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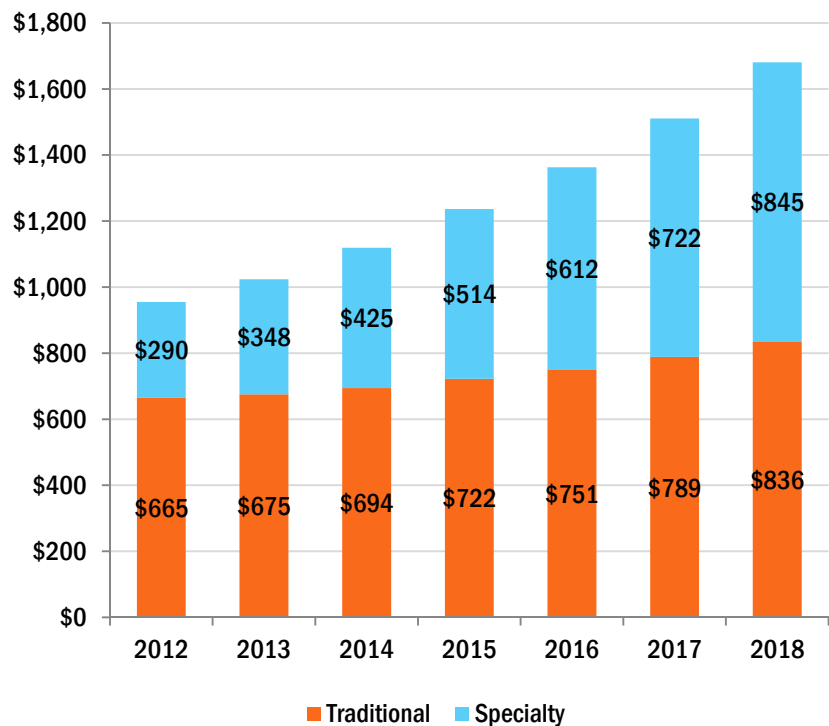
**Specialty Drug Trend
Across the Pharmacy and
Medical Benefit**

SUMMARY

Specialty drugs, which are drugs manufactured through biologic processes, are in the midst of a tremendous boom. With an annual yearly cost trend that sits at 17% currently and is expected to grow to 22% by 2014, this growth shows no signs of slowing in the near future due to price inflation and new drug approvals.¹ Industry experts have predicted that specialty drugs will represent 45% of pharmaceutical manufacturer sales by 2017.²

Our evaluation shows that the expected growth trends for specialty drugs are even more pronounced for commercial plan sponsors after uncovering the specialty spend that is hidden in the medical benefit. By 2018, specialty drug spend is expected to surpass traditional drug spend (i.e., non-specialty) for most plan sponsors due to the double-digit growth in specialty that will continue for the foreseeable future across both the pharmacy and medical benefit (Figure 1).

FIGURE 1: FORECASTED PMPY NET DRUG SPEND ACROSS THE PHARMACY AND MEDICAL BENEFIT FOR COMMERCIAL PLAN SPONSORS



KEY FINDINGS

Our analysis encompassed specialty drug expenditures under the pharmacy and medical benefit, including those drugs administered in an outpatient hospital setting. The outpatient hospital setting is a growing channel for specialty drug administration but is frequently overlooked in reporting because the drugs are often billed under revenue codes rather than Healthcare Common Procedure Coding System (HCPCS) codes (Figure 2).

Most studies report that specialty drug spend represents 15-20% of total drug spend. However, inclusion of specialty drugs covered under the medical benefit revealed that specialty drug spend represented 30% of total drug spend for the typical commercial plan sponsor in 2012 (Figure 3).

While the typical plan sponsor will see specialty spend surpass traditional drug spend in the next six years, this transition will occur more quickly for some employer and labor groups. For example, plan sponsors for which specialty drugs (including pharmacy and medical benefits) represented 34% of their drug spend in

FIGURE 2: PLAN SPONSOR EXAMPLE: SPECIALTY PERCENT SPEND BY BILLING CODE TYPE

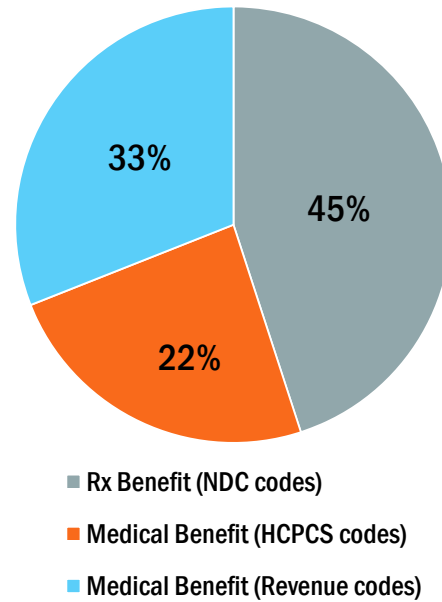
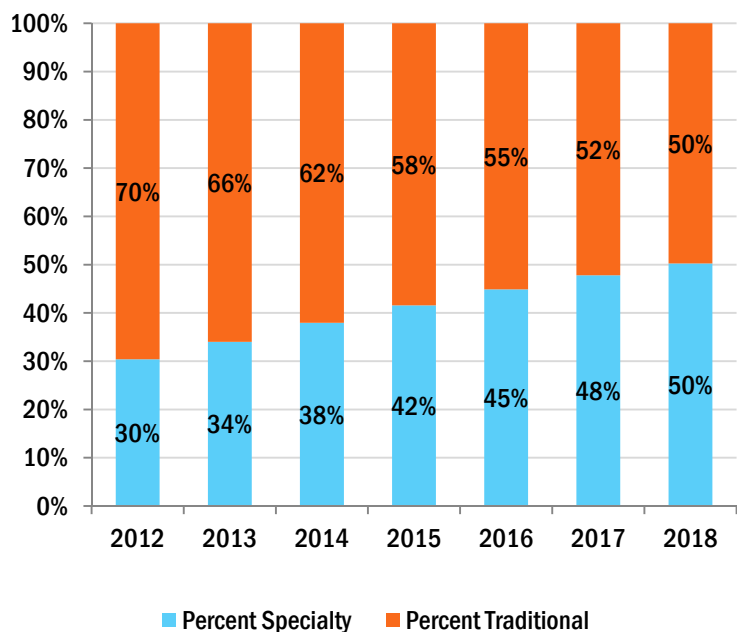


