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HEALTH ACTUARIES & CONSULTANTS

# Reimagining Pharmacy Financing

2023 Southeastern Actuaries Conference Spring Meeting  
June 22, 2023 at Sandpearl Resort – Clearwater Beach, Florida

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# Reimagining Pharmacy Financing

## Agenda

Introduction and  
Origins

How Do You  
Define Value?

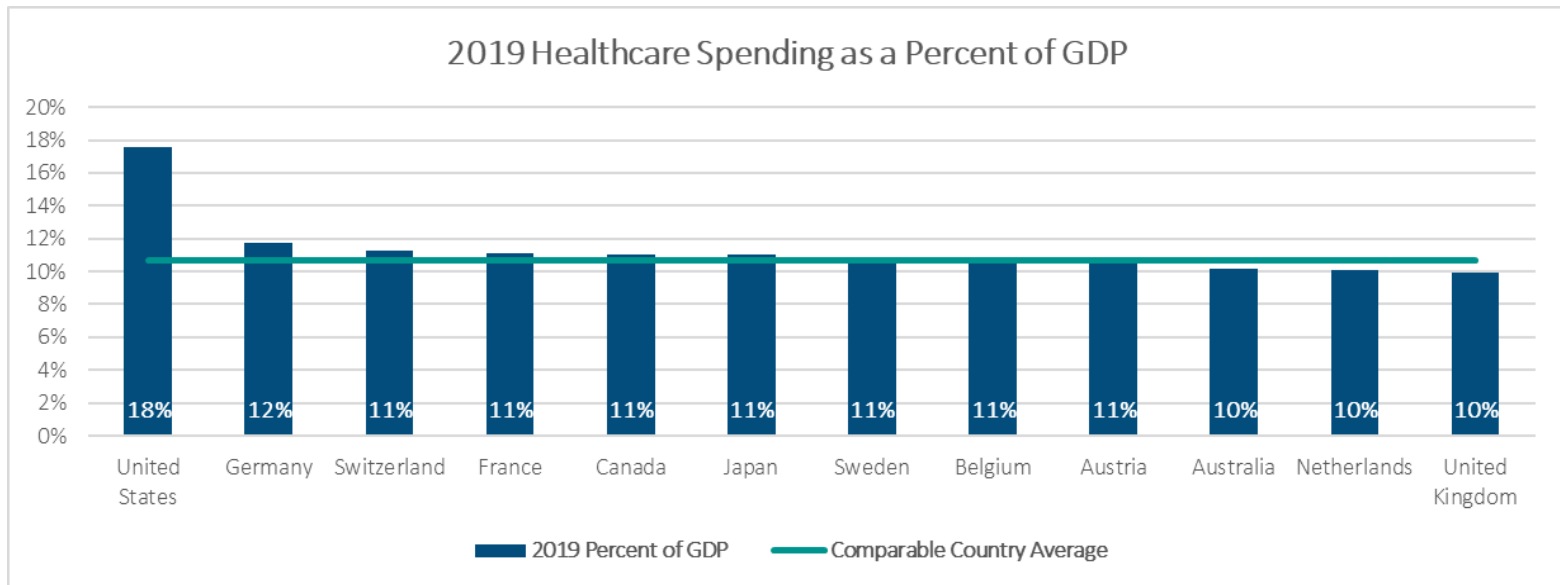
How Do You  
Measure Value?

Applying the  
Answers

Next Steps

# Introduction and Origins

## Initiative 18|11: What Can We Do About the Cost of Health Care?



- In 2019 the U.S. spent 18% of its GDP on healthcare compared to 11% for comparable countries but usually ranks last in quality
- For more information on Initiative 18|11: [Initiative 18|11 | SOA](#)

# Introduction and Origins

## 18|11 Recurring Themes

### The Healthcare Identity

- One person's cost is another person's income
- Efforts to constrain costs often fail, like the Medicare sustainable growth rate

### Wrong Pocket – Long Pocket

- Wrong pocket: organization financing a drug may not be the organization reaping benefits
- Long pocket: the time needed to achieve savings may not meet payer's objectives

### The 5/50 Principle

- Approximately 50% of total expenses are attributable to 5% of the population
- It is not the same 5% each year

