specialty pharmacy: reining in costs and improving health outcomes
Overview
Specialty drugs are bringing great advances in health care and dramatically improving the medical outlook for employees and covered family members with rare and complex conditions. They also are having a potent effect on benefits administration and the bottom line.

In a recent study conducted by C+R Research and sponsored by Anthem, nine out of 10 employers surveyed said managing the cost of new specialty drugs is challenging. Three out of five respondents saw their specialty pharmacy costs jump in the last benefit year—a trend experts say will continue. Over 60% of respondents experienced an increase in their specialty drug spend, the C+R research shows (Figure 1).

FIGURE 1. Specialty Pharmacy Cost Trends

Q: Has your company’s spending on specialty drugs been increasing, decreasing or staying the same since last benefit year?

Base: Large Group Employers (n=303)
Source: Anthem and C+R Research, Specialty Pharmacy Research Study, February 2016

The pressure from unprecedented and unchecked specialty drug costs is so great that the Pharmacy Benefits Management Institute (PBMI) recently stated, “Specialty drug cost management and benefit design has become critical to the sustainability of health benefits for American workers, retirees and their families.”

This explains why 98% of large employers in the C+R Research study said they are seeking additional education about specialty drugs. Despite feeling knowledgeable about specialty pharmacy, they want actionable information to help them rein in runaway costs.

This white paper examines current marketplace trends, lays out issues employers face within the specialty pharmacy benefits space and offers strategies and techniques for managing specialty pharmacy benefits.

What Is a Specialty Drug?
While there is no standard industry definition, specialty drugs commonly share these challenging attributes:

- They are used to manage complicated and often chronic disease states such as cancer or multiple sclerosis, or inflammatory conditions such as rheumatoid arthritis and Crohn’s disease.
- They can be expensive, usually because they are biologics (medical products made from living organisms, such as vaccines, blood, and genetic therapies).
- They require frequent dosing adjustments and intensive clinical monitoring.
- They usually require special handling such as nursing involvement or mandated member education on usage.

In short, specialty drugs are “high-cost, high-touch medication therapies for patients with complex disease states,” says Robbin Jaklin, president and managing partner of C+R Research. They may be taken orally, inhaled or administered by injection or infusion.

High cost often means stratospheric. For example, most of the new, targeted cancer therapies cost between $100,000 and $150,000 per year, according to the industry publication Specialty Pharmacy Times. And the AARP Public Policy Institute reported in February that retail prices for more than 100 widely used specialty prescription drugs actually surpassed the median income of the average American family in 2013. The average annual cost of 150 “high-cost” specialty drugs recently studied was $53,384.

Moreover, there’s no cost moderation in sight. “Many employers are concerned with the price increases of products that have been in the market for many years, such as Enbrel and Humira,” notes Hiram Satterwhite, principal in Mercer’s actuarial and financial group and managed pharmacy practice. [Enbrel and Humira are used to treat several chronic conditions, including plaque psoriasis and rheumatoid arthritis.]

2 Specialty Pharmacy Times, February 8, 2015
3 AARP Public Policy Institute, Rx Price Watch Report, February 2016
4 High-Priced Drugs: Estimates of Annual Per-Patient Expenditures for 150 Specialty Medications, America’s Health Insurance Plans, April 2016
New treatments on the horizon are expected to add to already high costs. According to Colleen Haines, Vice President, Clinical and Specialty Pharmacy at Anthem, employers can expect to see very specific gene therapies for specialized populations that will cost in the millions of dollars.

Cost Drivers
The fact that specialty drugs are by nature more expensive than chemical-based pharmaceuticals is one reason employer spending on specialty drugs is increasing. However, there are other important factors driving up specialty pharmacy benefit costs that need to be on employers’ radars.

1. There’s a robust drug pipeline. Specialty drugs “have gone mainstream,” states the consulting firm PwC in its most recent health care trends report. “Specialty drug approvals have surpassed traditional drugs in the past five years, and based on the FDA pipeline, this trend will continue.”

Indeed, PwC reports that 700 specialty medications are now in development, and industry investments in specialty pharmaceuticals will soon surpass traditional drug investments. Mercer projects there will be an average of 45 new specialty drugs introduced annually over the next five years.

2. Utilization of specialty medications is increasing. “These drugs aren’t only for rare or niche diseases; there are treatments now, and there are more coming, that are going to be used for broader populations,” Haines explains.

