

MAGELLAN RX MANAGEMENT

EMPLOYER MARKET

INSIGHTS REPORT™

2019 SECOND EDITION



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Introduction

Welcome Back. Let's Look Forward!

Welcome to the second edition of the Magellan Rx Management Employer Market Insights Report. Last year, we addressed the complex pharmacy and specialty trends in the healthcare market and the opportunities and challenges they present to the employer segment. This year, the FDA's record-breaking number of approvals for new molecular entities (NMEs) presents new challenges. The Employer Market Insights Report looks forward to 2020 and beyond to assist you in addressing and solving those challenges and taking advantage of the opportunities that exist in the market.

Comprehensive Focus on Traditional and Specialty Drugs

The Employer Market Insights Report analyzes the current and forecasted cost trends for both traditional and specialty drugs on the pharmacy benefit and the factors driving those costs. Report trend and forecasting data, powered by MRx Predict, focuses on key conditions expected to have meaningful impact over the next three years. New this year, we provide insights on the cost share for plan sponsors and members to further highlight the impact of new drugs to the market.

A comprehensive drug management strategy requires awareness of what is happening on both the pharmacy and medical benefit. While our forecasting focuses on the pharmacy benefit and upcoming changes in traditional and specialty drugs, we focus on management strategies across both the pharmacy and medical benefits. In addition, we include insights into the spend and trend of the medical benefit.

Together, this makes for a report with comprehensive tools you can use, providing insight into pharmacy and medical benefit trends, a deep dive into key therapeutic conditions for drug-level data, an added layer of forecasting insight, and analysis of the impact of pipeline drugs.

Thank you for checking out the great insights and actionable strategies in our second edition of the Employer Market Insights Report. Now let's look forward to the opportunities and challenges ahead!

Matthew Mertel

Matthew Mertel

Senior Vice President, General Manager, Employer
Magellan Rx Management

This report is a focus on 2021

- **Forecasting key conditions**
- **Identifying trend drivers**
- **Identifying key management strategies for specialty drugs on both the pharmacy and medical benefit**
- **Showcasing innovative approaches currently available for managing pharmacy**

Drug forecasts powered by



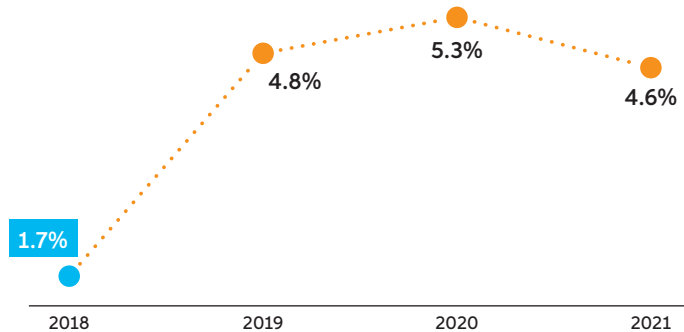


Key Insights for Employers

Drug Spend and Trend

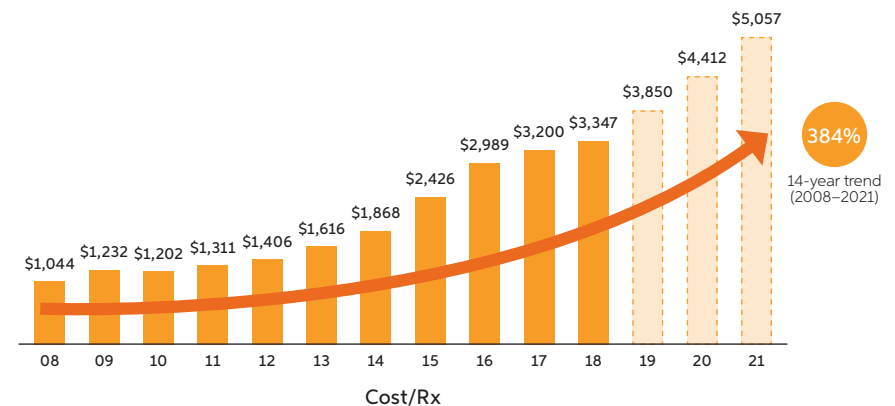
OVERALL DRUG TREND

The **2018 trend was well managed**, with overall trend expected to rise due to new, groundbreaking therapies.



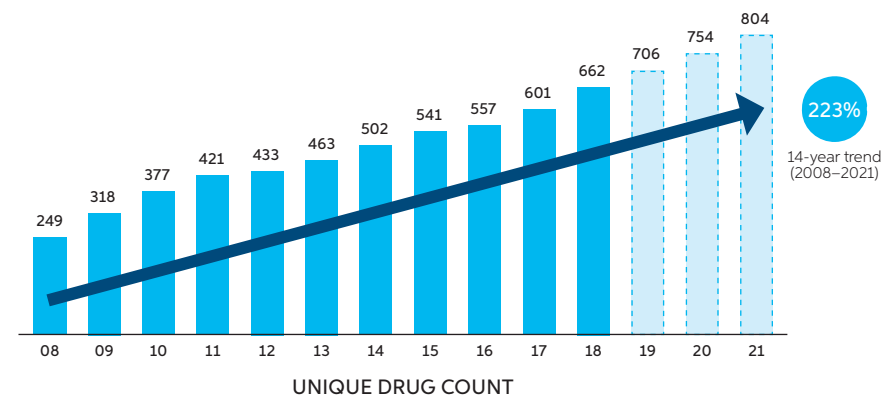
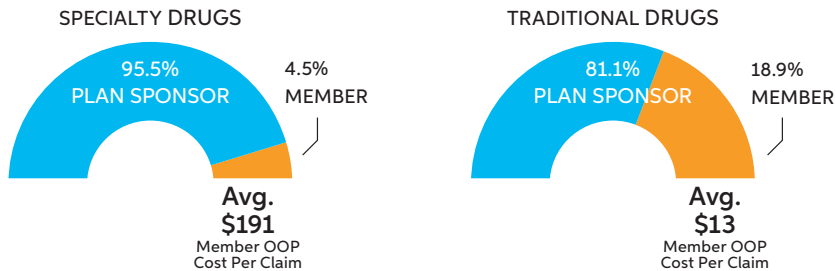
SPECIALTY DRUG AND COST TREND

The number of specialty drugs and total specialty costs have grown exponentially — 166% and 220%, respectively, over the past 10 years. They are forecasted to increase another 22% and 51%, respectively, by 2021.



COST SHARE OF SPECIALTY AND TRADITIONAL DRUGS

Much of the cost burden falls on plan sponsors; however, member out-of-pocket (OOP) costs are considerably higher for specialty drugs versus traditional. Traditional cost share is closer to an 80/20 split, with a fraction of the out-of-pocket cost.

