

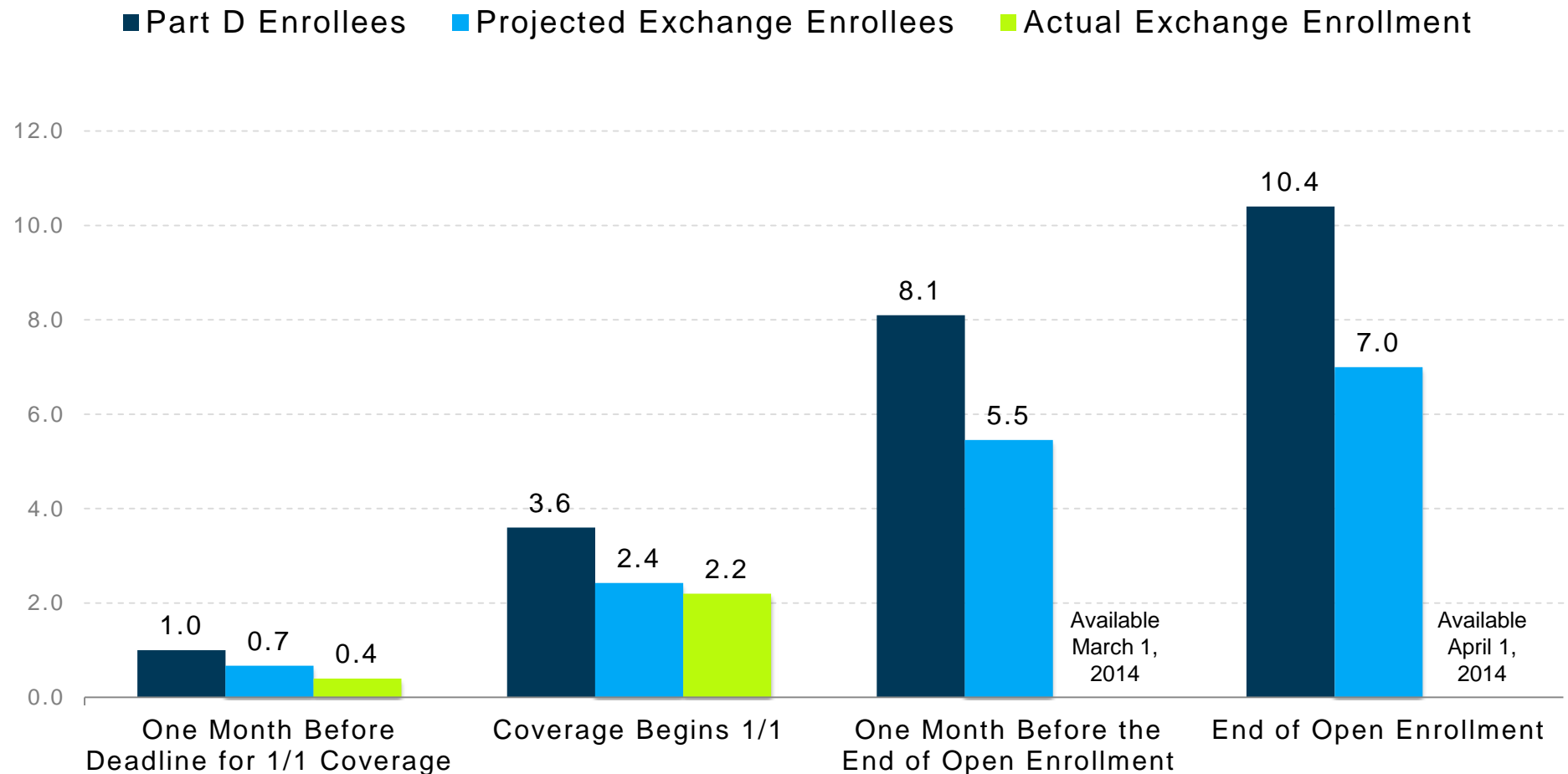


Insurance Exchanges: New Market Opportunities & Threats to Access

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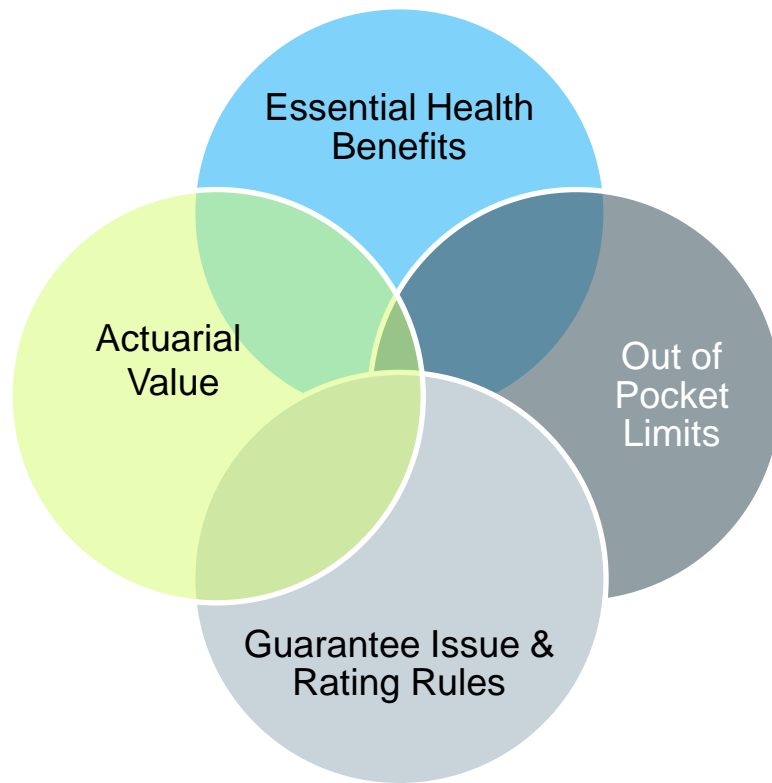
Despite Slow Initial Enrollment, Exchange Participation Is Accelerating—Most Sign-Ups Expected Close to March

PROJECTED EXCHANGE ENROLLMENT PATTERN BASED ON PART D VOLUNTARY ENROLLMENT EXPERIENCE (IN MILLIONS)



*Medicare Part D enrollment numbers based off actual Part D enrollees during the initial open enrollment period in 2006. Using the enrollment pattern from Part D and accounting for the differences in length of the open enrollment periods, Avalere projected what a similar enrollment pattern for the exchanges would look like to reach CBOs projected 7M enrollees by the end of the open enrollment period.
Source: HHS Health Insurance Marketplace January Enrollment Report. January 13, 2014.

Plans Strive to Keep Premiums Low, But Have Limited Flexibility on Benefit Design



