Disease Management and the Medicare Drug Benefit: Opportunities and Threats for the Pharmaceutical Industry

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Agenda

• Stakeholders
• Trends
• Incentive alignment
• Opportunities
• Potential Threats to Success
Health Care System Stakeholders

- **Public/Private Payers** (Government, Employers)
- **Intermediaries** (Insurer/Third-party payer)
- **Patients or Consumers**
- **Health care providers** (Hospitals, Physicians or “Producers”)

**FINANCING**
- Premiums-individual policies
- Insurance Coverage
- Taxes
- Lower Wages
- Money (fixed or variable payments)

**PRODUCTION**
- Medical Services
- Out-of-pocket fees

**REIMBURSEMENT**
- Claims

Source: Adapted from Santerre & Neun, *Health Economics: Theories, Insights, and Industry Studies*
Pharma’s Interest in DM and Medicare

Federal & State Government
- Medicare
- Chronic Care Demo
- VA and DoD
- Medicaid/State Programs
- Senior Health

Employers & Business Coalitions
- Benefit Design
- Quality Initiatives/HEDIS
- Quality Measurements
- Consumerism
- Local Market Evaluation

Managed Markets, Integrated Systems & Trade
- Managed Care
- Pharmacy Benefit Mgmt
- Integrated Systems
- Retail/Wholesalers
- Specialty Pharmacy/Mail Order

Formulary Access, Positioning & Appropriate Product Use

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Managed Markets Customer Segments

- Managed Care Organizations • Managed Behavioral Health Organizations
- Medical Groups • Pharmacy Benefit Managers
  • Employers/Labor Unions
- Retail Pharmacy • Mail Order
  • Specialty Pharmacy
- Group Purchasing Organizations
  • Government • Senior Care

Consumers
Population >65 To Exceed 55 Million by 2020

Table compiled by the U.S. Administration on Aging based on data from the U.S. Census Bureau.
Chronic Conditions Prevail

Rate per 1,000

Men

Women

Source: NCHS, 1999
Government Focus on Quality, Cost and Value Driving Change

2005
- Gov’t: 47%
- Out-of Pocket: 29%
- Private Ins.: 24%

2006
- Gov’t: 41%
- Out-of Pocket: 39%
- Private Ins.: 20%

Source: CMS
MMA Impact on the Healthcare System is Significant

- 39,582,287 US Medicare Enrollees (2002CMS Data)
- 58% of Physician Services
- 77% of Prescription Medicines
- 61% of OTC Drugs
- 64% of Personal Healthcare Spending
- 55% of Hospital Revenues
Medicare Under the Microscope

- Concern about costs
- Focus on quality & value for the investment
- Disease prevention important to public health of US
- Government direction likely to influence commercial marketplace
63% of Medicare Beneficiaries Present with >2 Chronic Conditions

And Beneficiaries with >3 Chronic Conditions Comprise 88% of Spending

FIGURE 4.
DISTRIBUTION OF MEDICARE SPENDING BY NUMBER OF BENEFICIARIES’ CHRONIC CONDITIONS

Medication Adherence Critical Issue with Seniors on Multiple Medicines

Two of five seniors report not taking medications as prescribed

Poor experiences with drugs and costs contribute to non-adherence

Percent of seniors who say they:

- **COST:** Skipped, took smaller doses, or did not fill Rx due to cost
  - U.S. Total: 26%
  - Low Income: 35%
  - 3+ Chronic Conditions: 35%

- **EXPERIENCES:** Skipped doses or stopped taking Rx because felt worse or felt Rx was not helping
  - U.S. Total: 25%
  - Low Income: 28%
  - 3+ Chronic Conditions: 34%

- **NEEDS:** Did not fill Rx because on too many or thought not necessary
  - U.S. Total: 15%
  - Low Income: 17%
  - 3+ Chronic Conditions: 19%

- **Any Drug Non-Adherence**
  - U.S. Total: 40%
  - Low Income: 48%
  - 3+ Chronic Conditions: 52%

Note: Rx = prescription medication. Low income is 200 percent of the federal poverty or less.