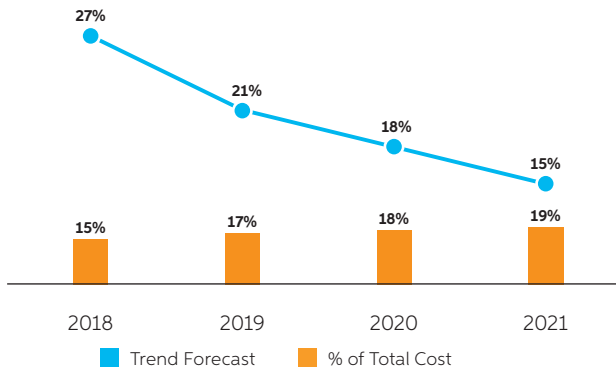




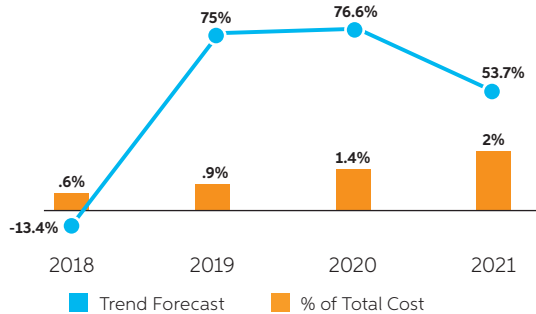
Key Conditions Forecast

Autoimmune in specialty and migraine in traditional have the largest forecasted trend. Autoimmune will account for 15%-plus of total specialty costs and groundbreaking therapies in migraine will contribute to traditional growth.

SPECIALTY CATEGORY TO WATCH—AUTOIMMUNE: ANTI-INFLAMMATORY



TRADITIONAL CATEGORY TO WATCH—MIGRAINE



Methodology and Disclaimer

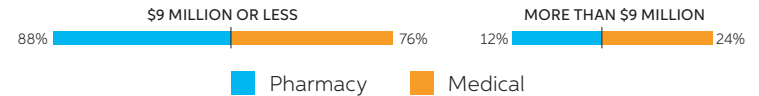
All forecasts are based on MRx methodology to project financial impact for years 2019, 2020, and 2021. Forecasting information is for informational purposes only. This report is based on the following methodology:

- Specialty drugs include only those covered on the pharmacy benefit and are based on MRx specialty definition.
- Cost=employer liability after cost share.
- Overall drug trend and forecast are based on change year-over-year in amount paid per member per month (PMPM) after rebates and network discounts.

Management Trends Survey Says ...

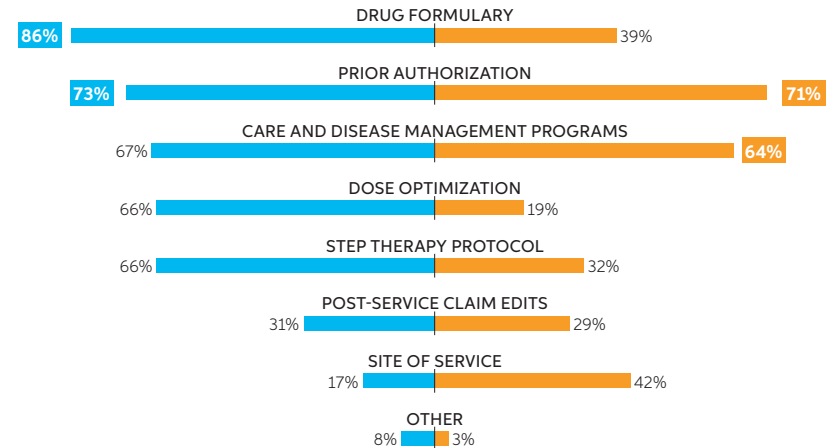
The majority of employers reported a specialty spend on the pharmacy and medical benefits of \$9 million or less. Just under one-quarter of employers spent more than \$9 million on the medical benefit.

2018 SPECIALTY SPEND



Employer pharmacy benefit managers (PBMs) and third-party administrators (TPAs) are managing specialty drugs with utilization management tools, mainly prior authorization. Pharmacy benefit management is carried out through drug formulary while PA, care and disease management programs are most utilized on the medical benefit.

2018 SPECIALTY SPEND BY UTILIZATION MANAGEMENT TOOL



- Specialty drug trend and forecast are based on change year-over-year in amount paid PMPM after rebates and network discounts; individual condition drug trend and forecast are calculated prior to rebate impact but include network discounts.
- Traditional drug trend and forecast are based on change year-over-year in amount paid PMPM after rebates and network discounts; individual condition drug trend and forecast are calculated prior to rebate impact but include network discounts.
- Utilization is divided into consumers (utilizers) and consumption (days and supply per utilizer).



Specialty Pharmacy Trend Forecast

Specialty continues to be the primary driver of trend over the next three years

Specialty pharmacy costs increased by 10.9% from 2017 to 2018 (**figure 1**) and will continue to be the major driver of overall trend through the forecasted years (**figure 3**). This trend represents a decrease of 2.2% from the 2016–2017 trend, an indication that management strategies had an impact on the growth of specialty pharmacy costs. The specialty pharmacy trend was driven by a rise in utilization and inflation, with approximately 9% attributed to increase in new patients being prescribed a specialty medication (**figure 2**). Over the last 5 years, there has been a 25% increase in new patients being prescribed specialty medications. Both trend drivers were large enough to counteract the negative trends seen in pricing and prevalence (consumption).

Double-digit growth is expected through 2020 (**figure 3**), with a robust pipeline expected to account for 20% of the growth. The oncology pipeline is especially impactful, forecasted to account for 10% of the total oncology market by 2021. The seizure category will also make an impact with Epidiolex, a costly new drug and the first treatment for Dravet syndrome, previously known as severe myoclonic epilepsy of infancy. Rare conditions such as Dravet syndrome do not add to costs based on volume; rather, even limited utilization of high-cost drugs can drive specialty trend.

While these rare condition treatments continued to impact specialty pharmacy trends, autoimmune: anti-inflammatory continued to be one of the top conditions driving specialty costs (**figures 4–6**). Within the specialty market, autoimmune: anti-inflammatory treatments are not only some of the costlier agents, they are also highly utilized due in part to the multiple indications available through treatments such as Humira. To assist with the management of categories such as autoimmune: anti-inflammatory, Magellan Rx Management uses an indication-based management approach, improving quality of care and ensuring patients receive the most appropriate, cost-effective drug for the condition being managed.

