

Managed Markets & National Accounts Service

ACA is Creating Opportunities for Managed Markets and their Pharmaceutical Company Partners

As 2014 draws to a close, implementation of the Affordable Care Act is proceeding rapidly and creating both opportunities and challenges for almost all managed market customer segments. For pharmaceutical manufacturers, increased patient access via the exchanges and Medicaid creates significant market expansion opportunities. Payers' and providers' increased focus on quality metrics and Star ratings fuels interest in adherence and compliance initiatives. A greater focus on managing costs has spawned formulary and contracting challenges.

Key Finding:

Pharmaceutical company strategies must continue adapting to the evolving ACA environment with a stronger focus on managing the cost and quality of healthcare delivered to an expanding but undefined patient population.

IMPACT OF HEALTH CARE REFORM ON COMMERCIAL & GOVERNMENT MARKETS

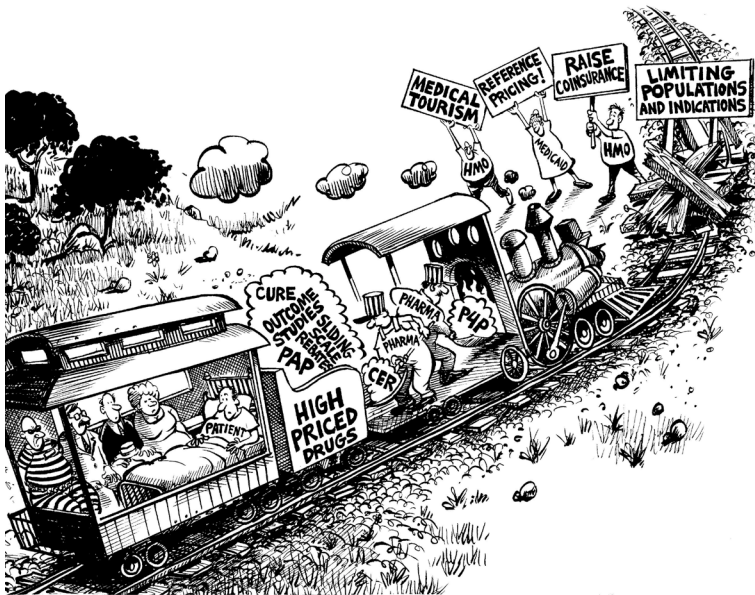
Commercial Health Plans (CHPs)	<ul style="list-style-type: none"> Exchanges are utilizing new plan designs, narrower networks and restricted formularies. Medicaid expansion offers opportunities for enrollment growth to offset more stagnant commercial market. Development of ACOs fuels new partnerships between providers and payers and increased focus on quality metrics.
Integrated Health Systems (IHSs)	<ul style="list-style-type: none"> Established infrastructure and provider/payer relationships position IHSs as leaders in ACO development. IHSs are focused on achieving "triple aim" of enhancing population health, improving quality of care, and reducing costs.
Commercial PBMs	<ul style="list-style-type: none"> PBMs are developing exclusionary formularies and tighter networks to support plans' positioning on the exchanges. Collaborating with plans to enhance Star ratings, PBMs support their clients through adherence programs and managing high-risk medications.
Medicare	<ul style="list-style-type: none"> Changes to the Medicare program have extended the solvency of the Medicare Part A trust fund four years later than was projected in 2013. Payment reform initiatives and development of new delivery systems—including Medicare ACOs—aim to enhance patient care while slowing spending growth. Plans focusing on improving Star ratings and reducing hospital readmission rates.
State Medicaid	<ul style="list-style-type: none"> Federal funding for expansion is fueling near term growth but increased enrollment is likely to create additional burdens for state agencies as they struggle to identify and serve the needs of newly eligible patients. Providing greater access to health care services for the uninsured or underinsured and greater focus on chronic disease state management are major priorities. Achieving quality metrics is challenging because of significant beneficiary turnover and limited ability to impact patients' behavior.
Medicaid MCOs	<ul style="list-style-type: none"> States' increased focus on Medicaid MCOs to manage their growing Medicaid populations creates expansion opportunities for commercial health plans and established Medicaid providers. Acquisitions of Medicaid MCOs is fueled by CHPs' interest in strengthening their position in the growing Medicaid market.

Managing Specialty and Oncology Drugs Has Intensified

While increases in specialty pharmaceutical spending have been ongoing, the introduction of a very high cost drug for a moderate size patient population is proving difficult for payers to manage, even if it is proven to be of high value long-term.

• The cost of Sovaldi has garnered significant attention.

- Sovaldi is anticipated to generate \$10-12 billion in revenue in 2014; United alone incurred more than \$100 million in hepatitis C treatment costs in just 1Q14.
- Treatment of the entire hepatitis C Medicaid and prison population would require \$63 billion; states are looking at severe usage limitations.
- Analysts estimate Sovaldi could add \$200-\$300 per year to every insured person's health premiums for the next five years.



• Excluded drug lists are expanding and saving money.

- ESI excluded 48 drugs from plans covering 25 million lives in 2014 and is expecting \$700 million in savings.
- ESI is considering excluding Sovaldi when competitors enter the market.

Research Methodology and Report Availability

HIRC's Market Analyses research was conducted in the Summer and Fall of 2014 through extensive secondary research. The full report, **Market Analyses**, is available to subscribers at www.hirc.com.

The Managed Markets & National Accounts Service provides a wealth of strategic and tactical information, including benchmarking, competitive intelligence, customer needs and emerging issues within eleven separate markets; environmental assessments of market segments that influence the availability, price and utilization of pharmaceuticals; and managed markets headcounts and organizational trends based on confidential data from 30 pharmaceutical companies.

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HIRC, INC. is an independent, nonpartisan organization that conducts strategic market research on trends in health care, pharmaceuticals and managed care businesses. HIRC's benchmark studies focus on the marketing needs of pharmaceutical companies by providing research critical to the development of successful customer-focused marketing strategies.

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