



MAGELLAN RX MANAGEMENT

EMPLOYER MARKET
INSIGHTS REPORT™

2018 FIRST EDITION

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EDITORIAL STAFF

Brooke Kachura

Director, Marketing

Stephanie Stevens, MPH

Senior Manager, Market Research

CONTRIBUTORS

Lori Bymark, MSIA

Senior Vice President, Advanced Analytics

Karim Prasla, PharmD, MS, BCPS

Vice President, Clinical Outcomes, Advanced Analytics, and Research

Kathleen Campagna, BSN, MS

Vice President, Business Development
— Self-Funded

Neely Burkhardt

Vice President, Marketing

Troy Phelps

Senior Director, Drug Economics

Peter Lenar

Director, Business Development — Self-Funded

Kayla Hirsch

Director, Marketing

Katie Lockhart, MS

Senior Forecast Analyst, Drug Economics

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Employer Market Insights Report

In today's dynamic and complex healthcare environment, we are experiencing rapid new developments in drug therapies to treat and, in some cases, even cure diseases. These advancements are exciting and bring new hope and opportunity; they also pose additional access and affordability challenges for employers — challenges that demand a unique approach. Magellan Rx Management provides employers across the country with timely and relevant information that helps them make better pharmacy decisions. Our new Employer Market Insights Report™ is no exception. This one-of-a-kind report not only highlights key areas of pharmacy trend and costs, but also provides exclusive forecasting information to help employers better plan for the future.

Trend Forecasting

This report highlights current and forecasted insights for both traditional and specialty drugs on the pharmacy benefit, and explores the factors driving employer costs. Forecasting was for a three-year period — 2018, 2019, and 2020 — using 2017 as the baseline. Analysis of key therapeutic conditions provides an additional layer of forecasting, including a preview of the impact of new pipeline drugs. These key condition profiles include drug-level data for immediately actionable pharmacy benefit forecasting in 2018 and 2019.

A Focus on Medical Specialty Drugs

As cost concerns intensify for many employers, it should come as no surprise that specialty pharmacy continues to be one of the fastest growing healthcare cost drivers. While it is important to manage the specialty spend that occurs on the pharmacy benefit, specialty costs on the medical benefit are the largest cost drivers today with little management. This report provides insights, collected through a primary survey of employer groups, showing current and future cost control management strategies for specialty drugs on the medical benefit.

Key Report Takeaways

Dive in and gain the following insights:



Comprehensive forecasting for key areas of pharmacy trend and spend



Effective cost management strategies to tackle these trends



Pilots and partnerships that demonstrate an innovative approach to pharmacy management

Thank you for taking the time to review the new Employer Market Insights Report™!

Mostafa Kamal

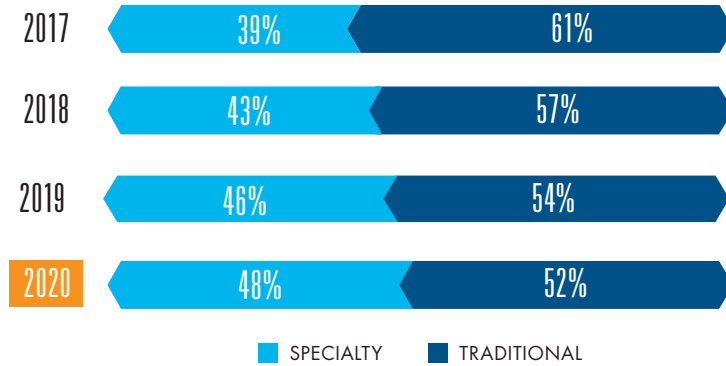
Chief Executive Officer
Magellan Rx Management



Key Insights

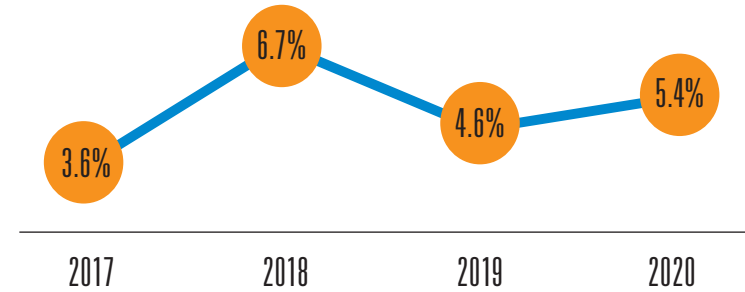
TOTAL DRUG COST

Specialty drug costs on the pharmacy benefit are projected to reach close to 50% by 2020 (50% by 2021)

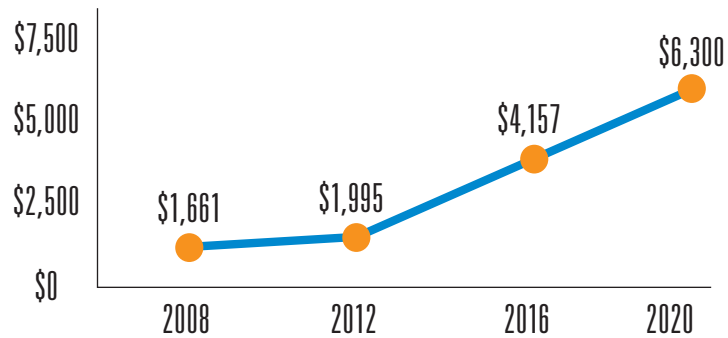


OVERALL COST TREND

Decreased trend in 2019 and 2020 are primarily due to slower growth of specialty drugs

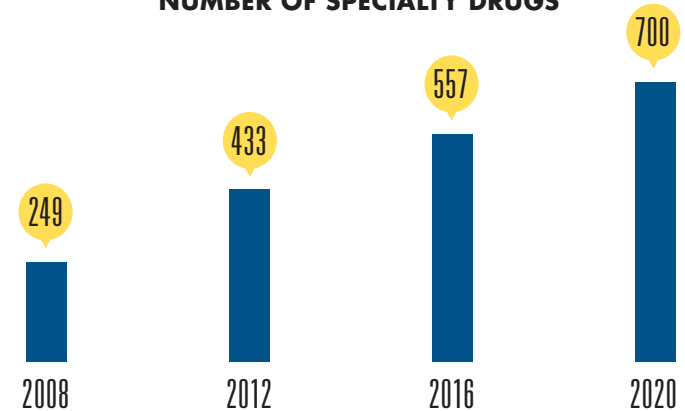


SPECIALTY COST PER CLAIM



4X increase over 12 years

NUMBER OF SPECIALTY DRUGS



3X increase over 12 years

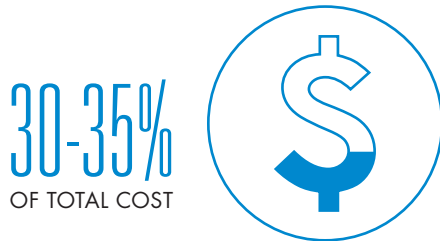


Key Insights

KEY CONDITIONS COST TREND

2017-2020

Autoimmune: anti-inflammatory and diabetes will continue to be the two main conditions driving overall drug costs.



■ AUTOIMMUNE: ANTI-INFLAMMATORY AND DIABETES

SPECIALTY PIPELINE COST TREND

By 2020, specialty pipeline drugs will continue to offer providers and patients more treatment options.



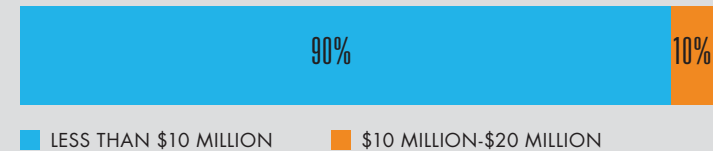
25% of the overall growth in total pharmacy costs will come from new specialty pipeline drugs

SURVEY SAYS

MEDICAL PHARMACY DRUG SPEND

Employer groups surveyed reported a medical pharmacy drug spend of less than \$10 million.

