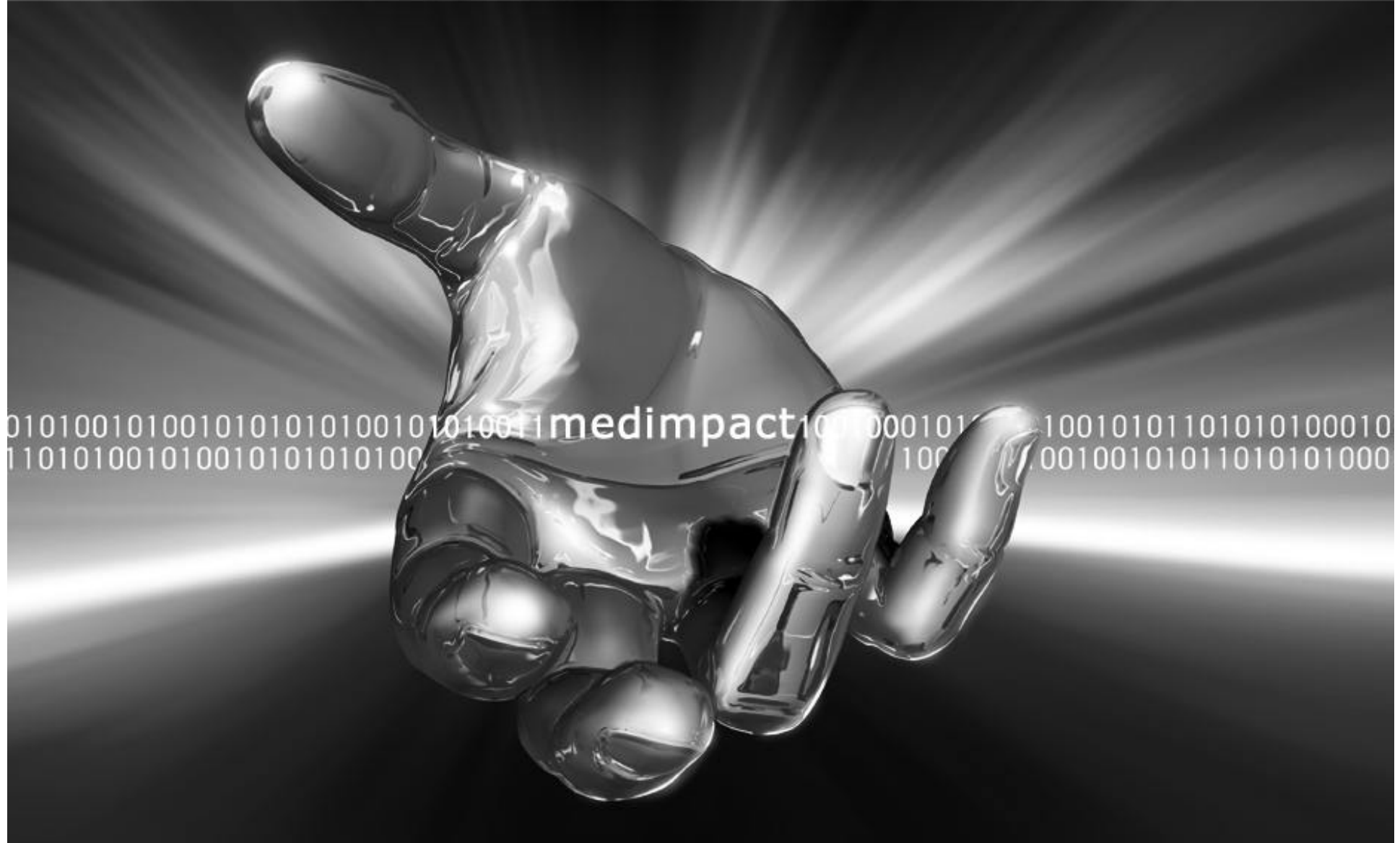
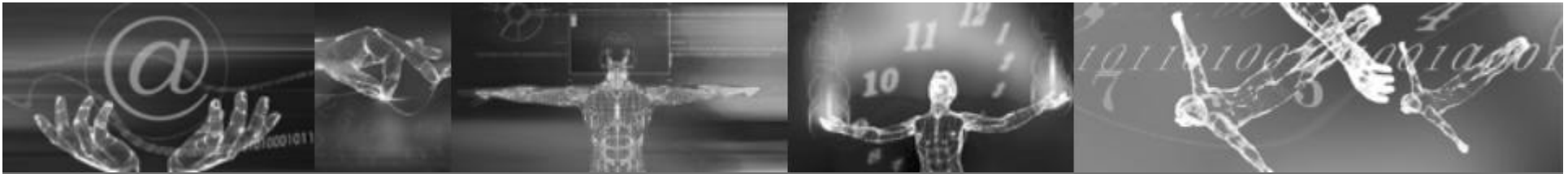


World Health Organization & World Trade Organization Secretariats





Workshop on Differential Pricing

8-11 April 2001, Hosbjor, Norway

Presented by:

Clifford L. Wong, Pharm.D.
Associate Vice President
MedImpact Healthcare Systems, Inc.