FIGURE 1

2018 Drug Trend

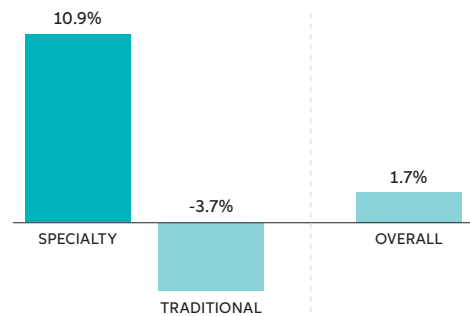


FIGURE 2

2018 Specialty Drug Trend Drivers

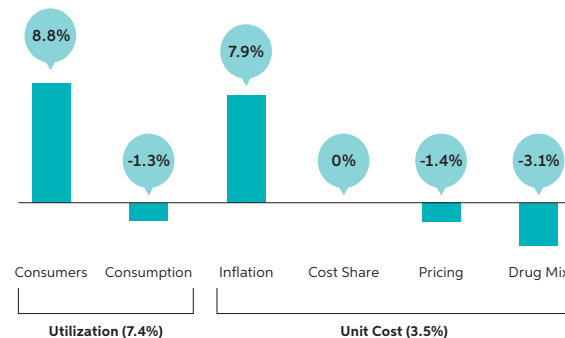
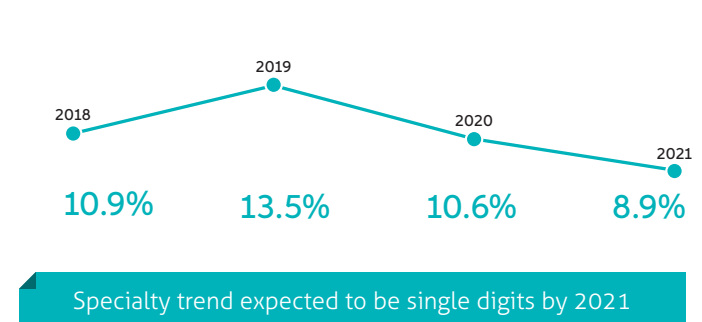


FIGURE 3

Specialty Drug Trend Forecast 2018–2021





Key Conditions

Autoimmune: anti-inflammatory maintains strong driver of spend, while MS continues its negative trend

FIGURE 4

Top Specialty Conditions by Member OOP Cost Per Claim

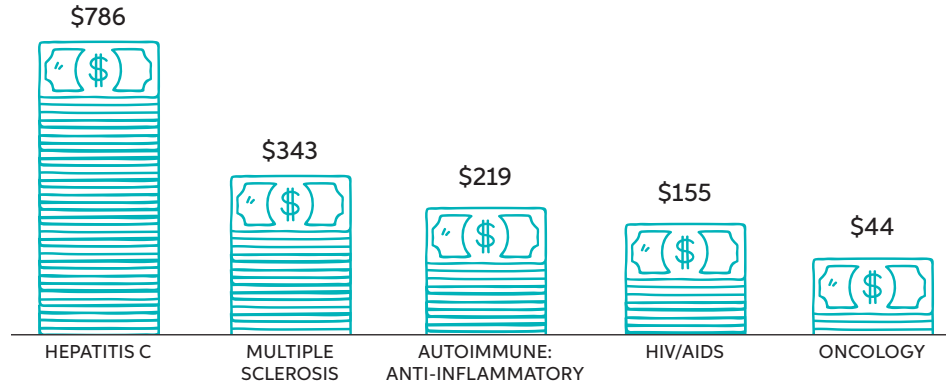
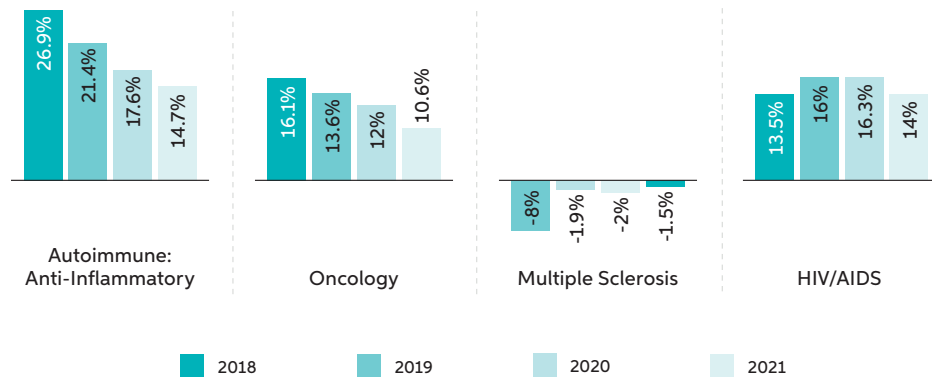


FIGURE 5

Key Specialty Conditions Trend Forecast



Specialty Pharmacy Magellan Rx Management Solutions



Precision Specialty Distribution



Utilization Management/Prior Authorization



Integrated Care and Disease Management



Indication-Based UM Strategy



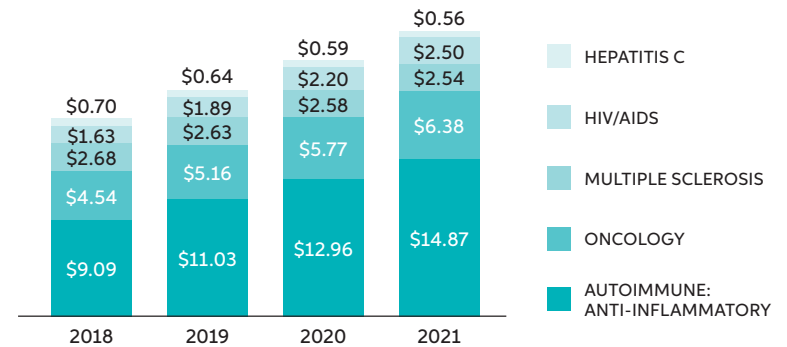
Site-of-Service Optimization



Value Max

FIGURE 6

Top 5 Specialty Conditions Cost Forecast by PMPM





Traditional Pharmacy Trend Forecast

Pipeline therapies and limited generic competition will lead to growth in traditional costs

Traditional pharmacy costs declined by 3.7% from 2017 to 2018 (figure 7). The main trend driver was drug mix. Robust formulary management strategies ensuring patients received the most cost-effective treatments reduced 2018 traditional trend by 6.5% (figure 8). The decline in pricing trend was partially due to patent expirations of blockbuster drugs like Viagra, along with other high-volume drugs, including Strattera, Lialda, and Relpax.

Traditional pharmacy has historically seen a negative trend in costs; however, starting in 2020, this trend will begin to reverse its trajectory with the introduction of new pipeline therapies and a slowdown in patent expirations. Migraine, a condition with an impactful pipeline, currently ranked #31 in spend, is forecasted to grow into the #12 highest-ranked category and experience a 56.7% trend in the category by 2021 with the introduction of calcitonin gene-related peptide (CGRP) inhibitors (figure 11). In clinical trials, Aimovig, the first CGRP inhibitor, was seen to reduce monthly migraine days by one to two and a half days on average, an enticing product for migraine sufferers who have had limited options up to this point. In addition, Spravato, a potential disruptor in depression, could be the first antidepressant to provide rapid relief and treat patients at imminent risk of suicide. The other upward trend driver — the slowdown of patent expirations — will come into effect after 2019, when patents are set to expire for significant traditional drugs including Lyrica, Cialis, NuvaRing, and Restasis. In 2020 and 2021, Chantix will be the only significant traditional drug to have a patent expire.

