Copay Cards: Does the Future include Collaboration between Pharma and Payers?

Terri Bernacchi, Senior Principal
Today’s discussion will touch upon the current use of direct-to-consumer rebating in the form of copay offset programs.

**Today’s Situation**
- Increasing Use by Manufacturers

**Payer’s Response**
- Restrict and Block?

**Future Positioning**
- Collaboration
Payers have been shifting more of the prescription drug cost burden to patients
The differentials between Preferred and Non-preferred/Generics brands are at the highest levels

Figure 23. Average Retail 30 Copay Differential

In response to rising cost shifting and payer challenges, pharma has pursued direct-to-consumer approach

*Patient Abandonment*
- New Rx
- Refill Rx

*Average Days of Therapy*
- Average Days of Therapy

Patients who pay less out of pocket are less likely to abandon medication and more likely to stay on therapy

Illustrative: Data represents typically curves
The goal of direct to patient rebating is to create cost neutrality for the patient versus the alternative of rebating to payer for Tier 2

**Traditional Payer-centric Approach**

- **Tier 3**
  - Rebate to payer for Tier 2 access

**“Higher” OOP Cost**

- Discount directly to patient:
  - Fixed discount off copay (one-time or ongoing)
  - Percentage-off
  - Assured maximum patient OOP (e.g. Tier 2 copay amount)
  - Free product (e.g. month supply)
  - Retention program

**Tier 3, but with Tier 2 copay level to patient**

**Consumer-centric Approach**

Source: 2010 and Beyond: Next generation market access strategies, Adam Sohn, David S. Battleman, IMS
Copay programs are offered nationally* to Non-government patients (Commercial or Cash paying)

- Traditional multi-use copay card programs require that patients obtain a card from their physician or the internet and activate the card through an IVR where patient eligibility is determined
  - Subsidy is paid only to those patients who present the card at the POS

- eVoucher is an electronic program offered via Relay Health where the copay is bought down for commercial patients without the requirement of activation.
  - Subsidy is paid against all commercial claims at participating pharmacies in the specific program

*Excluding MA
Pharmacist submits Rx to Primary Payer

Claims sent to primary payor for adjudication

Pharmacy adjudication system will automatically route transaction to appropriate primary payor and subsequently route the secondary transaction to the secondary payor

Vendor determines benefits and responds to pharmacy

Vendor uses existing cycle payment process to reimburse pharmacies for any discount costs on a two week cycle schedule

Patient Presents Rx & Card at POS

3rd Party - COB

Cash payer

Pharmacy accepts Copay card and loads info as secondary payor

Pharmacy accepts Copay card and loads info as primary payor

Pharmacy passes Benefit to the consumer

Relevant discounts are applied

NCPDP 5.1 format includes relevant data elements such as: Amount Paid to Pharmacy, Consumer Amount Paid, Transaction Fees

Real time claim response

Claim transaction received by Vendor

Vendor Database

Pharmacy collects the reduced copay amount
Manufacturers want to make sure consumers have access to therapy regardless of contracts with payers.

For some launch brands, the claim volume can be significant (as high as 20%).

*excluding MA, excluding eVoucher programs
The size of the rebate and the number of offers associated with a program has increased

<table>
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<th>Average subsidy paid for claims using a copay card and/or voucher program</th>
<th>copay card or voucher</th>
<th>copay card or voucher</th>
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<td>Apr-Dec 10 Cohort</td>
<td>$19.34</td>
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<td>Apr-Dec 11 Cohort</td>
<td>$17.40</td>
<td>$22.08</td>
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<tr>
<td>Large Brands</td>
<td>$26.76</td>
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<td>Mid-Size Brands</td>
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<td>$36.03</td>
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<th>Average number of claims that were associated with a copay card and/or voucher</th>
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<td>Small Brands</td>
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Manufacturers are now using copay offset programs at all stages of a product’s lifecycle

**Launch**
- New Tier 2 Strategy
- Heavy Volume via eVoucher & Copay Cards (Victoza)

**In-Line**
- Offered as Loyalty Program to drive adherence
- Disadvantaged if none is offered

**LOE**
- Rebating to Generic Levels as a Defense Strategy leading up to LOE (Lipitor $4)
Alternative to contracting for Tier Two Access at Launch
While the consumer approach addresses these issues and increases patient alignment, it does so by effectively bypassing the payer, risking an adversarial relationship.

