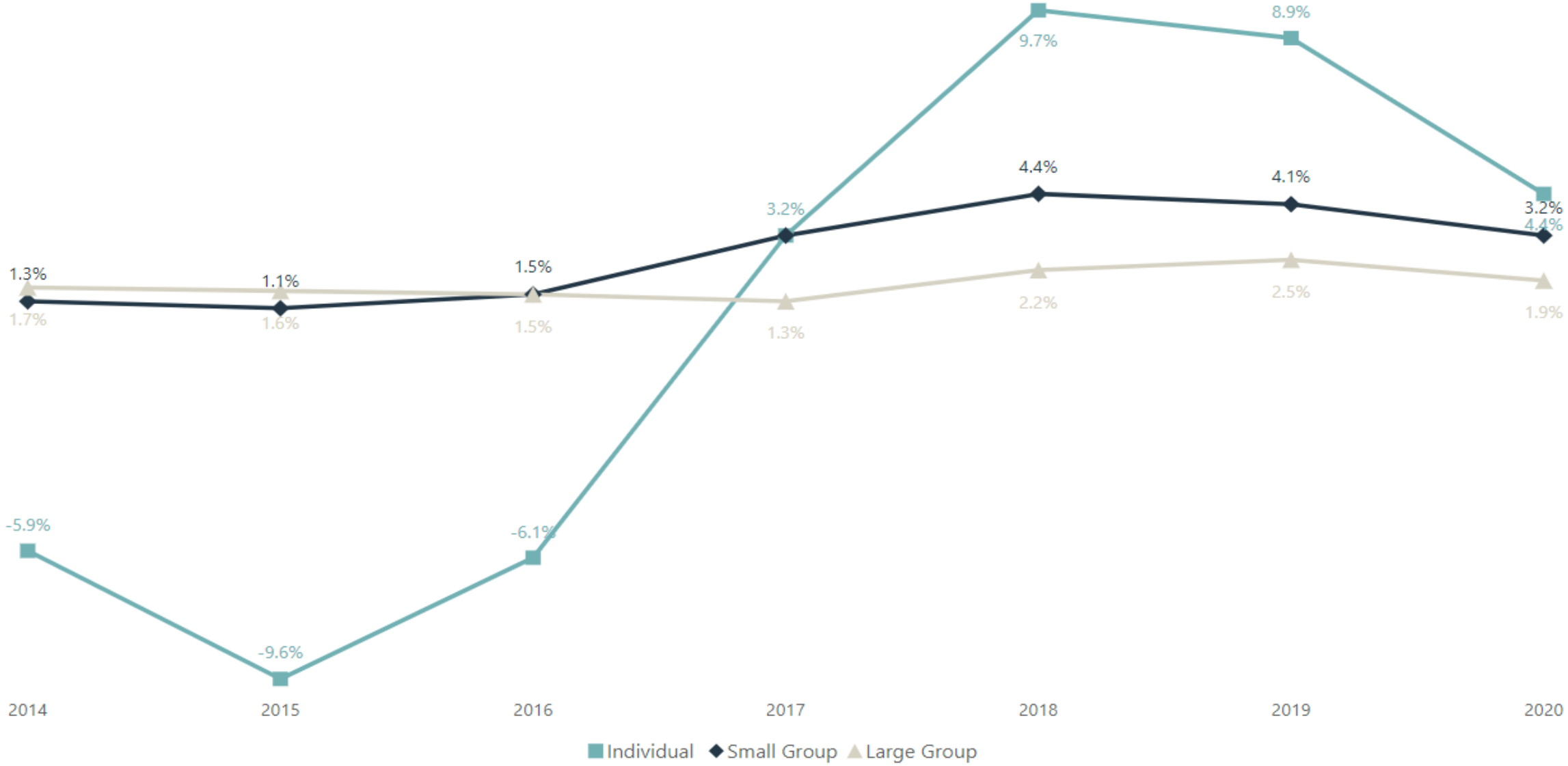
UNDERWRITING MARGIN, 2014 THROUGH 2020



Source: https://www.milliman.com/-/media/milliman/pdfs/2022-articles/7-18-22_commercial-health-insurance-2020-financial-result.ashx