3. There are few biosimilars for branded specialty drugs. In contrast to the steady flow of specialty medications, there’s only a trickle of biosimilar products entering the market. “We’ve had a few, such as Zarxio (used to help decrease the risk of infection in cancer patients) and Inflectra, the recently approved biosimilar for Remicade (for inflammatory conditions such as Rheumatoid Arthritis and Crohn’s disease), but it’s not like traditional generic drugs,” says Haines. “Biosimilars are not always approved with interchangeability to the originator specialty drug, meaning a pharmacy just can’t take the prescription and substitute it with a biosimilar.”

Impact on Benefits
The implications of these trends are enormous. “It’s so exciting when you see a disease that can be cured, but there are cost and affordability factors that go with that,” says Haines.

In just two years, it is estimated that spending on specialty drugs will account for 44% to 50% of total pharmacy expenditures, reports PBMI. By 2020, total spending on specialty drug is expected to reach a staggering $400 billion. This year alone PwC predicts sales for just the seven top-selling specialty drugs (for treating hepatitis C, cystic fibrosis, melanoma, hypercholesterolemia and breast cancer) will reach $9 billion.

FIGURE 2. Specialty Pharmacy Spend Is on the Rise


If the cost of specialty drugs is keeping benefits professionals up at night, managing specialty pharmacy is draining their time during the day. The employers surveyed by C+R reported that roughly one-third of the time they spend managing benefits is devoted to specialty pharmacy. Those with self-insured plans spend the most time.

Managing Specialty Pharmacy
The C+R research confirms that there is no single “silver bullet” for controlling specialty pharmacy costs. Employers typically use a combination of proven drug benefit management techniques (Figure 3) with the most common ones being utilization management, followed by formulary management, cost management, channel management, care management and sites of care management.

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5 PwC, Medical Cost Trend: Behind the Numbers 2015, June 2014
6 The Pew Charitable Trusts Research & Analysis, Specialty Drugs and Health Care Costs Fact Sheet: Specialty Drugs and Health Care Costs, November 16, 2015
FIGURE 3. Employers Using Multiple Techniques to Manage Specialty Pharmacy Costs

Q: How important is each technique in helping your company manage specialty drugs? Rank on a 4-point scale where 1=not at all important and 4=very important. (Chart shows % selecting top two.)

<table>
<thead>
<tr>
<th>Technique</th>
<th>Somewhat Important</th>
<th>Very Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilization</td>
<td>26%</td>
<td>74%</td>
</tr>
<tr>
<td>Formulary Management</td>
<td>29%</td>
<td>68%</td>
</tr>
<tr>
<td>Sites of Care Management</td>
<td>30%</td>
<td>64%</td>
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<td>Channel Management</td>
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<tr>
<td>Care Management</td>
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<td>64%</td>
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</tbody>
</table>

Base: Large Group Employers (n=303)
Source: Anthem and C+R Research, Specialty Pharmacy Research Study, February 2016

However, most aren’t taking advantage of all the strategies available in each category, the survey revealed. These include:

- **UTILIZATION MANAGEMENT.** Roughly two-thirds of employers surveyed admitted using prior authorization under medical and pharmacy benefits and pre-service and post-service review under medical benefits. However, only about half required step therapy or retroactive drug utilization review.

- **FORMULARY MANAGEMENT.** While the majority of employers surveyed said they use many formulary management techniques, such as requiring employee cost-sharing through a copay or coinsurance, there was a notable drop-off in use of outcomes-based formularies and fourth and fifth tiers.

- **COST MANAGEMENT.** At least half of employers acknowledged using the typical cost management techniques, which include limiting drug refills to 30 days, requiring higher cost-sharing for out-of-network pharmacy use and non-preferred specialty drugs, and provider incentives to use lowest-cost sites of care and treatment pathways. But a sizable number were still covering non-preferred drugs or scripts filled out of network and not taking advantage of rebate-sharing and refill limits.

- **CHANNEL MANAGEMENT.** About two-thirds of employers surveyed required employees to obtain specialty drugs at designated specialty or retail pharmacies. However, only 44% required employees to use mail pharmacies.

- **CARE MANAGEMENT.** At least half of employers said that they use all care management tools available, and another 20% to 30% reported planning to use them next year. These include reminders for refilling prescriptions, periodic health assessments and answering drug administration questions (for example, by making a nurse available).

- **SITES OF CARE MANAGEMENT.** Just over half of employers reported using sites of care management strategies on both the pharmacy and medical benefit sides, and one-fourth plan to add these features in the next benefit year. These include asking or requiring employees to move to lower-cost care sites to receive a drug or self-administer medication.

