



Trend Report

In 2018, CVS Health

- Blunted the impact of price inflation
- Helped reduce member cost
- Improved adherence

From 2016 through 2018 we saved our clients more than **\$141B**

 **CVS**Health[®]

Our role as your pharmacy benefit manager is to help you control costs and drive better results.

Here's how we did that over the last 3 years —
from 2016 to 2018



We significantly reduced the impact of inflation despite manufacturer price increases

25%
drug price
inflation

3.1%
impact from
price growth

And we prioritized lower-cost drug options

\$18.5B
savings from generics and biosimilars



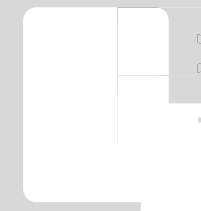
We also promoted appropriate utilization, including in specialty pharmaceuticals

\$48.5B
savings from formulary and utilization management



We used targeted solutions to help clients reduce costs

>\$8.0B
savings from network strategies, compound management and other solutions



And we negotiated effectively to reduce the impact of drug price growth

\$66.6B
rebate value delivered to clients and members



From 2016 to 2018, these solutions resulted in client savings

>\$141B
cost avoidance on pharmacy spend **30%**

Plus, we helped clients avoid medical costs

>\$18.3B
savings due to improved adherence



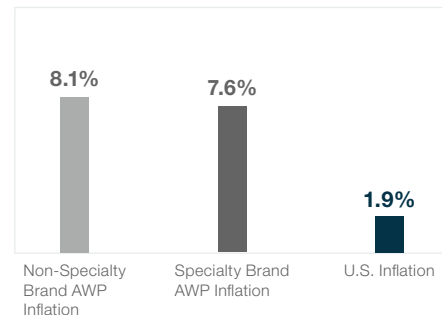
2018 Drug Trend

By the numbers



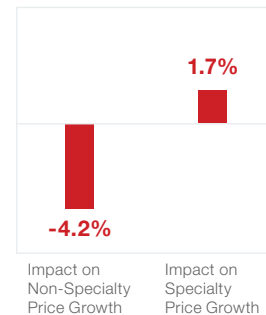
In 2018, we blunted the impact of price inflation

Pharmaceutical manufacturers raised brand drug prices at 4 times U.S. inflation.



AWP: Average Wholesale Price

PBM significantly reduced impact of price inflation.



We helped keep prescriptions affordable for members



Since 2013, medical costs have increased by **14%**



In that time, members have paid **8.4%** less per 30-day Rx



~2 out of 3 utilizers spent **<\$100** on Rx



We helped more members stay on therapy, helping to reduce medical costs

CHOLESTEROL
↑ **+1.0%**

DEPRESSION
↑ **+1.6%**

DIABETES
↑ **+1.8%**



We continue to evolve our comprehensive array of strategies and solutions to help lower prescription drug costs for plans and members.

2018

We delivered savings to plans, lowered member costs, helped improve outcomes.

The rising cost of health care and prescription drugs affect every household in the nation, and are a critical issue for consumers, policy makers, industry stakeholders, and the media. Throughout the debate, our steadfast focus has been on helping reduce costs and improve outcomes for our clients and their plan members.

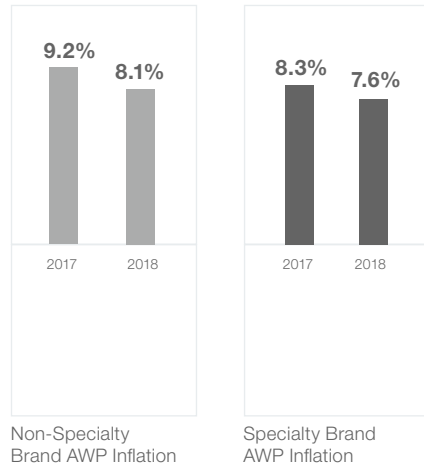
In 2018, our solutions reduced the impact of price growth to 1.2 percent and helped payors achieve lower net cost. Trend, largely driven by utilization increases and adherence improvements, was 3.3 percent in our commercial cohort. We also kept drugs affordable for members. That helped more people stay adherent to their prescribed drug regimens, with a positive effect on overall costs of care.