FIGURE 3: FORECASTED NET PRESCRIPTION DRUG SPEND %, TRADITIONAL AND SPECIALTY, FOR COMMERCIAL PLAN SPONSORS

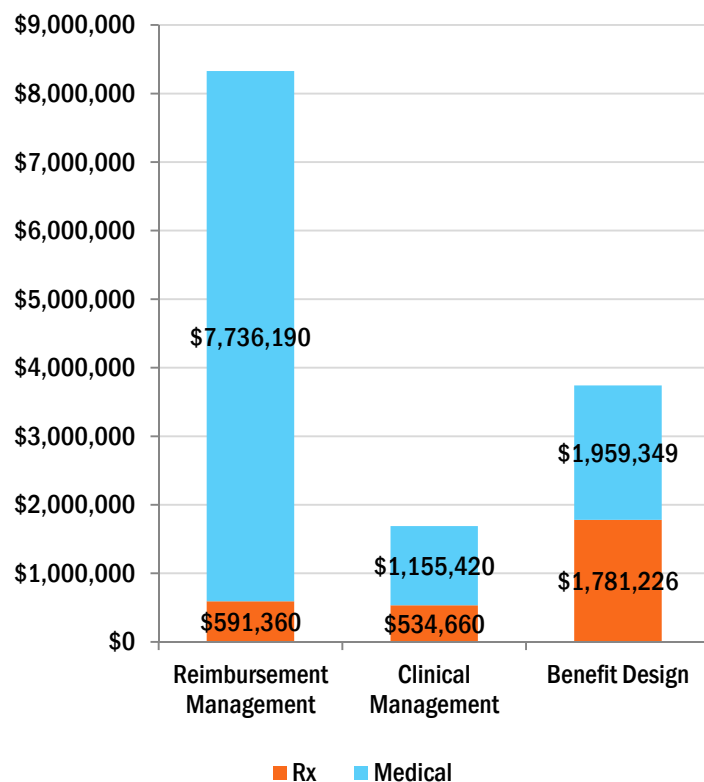


2011 will see their specialty spend surpass traditional drug spend in 2015, absent implementation of significant new management strategies.

IMPLICATIONS

Understanding the magnitude of current and future specialty drug spend is important because specialty drugs often require unique management strategies. Opportunity for savings abounds, but unlike traditional drugs, the utilization hidden in the medical benefit is often richest in savings opportunities. Capturing these savings requires a comprehensive view and integrated analysis of all the specialty drug claims, both under pharmacy and medical.

FIGURE 4: PLAN SPONSOR EXAMPLE:
TOTAL ANNUAL SAVINGS OPPORTUNITY BY STRATEGY TYPE
AND CHANNEL



Specialty management strategies span benefit design, clinical, and reimbursement management, which includes site of care. Identification of lower cost sites of care under the medical benefit is often the most significant area of opportunity in terms of total dollars, as shown in the plan sponsor example (Figure 4). Implementation of clinical policies under the medical benefit, for medications like IVIG and TNF inhibitors, is frequently an area of immediate opportunity as well.

Once the full expanse of specialty spend is understood by examining both pharmacy and medical claims, plan sponsors can implement solutions that not only address the lack of management under the medical benefit but can also employ strategies that align the management across the pharmacy and medical benefit. A coordinated strategy mitigates the risk that patients, providers, and vendors will utilize less cost-effective options, whether specific drugs or sites of care.

METHODS

We identified vendor and market reports of specialty spend and forecasts which were intended to represent national trends for plan sponsors in the United States. To determine baseline 2012 PMPY net spend (after copay) for traditional and specialty drugs, we adjusted the findings to 1) exclude transplant and HIV drugs from the specialty drug spend and include them in traditional drug spend and 2) to capture specialty drug spend under the medical benefit, which increased specialty spend by 51% based on our analysis of a range of plan sponsors varying in size and demographics.

Forecasts for traditional and specialty medications were based on market trends in new drug approvals, new indications, generic availability, expected price inflation, and overall drug demand (Figure 5).

FIGURE 5: TREND FORECAST BY YEAR AND DRUG TYPE

DRUG TYPE	2013	2014	2015	2016	2017	2018
TRADITIONAL	2%	3%	4%	4%	5%	6%
SPECIALTY	20%	22%	21%	19%	18%	17%

ABOUT ARTEMETRX

Artemetrx is a healthcare analytics and services company that offers a suite of analytic solutions and clinical intervention programs that leverage the integrated data to improve care and control costs. These services range from programs focused on specialty drug management to population health programs. Artemetrx utilizes a robust proprietary data aggregation engine that combines behavioral, medical, dental, vision, lab, and prescription drug data to provide a comprehensive view of health-related utilization and expenditures.

CONTACT

For more information, please contact:

Brenda Motheral, PhD, President

bmotheral@artemetrx.com

615-377-0730

¹ Express Scripts 2012 Drug Trend Report.

² <http://specialty.pharmacytimes.com/news/Strategic-Channel-Approaches-for-the-Distribution-of-Specialty-Pharmaceuticals>