National PBM Leader, Director of Pharmaceutical
Operations-N. California (Retired)
Kaiser Permanente



Factors Allowing Leverage of Price on Drugs

- Ability to move MARKET SHARE in drug classes whether rebate or discount at purchase.
- Physician commitment via education & participation
- Infrastructure, staff, to implement a sound long term business plan
- Optimal use of generics
- Benefits & Plan design & management
- Favorable legal environment
- IT systems: Data into information
- **Differential Pricing**



Managing The Drug Benefit Using “Ex-post Reimbursement Techniques” In The USA

- Pharmacy is about 10-15% of the total health care costs & must be considered as part of care delivery.
- The essential infrastructure & processes to achieve most competitive prices; to manage the business; to deliver medical care.
- The integrated system drug discounts are better than the network model rebates.



Ex Post Reimbursement: What is it?

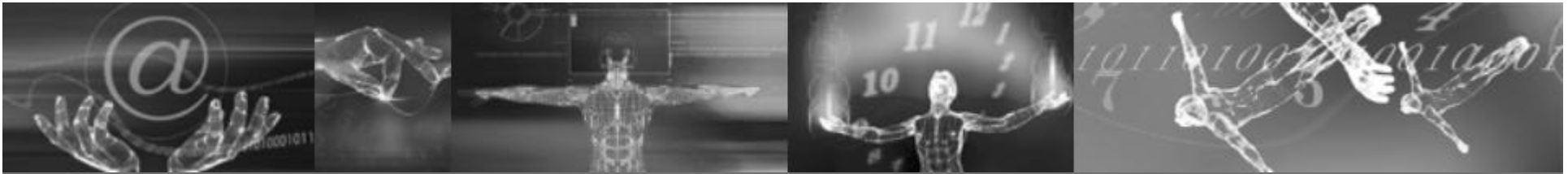
- Strategy for achieving discounts via REBATES for clients, I.e. insurer, managed care company, or employer AFTER drug dispensed to user.
- REBATES can be paid to payer or to PBM who administers contract and pays insurer, etc.
- Direct purchaser of drugs is network pharmacy who is not in this loop.
- Rebate return is dependent upon market share in drug class and contract NEGOTIATED with Pharma.

(From Background Note, Jayashree Watal)



Integrated System Advantage: Culture, Process, Delivery of Care Equals Better Discounts

- **Aligned culture & commitment for delivery of care**
- Exclusive medical group
- **Mission** focused on quality, affordability, service for all processes and internal actors.
- Internal actors have ability to manage costs, market share.
- **Control (to a degree!) of distribution chain.**
- **RESULTS: Discounts better than rebates.**



Kaiser Permanente— Inter-Regional Purchasing 2000

- Pharmacy purchases = \$1.5 billion/year (est.)
- 2% of U. S. market prescription drugs
- Over 300 contracts for 80% of Rx
- 8.2 million members nationally 2000
- \$17 billion revenue ENTIRE PROGRAM 2000 EOY
- Operating net margin is only 3%-1 Rx, 1 DOV





Value of Generics

- KP: 100% utilization where generics are available. Results in 75% of total volume as generic.
- Network: maximum of about 45% generic use
- Over \$65 million per year savings for entire KP Program
- Generics for drugs with NTI can be used: Digoxin, Warfarin
- Significant savings forthcoming



Strategies to Consider for the Future

- Differential Pricing
- Secure & efficient distribution system vital.
- Design benefits & plans to serve your culture & people.
- Technology and information is key: find an experienced partner with integrity to assist in the development of the infrastructure, business plan, & technology needed to achieve desired outcomes for your culture & people.



What is Needed from the Pharmaceutical Industry?

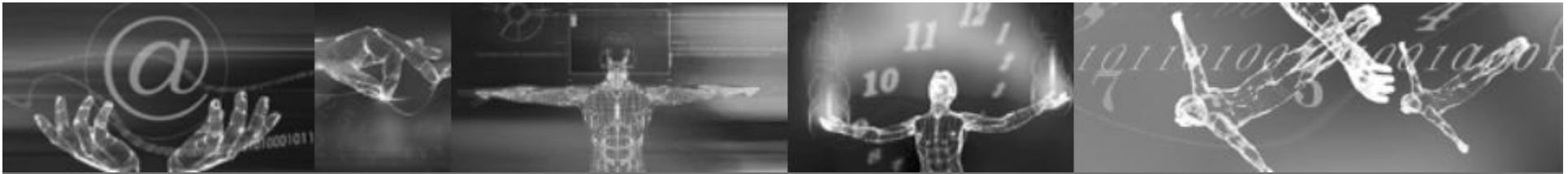
- Best possible price
- Long term contracts which allow forecasting drug expenditures
- Outcomes data support.
- Service for our supply line
- Develop new products with dramatic increases in quality and effectiveness.
- DTC advertising—value?