FIGURE 7

2018 Drug Trend

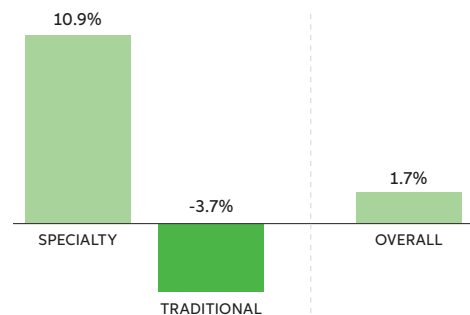


FIGURE 8

2018 Traditional Drug Trend Drivers

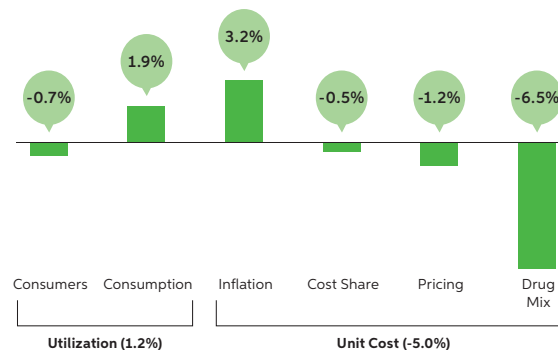
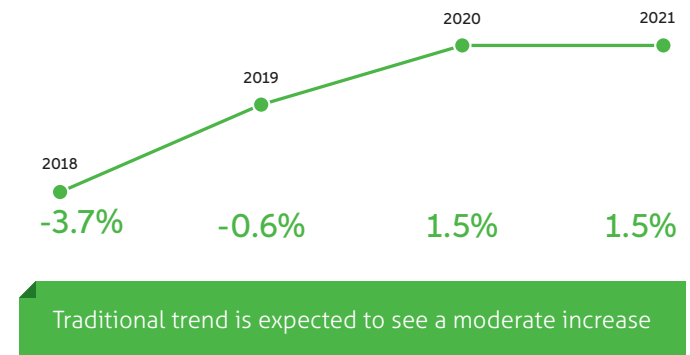


FIGURE 9

Traditional Drug Trend Forecast 2018–2021





Key Conditions

Migraine will experience a 75%, 77%, and 54% trend over the next three years

FIGURE 10

Top 5 Traditional Conditions by Member OOP Cost per Claim

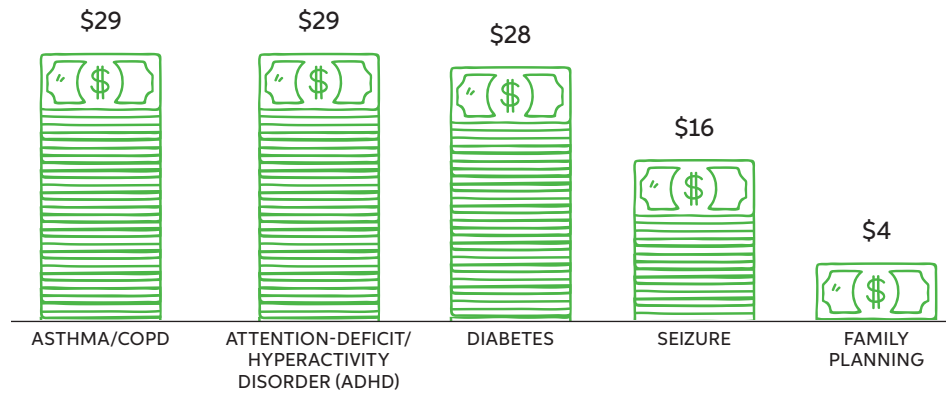
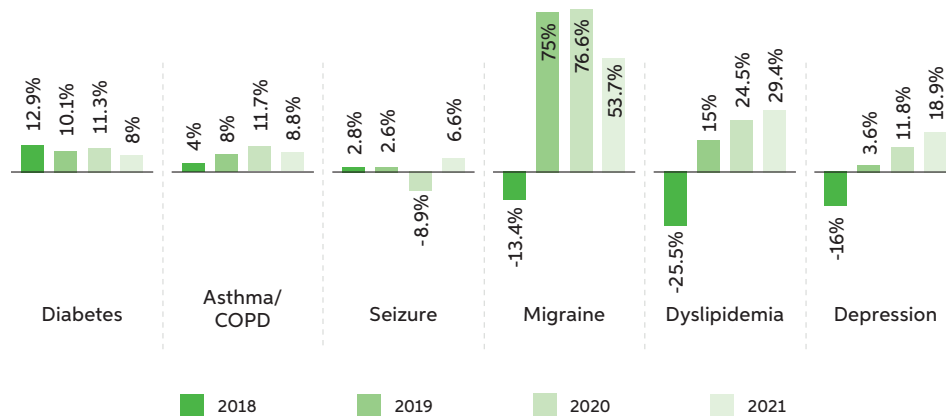


FIGURE 11

Key Traditional Conditions Trend Forecasts



Traditional Pharmacy Magellan Rx Management Solutions



Formulary/Utilization Management



Adherence and Assessment Programs



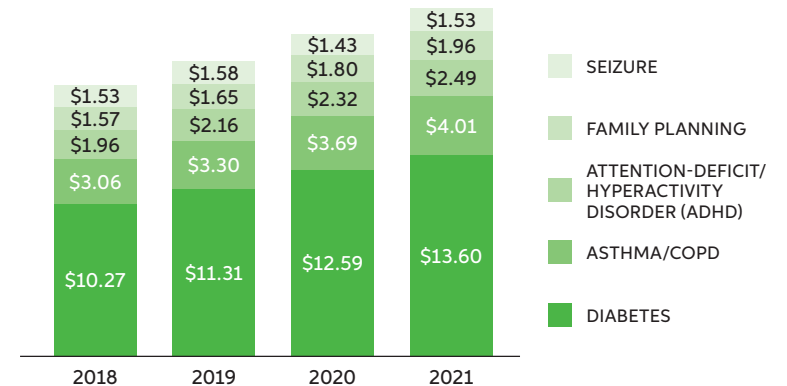
Digital Therapeutics



Integrated Care and Disease Management

FIGURE 12

Top 5 Traditional Conditions Cost Forecast by PMPM





Medical Pharmacy Drug Trends and Management¹

Employer annual medical pharmacy drug trend was between 4% and 10%

Comprehensive management of specialty drugs presents the unique challenge of managing high-cost, specialty, provider-administered, injectable and infusible drugs managed on the medical benefit. The Magellan Rx Medical Pharmacy Trend Report illustrates that 94% of commercial drugs administered on the medical benefit are specialty drugs, with a per-member-per-month (PMPM) above \$23, and non-specialty drugs, with a PMPM north of \$25. As with the pharmacy benefit, new treatment options will continue to cause this benefit trend to climb. In oncology, chimeric antigen receptor therapy (CAR-T) alone is expected to increase 530% from \$0.10 in 2018 to \$0.63 in 2022.