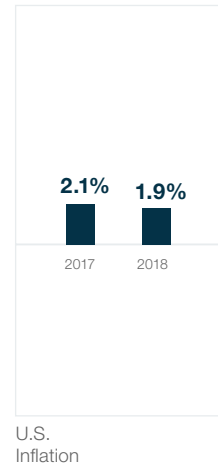
Reducing the Impact of Manufacturer Price Inflation

Responding to wide-spread pressure, including from the administration, pharmaceutical manufacturers in 2018 toned down their aggressive price increases, although inflation rates on prescription drugs still far outpace the country's overall inflation rate.¹ Our PBM strategies have consistently reduced the impact of drug price inflation — to -4.2 percent price growth for non-specialty and 1.7 percent in specialty in 2018. Across both categories, price growth contributed a low 1.2 percent to trend. Last year, 44 percent of clients saw their prescription drug prices decline.

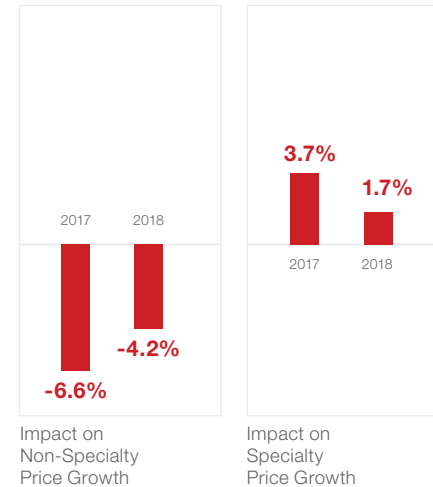
In 2018, pharmaceutical manufacturers reduced inflation slightly.



Drug price inflation 4 times U.S. inflation.



PBM strategies significantly reduced impact of manufacturer price inflation.

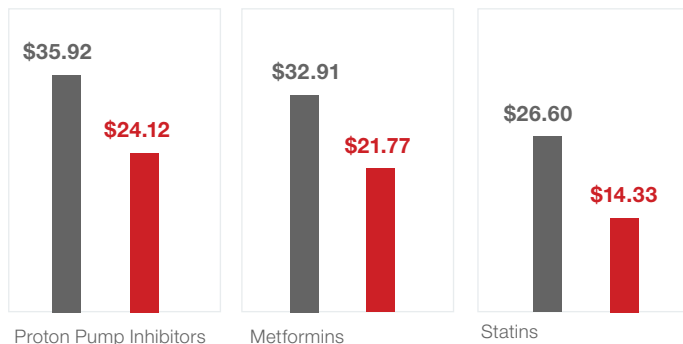


AWP: Average Wholesale Price

Managing Formulary to Deliver Lower Net Cost

Formularies enable the PBM to take advantage of market competition, effectively negotiate rebates, and promote the use of lower-cost options. Clients who adopted one of our managed formularies spent less per 30-day supply.

2018: Cost of 30-Day Prescription Lower on Managed Formulary



● Standard Formulary without Drug Removals ● CVS Health Managed Formularies with Drug Removals

CVS Health managed formularies help clients achieve lower net cost per 30-day supply.



2018:

44% of clients saw their net prescription drug prices decline



Prioritizing Lower-Cost Choices for Plans, Members

Starting in 2012, dozens of blockbuster drugs lost patent protection, opening the way for generic competition. Today there are generic options in the majority of common chronic categories. PBM solutions — including formulary strategies, preventive drug lists, and improved price transparency — have helped members and plans take advantage of the savings offered by generics.

Rising costs for the treatment of diabetes challenge payors and patients, but strategic management has helped control spend. In 2018, trend for antidiabetic drugs was -1.7 percent, despite rising utilization and AWP brand price inflation of 5.6 percent.