**Several themes emerged during the early phases of 18|11 that could be helpful now.**

# Introduction and Origins

## The 18|11 Pharmacy Strategic Initiative

### Article Series

- Actuarial Perspectives on Prescription Drug Financing  
[Actuarial Perspectives on Prescription Drug Financing - The Actuary Magazine](#)
- Additional Actuarial Perspectives on Prescription Drug Financing  
[Additional Actuarial Perspectives on Prescription Drug Financing - The Actuary Magazine](#)

### Research Domains

- The drug development process
- Economic impact
- Consumer impact
- Regulatory process

### Themes

- Increase transparency
- Encourage competition
- Align stakeholder incentives
- Mitigate total cost of care

Following the 18|11 conference, a key next step was to determine what we know and don't know about the pharmacy space

# Introduction and Origins

## SOA Pharmacy Partnership Forum

Topic	Key Question
Defining value	How should we define the value of a prescription drug?
Measuring value	How should we measure the value of a prescription drug? Do we have the data and analytical methods we need?
Applying the answer	How should we scalably and meaningfully apply these answers to pharmacy financing?

**Reimagining Pharmacy Financing: gathering health economics outcomes researchers, clinical pharmacists, medical doctors, benefits consultants, Medicaid specialists, academics and health actuaries**

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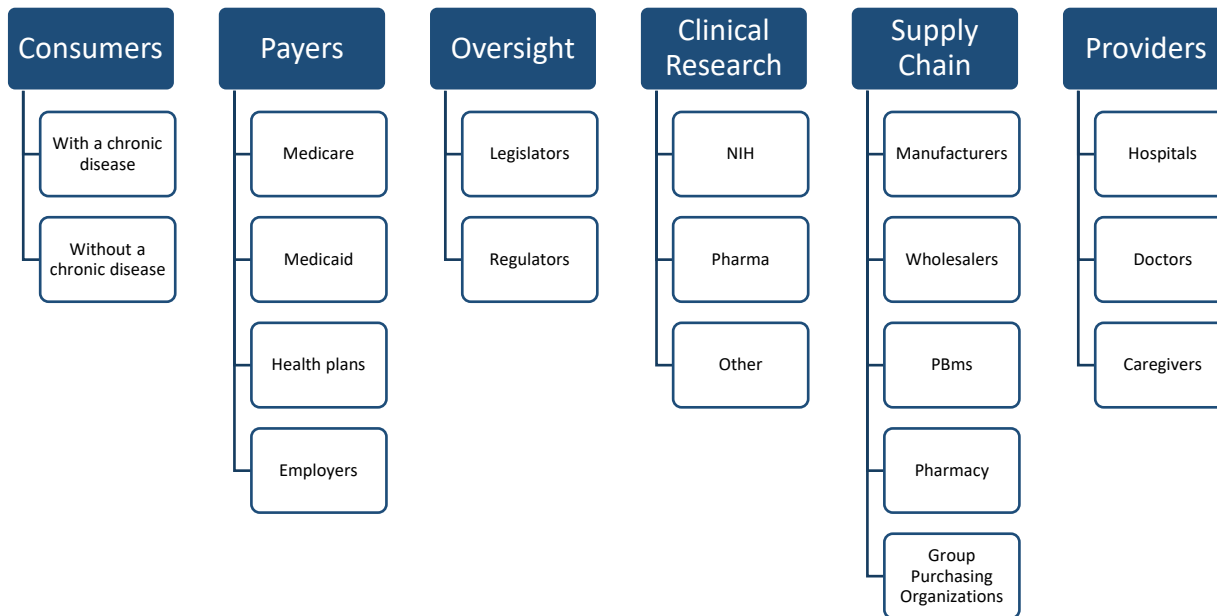
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# Defining Value