Poor Persistency is Common and Costly

Across classes, 20-35% loss in patient base after fill of initial prescription

<table>
<thead>
<tr>
<th>Drug Class</th>
<th>Annual Cost of Poor Persistence Per 1mm Patients</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Cholesterol (Statin)</td>
<td>$240 million</td>
</tr>
<tr>
<td>Hypertension (CCB)</td>
<td>$190 million</td>
</tr>
<tr>
<td>Osteoporosis (SERM)</td>
<td>$270 million</td>
</tr>
<tr>
<td>Depression (SSRI)</td>
<td>$440 million</td>
</tr>
<tr>
<td>Asthma (Inhaled Steroid)</td>
<td>$390 million</td>
</tr>
</tbody>
</table>

Source: Adheris Inc., Braun analysis

Month on Therapy

Percent of Patients Continuing Therapy

New Rx

1st Refill

$240 million

$190 million

$270 million

$440 million

$390 million

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Impact of Cost-Sharing Needs to Be Watched Carefully

EXHIBIT 5: Cost Sharing for Covered Drugs by Formulary Tier
Medicare Drug Plans with 2-Tier and 3-Tier Flat Copayment Formularies

NOTE: Exhibit excludes six plans that use some form of coinsurance for at least one of their formulary tiers (other than the specialty tier).
SOURCE: Authors' analysis of drug coverage in stand-alone PDPs offered by 14 national and near-national organizations; data from Medicare.gov.
DM Activity- But How Much is Collaborative & Integrated

Source: HIRC 2006 Health & Disease Management Service
Critical Incentives Are Aligned Among Stakeholders

- 3 Primary Drivers of Pharmaceutical Business
  - Increase treatment of “undiagnosed”
  - Improve medication adherence
  - Successfully acquire business from competitor
We All Strive to Attain Clinical Trials Outcomes – Collaboration is Key

- Meaningful initiatives to help increase medication compliance
  - Provider education
  - Patient education

- Integrated programs can help improve real-world results.

- Patient health outcomes can be optimized over the long term.

- Real-world outcomes can approach those realized in clinical trials.
Patient Adherence Reduces Overall Medical Costs

Increased Medicine Adherence Can Reduce Overall Medical Costs: Diabetes and Hypercholesterolemia

Diabetes: Drug Adherence and Total Medical Spending

<table>
<thead>
<tr>
<th>Adherence (%)</th>
<th>Total Medical Spending ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-19</td>
<td>$16,666</td>
</tr>
<tr>
<td>20-39</td>
<td>$11,200</td>
</tr>
<tr>
<td>40-59</td>
<td>$11,088</td>
</tr>
<tr>
<td>60-79</td>
<td>$9,363</td>
</tr>
<tr>
<td>80-100</td>
<td>$6,377</td>
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High Cholesterol: Drug Adherence and Total Medical Spending

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<th>Adherence (%)</th>
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<tbody>
<tr>
<td>1-19</td>
<td>$5,049</td>
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<tr>
<td>20-39</td>
<td>$5,836</td>
</tr>
<tr>
<td>40-59</td>
<td>$5,509</td>
</tr>
<tr>
<td>60-79</td>
<td>$6,376</td>
</tr>
<tr>
<td>80-100</td>
<td>$4,780</td>
</tr>
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</table>


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But There are Issues

- Silos and fragmentation of the care delivery process persist
- Companies that have significant franchises in a disease have been supporters;
  - Others will need to step up to maximize impact to the masses
- Many programs stop at providing educational literature
  - More is needed to improve patient outcomes
- Pharma goals are to increase appropriate use, compliance, brand and corporate loyalty, and ultimately market share
  - Conflicts between “Unbranded for all” vs. “Programs supporting specific product”
  - Some programs don’t meet needs of health plan or payor
- Degree to which DMP are incorporated into marketing budgets still lacking for many companies
  - Similar issues as seen in DM industry regarding demonstrating value for investment
Opportunities

• Collaborative care models with all stakeholders
• Medication Adherence
• Partnering with Health Plans & Payers
• Partnering with DM companies and promoting new programs and tools (both ways)
• Designing patient and provider support programs that complement DM programs
• Opportunities for manufacturers to demonstrate the value of pharmaceutical therapy with MA-PDs that will focus on overall healthcare cost and quality
• Partnering to prove benefit of DM
Threats

• Failure to deliver value proposition to stakeholders
• Continued silo approach to health and disease management
• Incentives not aligned to promote disease prevention and patient treatment support
• Failure to design acceptable and effective patient treatment support programs
• Reluctance to accept industry support programs for patients on their products
What Can We Do Now?

- Look for ways to work together with the patient as the central focus
  - Guide pharma in designing patient support programs
  - Look for ways to include pharma programs in DM support for health plans
  - Include as a measure of success, the extent to which you have aligned and incorporated all stakeholders in the process

- Design programs that address needs of both the 20/80 and the 80/20

- Promote research to aid in the design of programs that improve patient self-management of conditions and appropriate medication use in the elderly

- Contribute to the design of programs where each stakeholder has a role

- Measure results, share and incorporate the learning
Where Will The Market Take Us?

- 35 Million 65+ Population
- 70 Million 65+ Population
- Population who will require care & coverage