This trend toward the use of sites of care management is positive because these techniques offer some of the best opportunities for savings (Figure 4). Employers also can increase employee satisfaction by choosing to cover sites of care that are more convenient and comfortable for patients under medical and pharmacy plans.

FIGURE 4. The Value of Managing Sites of Care – Provider-Administered Drugs
(Chart shows Drug A* average claim by site of care)

*This drug is commonly used to treat Crohn’s Disease, rheumatoid arthritis, plaque psoriasis and other conditions.
Integrating Medical and Specialty Pharmacy

One of the most important takeaways from the C+R research is that many employers are not realizing the cost savings and other advantages that can result from implementing an integrated approach to specialty pharmacy and medical benefits.

Integrating specialty pharmacy with medical benefits drives smarter decisions—it helps assure the right drug is provided in the right setting and is covered under the right benefit. Conversely, when specialty pharmacy and medical benefits are not linked, it can be expensive and stressful for both plan sponsors and members, as the sidebar “The Cost of Non-Integrated Care” illustrates.

The specialty drug picture is complicated because these medications can be administered in many different places, says Anthem’s Haines (Figure 5). Managing specialty pharmacy requires a lot of different strategies. “The key is that strategies have to be coordinated, and they have to work together,” she stresses. “If you do not have a line of sight for both medical and pharmacy, you make uninformed decisions.”

Every specialty medication should be assessed with an eye toward which benefit it will be covered under, how it fits into the clinical program, where the site of care is going to be and how it’s going to be paid for, Haines continues. “How do we create solutions that integrate all of these variables?”

Case Study: The Cost of Non-Integrated Care

When medical and specialty pharmacy benefits for specialty drugs are not integrated, employees are forced to deal with the repercussions. Here is one such situation.

After his chemotherapy treatments, Li’s oncologist gave him Neulasta to help avoid infections. When the oncologist billed the insurance carrier for four Neulasta treatments at $4,000 each, she found out that Li’s drug isn’t covered under his medical benefits because his employer recently moved specialty drugs under pharmacy benefits.

Li is now at risk for paying $16,000 for the four injections, and he’ll have to go to the pharmacy benefit provider for future injections.

FIGURE 5. Steering along the Right Path

Source: Anthem, 2016
Integration of Medical Benefits With Specialty Pharmacy Checklist

Integrating specialty pharmacy and medical benefits requires a 360-degree view of the complicated specialty drug environment. An integrated management program should include:

- **PIPELINE MONITORING.** Watch what drugs are being introduced and understand how new products differ from the current standard of care. Have a clinical management strategy ready to put in place as soon as a drug is approved.

- **CLINICAL MANAGEMENT.** Select medications that have been shown to have the best outcomes and are cost effective. Implement programs to increase medication adherence. Aim for therapies that show impact across a continuum of care.

- **DIRECTION OF CARE.** Steer patients to appropriate, cost-effective sites.

- **COST MANAGEMENT.** Establish low-cost networks, contracting at competitive rates and negotiating discounts.

- **PROVIDER INCENTIVES.** Offer rewards for the best care. For example, Anthem has an incentive program called Cancer Treatment Pathways in which claims are not denied, but physicians are incentivized to use medications where there is evidence of a positive outcome.

- **A PATIENT FOCUS.** Coordinate patient care and ensure support for complicated diseases. And always remember the member when moving medications from different benefits and different channels.

- **COMPREHENSIVE REPORTING.** Know what you are spending for both medical and pharmacy benefits. Understand not only the cost of specialty drugs but also about what’s driving those costs and how the drugs are being administered. For example, Anthem has found 94% of self-injected drug utilization is processed under the pharmacy benefit.

“When you think about your medical and pharmacy benefits, specialty is going to be on both sides of the house and management strategies are dependent on the type of care a plan member is getting, the drugs that are prescribed and the types of supportive care they need,” summarizes Haines.

Integrating specialty pharmacy and medical through a robust, comprehensive package of strategies will enable employers to keep their specialty drug spend at the lowest possible level and assure the best possible care for employees.

**Survey Methodology**

The C+R employer survey was designed to identify specific employer pain points and opportunities when it comes to managing specialty pharmacy. The survey was conducted online in December 2015 and January 2016, and included 303 large group employers with 100+ full-time employees. Of these, 187 are fully insured and 116 are self-insured.

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