## Stakeholders

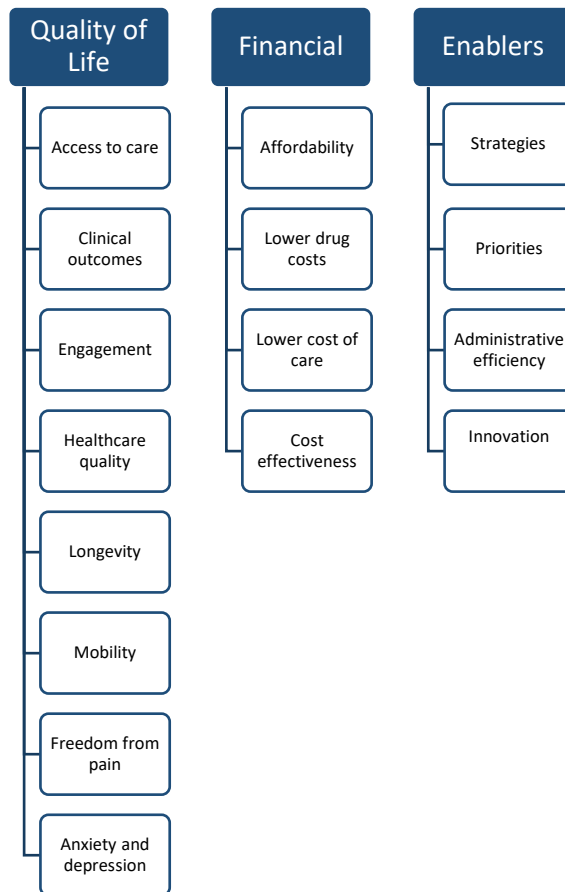


- **Stakeholder Views**
  - Society as a whole
  - Patient-Centric
  - Transactional
- **Vested Interests**
  - Taxpayers
  - Investors
- **Support functions**
  - Employees
  - Brokers and consultants



# Defining Value

## Transaction Value Framework



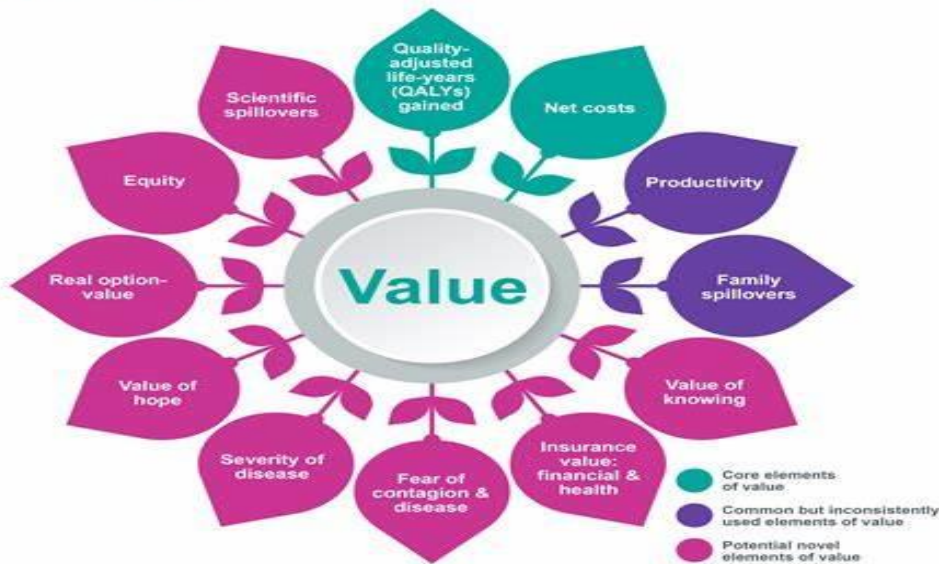
- **View by stakeholder**
  - Varies by stakeholder
  - Each stakeholder may value multiple items
- **Purpose of this framework**
  - Can each element be defined?
  - Can each element be measured?

# Defining Value

## The Value Flower

### The Value Flower:

Towards a more holistic understanding of drug value and innovation



Source: ISPOR

TRIBECA  
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- **Health Economics View of Value**
  - Also known as the ISPOR value flower
  - Relies on quality-adjusted life years (QALY), not financial transactions
  - Key measure: cost per QALY gained
- **Overlap with transactional view**