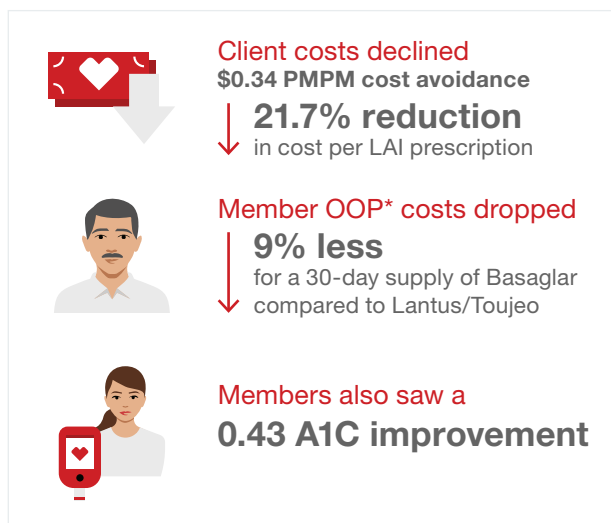
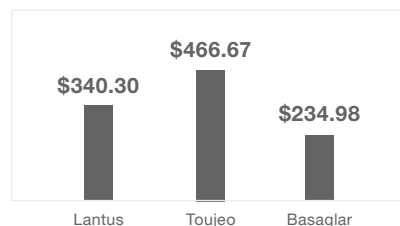
Insulin prices have been a particular concern. Over 10 years — 2009 to 2018 — the list price of Lantus, a top-selling, long-acting insulin (LAI) rose from \$119.70 to \$340.30 — a 184 percent increase. In 2015, the manufacturer of Lantus launched another form of the same insulin, Toujeo, just as Lantus was about to lose patent protection. The 2018 list price for Toujeo was \$466.67.

We led the market in taking steps to help blunt the impact of these price increases. Basaglar, a product using the same insulin as Lantus, entered the market in 2017 with a list price of \$234.98. That year, we excluded Lantus and Toujeo from our formulary, and made Basaglar the preferred drug. Ninety-three percent of patients affected by this formulary change discontinued Lantus, the majority switching to another LAI or other anti-diabetic therapy. Among patients who switched to a new LAI, there was a significant A1C improvement of 0.43. With this formulary change, member costs for a 30-day supply of Basaglar were 9 percent lower than costs for members using Lantus or Toujeo. Clients benefited from a 21.7 percent reduction in cost per LAI prescription which translated to a lower overall cost of \$0.34 per member per month (PMPM).

Keeping Insulins Affordable

By removing Lantus and Toujeo from the formulary and making Basaglar preferred, we were able to save clients and members money.

2018 List Price



*OOP: Out-of-Pocket

2018:

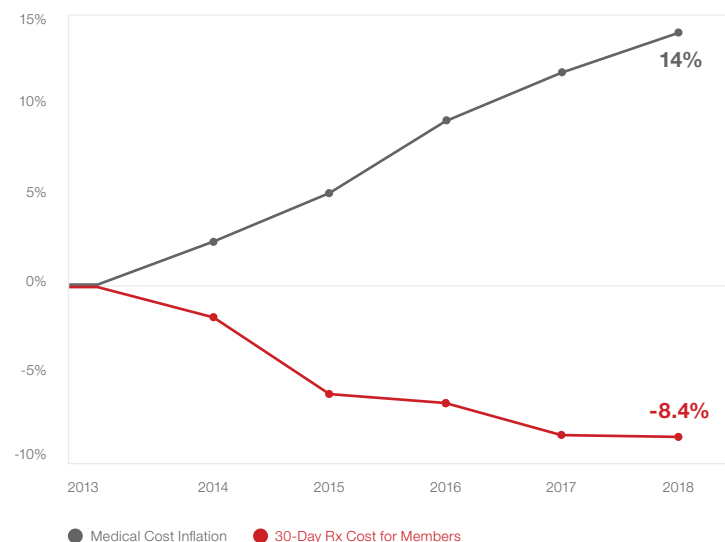
1.7% decline
in total diabetes drug
spend PMPY



Keeping Prescriptions Affordable for Members

Despite the increasing prevalence of high deductible plan designs, our generic and formulary strategies, along with our effective management of price growth, have helped reduce member OOP cost for six straight years. In 2018, two out of every three utilizing members spent less than \$100 on their prescriptions; more than 85 percent spent less than \$300.

Year Over Year, Member OOP Cost per 30-Day Prescription Went Down



Medical costs have increased by 14% since 2013²

↓
In that time members have paid 8.4% less, from \$11.96 to \$10.95, per 30-day Rx

Helping Members Stay Adherent

Non-adherence is associated with poor health outcomes, progression of disease, and an estimated cost of billions of dollars a year in avoidable health care costs.³ Drug affordability, along with targeted adherence interventions and our commitment to simplifying prescription management for patients, has helped increase the percentage of members who are optimally adherent in key chronic classes — such as cholesterol, depression, and diabetes — year after year.