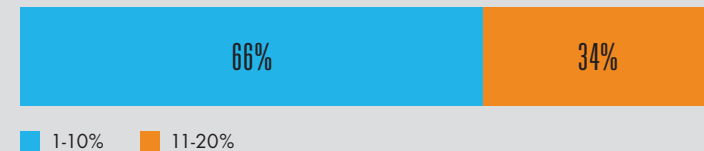
2017



MEDICAL PHARMACY DRUG TREND

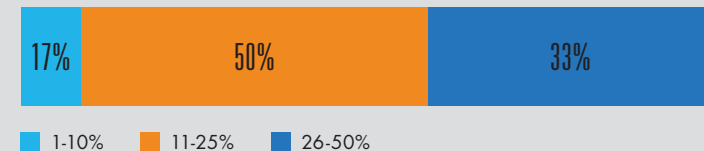
Overall, 66% of employer group respondents observed a medical pharmacy trend between 1% and 10%.

OVERALL



Employer group respondents reported **oncology and oncology support** trend was higher and fell between 11% and 50%.

ONCOLOGY AND ONCOLOGY SUPPORT





Employer Specialty Trend Forecast

Specialty drug trend forecasted to slow down in 2019

Overall costs increased 3.6% from 2016 to 2017. Of this growth, traditional drug costs declined by -1.8%, while specialty drug costs rose by 13.1% (see figure 1).

A review of the 2017 specialty trend drivers showed that 9.2% of the growth was driven by higher usage of specialty medications while 3.9% was driven by changes in cost (see figure 2).

Specialty drug costs are forecasted to continue to have double-digit growth rates through 2020; however, the growth rate is expected to slow down in 2019 and 2020 compared to 2018 (see figure 3).

The slowdown in specialty growth will be driven by:

- A decline in the amount and frequency of price increases for current specialty drugs over the next three years. For example, in 2016, the average wholesale price (AWP) per day for a specialty drug increased 7.6%, while in 2017 AWP increased 5.6%.
- The contracting hepatitis C market also has put downward pressure on the specialty market.
- It is forecasted that very few of the top specialty drugs will be significantly challenged by either loss of patent protection or biosimilars in the next three years.

FIGURE 1

2017 Drug Trend

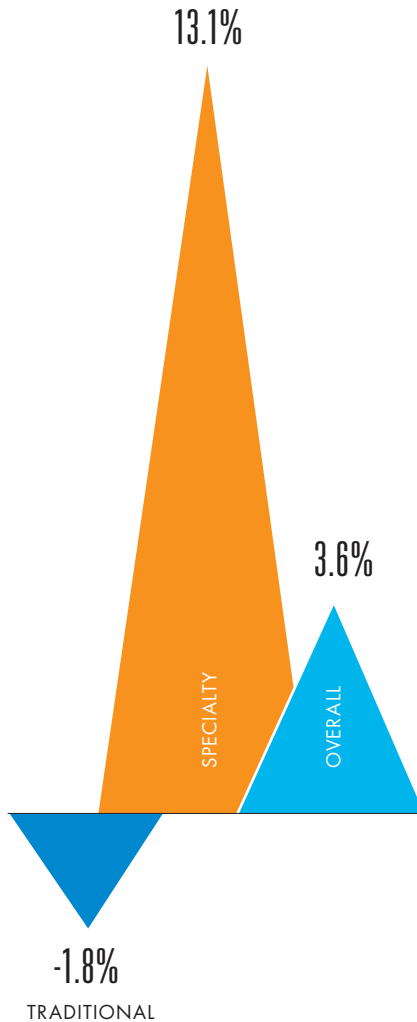
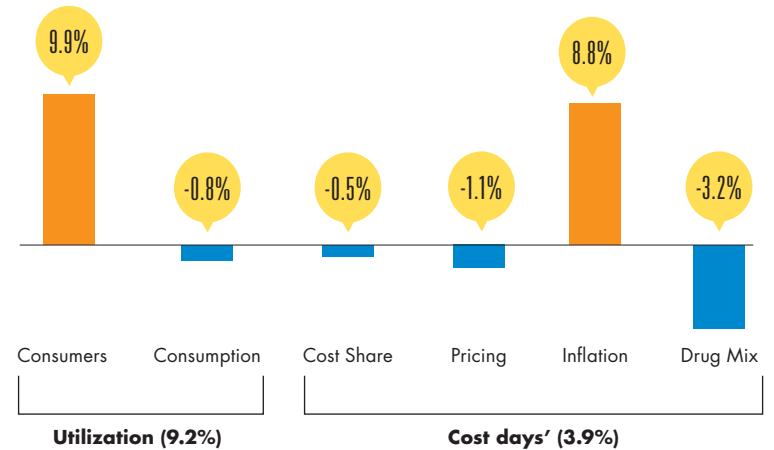


FIGURE 2

2017 Specialty Trend Drivers¹



1. Utilization divided into consumers (utilizers) and consumption (supply per utilizer); Cost divided into cost share (patient pay), pricing (effective AWP discount), inflation (AWP change), and drug mix (market share)

FIGURE 3

Specialty Drug Trend

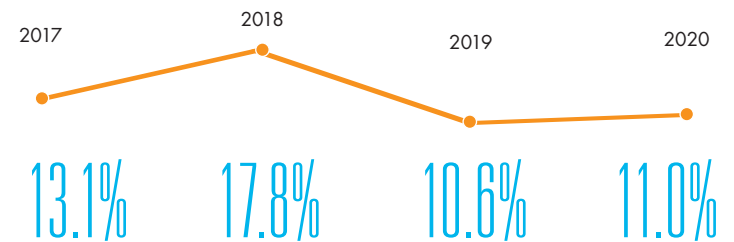




FIGURE 4

Key Specialty Conditions Trend

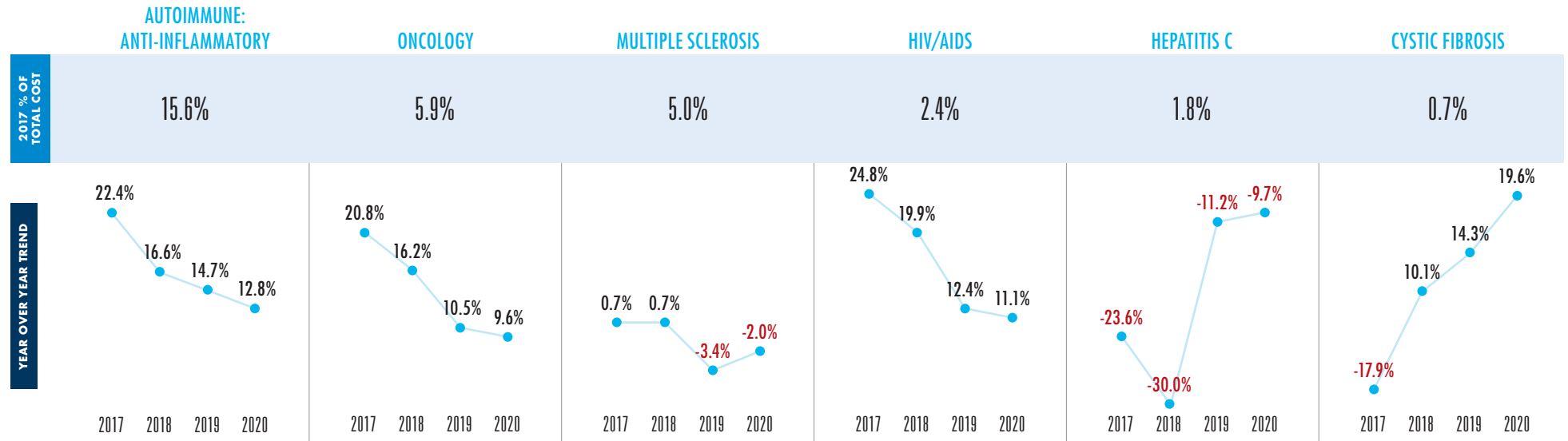
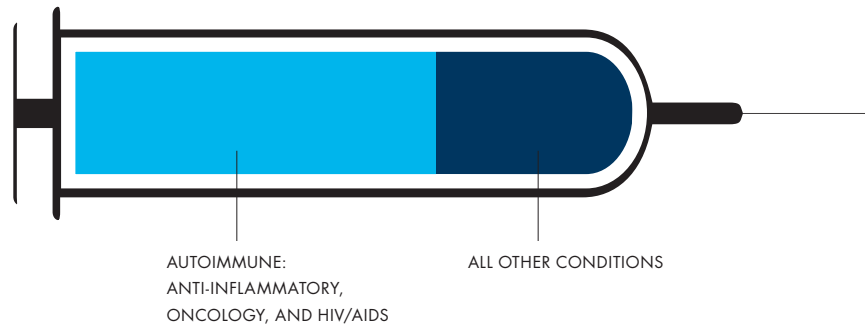


