HM
STOP LOSS

HM InSights: Cancer Drug Cost Growth Trend Continues

Specialty pharmaceuticals, with their enormous price tags and long-tailed exclusivity periods, continue to be a big topic of interest in health care. In particular, cancer drugs play a significant role in the growth trend of specialty pharmaceuticals. In fact, the current cancer drug trend is approximately 24 percent, and it's expected to remain at that rate through 2016 due to higher survival rates and medications that are prescribed for longer periods of time.[1] The constant emphasis on developing new, more targeted cancer drugs also impacts the growth in costs.

The influence is substantial, especially when you consider that cancer patients make up less than one percent of the insured population, yet they account for 10 percent of health care costs. And these costs associated with the low number of cancer patients compared to overall health care spending is an indication of the truly high costs of cancer treatments, which are significantly tied to cancer drugs.[2] In fact, almost $30 billion in spending was tied to cancer drugs in 2013, so it is not surprising that cancer is one of the top three conditions driving the specialty drug trend.[3]

Age and Population Play a Role

It is anticipated that by 2020, population growth and aging will raise cancer costs to $158 billion, and costs could exceed $200 billion if new diagnoses, survival rates and cancer costs are higher than expected.[4] This is due to a projected 45 percent increase in the number of new cancer cases, compared to the estimated U.S. population growth of 20 percent from 2010 to 2030. And regarding age, cancer incidence in adults older than 65 years is projected to rise 60 percent by 2030, compared to a growth of only six percent for adults younger than 65 – a statistic that can be tied to the large size of the baby boomer population.[5]

Development Pipeline and Treatment Location Influence Costs

Cancer drug development has increased in the past several years, and the new drugs available are more expensive and treat a smaller number of patients. The pipeline for continued development is robust – although just 10 cancer drugs were approved by the FDA in 2014, there are 574 in the pipeline.[6] Some consider the most important new drugs of 2014 to be Keytruda and Opdivo, which were developed to "unlock the immune system as a weapon to attack cancer cells" of melanoma. They cost $150,000 per patient, per year, and sales are projected to be nearly $3 billion over the next few years.[7]

In addition to the impact of new drug launches, treatment setting also influences drug costs. Compared to a physician office, chemotherapy delivered in a hospital outpatient setting is much more expensive – 28 to 53 percent higher. In 2006, 15 percent of oncology care was delivered in a hospital outpatient facility, which increased to 29 percent in 2010 and is now 42 percent in 2015. The higher cost is a growing concern as treatments delivered in a hospital setting have more than doubled in recent years and are expected to grow further.[8]

The trend is likely to continue, as hospitals are actively acquiring smaller oncology practices as an additional revenue source. The Community Oncology Alliance reported in 2014 that more than 500 community cancer practices have been acquired by or affiliated with hospitals.[9] Small independent practices can gain stability by being part of a larger hospital system, and hospital systems can charge higher outpatient drug administration costs and professional fees for services rendered in this setting.

Physicians also increasingly use the "buy and bill" method in which the provider purchases the drugs and then bills the payor for reimbursement. In fact, it is estimated that more than 60 percent of oncologists' revenue is provided through drug margins and mark-ups made possible by using a buy and bill approach.[10]

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Maintaining Drug Regimen Is Vital to Results

In order to help lower overall treatment costs, patient compliance is essential. Compliance can drive optimal drug therapy results, but it can be difficult when patients experience severe side effects that lead to a reduced quality of life. Express Scripts has found that 40 percent of patients are non-compliant with cancer medication therapy (oral oncology medications only), which can impact outcomes.[1]

Patients' adherence can be improved when care management is part of the process. When patients speak one-on-one with specialty pharmacists, it can improve adherence and compliance as a way to contain costs. Special education sessions also help to better inform cancer patients of the benefits of taking medications as prescribed and help to address patient issues like side effects. They also can tailor patient coaching to address individual needs.

Unfortunately, another issue for patient adherence is the high costs of oncology drugs in the United States. Often, patients simply can't afford the co-pays on these costly medications, and this impacts their ability to battle their disease. A new term for this situation has come into use called "financial toxicity." Not only do patients have to live with the physical side-effects of these drugs, they also potentially face personal bankruptcy to pay for their cancer treatments when costs quickly escalate.[11]

Other deterrents to patients for maintaining the proper drug regimen include a poor relationship with the provider, not believing the diagnosis, lack of understanding the health risk, side effects, forgetfulness, disease progression, treatment anxiety, comorbidities and cultural beliefs.

Carriers Seek Cost Solutions That Also Support Adherence to Care

Because it is vital that patients follow their cancer treatment regimens, carriers look for ways to help control the cost of care. Such methods include bonuses for prescribing less costly drugs, bundled payments and treatment guidelines. With bonuses, programs are created to provide a certain dollar amount per month per patient to oncologists that adhere to established, evidence-based cancer treatments. The bonus can help to replace income the oncologist might have received from using a more expensive drug. Bundled payments include the cost of drugs within the episode of care for certain cancers. And treatment guidelines help doctors to more effectively use clinically proven care guidelines while providing members with support from a nurse throughout their treatment.

Plan sponsors also have a number of strategies in place to help control costs. Several areas are tied to plan design, including prior authorization, limited reimbursement, case management, a tiered benefit structure and suggested Medicare enrollment for members 65 and older. They also work to manage the cost of pharmaceuticals through a planned approach that uses a Pharmacy Benefit Manager (PBM) and makes specialty pharmaceuticals a major medical expense.

How else might costs be saved? Some believe that biosimilars have the potential to help lower the costs of high-priced biologics, but there is significant debate on how much reduction can actually occur due to the complex manufacturing requirements and distribution costs. Currently, the FDA has yet to determine guidelines for how a biosimilar drug must be equivalent to a biologic drug. Regarding the potential for biosimilar savings, Express Scripts anticipates savings of $250 billion in the next 10 years if biosimilars are developed and approved for 11 key biologic drugs. Rand Corp. projects a more modest savings of $44 billion.

There is much to be considered for patients, employers, medical professionals and carriers. At HM Insurance Group, we know that specialty pharmaceuticals like cancer drugs can play a significant role in the high cost of claims for self-funded groups. We also know that it is essential to manage costs by putting the proper controls in place before a catastrophic claim develops. Though results can vary widely, open communication and continuous monitoring are important for success.

ABOUT HM INSIGHTS: HM developed InSights to provide producers and their clients with information about industry trends that impact Stop Loss insurance. The information is intended to empower readers with market knowledge that can help them to better make coverage decisions in the changing health care environment.

[1]Express Scripts 2013 Drug Trend Report, 2014. [2]"Percentage of Cancer Patients and Cancer Spend to Healthcare Costs, 2010," Milliman, 2010. [3]"Medicine Use and Shifting Costs of Healthcare," IMS Institute, April 2014. [4] "Cancer Costs Projected to Reach at Least $158 Billion in 2020," National Institutes of Health, January 2011. [5] "Future of Cancer Incidence in the United States: Burdens Upon an Aging, Changing Nation," Journal of Clinical Oncology, 2009. [6] HemOnc Today, May 2014. [7] "The most important new drug of 2014," Forbes, December 2014. [8]"Comparing Episode of Cancer Care Costs in Different Settings," Milliman, 2014. [9] "COA Releases 2014 Community Oncology Practice Impact Report," Community Oncology Alliance, 2014. [10] "Spending on Specialty Pharmaceuticals," Health Affairs, October 2014. [11] "The Cost of Cancer Drugs," CBS News, October 2014.

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