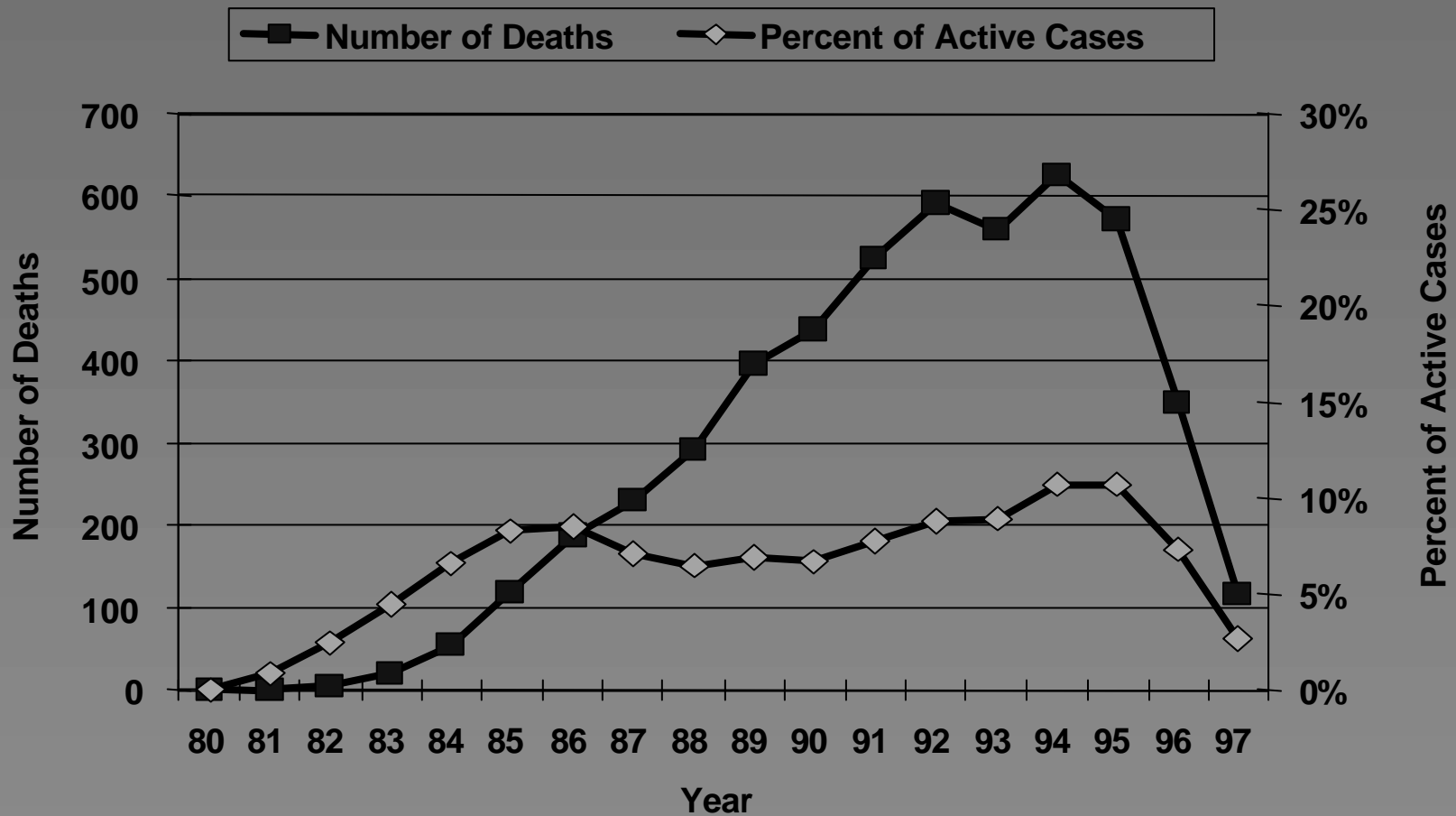


Factors Compromising Ability To Assure Affordable Accessible Price for Drug Benefit

- Legislative & case law
 - OBRA 90
 - patent law duration
 - unitary pricing efforts
- Consumer/user demand for new product.
- Market place dynamics
- Smart business people in pharmaceutical industry
- Technology, pipeline of expensive new products



Deaths Among Members With HIV: Raw Counts and Counts As Percent of Active Cases*



* Source: HIV Infection in the KPMCP, Dec. 31, 1997

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