What you need to know about how payers and providers think about value

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Let’s all agree: The market is in flux

Many players placing big bets on stakeholder alignment and the promise of Big Data

Unprecedented mega-mergers

New entrants attempt to take foothold

Combined market valuation

1) Logos used are property of their respective owners.

Source: Advisory Board Research interviews and analysis
In the interim, there are many perspectives on value

<table>
<thead>
<tr>
<th>No universal definition of value</th>
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| "You can have the best drug in the world that’s approved in 110 countries, but if you don’t have the right evidence on value, you may only be selling it in three…”
| VP of U.S. Medical Affairs Large pharmaceutical company |

<table>
<thead>
<tr>
<th>Right treatment. Right patient. Right time.</th>
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<tbody>
<tr>
<td>Benefits managers</td>
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<tr>
<td>Support payers and employers to reduce cost of care with negotiating power</td>
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<table>
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<tr>
<th>Employers</th>
<th>Clinicians (HCPs)</th>
<th>Life sciences manufacturers</th>
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<tr>
<td>Reduce total benefit cost while still offering benefit designs that attract top talent and ensure productive workforce</td>
<td>Ensure best treatment for patients given available information, cost-quality metrics, and clinical guidelines</td>
<td>Improve patients’ lives with best-in-class clinical innovations that also yield ROI</td>
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Source: Advisory Board Research interviews and analysis
How do organized customers define and measure value?

Into the Mind of the Medical Gatekeeper

The goal of this research is to understand how different health plans evaluate products relative to acceptable treatment alternatives under rapidly evolving payment models and definitions of value.

Key research questions

- What value drivers matter most when deciding formulary inclusion and medical benefit coverage?
- What sources and types of medical evidence are most useful when assessing the value of drugs and devices?
- Are health plans willing to collaborate with life sciences firms to expand how value is measured and defined moving forward?

Research approach

- Interviews with health plan C-suite medical leaders
- Web-based survey of health plan functional and clinical directors

Our research to date

- 15 health plan executives
- 20+ experts who influence payer decision-making

Source: Advisory Board Research interviews and analysis
Three emerging insights from our research to date

1. Evaluation has not kept up with innovation

2. Third party HTAs are quickly becoming population-based decision makers’ new KOLs

3. Many payers are not content to outsource complex value assessments for long

Source: Advisory Board Research interviews and analysis
Most plans and provider organizations agree on value drivers—in theory…

Few have a “rubric” for weighing factors within and across drivers

**Standard framework**

1. Is it safe and effective according to peer-reviewed studies, and has it been approved?

2. Do we have to cover it?

3. What’s the best way to cover that optimizes for budget impact?

**Evolving framework of medical value assessments**

- **Clinical benefit**
  - Curative
  - Durability

- **Patient access**
  - Site of care
  - Out-of-pocket cost

- **Total cost of care**
  - Utilization management
  - Care management burden
  - Medical administration

- **Avoidable cost**
  - Hospitalizations
  - ED/urgent

- **Patient (member) experience**
  - Adverse reactions
  - Pre-authorization requirements, step therapy
  - Ease of use (e.g., ROA, dosage)

- **Social benefit**
  - QALYs
  - Herd immunity

Source: Advisory Board Research interviews and analysis
We’re in a “grace period”: 90% of therapies fall in the grey area

Continued push toward novel therapies in pharmaceutical pipeline

U.S. novel drug approvals, 2008–2018

Practice standards will evolve as we begin to look at expert reviews and evidence as it comes up. There will be an increasing influence of organizations like ICER, who will be looking at new therapies and beginning to establish the societal value of a product.”

Associate Vice President Pharmacy, large Blues plan

32%
Classified as first-in-class therapy

34%
Rare, “orphan” diseases affecting 200K or fewer Americans

73%
Received expedited development and review method to speed approval

Source: “2018 New Drug Therapy Approvals,” U.S. Food & Drug Administration, January 2018
Five key challenges hinder decision evolution

What's hard

Managing the decision

1. Where do you find consistent, trusted evidence on the outcome?

2. How do you compare across value categories?

3. How do you compare across therapy types (e.g., drug vs. device)?

Accounting for risk over time

4. Who should assume responsibility for long-term benefit to the individual and the population?

5. How do you differentiate between the value of the therapy and the value that the payer and/or provider organization delivers through care management and support programs?

Reasons why studies are discarded

- It's not peer-reviewed
- Information about the site of care (e.g., hospital, PCP office, trial center) is not included in the study
- Population is too different from my own population
- Does not provide me with enough information to understand which of my patients are eligible for a treatment
- Sample size is too small
- Duration of study is too short

Source: Advisory Board Research interviews and analysis
Unbundling Total Cost of Care (TCOC): A drug is just one tool in value delivery playbook

- At-home visits
- Telehealth follow-up visits
- Call centers
- Pharmacies
- Telehealth follow-up visits
- Post-acute care partnerships
- Patient education materials
- Group visits
- Patient and caregiver interviews
- Transportation assistance
- Medication management and selection
- COPD
- Patients

Surgery (bullectomy, lung transplant)
Pharmaceuticals (bronchodilators, glucocorticosteroids)
Lifestyle changes (smoking cessation, exercise)

1) Chronic obstructive pulmonary disease

Source: Advisory Board Research interviews and analysis
Looking into our crystal ball: Are we reaching the tipping point on value?

Indicators of Market Shock

+ **Feasibility**: Is this trend tied to evidence that proves it is equally or more effective and efficient than status quo?
+ **Technology Infrastructure**: Does the technology exist to support relatively easy implementation at scale?
+ **Financial support**: Are payers or investors putting capital behind development of the trend?
+ **Shifting policies**: Have local, state, or national legislatures and regulators published language supportive of adoption?
+ **Industry buy-in**: Have multiple healthcare industry players—including patients, payers, and providers—acknowledged benefits of the shift?

Tomorrow’s reality

+ Measurable, transparent value frameworks
+ Agile drug life cycles driven by real-time RWE
+ Optimized treatment for discrete populations
Three questions you should take back to your team

1. How can we better design studies to generate meaningful evidence about patient experience, drug tolerability, and total cost of care?

2. What more can we do to understand how our customers really weigh trade-offs among all available medical, procedural, and lifestyle interventions for a particular disease?

3. How can we more proactively engage payers and progressive IDNs in pilots leveraging RWE to inform appropriate use?
About the Medical Affairs Leadership Council

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+ Optimize sources and uses of medical evidence
+ Drive more productive medical affairs-focused conversations

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- **We work across all sectors of the health care economy**: Deep, long-standing relationships with 80+ payers, 4,400+ health care organizations enable us to convene cross-industry forums with payer, provider, pharmacy, and life sciences leaders.

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- **We analyze and vet each practice we share**: Our research is based on rigorous market analysis and expansive customer interviews that uncover proven, replicable, applicable ideas worthy of your attention.

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Thank you.

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