In 2018, more members achieved optimal adherence

CHOLESTEROL
↑ +1.0%

DEPRESSION
↑ +1.6%

DIABETES
↑ +1.8%



Moving a member to optimal adherence reduces overall costs of care⁴

↓ \$1.5K

↓ \$1.9K

↓ \$1.9K



Meeting the Ongoing Challenges of Specialty Management

Specialty utilization and share of gross cost continues to grow, reaching 45 percent of total pharmacy spend in 2018 as compared to 42 percent in 2017, despite comprising only 1 percent of prescription claims. That trend is expected to continue. Specialty drugs dominate the pharmaceutical pipeline, and new drugs with ever-higher launch prices will continue to drive utilization and spend.



Specialty accounts for
1% of Rx's

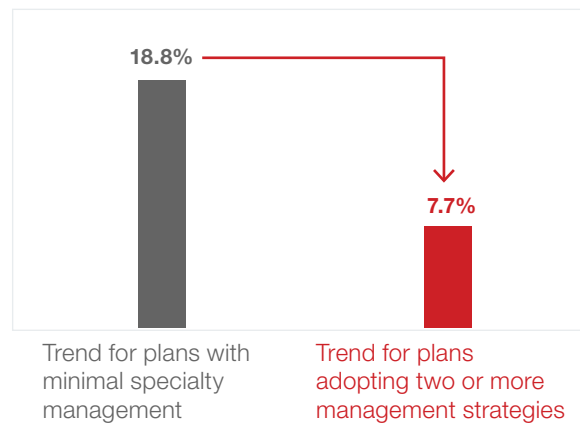


But accounts for
45% of pharmacy spend

Of the record 59 new drugs approved by the U.S. Food and Drug Administration (FDA) in 2018, 40 are considered specialty pharmaceuticals, including a significant number of drugs targeting rare diseases or considered first-in-class or Breakthrough Therapies.^{5,6}

A tight management approach is necessary to help control costs in this complex and dynamic market sector. Our formulary strategies include quarterly auto-updates to address market shifts, evaluation of new-to-market products to determine clinical value and cost-effectiveness prior to formulary coverage, and a generics-first approach when generics are available, clinically appropriate, and cost effective. Indication-based contracting can help tie a drug's cost to its value for a specific indication. Utilization management is essential for safe and appropriate use, and plans also benefit by ensuring that dosages dispensed are within safe and appropriate thresholds.

2018: Multifaceted Strategy Helps Plans Cut Specialty Trend



Management Strategies Include:

- ✓ **Formulary**
For the right drug
- ✓ **Utilization Management**
For the right use
- ✓ **Exclusive Pharmacy Network**
For the right channel



5 Top Trends to Keep on Your Radar

01 **Specialty (No Surprise!) Will Keep Growing**

A robust pipeline, limited competition, high launch prices. It all translates into continued growth in your utilization and spend. In short, how well you manage specialty determines your prescription benefit performance. In 2018, we reduced specialty trend to 11 percent and limited price growth to just 1.7 percent. Our end-to-end approach promotes the right utilization of the right drugs to maximize your dollars.

02 **And Then There's This Specialty Spend**

Nearly half of specialty spend — 45 percent — is under the medical benefit. That's over and above what you spend through the pharmacy benefit. We estimate that combined spend on specialty under both benefits is equal to 60 percent of your total drug spend. This blind spot in your benefits can drive unnecessary costs. We can help manage that spend through our integrated specialty approach.

03 **Drugmakers, Inventive in So Many Ways**

Pharmaceutical manufacturers can be lauded for their development of innovative, often life-saving products. They are also very inventive in marketing and protecting those products in ways that can reduce market competition. Case in point: In 2018, the FDA approved a record seven biosimilars — bringing the total to 16.⁷ This includes at least one biosimilar for these top-selling biological drugs: Humira, Rituxan, Enbrel, Herceptin, Avastin, Remicade, and Neulasta. However, unlike in Europe, few biosimilars have come to market in the U.S., thanks mostly to manufacturer delaying tactics and patent litigation. At the same time, new branded drugs — including “me-too” therapies — continue to launch at record-breaking price tags. It's crucial to be vigilant in monitoring the pipeline and implementing effective cost-management strategies.