Future market direction

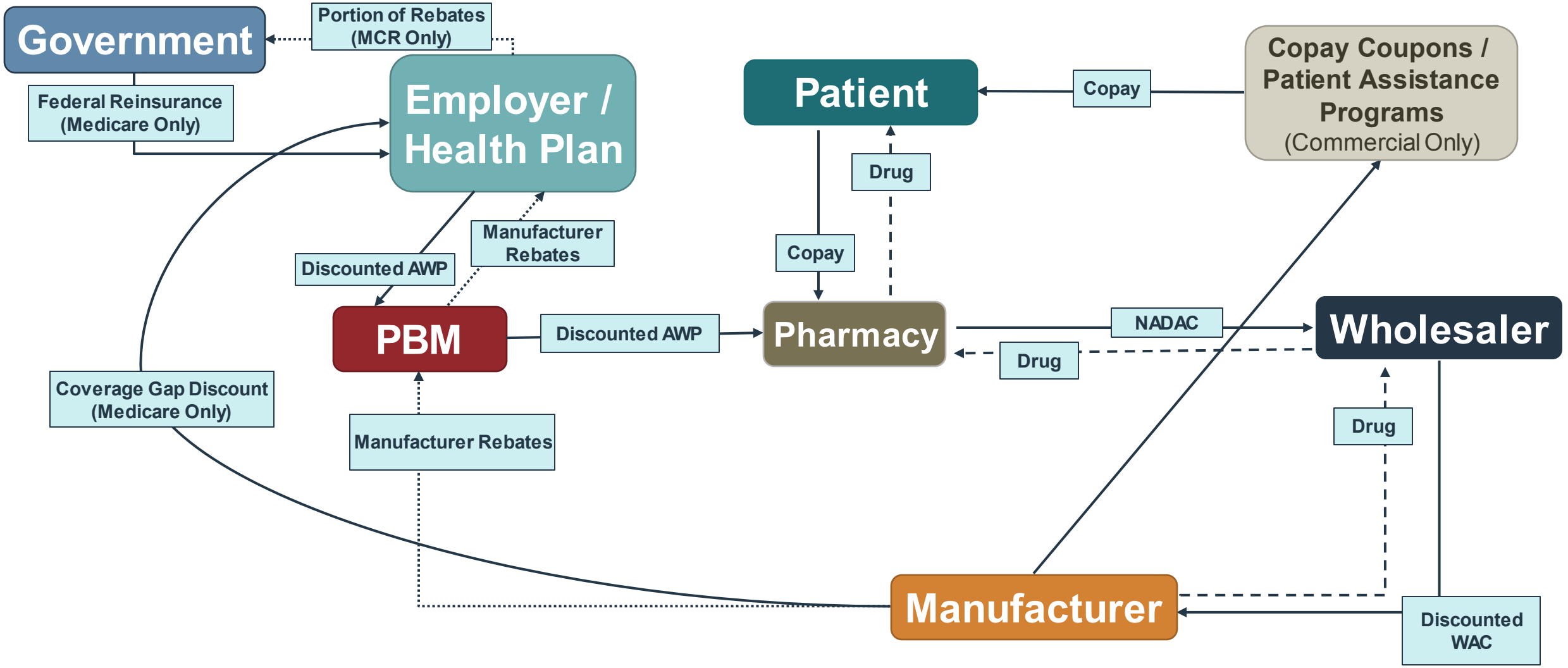
- Insurers will have to adapt and embrace change since change is constant
- Premiums in the ACA market seem to have stabilized since 2019
- Increasingly aggressive fee schedule negotiations for ACA products. Price transparency rules will likely accelerate that trend
- Health insurance markets remain fundamentally local

The prescription drug market: Stakeholder strategies and how the Inflation Reduction Act impacts them

Who are the stakeholders/players?