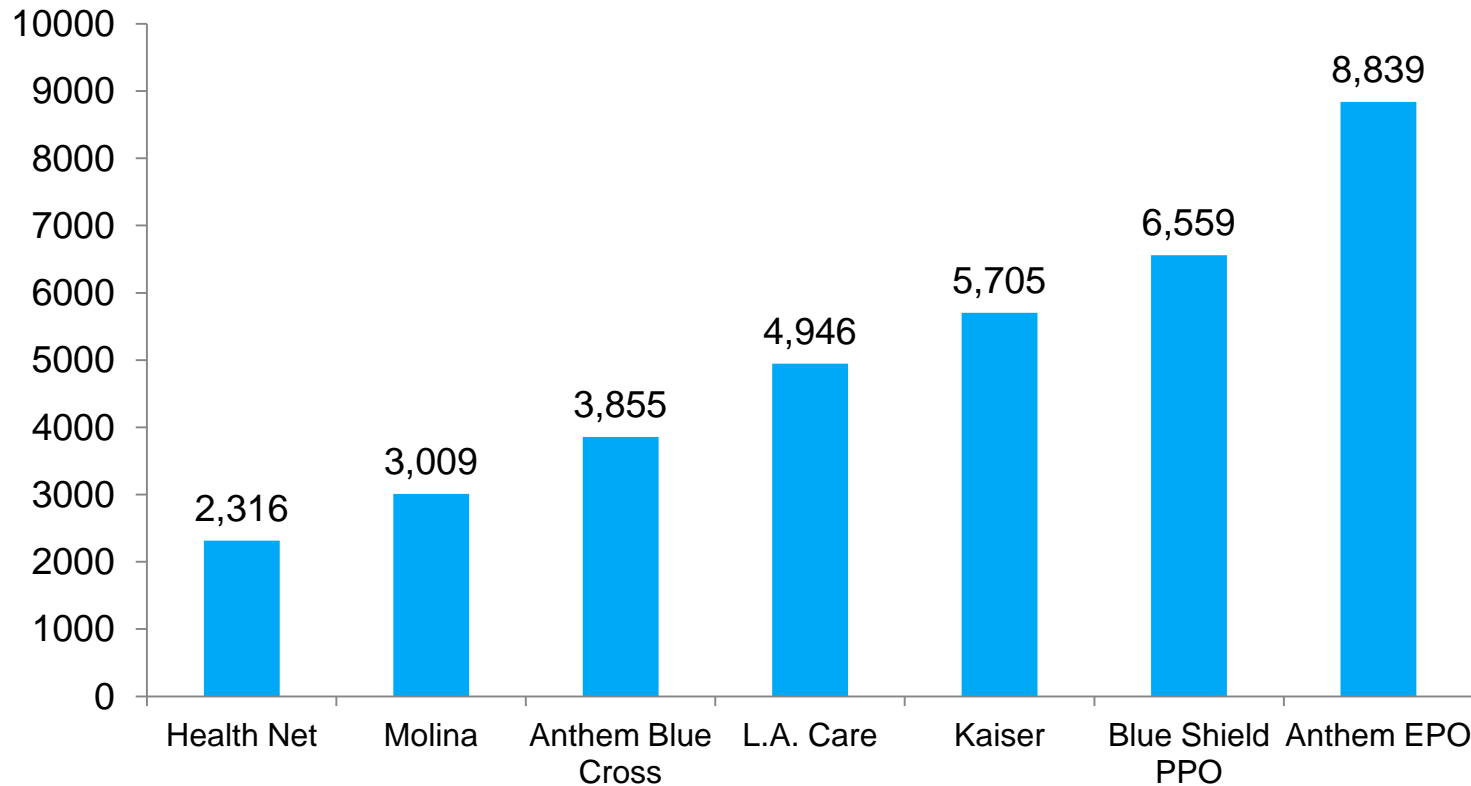
These parameters constrain plan flexibility...

...With Pressure to Keep Premiums Low, Plans Will Be Focused on Select Levers

- **Network Design:** Despite requirements that they must offer “adequate networks,” plans are designing high-value, narrow networks
- **Formulary Design:** Tier placement and utilization management will help plans manage drug use while still meeting EHB drug coverage requirements
- **Cost-Sharing Requirements:** Cost-sharing for specialty products in particular is expected to be high, and plans will structure cost sharing to encourage use of lower-cost products

In Spite of Network Adequacy Requirements, Plans are Utilizing Narrow Networks to Design Low Cost Plans

CASE STUDY: NUMBER OF PROVIDERS IN LOS ANGELES COUNTY PARTICIPATING IN THE EXCHANGE



There are 28,181 licensed physicians in Los Angeles County.