FIGURE 5

Key Specialty Conditions Forecast

By 2020 Autoimmune: Anti-inflammatory, Oncology, and HIV/AIDS will be **65%** of specialty cost.



Specialty Pharmacy Management Solutions

Consider targeted, whole patient-focused specialty and clinical programs to effectively manage these complex conditions, such as:



Specialty Distribution



Site of Service Optimization



Integrated Care Management



Medication Therapy Management



Employer Traditional Trend Forecast

Changes in traditional drug costs support containment of overall drug cost

Overall traditional drug costs decreased by 1.8% from 2016 to 2017, but will see a steady decrease through 2020 (see figure 6).

A review of the 2017 traditional trend drivers showed that 2.8% of the trend was driven by higher utilization, while changes in cost drove the trend down by -4.6% (see figure 7).

These traditional drugs are also forecasted to remain relatively stable from 2018 to 2020 (see figure 8).

Looking forward, the following market dynamics contribute to the forecast:

- Diabetes is the largest traditional condition, making up approximately 15.3% of all traditional costs in 2017. From 2018 to 2020, four of the top five traditional drugs are forecasted to be diabetes therapies.
- Generic launches of popular drugs such as Crestor have helped reduce traditional drug trends; however, starting in 2019, there will be fewer patent expirations combined with new pipeline treatments, which are forecasted to result in small traditional drug trend increases.
- Traditional conditions such as dyslipidemia and migraine are starting to see the impact of new pipeline drugs, which will increase costs for conditions that have been stable for the past few years (see figure 9).

FIGURE 6

2017 Drug Trend

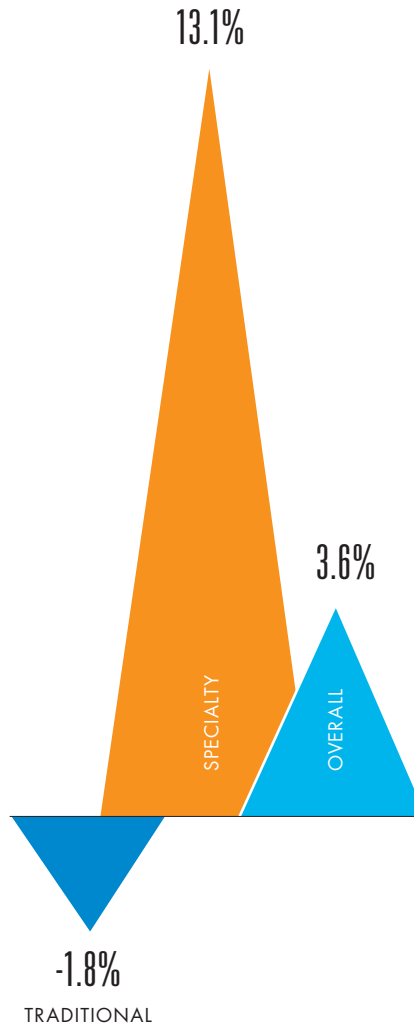
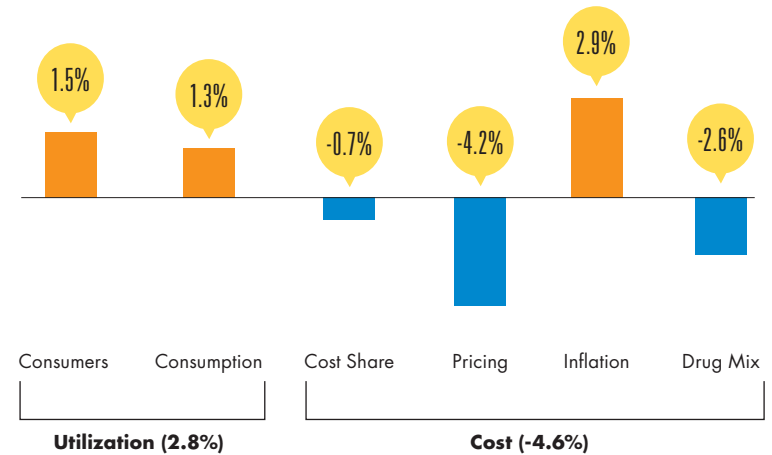


FIGURE 7

2017 Traditional Trend Drivers²



² Utilization divided into consumers (utilizers) and consumption (days, supply per utilizer); Cost divided into cost share (patient pay), pricing (effective AWP discount), inflation (AWP change), and drug mix (market share)

FIGURE 8

Traditional Drug Trend

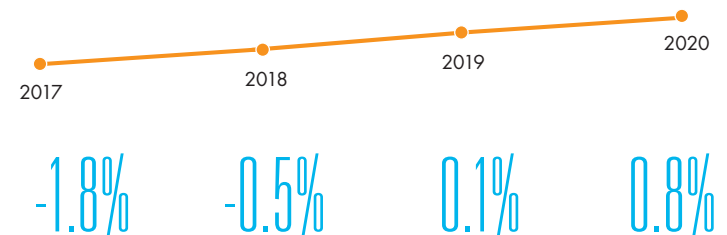




FIGURE 9

Key Traditional Conditions Trend

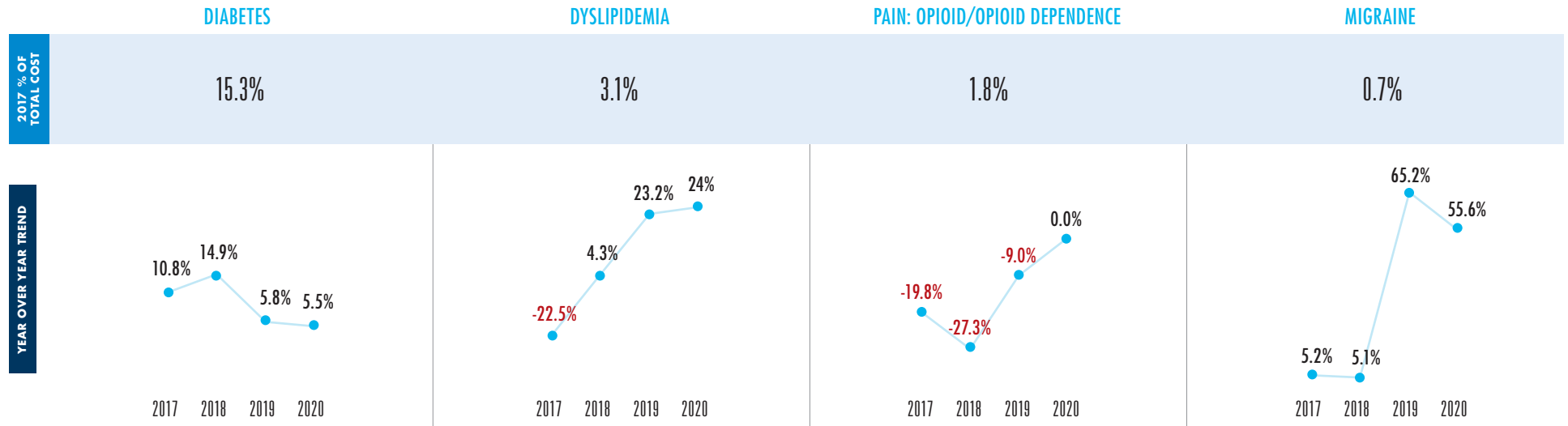


FIGURE 10

Key Traditional Conditions Forecast

From 2017 to 2020
Dyslipidemia
 trend will increase by
60% primarily due
 to specialty drugs



