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# Press Release

## Growth of Specialty Market Outpaces Overall Pharmaceutical Market – Payers Seek Solutions to Contain Utilization

While the specialty market remains a bright spot for manufacturers and investors, it represents a financial and clinical management challenge for third party payers, which continue to struggle to control cost and utilization growth.

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Industry analyses and analyst reports have reached the same conclusion - that worsening economics in most primary markets will necessitate that manufacturers invest in those categories that offer the greatest growth potential, predominantly biologics and specialty categories. With payers facing rapidly growing costs in the specialty market, a new study finds that attention remains focused on cost containment, and payers face a burgeoning pipeline of specialty and biologic therapies that resists easy management.

Based on primary research with over 100 decision-makers from commercial health plans in the U.S., The Zitter Group's Spring 2008 *Managed Care Injectables Index* – the eleventh in a series of semiannual studies - \*\* provides a comprehensive analysis of changes in specialty pharmacy management by commercial payers and future strategies for managing biologics and injectables. \*\*finds that despite growing concern about specialty costs, health plans have had only limited success controlling category growth. Notably, cost-sharing levels have remained flat, suggesting that cost-sharing and benefit design changes have limited impact as a management tool.

"We keep waiting for payers to get serious about cost-sharing, but they just haven't been able to do much," said Tom Baker, Senior Vice President at The Zitter Group, who led this recent study. "Payers had hoped to use cost-sharing to constrain demand, but we've watched their thinking evolve. Today, most of them believe that high out-of-pocket burdens will actually make things worse."

In addition to the limited impact of cost-sharing changes, payers remain constrained by poor benefit integration capabilities, making overall specialty management more challenging. Despite some success managing biologics for multiple sclerosis and hepatitis C, payers have struggled to make much progress managing drugs on the medical benefit. These drugs, which are usually administered in a physician's office, remain a black hole in management terms, and their utilization may be driven in part by physician revenue considerations. As a consequence, payers

have placed great hope on reimbursement reform to reduce overall utilization and biologics spend.

“The control of specialty utilization, particularly for infusible drugs, remains weak,” says Baker. “As a result the pipeline is full of infusibles. Without significant improvements to current management systems, insurers could be overwhelmed when these things come online.”

The *Injectables Index* provides a comprehensive analysis of changes in specialty pharmacy management by commercial payers and future strategies for managing biologics and injectables. Key highlights from this most recent study include:

- Payers continue to focus on transitioning to ASP as a means of reducing costs for medical benefit products. For the first time, the percentage of covered lives in an ASP environment has surpassed 50%; 41% of payers, representing 58.8% of covered lives, depend primarily on ASP reimbursement methodology, up from 35.4% of payers (45.8% of covered lives) in the Fall 2007 index. Accelerated adoption of ASP methodology is tied to payer willingness to contract above Medicare’s +6% rate and increase non-drug fees.
- Currently 73% of payers (81.2% of covered lives) use specialty pharmacy to manage any or all of their injectables, biologics, or oncology products. Payers report that SPPs manage roughly 60% of self-administered therapies and 30% of office-based treatments, suggesting an unwillingness or inability to drive medical benefit product distribution through an AOB system. Although the majority of SPP contracts are reimbursed using AWP methodology, payers expect to transition a significant portion of their SPP contracts to ASP, which would provide payers greater transparency into manufacturer-SPP contracts.
- Across categories, payers view prior authorization as a tool to ensure utilization within an appropriate patient population and in accordance with care guidelines. However, there has been significant growth in the proportion of payers looking to PA as a means to decrease overall utilization. Highlighted by developments in the ESA category, payers increasingly believe that robust prior authorization will prevent inappropriate use.
- The hGH, RA, and ESA categories are top payer management priorities; the importance assigned to several other categories – most significantly MS – has increased over the last six months. As specialty categories grow to include products with different routes of administration, payers voice considerable concern about their ability to manage classes of products across benefit classifications.
- There is a growing threat of commoditization across specialty categories as payers increasingly look at price, not efficacy, as the primary point of differentiation between competing products. As therapeutic categories become more crowded, and payers acknowledge a greater interchangeability between products, payers will be increasingly price sensitive and more comfortable commoditizing categories.
- Though payers are offering benefit designs with greater out-of-pocket costs, it appears that increasing the patient cost sharing burden is not a viable strategy to increase category management. This research, along with the Zitter Group’s *Benefit Design Index*\*, demonstrate that increased cost-sharing is not a panacea for specialty therapies; manufacturers should not expect to see dramatic changes to patient copayment or coinsurance in the near future.

## **About The Zitter Group**

*The Zitter Group (TZG) is the leading developer of strategic solutions for managed markets that secure, establish, and maintain essential links between brand goals and the economic needs of business decision-makers. Founded in 1989, TZG helps pharmaceutical, biotechnology, and medical device companies work more effectively within managed markets. TZG is the premier firm in the managed care segment because of its extensive experience, rich analytic capabilities, and commitment to the highest level of service.*