A Bitter Pill to Swallow: Preserving Patient Access and Managing Costs for Drugs and Biologicals

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Corporate Affairs
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Humana®
Agenda

- Specialty Trend and Spend
- Price Inflation
- Hepatitis C
- Legislative/Regulatory Responses to Mitigation Strategies
- Future Opportunities
What is a Specialty Drug?

- Specialty Drug may include up to 8 parameters:
  - High Cost
  - Requires Special Handling
  - Treats Rare Disease
  - Limited Distribution
  - Requires Ongoing Assessment of Response
  - Requires Patient Administration Training
  - Requires Monitoring of Side Effects
  - Drug has an FDA Mandated REMS

Specialty Spend and Trend

- Brand and generic trend decreasing or flat
- Specialty trend increasing and forecasted to continue

2013 Total Healthcare Spend
- $2.9 Trillion
- Prescription Drug Spend $278 Billion
- Specialty Drug Spend $56 Billion
Specialty Spend and Trend

Utilization
- More awareness of existing drugs
- New indications for existing drugs
- New patients using new drugs to market

Inflation
- Cost inflation on specialty drugs
- Large price increases in higher volume drugs
- New drugs to market with higher price tags

Humana, Inc. Internal data.
Humana’s Medicare Specialty Utilizers

Managing Well Being for Over 6 Million Medicare Members

<2%

Of our 6 Million Medicare beneficiaries, less than 2% use specialty drugs.

30%

This low number of utilizers account for 30% of total drug spend for Humana’s Medicare membership.
New Drug Approvals – Specialty Boom

- Oncology continues to lead development
- FDA breakthrough status
  - Substantial improvement for serious conditions
    - Increased meetings with FDA
    - More communication
    - Senior review staff
  - 27 requests granted

Annual Drug Approvals

<table>
<thead>
<tr>
<th>Year</th>
<th>Specialty</th>
<th>Traditional</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>8</td>
<td>15</td>
<td>23</td>
</tr>
<tr>
<td>2009</td>
<td>10</td>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td>2010</td>
<td>20</td>
<td>15</td>
<td>35</td>
</tr>
<tr>
<td>2011</td>
<td>15</td>
<td>15</td>
<td>30</td>
</tr>
<tr>
<td>2012</td>
<td>22</td>
<td>22</td>
<td>44</td>
</tr>
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</table>


1 2013-14 Economic Report on Retail, Mail and Specialty Pharmacies.
Hepatitis C Total Cost of Care

Estimated Drug Costs

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimated Drug Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$80-$90K</td>
</tr>
<tr>
<td>2014</td>
<td>$90-135K</td>
</tr>
<tr>
<td>2015</td>
<td>$120-$165K</td>
</tr>
</tbody>
</table>

Treatment Goals

- SVR (Sustained viral response)
- Liver transplant avoidance, cost avoidance of $150-$500K per transplant

Source: SG Cowen
Specialty Pipeline - On the Horizon

- **Alzheimer’s:**
  - 5.4 million patients at an estimated $35,000 annually

- **Oncology:**
  - 14 million patients at an estimated >$100,000 annually

- **High Cholesterol:**
  - 71 million patients at an estimated $10,000 annually

Increasing Proportion of Newly Approved Drugs are Specialty Rx

2008 2009 2010 2011 2012 2013 2014

Traditional Specialty
Increasing Prices of Existing Brand Drugs

- **Doxycycline**
  - In 2013: $20 per bottle
  - In 2014: $1,848 per bottle
  - Increase: 9,145%

- **H.P. Acthar Gel**
  - In 2007: $700 per vial
  - In 2014: $32,000 per vial
  - Increase: 4,471%

- **EpiPen**
  - In 2007: $57 per pen
  - In 2014: $184 per pen
  - Increase: 222%

- **Gleevec**
  - In 2007: $118 per pill
  - In 2014: $306 per pill
  - Increase: 158%
Increasing Prices of Generic Drugs