04 **Adherence Really is Hard Work**

Sixty percent of Americans have a chronic disease.⁸ For many, sticking to their prescribed drug regimen can be a challenge. That means it's a challenge for you too, as the payor, because medication adherence is a critical part of managing most chronic conditions and controlling overall medical costs. Consider the many ways you can make adherence easier, from reducing OOP costs to making sure your members are aware of prescription management tools like dosing schedules, 90-day supplies, and pharmacy apps.

05 **Bad Actors Are Out There**

Over the last decade there have been waves of outlier activities that have driven up spend for payors — hyperinflating drugs; spiking use of compounds; over-prescribing of opioids; and everyday waste, misuse, fraud and abuse. Our predictive surveillance analytics and clinical teams work to control these costs before they burst your budget. For example, our strategy aimed at managing utilization of select medical devices has reduced client cost by >80 percent.

**Combined specialty
spend under pharmacy
and medical benefits=
~60% of total
prescription spend**



Leading the Change

CVS Health has been a market leader in helping lower prescription drug costs and has played an active role in addressing the challenges of our nation's health care system. We continue to evolve our comprehensive array of strategies and innovative solutions. We are also committed to advocacy for policies that foster competition, lower consumer costs, and restrain anti-competitive behavior.

Even before the latest proposal from the U.S. Department of Health and Human Services to eliminate rebates, it was clear that a simpler, more transparent and less rebate-centric model was needed. And, in the interest of providing a flexible range of solutions for clients, CVS Health was working to develop one.

Our new **Guaranteed Net Cost** pricing model is rebate-agnostic and guarantees average net spend per prescription, after discounts, for each distribution channel. Our PBM takes accountability for the impact of inflation and shifts in drug mix, and incorporates the total value of all discounts. Importantly, our new model better aligns PBM incentives with our clients' objective — low net plan cost.

The time is right for this change.





Methodology

This report provides an overview of performance for CVS Health commercial PBM clients — employers and health plans. Data was calculated on a cohort of more than 1,500 clients, covering 27.2 million lives. The cohort is built only on clients under our management throughout all of 2017 and 2018, excluding commercial clients with eligibility shifts exceeding 20 percent as well as any clients contractually prohibited from inclusion. Prescription drug trend is the measure of growth in prescription spending per member per month. Unless otherwise noted, reported data is net of negotiated discounts and rebates. The three-year PBM pharmacy value calculation is a conservative estimate that doesn't account for all savings from strategies and other PBM programs, including pharmacy network management, fraud detection and prevention, drug price discounts, medical benefit cost avoidance, or other programs and services. The three-year medical cost savings were calculated comparing baseline adherence metrics from 2012–2014 (depending on the segment) with those from 2016–2018.

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1. <https://www.thebalance.com/u-s-inflation-rate-history-by-year-and-forecast-3306093>.
 2. <https://fred.stlouisfed.org>.
 3. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3934668/>.
 4. Adherence, commercial clients, 2015-2018. Savings Analysis, by CVS Health Enterprise Analytics, 2019.
Savings figures are projections based on the Pharmacy Care Economic Model, which was developed by CVS Health Enterprise Analytics, using clinical literature, to project the financial value of improved pharmacy care.
 5. CVS Caremark Pipeline Services, 2019.
 6. <https://www.medscape.com/viewarticle/907364>.
 7. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3934668/>.
 8. <https://www.cdc.gov/chronicdisease/resources/infographic/chronic-diseases.htm>.

All of the savings and/or trend results discussed in this report will vary for specific populations based on a variety of factors, including demographics, plan design and programs adopted by the client. Client-specific modeling available upon request.

This document includes references to brand-name prescription drugs that are trademarks of pharmaceutical manufacturers not associated with CVS Health.

Adherence results may vary based upon a variety of factors such as plan design, demographics and programs adopted by the plan. Client-specific modeling available upon request.

Data source, unless noted otherwise, CVS Health Enterprise Analytics, 2019.

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