Traditional Pharmacy Management Solutions

Consider some basic as well as boundary-pushing solutions to tackle traditional drug trend:



Formulary/Utilization Management



Adherence and Assessment Programs



Digital Therapeutics



Key Condition Profiles

Autoimmune: Anti-inflammatory



IMPACT PLAYER



Humira accounts for 50% of condition growth by 2020

HIV/AIDS



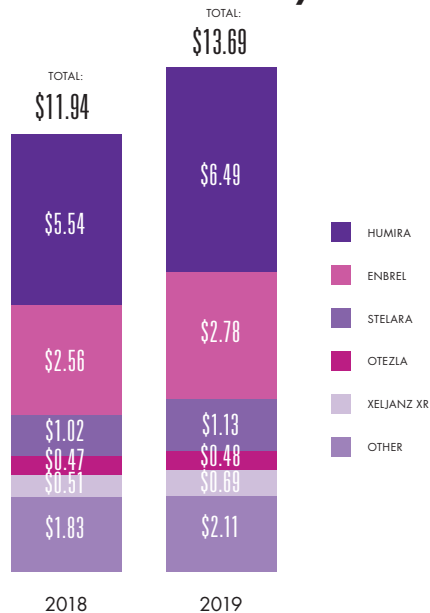
IMPACT PLAYER



Biktarvy will account for 12% of cost in 2020 due to promising efficacy results and decreased side effect profile

FIGURE 11

Autoimmune: Anti-inflammatory Market Share Forecast by PMPM



MARKET

Oral formulations like **Xeljanz XR** are expected to make up 10% of cost in 2020

By 2020, the impact of biosimilars for this condition will remain limited due to continued litigation

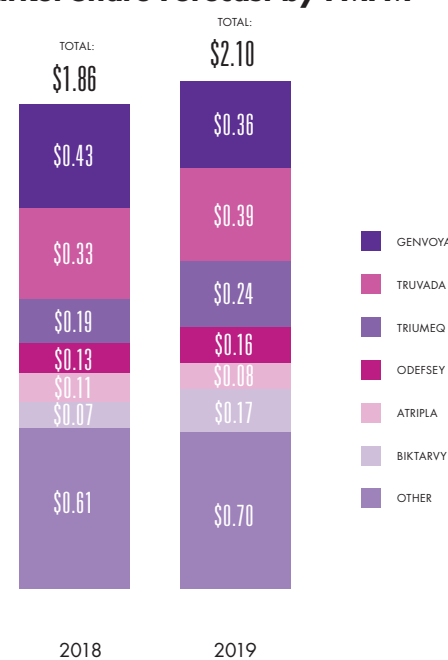


PIPELINE

In 2019 and 2020, pipeline drugs will account for between 6% and 12%, respectively, of specialty cost

FIGURE 12

HIV/AIDS Market Share Forecast by PMPM



CLINICAL

Truvada continues to remain as the only drug with a preexposure prophylaxis (PrEP) indication, and will be the top drug for this condition by 2019

Recently approved **Juluca** will provide fixed-dose combination options for stable patients, thus introducing a new treatment modality for HIV patients



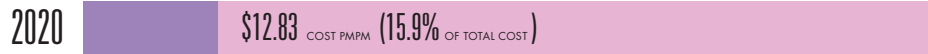
MARKET

Initially gaining market share, **Genvoya** will lose share to pipeline drugs starting 2019

Please note that due to rounding, some bar totals do not add up accurately.



Diabetes



GAME CHANGER



Trulicity will become the top diabetes drug by 2019 due to more favorable dosing regimen

Dyslipidemia



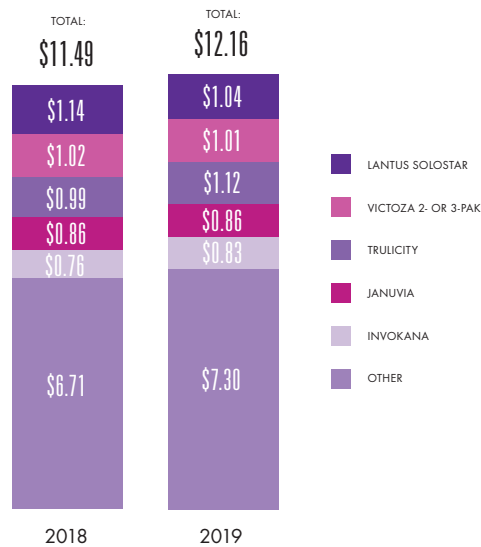
GAME CHANGERS



PCSK9s (Repatha and Praluent) will increase condition costs by 65% by 2020

FIGURE 13

Diabetes Market Share Forecast by PMPM



MARKET

Trulicity and **Jardiance** are expected to drive 30-50% of the class growth between 2018 and 2020

Lantus SoloSTAR will start to lose market share to **Toujeo SoloSTAR** and **Tresiba** starting in 2018, but will remain the top insulin product through 2020

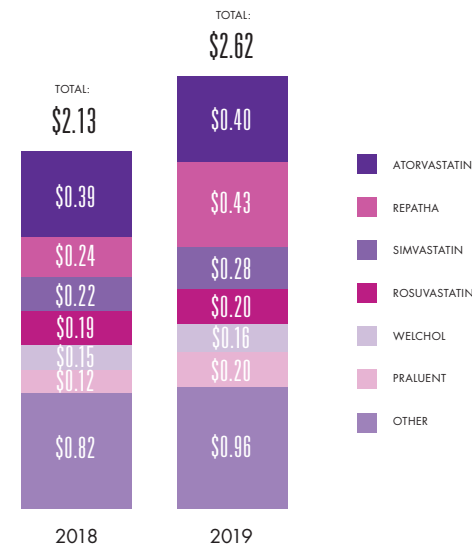


PIPELINE

Pipeline impact will be primarily due to oral semaglutide, the first oral GLP-1 receptor agonist expected to come on the market in 2019

FIGURE 14

Dyslipidemia Market Share Forecast by PMPM



MARKET

70% of costs in this condition will continue to be generics, such as statins



CLINICAL

Repatha and **Praluent** are also being studied for monotherapy use



PIPELINE

A third **PCSK9**, **inclisiran**, is expected to be released in 2020

Please note that due to rounding, some bar totals do not add up accurately.



Multiple Sclerosis



GAME CHANGERS



Glatiramer acetate (generic Copaxone) and **fingolimod** (generic Gilenya) will drive cost down in this condition for the first time starting in 2019

Hepatitis C



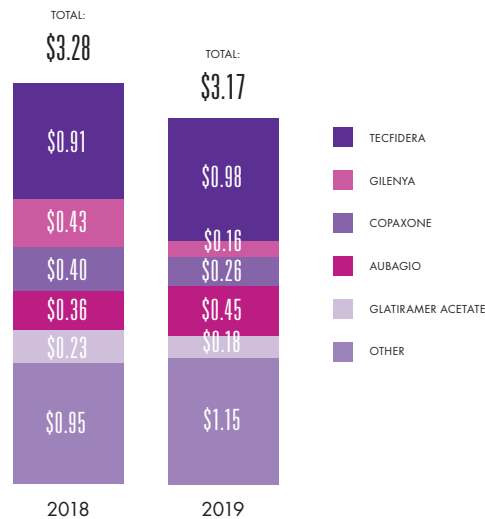
IMPACT PLAYER



Harvoni will remain the top drug for the condition, although the condition will continue to contract

FIGURE 15

Multiple Sclerosis Market Share Forecast by PMPM



Please note that due to rounding, some bar totals do not add up accurately.