- **Patient**
- **Employer/health plan (commercial, self-insured employer, Medicare Part D, etc.)**
- **Pharmacy**
- **Drug manufacturer**
  - Discovers, develops, and markets prescription drugs.
  - Major manufacturers include GlaxoSmithKline, Novartis, Pfizer, Sanofi, AbbVie, Merck, Bayer, Eli Lilly, and Boehringer
- **Pharmacy Benefit Manager (PBM)**
  - Third party administrator of prescription drug programs.
  - Develops and maintains the formulary, contracts with pharmacies, negotiates discounts and rebates with drug manufacturers, and processes and pays prescription drug claims. Major PBMs include Express Scripts, CVS Health, OptumRx
- **Government**
- **Drug wholesale companies**
  - Provides drug distribution for a line of brand name and generic pharmaceuticals to a variety of health care providers including acute care hospitals, independent and chain retail pharmacies and other alternate site facilities.

“Simplified” flow of goods and money



Incentives in Part D are distorted

Illustrative Example of why rebates are better than discounts

	Drug A ($2,000) = Higher Discount		Drug B ($4,000) = Higher Rebate	
	% of Allowed	Cost per Script	% of Allowed	Cost per Script
Discount AWP (Allowed)		$2,000		$4,000
Manufacturer Rebates	20%	($400)	60%	($2,400)
Net Manufacturer Revenue	**80%**	**$1,600**	**40%**	**$1,600**
Plan Paid (Gross Plan Liability)	40%	$800	40%	$1,600
Manufacturer Rebates (Plan Retained ~60%)	60% * 20% = 12%	($240)	60% * 60% = 36%	($1,440)
Net Plan Liability	**28%**	**$560**	**4%**	**$160**
Federal Reinsurance	35%	$700	35%	$1,400
Manufacturer Rebates (Gov't Retained ~40%)	40% * 20% = 8%	($160)	40% * 60% = 24%	($960)
Net Government Cost	**27%**	**$540**	**11%**	**$440**
Patient Cost Sharing	**25%**	**$500**	**25%**	**$1,000**

Same revenue for manufacturer

Plan liability decreases

Patient pays more

Changes from the Inflation Reduction Act

The Inflation Reduction Act (IRA) was signed into law on August 16, 2022

Key changes to the Medicare and Part D programs:

1. Drug price negotiation
2. Drug inflation rebates
3. Part D benefit redesign

IRA: Drug Price Negotiation

Gives the HHS Secretary the ability to negotiate a subset of Part D and Part B drugs, provided they meet certain criteria, e.g., high-spend and a certain number of years since FDA approval. Effective 2026 for Part D, 2028 for Part B drugs.

- Drugs from the top 50 highest spend single source Part B drugs, the 50 high spend single-source brand-name Part D drugs, and single-source insulins would be eligible
- A list of up to 10 drugs would be negotiable in 2026, with an additional 15 drugs each year in 2027-2028, and an additional 20 drugs each year in 2029 and beyond
- The legislation provides guardrails for the price negotiation (drugs < 7 years from FDA-approval are exempt), indicating the minimum discount would be:
  - ***25%*** for a short-monopoly drug (< 12 years since launch)
  - ***35%*** for post-exclusivity drug (12 - 16 years since launch)
  - ***60%*** for a long-monopoly drug (> 16 years since launch)
  - OR the weighted average negotiated price net of all price concessions from prior year
- Manufacturers would pay a penalty equal to 10 times the amount charged above the negotiated price for not providing eligible entities the maximum fair price during a period of agreement
  - Manufacturers that decline negotiation for a selected drug will pay a variable tax of 2x to 19x daily sales

Drugs likely subject to price negotiation

Spending Rank	Drug Name	Manufacturer	2020 Total Medicare Part D Spend[1]	First Approval Date[2]	Years Since Drug Launch (as of 1/1/2026)
1	Eliquis	Bristol-Myers Squibb / Pfizer	$9.94 billion	Dec. 2012	13
2	Revlimid	Celgene/BMS	$5.36 billion	Dec. 2005	20
3	Xarelto	Janssen Pharm.	$4.70 billion	July 2011	14
4	Januvia	Merck Sharp & D	$3.87 billion	Oct. 2006	19
5	Trulicity	Eli Lilly & Co.	$3.28 billion	Oct. 2006	19
6	Imbruvica	AbbVie Inc.	$2.96 billion	Sept. 2014	11
7	Lantus Solostar	Sanofi-Aventis	$2.66 billion	April 2000	25
8	Jardiance	Boehringer Ing.	$2.38 billion	August 2014	11
9	Humira(Cf) Pen	AbbVie Inc.	$2.17 billion	Dec. 2002	23
10	Ibrance	Pfizer US Pharm	$2.11 billion	Feb. 2015	10
11	Symbicort	Astrazeneca	$1.98 billion	July 2006	19
12	Xtandi	Astellas Pharma	$1.97 billion	August 2012	13
13	Novolog Flexpen	Novo Nordisk	$1.84 billion	August 2012	13
14	Biktarvy	Gilead Sciences	$1.78 billion	June 2000	25
15	Myrbetriq	Astellas Pharma	$1.75 billion	June 2012	13