1/3 of generic drugs had price increases in 2013

**Generic Drugs, Change in NADAC per Unit, November 2012 vs. November 2013**

**Generic Drugs with the Largest Percentage Increase in NADAC per Unit, November 2012 vs. November 2013**

<table>
<thead>
<tr>
<th>Product</th>
<th>Change in NADAC per Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>doxycycline hyclate 100 mg tab</td>
<td>6351%</td>
</tr>
<tr>
<td>doxycycline hyclate 100 mg cap</td>
<td>6000%</td>
</tr>
<tr>
<td>Morgidox 100 mg capsule</td>
<td>6000%</td>
</tr>
<tr>
<td>clomipramine 25 mg capsule</td>
<td>3497%</td>
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<tr>
<td>albuterol sulfate 2 mg tab</td>
<td>3452%</td>
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<tr>
<td>captopril 50 mg tablet</td>
<td>3129%</td>
</tr>
<tr>
<td>clomipramine 50 mg capsule</td>
<td>3127%</td>
</tr>
<tr>
<td>captopril 12.5 mg tablet</td>
<td>2714%</td>
</tr>
<tr>
<td>captopril 25 mg tablet</td>
<td>2663%</td>
</tr>
<tr>
<td>albuterol sulfate 4 mg tab</td>
<td>2478%</td>
</tr>
<tr>
<td>clomipramine 75 mg capsule</td>
<td>2284%</td>
</tr>
<tr>
<td>doxycycline hyclate 50 mg cap</td>
<td>2138%</td>
</tr>
</tbody>
</table>

NDC = National Drug Code
NADAC = National Average Drug Acquisition Cost
Source: Pembroke Consulting analysis of Center for Medicare & Medicaid Services data files. Published on Drug Channels (www.DrugChannels.net) on November 19, 2013

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Ensuring Access to Affordable Coverage

- Biosimilars
- Specialty Tiers
- Formulary Design
- Preferred Pharmacy Networks
- Maximum Allowable Cost
Biosimilars - Federal

• Naming Convention
  - A rose by any other name would **not** smell as sweet

• Regulatory Guidance
• Substitution legislation enacted in at least 7 states and defeated in at least 9 states
• Bills vary significantly across states, but common themes include:
  - A requirement that prescribers and pharmacies maintain written records of a biosimilar substitution for a specified period of time
  - A requirement that pharmacies notify the prescribing physician of a biosimilar substitution
• May discourage pharmacies from substituting an interchangeable biosimilar for a reference biologic
Cost Sharing Caps

- Many plan formularies include specialty drug tiers with percentage-based cost sharing (e.g. 20-30%) rather than flat copays.
- Legislation is pending in many states to cap specialty drug cost sharing at $100-$200 per prescription.
Copay Cap Landscape

- Green = Law Enacted
- Purple = Action Anticipated

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Preferred Pharmacy Networks

• 75% of all Part D beneficiaries are enrolled in plans with discounted cost sharing.¹

• Over the next 10 years, preferred pharmacy network plans are estimated to reduce federal Medicare spending by $7.9 to $9.3 billion.²

¹ http://www.drugchannels.net/2014/01/for-2014-3-out-of-4-seniors-choose.html
² The Impact of Preferred Pharmacy Networks on Federal Medicare Part D Costs, 2014-2023, Milliman, Oct 2013
Maximum Allowable Cost (MAC)

- MAC is a reimbursement methodology/price list used by PBMs and plans to determine pharmacy reimbursement for generic drugs and brand drugs with generic equivalents
- Encourages network pharmacies to purchase lower-cost generics
- States are pursuing legislation to restrict the application of MAC reimbursement methodologies
Future Opportunities - Innovative Contracting

- Drug Access
- Genetic Testing
- Real World Data
- Patient Response Statistics

Assess Effectiveness

- Measure Endpoints
- Partner to Support
  Financial Future of
  Pharmaceuticals

Therapeutic Response

- Overall Survival
- Hospital Avoidance
- Lower Discontinuation
- Disease Cure