MARKET

Tecfidera is already a market leader in 2018 and will continue to see growth through 2020



CLINICAL

Gilenya will lose patent protection in 2019, increasing generic competition within the condition

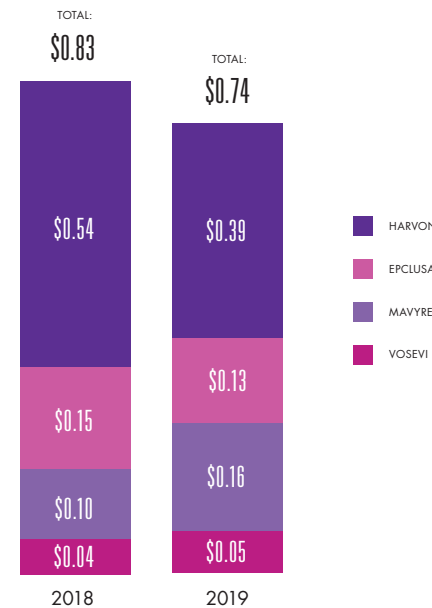


PIPELINE

Medical drug **Ocrevus** will expand the market as the first drug indicated for primary progressive multiple sclerosis

FIGURE 16

Hepatitis C Market Share Forecast by PMPM



MARKET

Utilization will continue to decrease as current drugs continue to cure patients



CLINICAL

Mavyret and **Vosevi** will gain market share due to clinical advantages over **Harvoni**



PIPELINE

Empty pipeline due to high efficacy rates of current drugs and a smaller patient count



Oncology



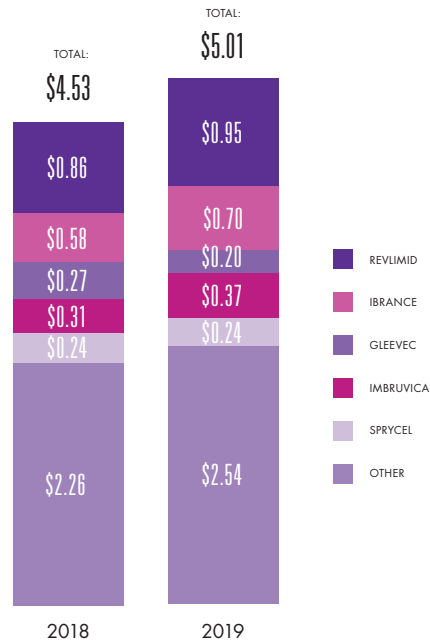
IMPACT PLAYER



Revlimid continues to be the top oral oncology drug for this condition

FIGURE 17

Oncology Market Share Forecast by PMPM



PIPELINE

By 2020, approximately 65 current pipeline drugs will make up 10% of the condition cost

A robust pipeline of approximately 80 medical drugs will also drive similar costs on the medical benefit



MARKET

Revlimid, Ibrance, and Imbruvica are expected to drive 40-60% of the growth

Cystic Fibrosis



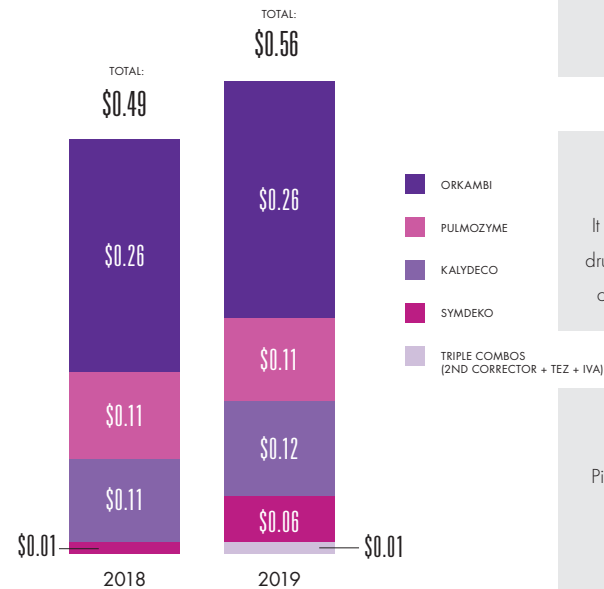
IMPACT PLAYER



Symdeko pipeline drug will increase condition costs by 50% by 2020

FIGURE 18

Cystic Fibrosis Market Share Forecast by PMPM



MARKET

Orkambi will remain the market leader through 2020



CLINICAL

It is estimated that current and future drugs will be able to treat 90% of the cystic fibrosis population by 2019



PIPELINE

Pipeline triple-combination therapies to lead the market by 2021

Please note that due to rounding, some bar totals do not add up accurately.



Pain: Opioid/Opioid Dependence

2017 **\$1.18** COST PMPM (1.8% OF TOTAL COST)

2020 **\$0.78** COST PMPM (1.0% OF TOTAL COST)

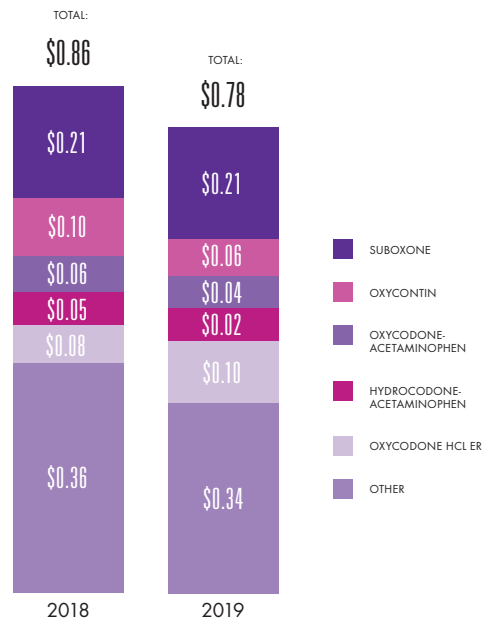
IMPACT PLAYER



Suboxone accounted for 18% of the cost for the condition in 2017 and is forecasted to remain the pharmacy benefit market leader through 2020

FIGURE 19

Pain: Opioid/Opioid Dependence Market Share Forecast by PMPM



PIPELINE

Industry is responding with abuse-deterrent formulations of opioids; however, these are expected to have slow growth

Medical pipeline drug **Sublocade** could change the buprenorphine market and impact pharmacy trend



MARKET

In 2017, the opioid trend decreased nearly 20% due to decreased utilization; this is expected to continue due to increased provider scrutiny

Migraine

2017 **\$0.48** COST PMPM (0.7% OF TOTAL COST)

2020 **\$1.31** COST PMPM (1.6% OF TOTAL COST)

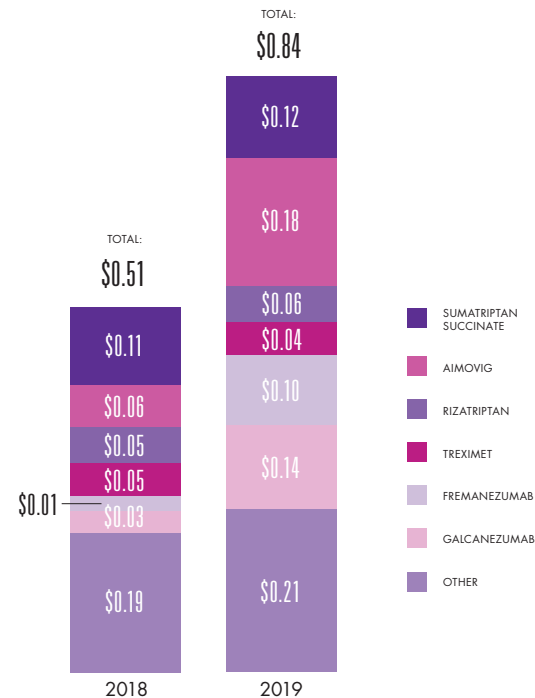
GAME CHANGER



Pipeline agent subcutaneous calcitonin gene-related peptide (CGRP) receptor antagonists are expected to compose 50% of the migraine market

FIGURE 20

Migraine Market Share Forecast by PMPM



MARKET

Studies suggest 38% to 50% of migraineurs are appropriate CGRP candidates



CLINICAL

More than 37 million Americans suffer from migraine attacks, leading to work absences and loss of productivity



PIPELINE

Current pipeline therapies will increase overall condition costs by 170% by 2020

Please note that due to rounding, some bar totals do not add up accurately.