[1] Medicare Part D 2020 Spending Dashboard https://data.cms.gov/summary-statistics-on-use-and-payments/medicare-medicaid-spending-by-drug/medicare-part-d-spending-by-drug
[2] Drugs.com Approval History
The Medicare Part D Dashboard does not aggregate similar brands across all administration types (e.g. Novolog (vial form) and Novolog Flexpen are listed separately)
No shading indicates short monopoly drugs (<12 yrs, 25% minimum discount of non-federal average manufacturer price)
Orange shading indicates extended monopoly drugs (12-16 yrs, 35% minimum discount of non-federal average manufacturer price)
Red shading indicates long monopoly drugs (16+ yrs, 60% minimum discount of non-federal average manufacturer price)

IRA: Drug inflation rebates

Requires rebates to be paid by manufacturers in cases when single-source brand and biologic drug prices increase faster than inflation. Effective October 2022 for Part D drugs, January 2023 for Part B drugs.

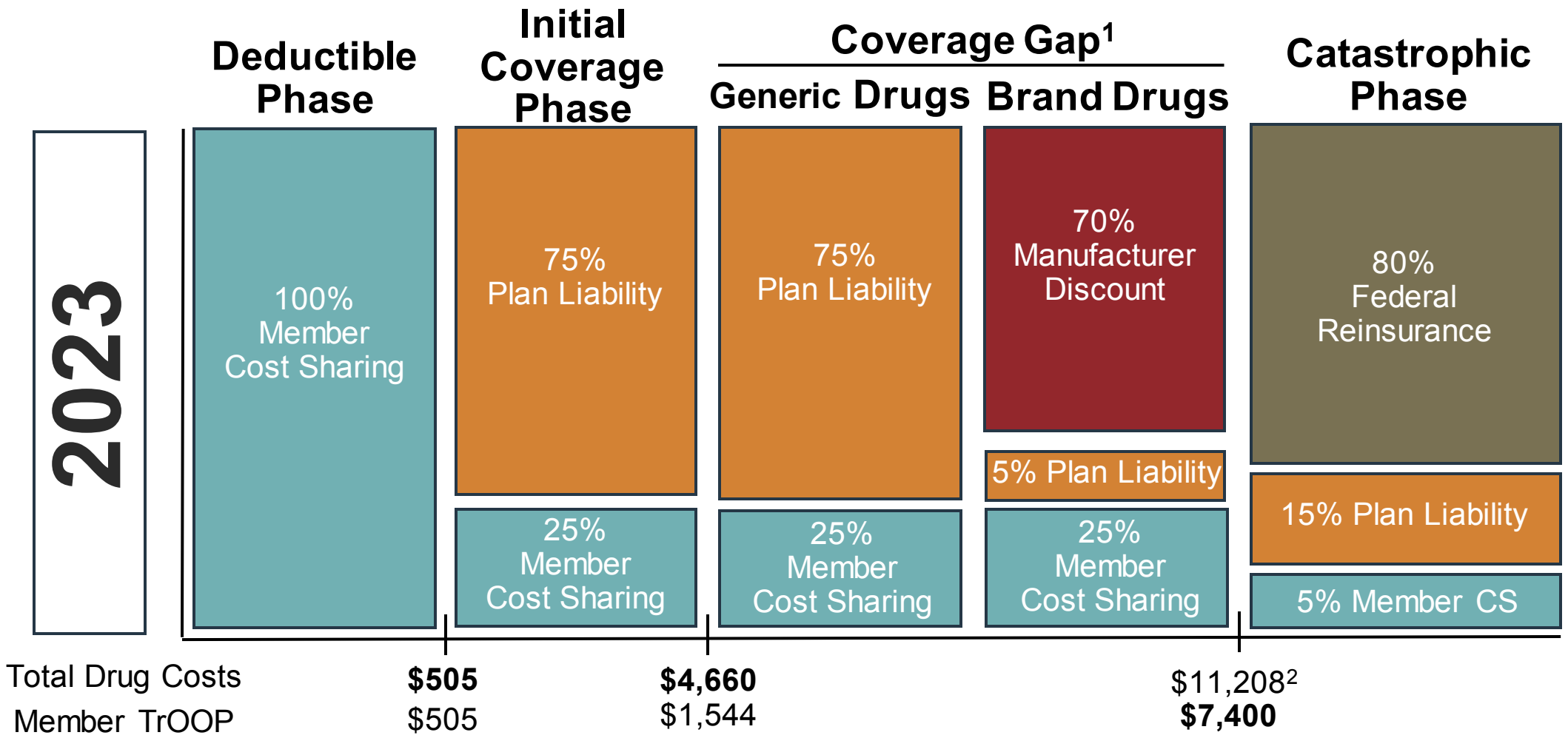
- Manufacturers must pay inflation rebates on single source brand and biologic drugs in both the ***Medicare and commercial markets*** if prices increase at a faster rate than inflation
- Drug inflation would be benchmarked relative to prices on October 1, 2021 and trended forward at Consumer Price Index for all Urban consumers (CPI-U)
  - Excess price increases of the CPI-U changes would be paid as an inflation rebate
- Part B member coinsurance would be based on inflation-adjusted prices
- Inflation rebates paid directly to the Part B / D trust fund