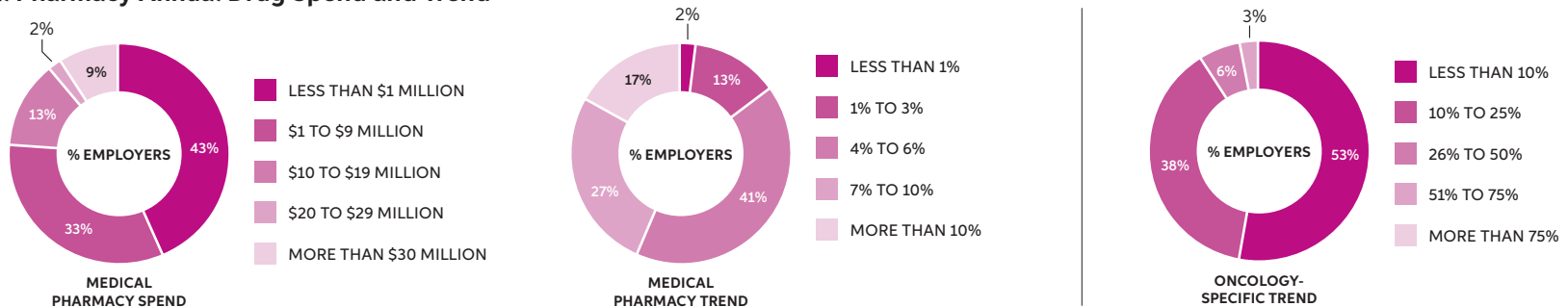
Medical Pharmacy Spend and Trend

According to employer groups surveyed, 76% of employers had an annual medical pharmacy spend between \$1 million and \$9 million and 69% of employers experienced a medical benefit trend between 4% and 10% (figure 13). Specifically, for oncology and oncology-supportive drugs, more than half of employer groups had an oncology trend of less than 10%, but in total, 91% of plans had an oncology trend of up to 25%.

One-third of employers had a 10% to 25% oncology drug trend, 90% of employers had some sort of management program for oncology drugs and 82% had a management program for oncology-supportive drugs (figure 14). The next-highest class that had a management program was autoimmune drugs for diseases such as rheumatoid arthritis (RA) and Crohn's disease. This again tracks with the Medical Pharmacy Trend Report, which showed that autoimmune drugs made up the second-highest spend in the commercial category, after oncology.

FIGURE 13

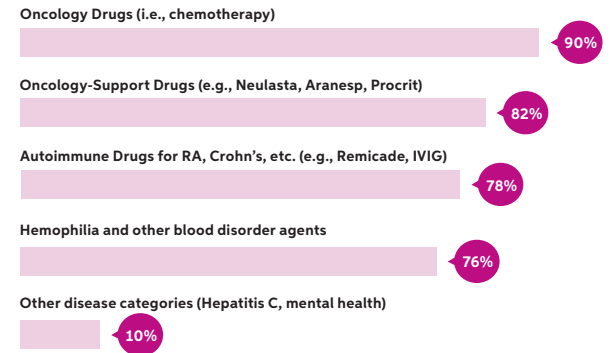
Medical Pharmacy Annual Drug Spend and Trend



1. Claims data based on health plan claims data and from 2018 Magellan Rx Medical Pharmacy Trend Report. https://www1.magellanrx.com/documents/2019/03/medical-pharmacy-trend-report_2018.pdf/. Accessed May 2019.

FIGURE 14

Key Conditions for Medical Pharmacy Management



Oncology Forecasting

(CAR-T) alone is expected to increase 530% from \$0.10 in 2018 to \$0.63 in 2022.



Medical Pharmacy Management

Management of medical pharmacy drugs can be challenging with rare diseases, due to targeted therapies requiring a limited selection of drugs and a lack of low-cost alternative options for many rare diseases treated by provider-administered infused or injectable drugs. According to the survey, most management of the medical benefit for employers was done through the employer pharmacy benefit manager (PBM) or third-party administrator (TPA). 71% of employers' medical pharmacy managers used prior authorization programs as a management strategy. Just under two-thirds of employers, 64%, used care or disease management programs to manage the high spend and trend of medical pharmacy drugs (figure 15).

Employers with care management programs most often focused on oncology and oncology-support-based programs. The majority, 89%, had an oncology and oncology-support program, while 77% had a program for autoimmune disorders (figure 16).

For medical pharmacy claims tracking, 73% of employer PBMs and TPAs provided employers with their total drug spend for the year; 67% received their year-over-year drug trend. More than half, 58%, received drug spend data at the category level (figure 17). The data received by 40% of employers was summarized at the individual Healthcare Common Procedure Coding System (HCPCS) level.

Employer PBMs or TPAs offered specialty provider-administered infused and injectable drugs through either the pharmacy or medical benefit, presumptively offering a cost savings to the patient by choosing the more cost-effective benefit. For more than one-third of employers, 41%, their employees experienced a cost savings when receiving their specialty drug under the pharmacy benefit (figure 18). Even so, at least half of employers say the cost for these specialty treatments are the same across both benefits, a large shift from 29% of employers last year.