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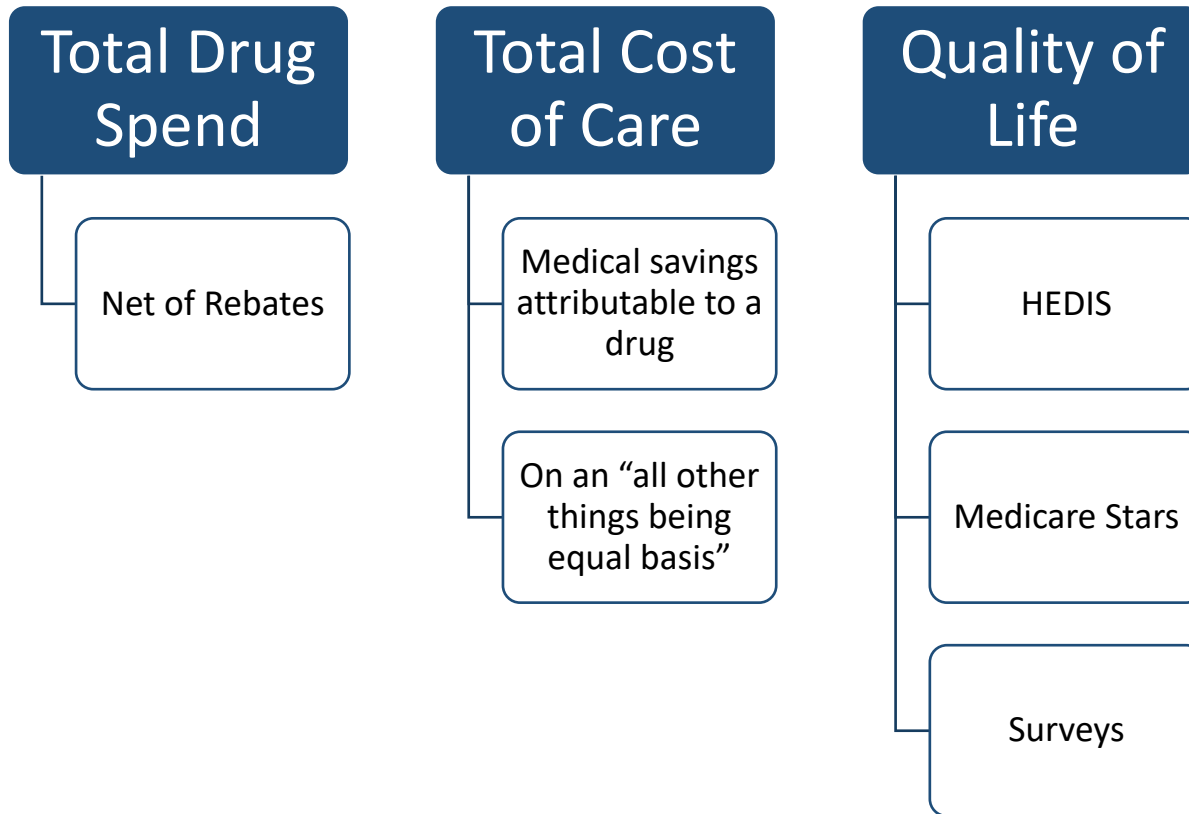
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# Measuring Value

## Value-Specific Measures



# Measuring Value

## New Drug Coverage Decisions

### Health Technology Assessments (HTAs)

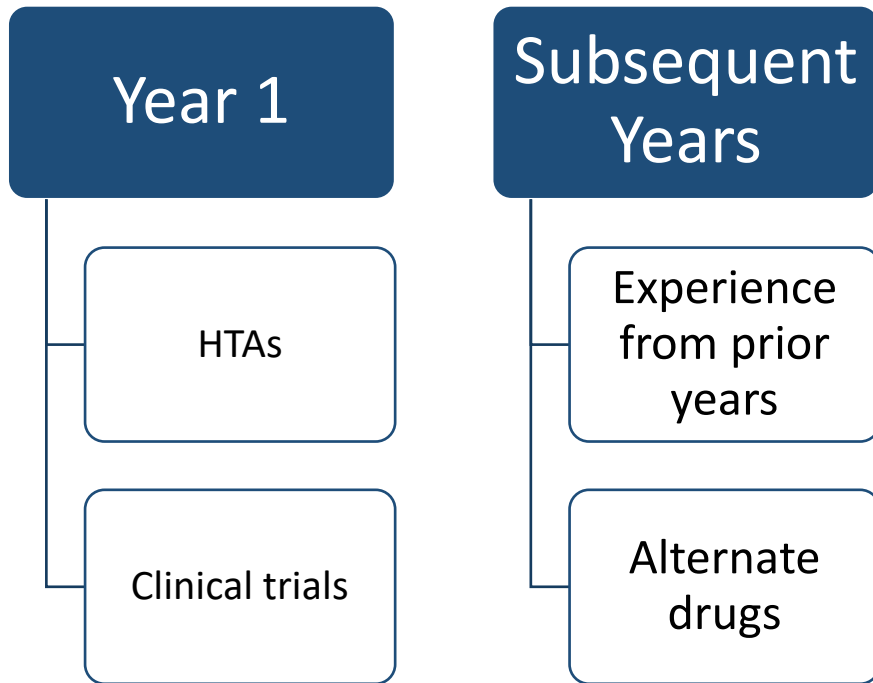
- Used by some countries as a starting point for inclusion/exclusion of a drug from formulary
- Evidence-based
- Key questions: Does the drug work? Is it safe? Is it cost-effective?
- Definition of cost-effective: Is the cost of the drug per QALY less than a benchmark, like \$50,000?