Medical Pharmacy Specialty Drug Management

Medical Pharmacy Programs

As with all segments, employers are focused on cost-saving measures and programs that help contain the high cost of specialty medications. Medical benefit drugs (provider-administered injectable and infusible drugs) present a unique challenge for employer groups. Employees are dealing with cost-prohibitive conditions such as cancer and autoimmune disorders that require unique medications with few alternative options.

The following data analyzing medical pharmacy benefit programs and management was obtained through a survey conducted with employers from companies ranging in size from 1,000 to more than 1 million employees.

Respondents noted that their medical benefit drug cost was typically less than \$10 million and their trend was between 1% and 10%. But two-thirds of respondents (67%) reported 1% to 25% of that medical benefit drug cost was directly related to oncology and oncology-associated supportive drugs (see Key Insights on page 4). Employer groups and their medical benefit managers (pharmacy benefit managers [PBMs], healthcare/pharmacy consultants/brokers) continued to implement strategies and programs to assist in the containment of these costs.

More than half (56%) of employer groups had an official and structured PBM program that managed their drug cost, and 83% of those employer groups were satisfied with that program (see figures 21 and 22). Three quarters (78%) of employer groups had a prior authorization (PA) program in place that managed medical benefit drug use, and these programs were predominantly managed by their PBMs or consultant/brokers (see figures 23 and 24).

FIGURE 21

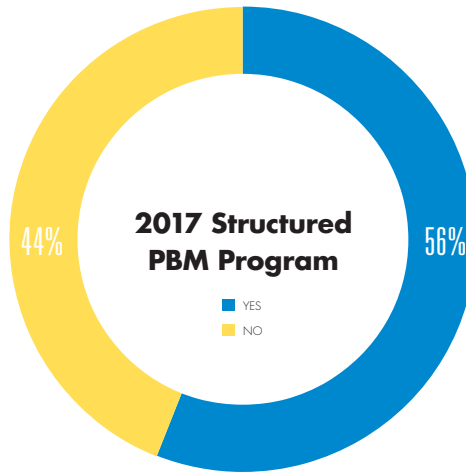


FIGURE 23

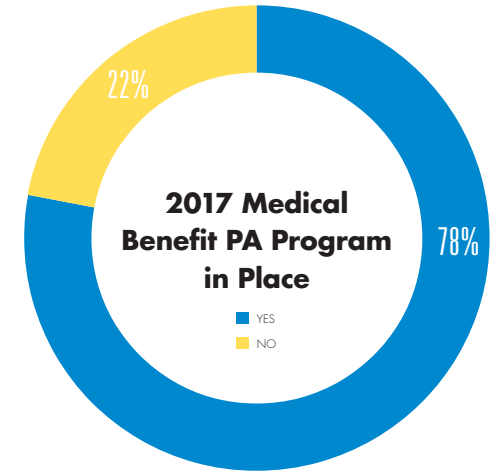


FIGURE 22

2017 Satisfaction with PBM Program/Management



83%

Very/somewhat satisfied



13%

Neither satisfied nor dissatisfied



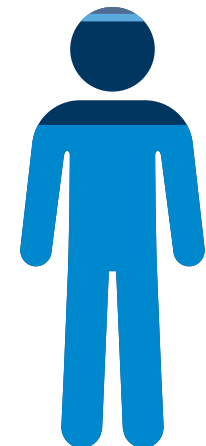
4%

Somewhat dissatisfied

FIGURE 24

2017 PA Program Administrator

- 3% Other (in-house)
- 4% Outside vendor
- 21% Consultant/broker
- 72% PBM





Around half of employer groups had input into the listing of drugs included in their PA programs which included up to 50 drugs (see figure 25). PA programs most often included autoimmune drugs, but hemophilia agents, oncology, and oncology support drugs were also high priority (see figure 26).

In addition to PA programs, employer groups implemented care management programs for key categories. Most often (55%) their medical benefit managers implemented care management programs for autoimmune disorders drugs and oncology/ oncology support drugs (see figure 27). Additionally and specific to oncology, 43% of employers offered a patient assistance program (see figure 28).

FIGURE 25

2017 Number of Drugs in PA Program

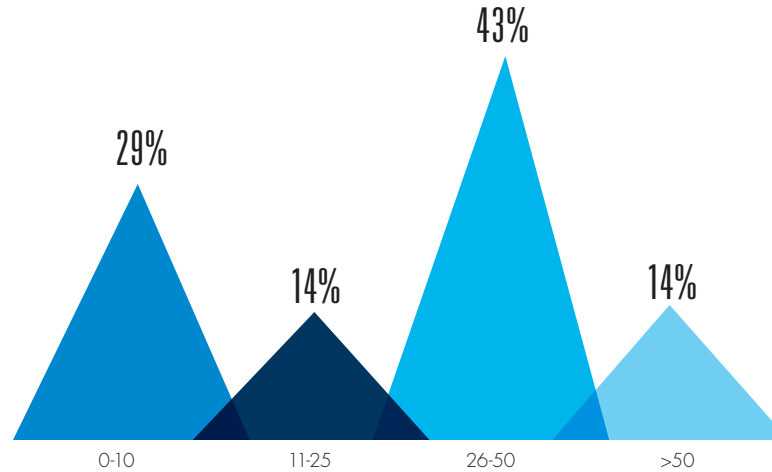


FIGURE 26

2017 Therapeutic Categories Included in PA Program

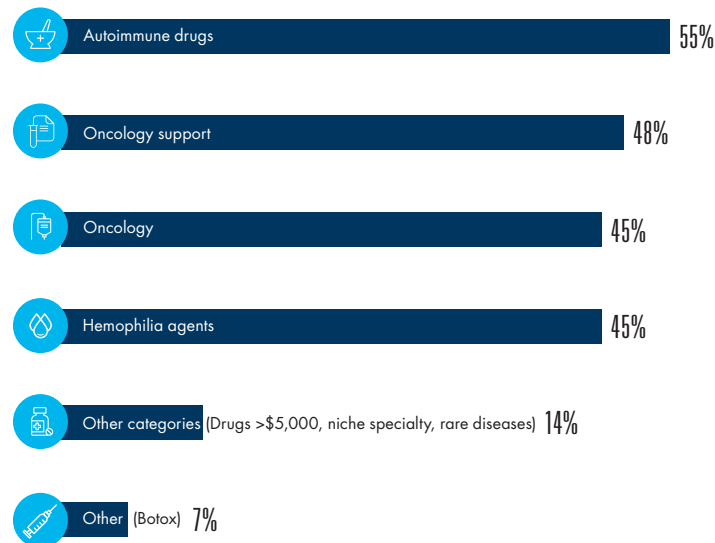


FIGURE 27

2017 Care Management Programs

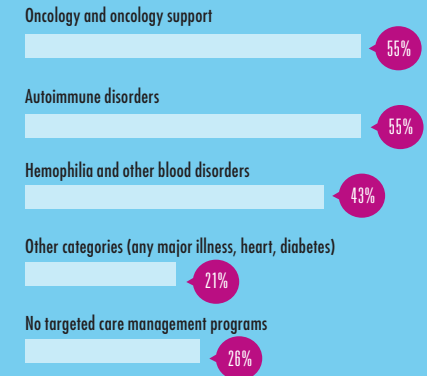
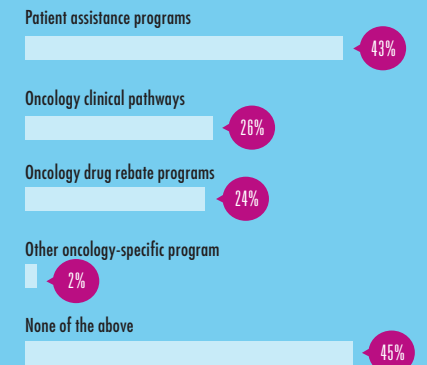