Potential Pharma-Payer Relationship Models

Engaging with the consumer seeks to disintermediate the payer

A consumer model entails 3 key assumptions:
- Disintermediation of the payer is feasible
- Copay barrier to patients can be neutralized
- Access dynamics are centralized around cost

Source: 2010 and Beyond: Next generation market access strategies, Adam Sohn, David S. Battleman, IMS
Manufacturers need to get ready for the fact that Payers are waking up to the scope and size of these programs.

“Copay offset programs...mitigate the effectiveness of our tiered benefit design programs and [are] going against what we’re trying to accomplish for our members’ health and for employers.”

– Peter Clagett, vice president of pharmaceutical strategies and PBM oversight for Wellpoint, Inc.

CVS Disfavors Some Drugs

Company’s Pharmacy-Benefit Business Steers Customers to Cheaper Therapies

By JON KAMP

CVS Caremark Corp.’s pharmacy-benefit business is recommending customers stop covering more than 30 drugs next year, including diabetes treatments and an erectile-dysfunction pill, to save money and combat drug-maker coupons that promote brand-name medicine over cheaper alternatives.
PBMs: Vocal critics of these programs

- November 2011 Visante Report: How Copay Coupons Could Raise Prescription Drug Costs By $32 Billion Over the Next Decade

- Report mentions that copay card programs are all invisible to payers because they all occur after the adjudication of the prescription (“shadow claims system”)

- Report did not include analysis of high cost specialty drugs

- The Pharmaceutical Care Management Association (PCMA) is the national association representing America’s pharmacy benefit managers (PBM)
Multi-use copay program patients demonstrate increased adherence to medicine when comparing to control group

“A well-designed program can often add … days of additional patient adherence to therapy in a year. In many disease areas, such as hypertension, diabetes, asthma, and stroke, studies have shown that that improved compliance will lead to lower hospitalization rates and annual medical costs.”

Source: Letting the Facts Get in the Way, An Empirical Defense of Coupons & Copay Offset Programs, Mason Tenaglia January 2012, Pharmaceutical Executive
Payers believe that copay coupons boost brands at the expense of generic alternatives. PBM are also unhappy because they are an alternative to contracting for access via a PBM rebate.

**4 Most Common Payer Counter Strategies**

- Enlarge the copay amounts between drug tiers
- Increase the formulary rebates requested from manufacturers.
- Implement utilization management
  - Prior Authorizations, Step Therapy Requirements, Mandatory Mail
- Create a closed formulary

*Source: Pembroke Consulting*

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**Copay Programs Very Popular with Physicians & Patients**

37% of physicians polled were much more likely to prescribe a drug if they were aware that a copay card was available.

*Credit Lyonnais Securities Asia (CLSA)*
The partnership model seeks to realign payers and pharma across common objectives

Potential Future Pharma Models

A payer partnership model entails 4 key assumptions:
- Two-directional communication
- Clear expectations for reciprocity
- Goal is a win-win outcome
- Predominant interaction is through engagement efforts

Source: 2010 and Beyond: Next generation market access strategies, Adam Sohn, David S. Battleman, IMS
Is there a path to a “Win-Win” for Copay Offset Programs?

Rather than restricted use, the path to win-win may include:

- The ability for all stakeholders to track their use
- The ability for pharmacies and PBMs to be part of their distribution
- Max Plan Pay Amount and other management tools in contracts

Wants:
- Value for rebate $  
- Affordability to consumer  
- Contracting for preferred tier to mean something  
- Pay for what matters, not pay for what doesn’t

Wants:
- Drive generic use, where possible  
- Control drug trend, especially specialty  
- Boost medication adherence, especially in chronic CV-MET conditions

Source: Amundsen Group, Drug Benefit News, IMS
To ensure Pharm/Payer collaboration, manufacturers need better internal organizational alignment in the management of these programs.

**Potential Pharma-Payer Relationship Models**

- **Adversary**
  - Copay programs managed by Brand Teams only and not part of overall MM Strategy
- **Partner**
  - Copay programs part of overall Brand’s Managed Markets Access Strategy

Source: 2010 and Beyond: Next generation market access strategies, Adam Sohn, David S. Battleman, IMS