### QALYs

- 1 QALY = 1 additional year in full health
- Quality measured by a survey like the EQ-5D
- Survey domains include mobility, self-care, pain, etc.
- Survey domains do not include longevity
- Concerns: Definition of quality varies by individual

# Measuring Value

## Data for Price Negotiations



- **In the U.S. prices are negotiated annually**
- **In Year 1, HTAs and clinical trials may be the only sources of information**
- **In subsequent years**
  - Additional experience data is available
  - New drugs are introduced, go off patent etc.
  - HTAs and clinical trials may still provide additional information
- **In every year**
  - Various stakeholders' goals must be considered
  - The target population for the payer must be considered

# Measuring Value

## The Value Stack: A New Measurement Tool



- **Translates non-monetary value measures to monetary values**
- **Examples**
  - Pain relief can be monetized as the reduction in the cost of pain relievers
  - Oncology medications can be monetized based on progression-free survival
- **Frames summary of value in terms of return-on-investment (ROI) ratio, which most organizations are familiar with and utilize in making all kinds of decisions**
- **Identifies sources of cost and value (total and/or incremental)**
- **Identifies “share of ROI” expected to be realized by each stakeholder type**

# Measuring Value

## Total Risk Analysis: A New Concept



- **Total risk includes**
  - Probability of a missed projection
  - Random variation, high- cost claimants
- **Quantifies answers**
  - What is the expected gain or loss?
  - What are the chances we will lose more than \$1 million
- **Research paper**
  - Calculated Risk: Driving Decisions Using the 5/50 Research
  - In pre-publication
  - To be posted on [Health Care Cost Trends Strategic Research | SOA](#)