FIGURE 28

2017 Oncology-Specific Care Management Programs





Medical Pharmacy Management

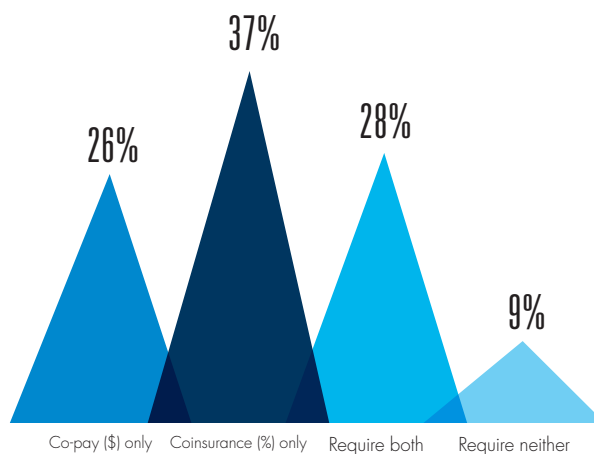
In addition to management programs, employer group respondents and their medical benefit managers continued to manage the structure of the medical pharmacy benefit. Year over year, coinsurance remained the most common employee contribution, but one-quarter (26%) of employer groups required a co-pay or both co-pay and coinsurance (28%) for employees utilizing medical benefit drugs. Employee coinsurance rates remained stable with an average rate of 38% in 2017 (see figure 29).

Outside of benefit structure, in 2017, employer groups streamlined the number of medical benefit plans they offered their employees from an average of 7.3 in 2016 to 2.5 in 2017. The majority of employee lives (81%) were in administrative services only (ASO) plans, while 19% were in fully insured plans (see figure 30).

Half of employer groups (55%) reported employee out-of-pocket (OOP) co-pays/coinsurance were the same regardless of benefit. But for those employers where there was a cost-share advantage to the member, 57% said the pharmacy benefit had the advantage where as 14% said the medical benefit had advantageous cost-share rates. Close to three-quarters of employer groups (71%) were interested in a solution that would carve out high-cost specialty drugs to a lower cost benefit through their PBM vendor (see figure 31), but only one-third (30%) were approached about the process.

FIGURE 29

2017 Employee Medical Benefit Cost Share

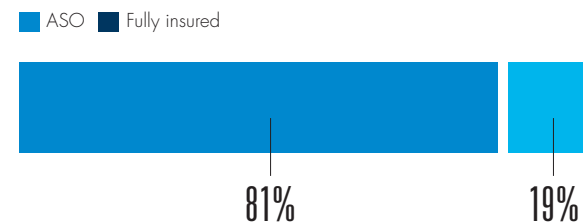


39%
2016
Coinsurance rate

38%
2017
Coinsurance rate

FIGURE 30

2017 Medical Benefit Plan Offerings

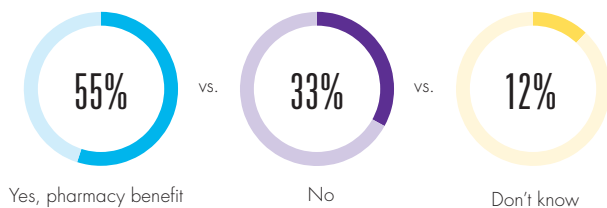


Average medical benefit plans dropped from 7.3 in 2016 to 2.5 in 2017

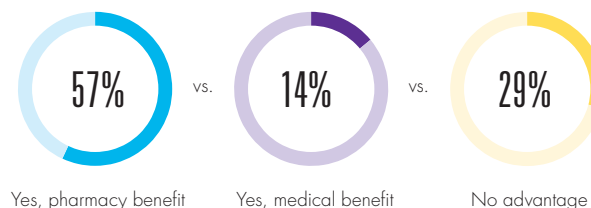
FIGURE 31

Medical versus Pharmacy Benefit

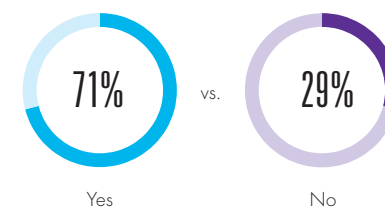
Employee OOP Same Across Benefits n=42



Benefit with Cost-Share Advantage n=14



Considered Carve Out n=42





Administration of medical benefit drugs is often double in the hospital outpatient setting versus the physician office. In 2017, half (55%) of employer groups were providing education to encourage the use of lower cost sites of service for infusion drug treatment, perhaps not active in the process (see figure 32). Even so, 84% of employer groups would offer an incentive to their employees for utilizing lower cost sites of service, including shared cost savings (53%) and higher co-pays for higher cost sites of service (44%) (see figure 33).

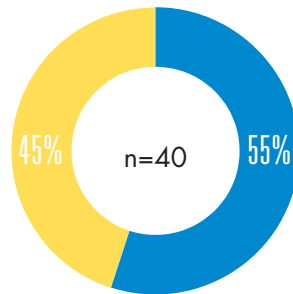
Use of technology to track progress of medical benefit drug costs and success of management strategies continued to become more savvy over the last year. In 2017, data reporting to the employer groups from their medical carrier or third-party administrator (TPA) became more common, with 69% of employer groups receiving their total drug cost data and 67% receiving both their year over year drug trend and summary of high-cost drugs captured via drug codes (see figure 34). Frequency of receiving this data varied from monthly to annually. Most frequently, employer groups received their data quarterly (37%) or annually (37%) (see figure 35). Respondents indicated the data was given free of charge to employer groups.

FIGURE 32

2017 Utilization of Lower Cost Site of Service

■ Yes ■ No

Education on Lower Cost Sites of Service



Incentive for Lower Cost Sites of Service

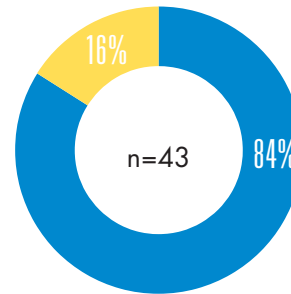
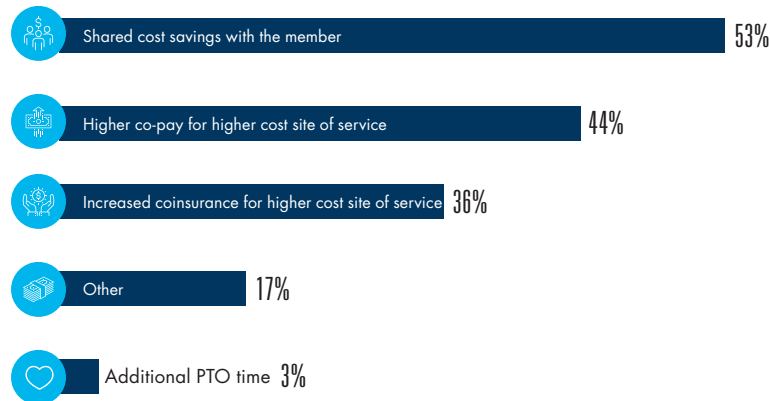