FIGURE 15

Medical Pharmacy Management Solutions

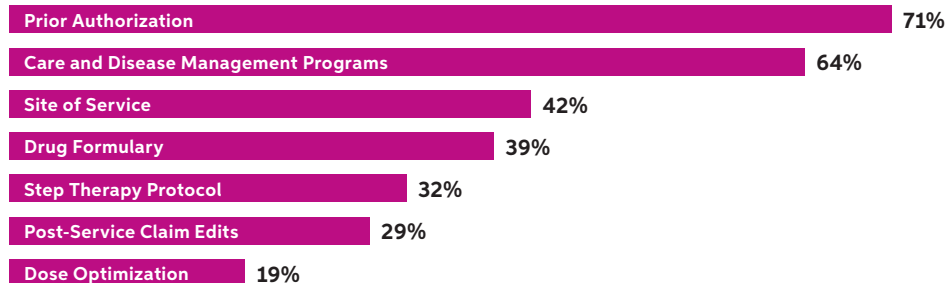


FIGURE 16

Care Management Programs

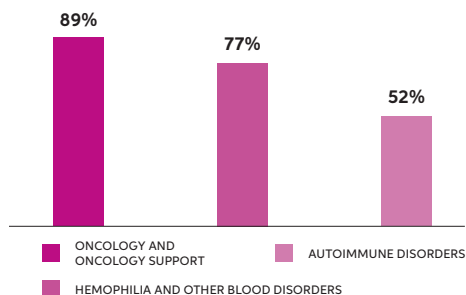


FIGURE 17

Medical Benefit Drug Data Provided

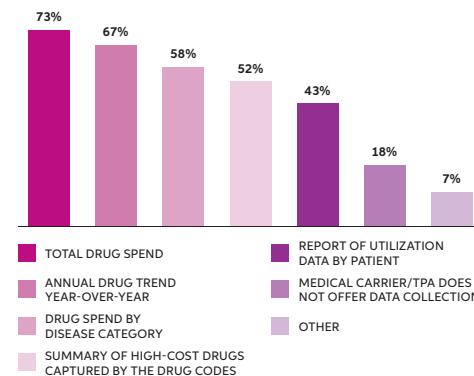


FIGURE 18

Benefit With Cost-Share Advantage





Key Condition Profiles

Diabetes

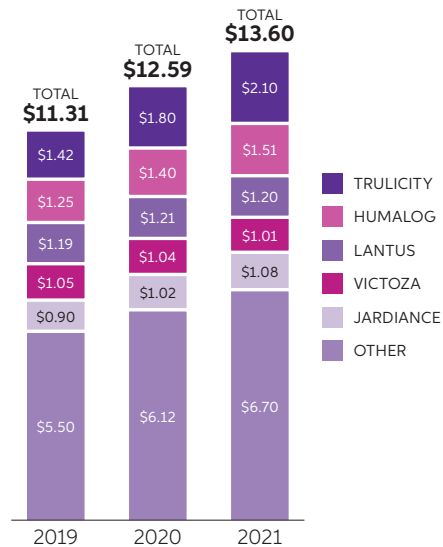


IMPACT PLAYER

The GLP-1 class of drugs is forecasted to account for 52% of growth in the diabetes market through 2021.

FIGURE 19

Diabetes PMPM By Drug



CLINICAL



The American College of Cardiology has released a consensus decision expressing the cardiovascular improvements of the SGLT-2 and GLP-1 class of drugs not related to their glucose control.

PIPELINE



The once-daily tablet oral semaglutide has shown to reduce cardiovascular events by 21%. It is expected to be submitted for approval in the first half of this year.

MARKET



The FDA will classify insulins as biologics starting in March 2020 in an attempt to increase competition by making it easier for generics to enter the market through the biosimilar approval process.

Autoimmune: Anti-Inflammatory

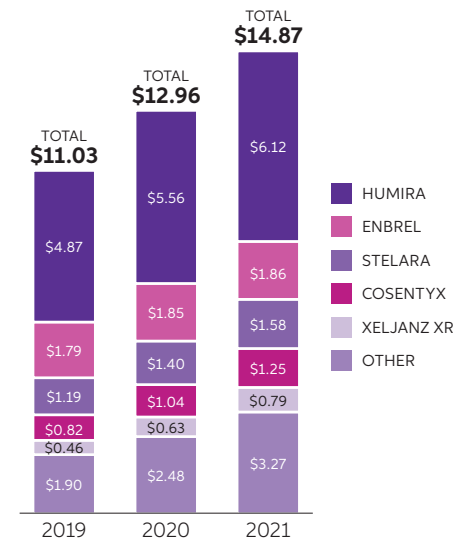


IMPACT PLAYER

Humira will account for 35% of the growth in this condition over the next three years and more than 40% of the market.

FIGURE 20

Autoimmune: Anti-Inflammatory PMPM By Drug



CLINICAL



Tremfya outperformed Cosentyx in a recent head-to-head psoriasis trial, increasing the competition in the crowded psoriasis market.

PIPELINE



Risankizumab and upadacitinib are expected to account for 6% of the growth in this condition through 2021.

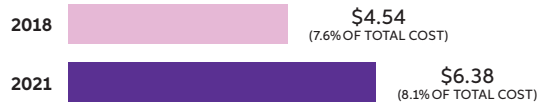
MARKET



Xeljanz/Xeljanz XR will become a top-5 drug in 2019 due to new indications in psoriasis and UC and its convenient oral route of administration.



Oncology

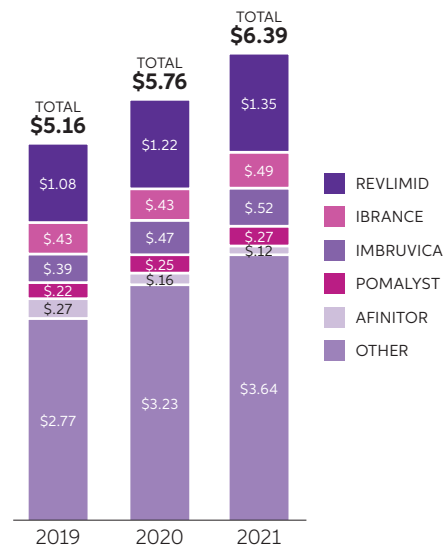


IMPACT PLAYER

Gleevec and Afinitor lose patent protection, decreasing total cost by 18%, but a robust pipeline will increase total cost by 24%.

FIGURE 21

Oncology PMPM By Drug



CLINICAL



Lynparza will increase costs by 7% due to a recent FDA approval for maintenance treatment in ovarian cancer.

PIPELINE



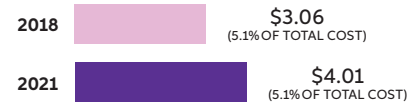
Vitrakvi and Loxo-292 tumor-agnostic oral therapies require specific mutations to treat.

MARKET



Newer breast cancer treatments Kisqali and Verzenio will lower Ibrance's market share by 2%.

Asthma/COPD

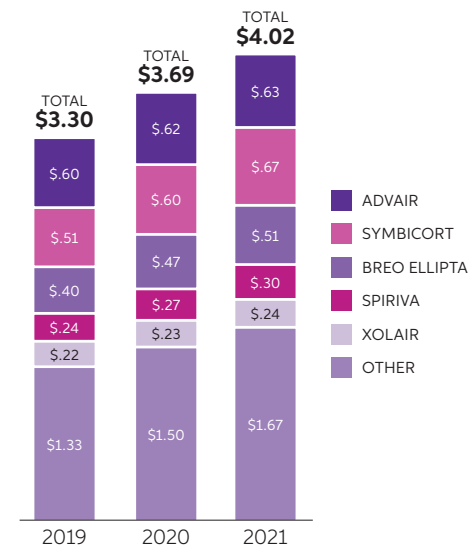


IMPACT PLAYER

Breo Ellipta, Anoro Ellipta, and Trelegy Ellipta will account for one-third of the growth in the condition.

FIGURE 22

Asthma/COPD PMPM By Drug



PIPELINE



PT010 increased FEV1 values for patients with moderate to severe COPD compared to Symbicort.

MARKET



The FDA approved the first generic version of Advair Diskus.

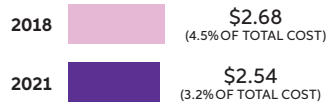
MARKET



Limited impact from generics expected due to patient hesitancy to switch devices as well as continued uptake in Breo Ellipta.