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# Applying the Answers

## Current Efforts to Control Costs, Increase Quality

### Cost Management

- Formularies
- Rebates
- Benefit plan design

### Utilization Management

- Prior authorization/step-therapy
- Quantity limits
- Drug utilization review

# Applying the Answers

## Policy Solutions

### The Inflation Reduction Act

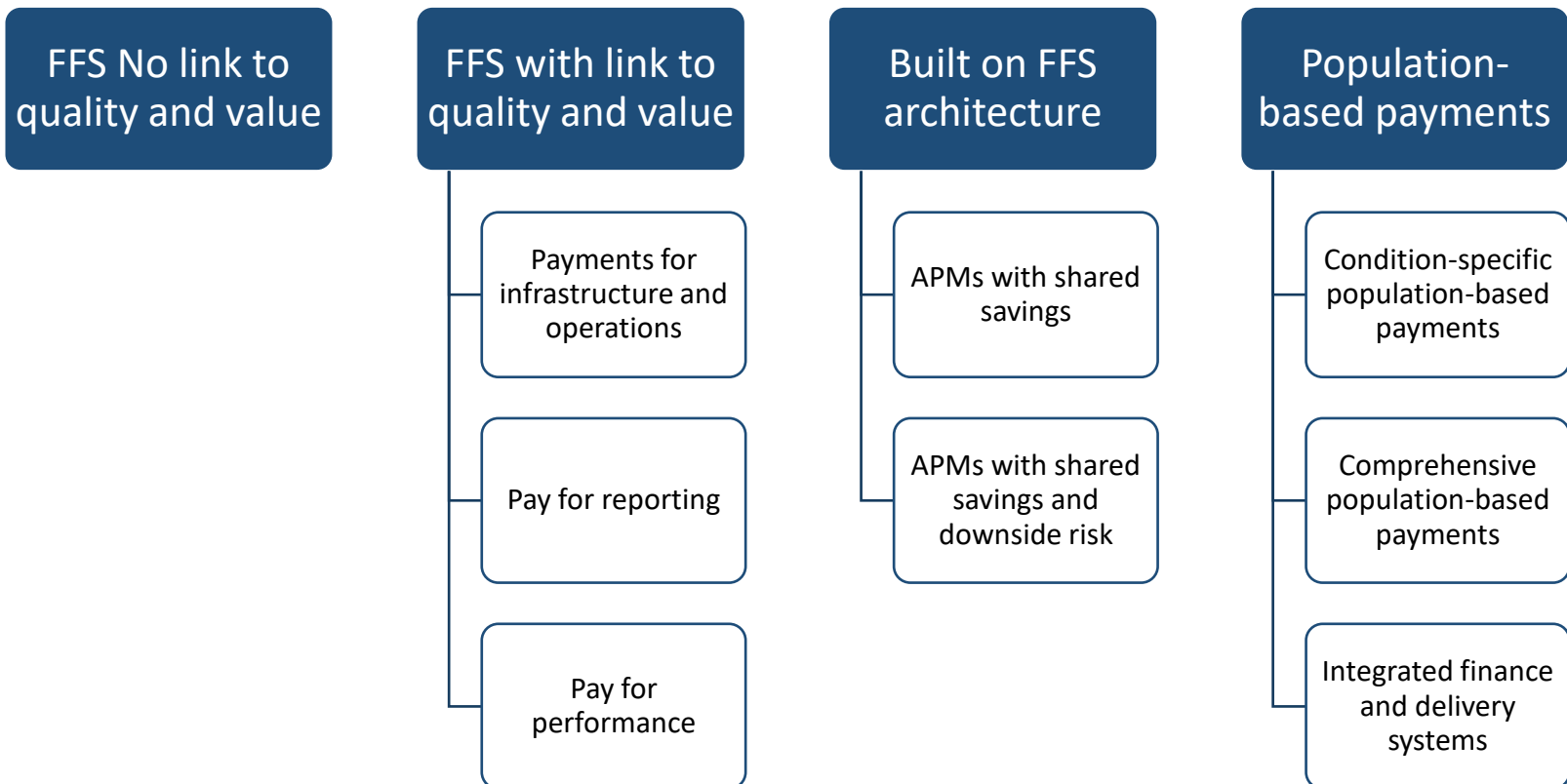
- Enacted 2022
- Requires drug companies to pay an additional rebate if they raise prices higher than inflation
- Permits Medicare to negotiate prices for more costly drugs
- Caps insulin cost-share at \$35/month for Medicare

### Other Proposals

- Price transparency
- Eliminate spreads
- Reference pricing
- Import from other countries

# Applying the Answers

## Alternate Payment Methods



- National framework, HPM-LAN
- Mostly doctors and hospitals now

# Applying the Answers

## Change Management Roadmap (HPM-LAN)

### Learning

- Create awareness regarding need for changes in financing
- Show the value to the stakeholder

### Investing

- Build knowledge base for data, methods, best practices
- Build infrastructure

### Aligning

- Share data
- Share risk and savings

### Transforming

- Standardize process
- Move towards population risk sharing

- **Current Structure**
  - Designed for doctors/hospitals
  - Timeframe: 1 Year
- **Pharmacy Adaption**
  - Multiple years to measure savings
  - Value stack key