FIGURE 33

Incentives to Offer n=36



2017 Medical Benefit Drug Data

FIGURE 34

Information Provided by Pharmacy Manager n=42

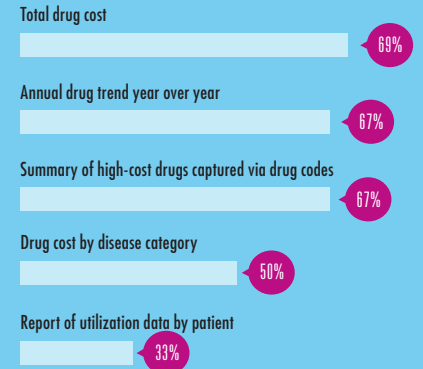
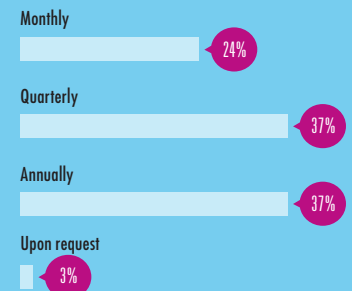


FIGURE 35

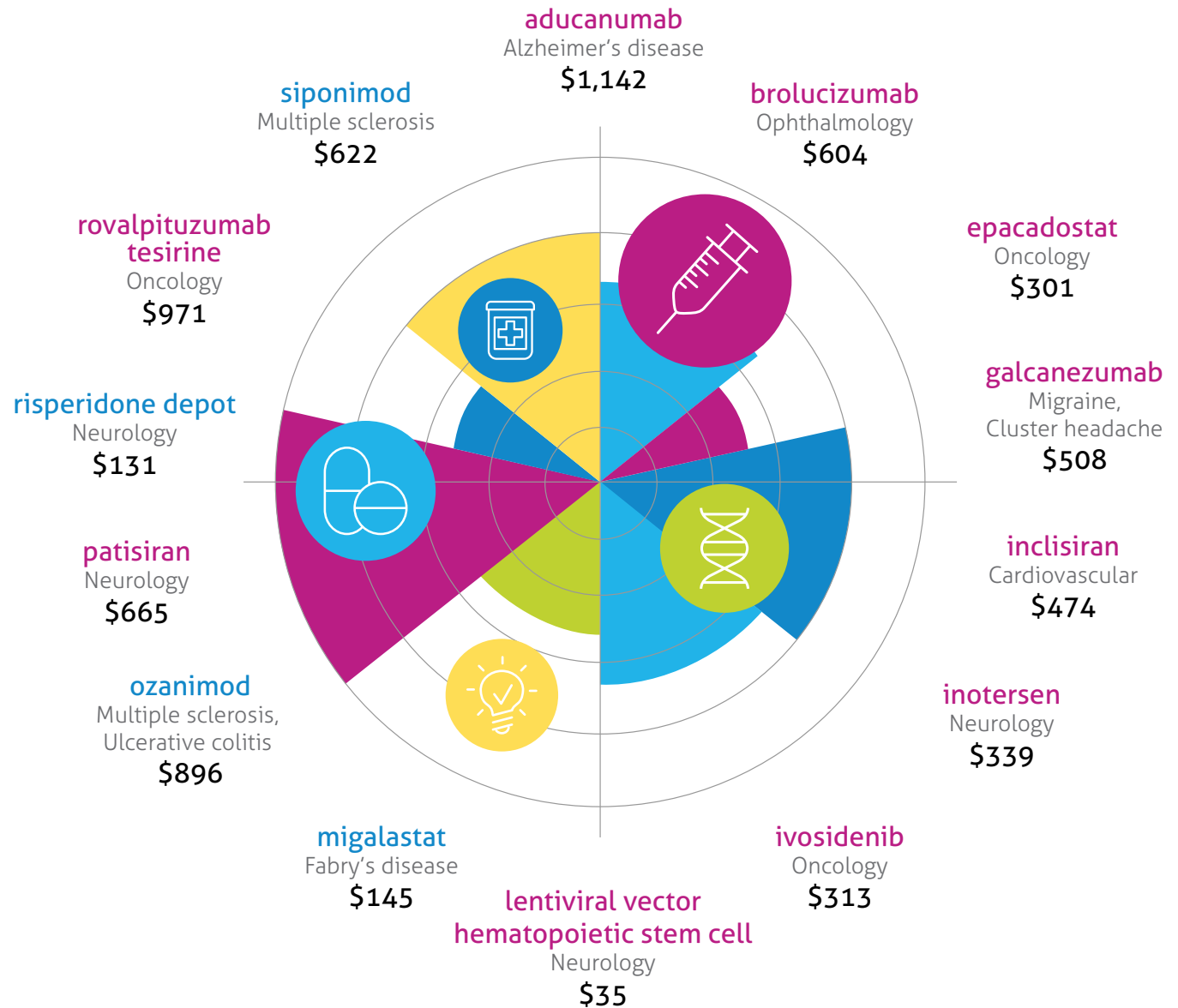
Frequency of Data Report n=38



Keep on Your Radar

Notable agents that are further from approval have been identified in this unique watch list. These are products with the potential for significant clinical and financial impact. Their development status is being tracked on the MRx Pipeline radar. These pipeline products, their respective class or proposed indication, and an estimated financial forecast for the year 2022 are displayed. The financials are projected total annual U.S. sales, reported in millions.

For more detailed information on the pipeline, please see the latest MRx Pipeline Report on our website.³



3. MRx Pipeline Report. January 2018. https://www1.magellanrx.com/media/713547/mrx-pipeline_jan-2018_mrx1119_0118_web.pdf. Accessed January 2018.



Insights Through Innovation

Leveraging Innovation and Technology to Advance Healthcare

At Magellan Rx Management, we are committed to leveraging insights from our advanced analytics to uncover new ways to bring value to the clients and members that we serve. We have two divisions within our organization, MRx Studio and Magellan Method, that are focused on challenging the status quo and creating new opportunities that underscore our dedication to innovation. These teams are comprised of internal employees who were selected for their customer

focus, creativity, and critical thinking skills. They operate in a fast-paced, autonomous environment with a limited hierarchy structure and are supported across the organization to rapidly ideate and prototype value-driven solutions driven by customer participation and insights. Our devotion to pushing boundaries is just one of the reasons we were ranked #1 in a recent survey for Innovative Services and Programs.⁴

Our current areas of focus include:



Adherence Technology



Genomics



Cognitive and Digital Therapeutics



Machine Learning



Opioid Use Prevention



Blockchain

4. Flaspöhler. 2017 Flaspöhler PBM Survey™. <https://nmg-group.com/flaspohler/>

Methodology and Disclaimer

All forecasts are based on MRx methodology to project financial impact for years 2018, 2019, 2020 and 2022. Forecasting information is for informational purposes only. This report is based on the following methodology:

- Specialty drugs include only those covered on the pharmacy benefit and are based on MRx specialty definition.
- Cost per claim is based on average wholesale price (AWVP); cost = employer liability after cost share.
- Overall drug trend and forecast is based on plan paid per member per month (PMPM) change year over year after rebates and network discounts.
- Specialty drug trend and forecast is based on plan paid PMPM change year over year after rebates and network discounts; individual condition drug trend and forecast is prior to rebate impact but includes network discounts
- Traditional drug trend and forecast based on plan paid PMPM change year over year after rebates and network discounts; individual condition drug trend and forecast is prior to rebate impact but includes network discounts. Utilization divided into consumers (utilizers) and consumption (days, supply per utilizer).

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