Multiple Sclerosis

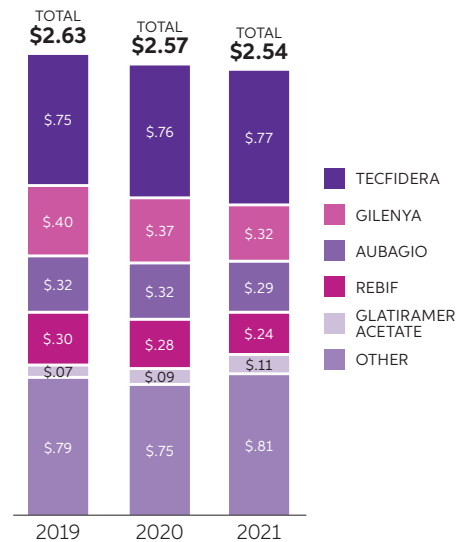


IMPACT PLAYER

Generic glatiramer acetate will lead to more than \$0.20 PMPM in savings during the forecast period.

FIGURE 23

Multiple Sclerosis PMPM By Drug



CLINICAL



The FDA says stopping Gilenya may lead to severe disease worsening, which could slow down new starts.

PIPELINE



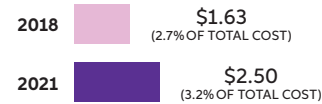
Mayzent is the first drug to treat secondary progressive multiple sclerosis; it is expected to add \$0.08 in spend to the condition in 2021.

MARKET



Tecfidera is expected to remain the market leader and account for 11% of the growth in the condition.

HIV/AIDS

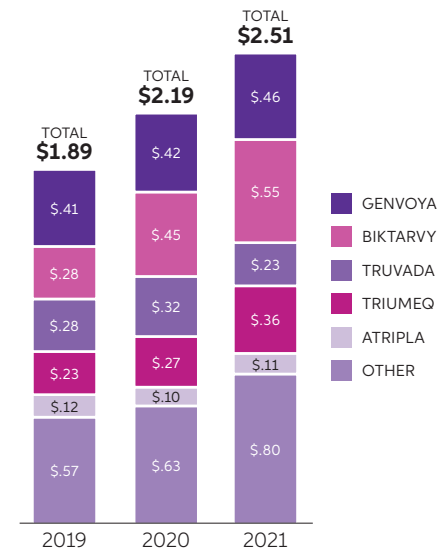


GAME CHANGER

Biktarvy to become the top drug by cost in 2020 and account for 56% of the growth in the condition.

FIGURE 24

HIV/AIDS PMPM By Drug



CLINICAL



Truvada remains the only drug with a PrEP indication and will come off patent in the first half of 2021.

PIPELINE



In a recent trial, participants using dolutegravir and lamivudine as maintenance therapy had a 97% success rate.

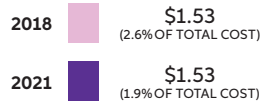
MARKET



Genvoya and Biktarvy are expected to account for 40% of spend in the condition by 2021.



Seizure

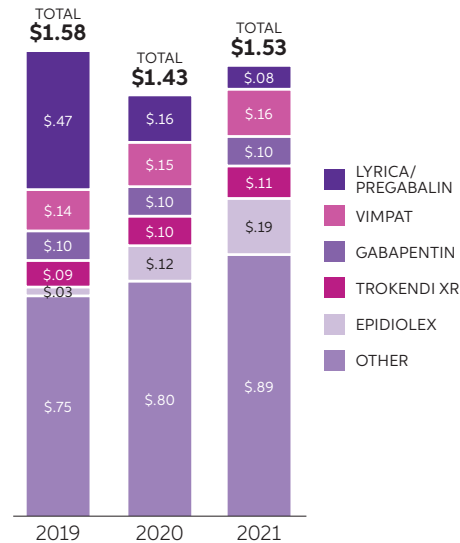


GAME CHANGER

Pregabalin will launch in July, leading to an 84% decrease in its current PMPM by 2021.

FIGURE 25

Seizure PMPM By Drug



CLINICAL



Epidiolex and ZX008 will provide additional treatment options for those with Lennox-Gastaut syndrome.

PIPELINE



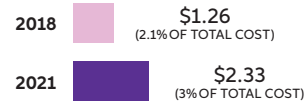
Epidiolex will be the first treatment for Dravet syndrome, and while the syndrome is rare, the expected high cost of Epidiolex will lead to an additional \$0.19 PMPM spend in 2021.

MARKET



Lyrica currently accounts for 35% of spend in this condition, but by 2021, pipeline therapies Epidiolex and ZX008 will account for 20% of the market, while brand and generic Lyrica will account for just 6%.

Dyslipidemia

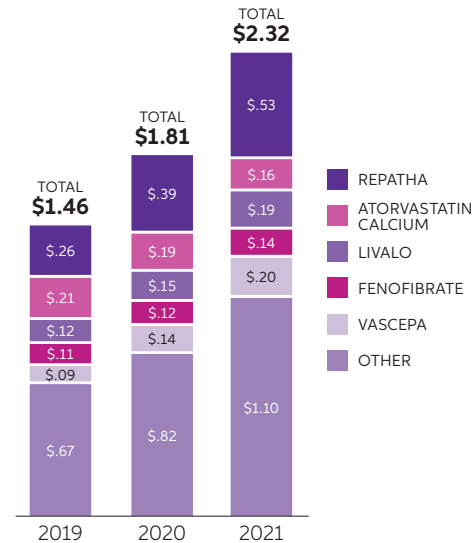


IMPACT PLAYER

PCSK9 therapies Repatha, Praluent, and inclisiran are expected to contribute 50% of the growth in the condition by 2021.

FIGURE 26

Dyslipidemia PMPM By Drug



CLINICAL



Vascepa reduced adverse cardiovascular events by 25% for patients on statins in a recent trial, which will lead to increased utilization.

PIPELINE



Inclisiran, a new PCSK9 therapy, is expected to launch in 2020, and the less-frequent dosing could give it an edge over Praluent and Repatha.

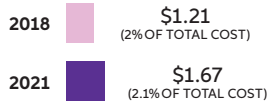
MARKET



Repatha and Praluent have lowered their list prices to help with patient out-of-pocket costs.



Depression

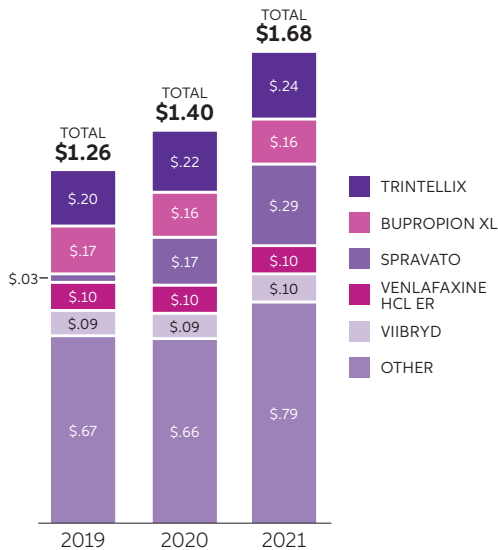


GAME CHANGER

Spravato, a novel new therapy for treatment-resistant depression, will account for 63% of the growth in the condition through 2021.