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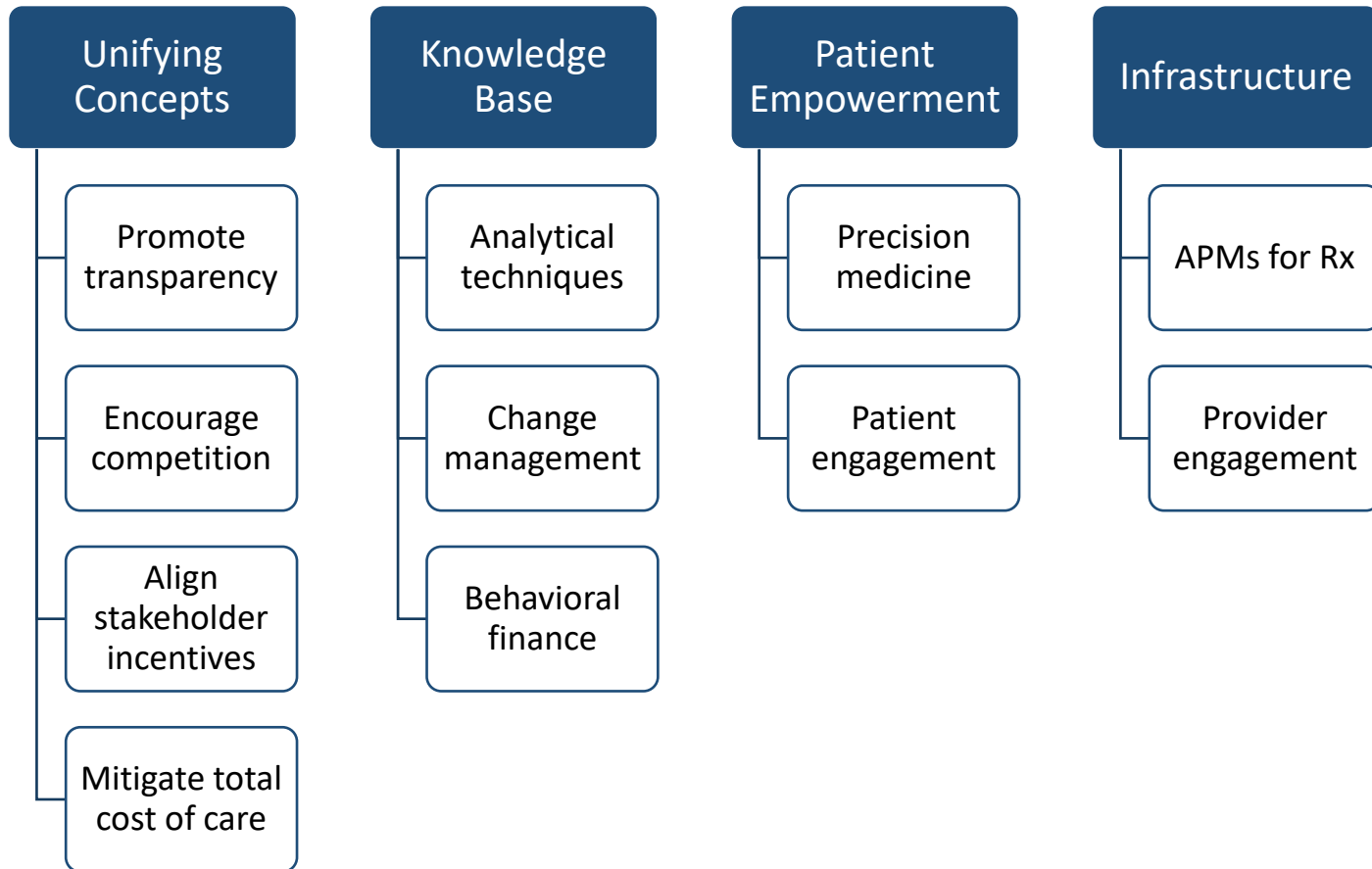
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# Next Steps

## The Industry Perspective



# Next Steps

## SOA Strategic Initiatives and Engagement Opportunities

### Reimagining Pharmacy Financing Forum

- Held March 2023
- Conference report in pre-publication [Health Care Cost Trends Strategic Research | SOA](#)

### Research

- Reimagining Pharmacy Financing Rx Total Cost of Care Research Project
- Funded by SOA Health Section Council
- Due 12/31/2023

### Sub-groups

- Pharmacy sub-group
- Health Analytics sub-group
- Sign-up at [Public Listservs | SOA](#)

### Other

- Sessions/webinars: internal and external (AMCP, etc.)
- Articles (HealthWatch, etc.)
- Podcasts



# Contact Information

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