IRA: Part D benefit redesign

Restructures the Part D benefit design including the amount paid by beneficiaries, federal government, and drug manufacturers. Effective 1/1/2025.

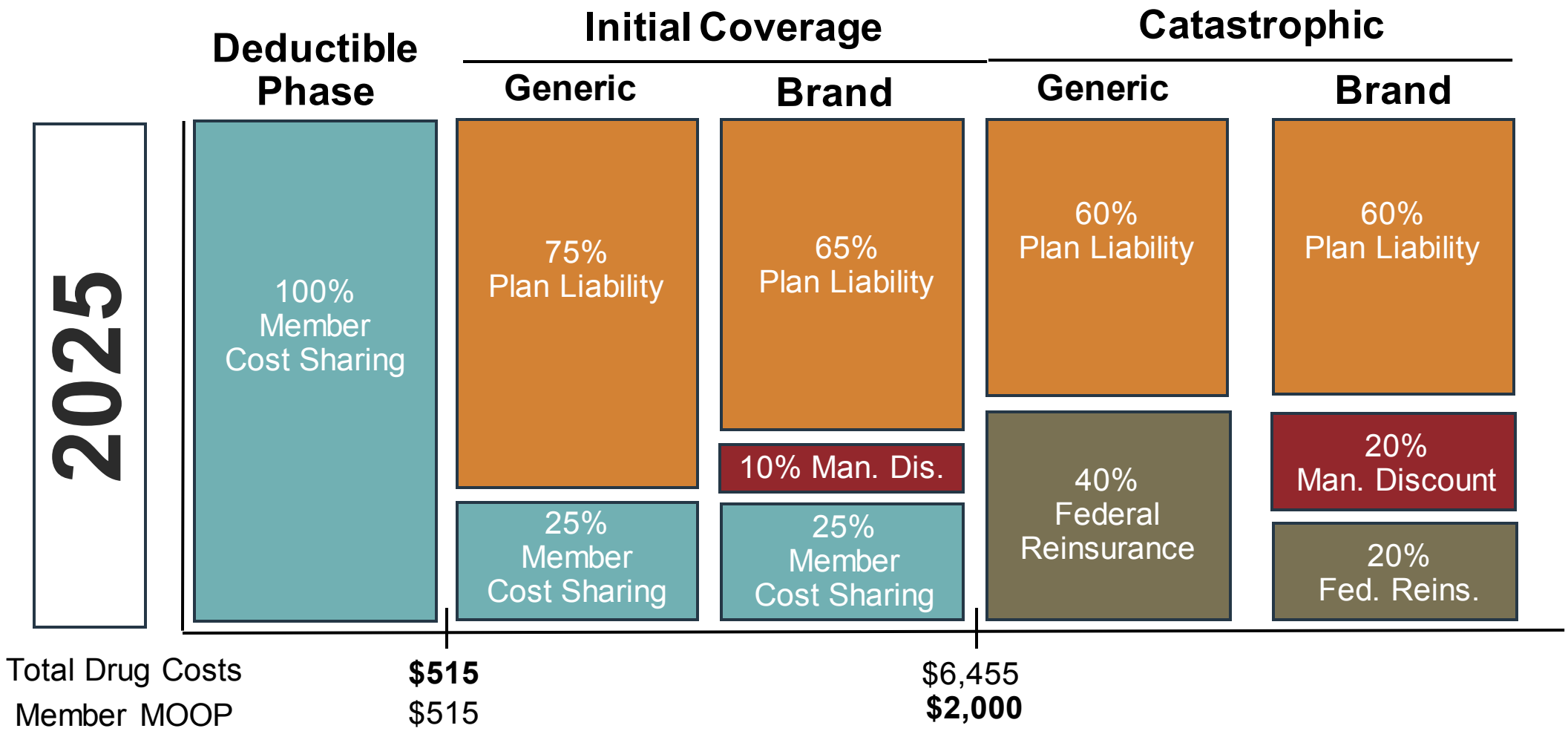
- **Changes for Beneficiaries:**
  - Sets a maximum out-of-pocket (MOOP) of $2,000 and eliminates the coverage gap
  - Defined standard member cost-sharing remains at 25% between the deductible and MOOP
  - Also includes a smoothing option for users with cost sharing expected to reach the MOOP before the end of the year
- **Change for Government**:
  - Federal reinsurance decreases from 80% for all drugs to 20% for applicable drugs and 40% for non-applicable drugs
- **Changes for Pharmaceutical Manufacturers:**
  - New pharmaceutical manufacturer discount program that reflects 10% of applicable drug costs above deductible and below the MOOP, and 20% of drug costs above the MOOP
  - New pharmaceutical manufacturer discount program would not apply to drugs selected for price negotiation.
  - Spending from low-income beneficiaries would now be eligible for manufacturer discount program with a phase in for small manufacturers (80% of their portfolios' Part D expenditures from a single drug).

Medicare Part D Defined Standard Plan Design 2023



[1] Both member and manufacturer liability accumulate toward True Out-of-Pocket (TrOOP)
[2] Estimated catastrophic coverage limit corresponding to True Out-of-Pocket (TrOOP) spending of $7,400 (~92% of spend = brand)

Medicare Part D IRA Plan Design 2025



How does IRA affect all stakeholders

- **Patients / Beneficiaries:**
  - Lower drug prices and smaller drug price increases leads to lower cost sharing
  - Implementation of a $2,000 MOOP for Medicare beneficiaries greatly reduces cost sharing for patients using high-cost drugs
  - The impact on Part D member premium is unknown but should come down in the long run
- **Employer / Health Plan, PBM**:
  - High-priced drugs with high rebates will lose leverage to drugs with high price discounts
- **Pharmaceutical Manufacturers:**
  - The new pharmaceutical manufacturer discount program will have a varied impact on different drugs based on their price but overall the amount collected will be greater than the previous coverage gap discount program amounts
  - Price negotiation will decrease manufacturers' revenues ***significantly*** but some of it can be offset by the removal of manufacturer discount and by lowering their rebates
- **Federal Government:**
  - Low-income cost sharing subsidies and the federal reinsurance amount will decrease under the new plan design
  - There will be an increase to the Part D direct subsidy to offset reinsurance and cost sharing increases
    - *The **Part D direct subsidy** is a capitated payment to plans calculated as a share of the adjusted national average of plan bids.*

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Thank you.

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