FIGURE 27

Depression PMPM By Drug



CLINICAL



In 2016, an estimated 10.3 million adults in the U.S. experienced severe impairment from depression.

CLINICAL



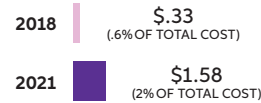
Approximately 30% of patients with major depressive disorder are resistant to the medications currently available.

MARKET



Due to the abuse potential and side-effect profile, Spravato must be kept and only administered at the doctor's office, which could result in the product being billed through medical insurance.

Migraine

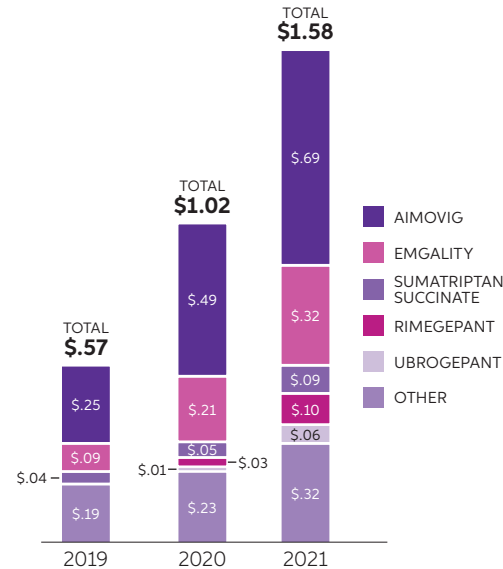


GAME CHANGER

CGRP inhibitors Aimovig and Emgality are expected to see large increases in utilization and account for 93% of the growth in the condition.

FIGURE 28

Migraine PMPM By Drug



CLINICAL



Rimegepant has performed similarly to Aimovig, Emgality, and Ajovy in recent trials and has shown a strong safety profile, decreasing worries of liver toxicity.

PIPELINE



Rimegepant and ubrogrepant will be the first oral CGRP inhibitors on the market and are expected to account for 10% of the market by 2021.

MARKET



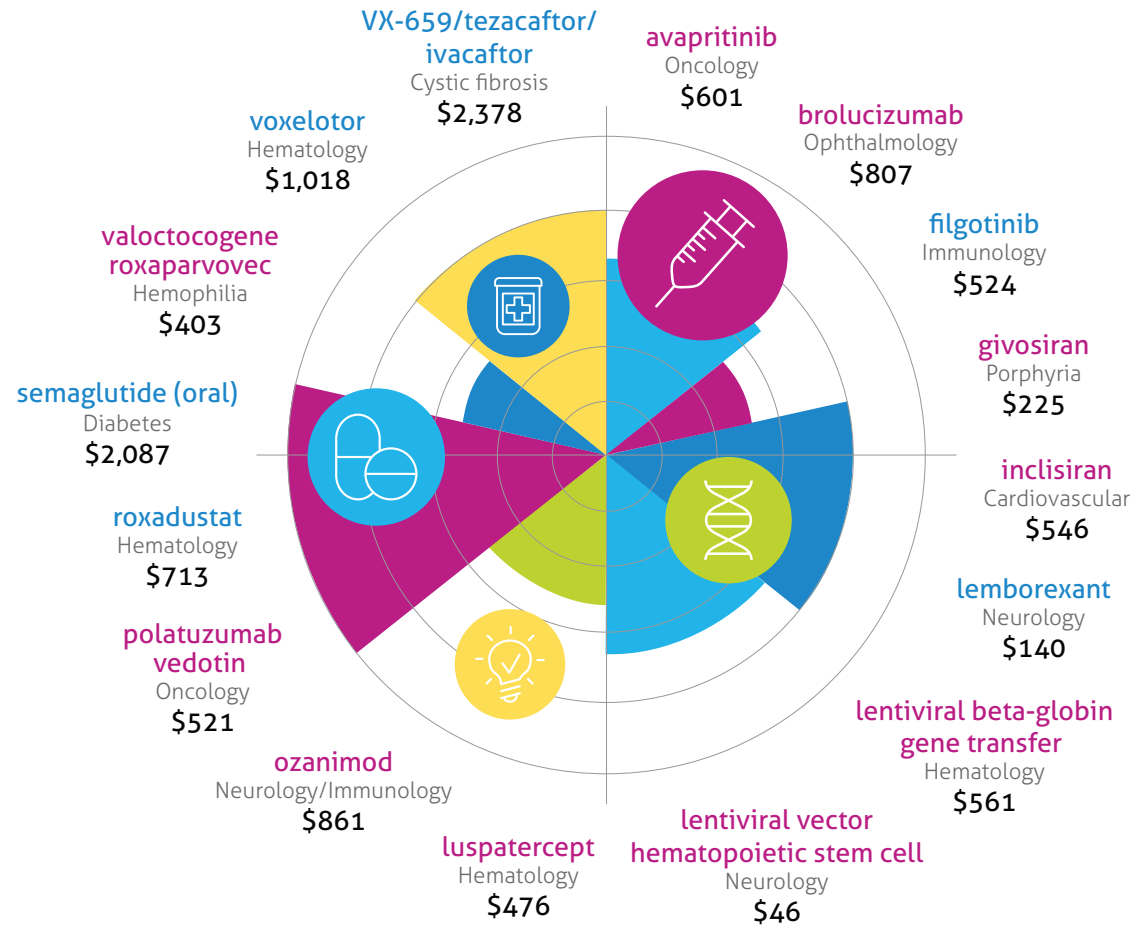
Aimovig and Emgality are expected to account for more than half the spend in this condition.



Pipeline

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 as 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. ²



² MRx Pipeline Report. <https://www1.magellanrx.com/magellan-rx/publications/mrx-pipeline.aspx>. Accessed April 2019.



Innovation

MRx Predict

MRx Predict is a new, advanced analytics capability that proactively identifies patients at risk of experiencing adverse events and forecasts future drug-cost drivers for customers.

Drug Cost Forecasting

Provides macro-predictions on drug spend and trend and the factors driving those future trends. This capability allows customers to better plan for future drug expenditures and identify top therapeutic conditions and drugs, including pipeline products driving these costs.

At-Risk Patient Identification

Proactively identifies and stratifies individual patients based on the probability of being nonadherent to chronic medications, such as those for diabetes, high blood pressure, and high cholesterol, along with specialty conditions such as HIV/AIDS. It also recognizes patients at risk for misusing their opioid therapies. This helps improve patient outcomes by optimizing our delivery of targeted clinical programs to those patients most at risk for adverse outcomes.

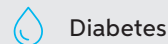
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Diabetes



Hypertension



Dyslipidemia



HIV/AIDS



Pain