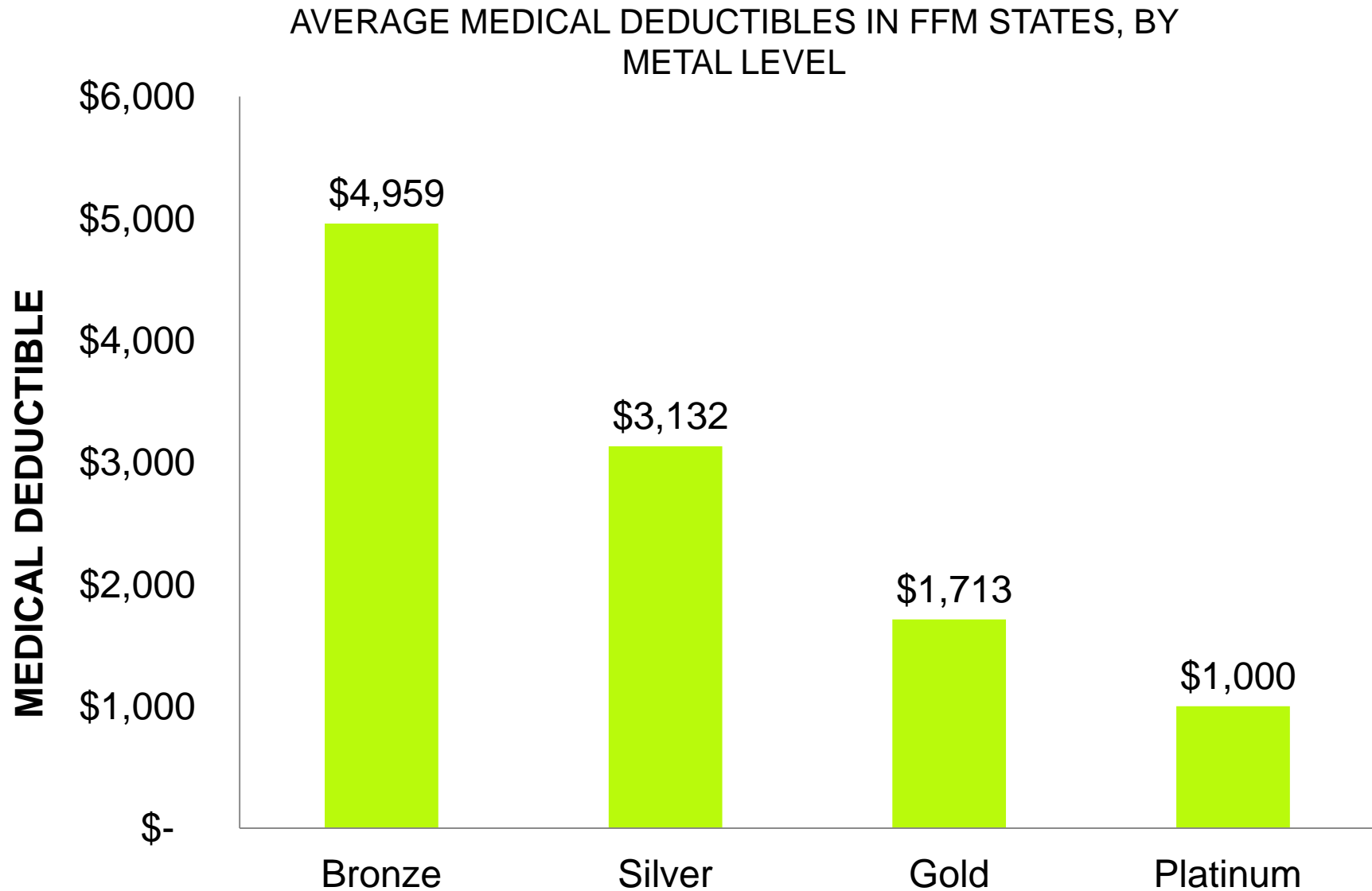
■ Number of Providers

Importantly, services rendered by non-network providers do not count toward the out-of-pocket maximum for exchange plans.

*There are 28,181 licensed physicians in Los Angeles County.

Source: Avalere *PlanScope*, Updated November 18, 2013 and Avalere analysis of information available on <http://pnhp.org/blog/2013/09/16/exchange-plans-have-sharply-limited-networks/>.

On Average, Silver Plan Deductibles Are More Than \$3,000

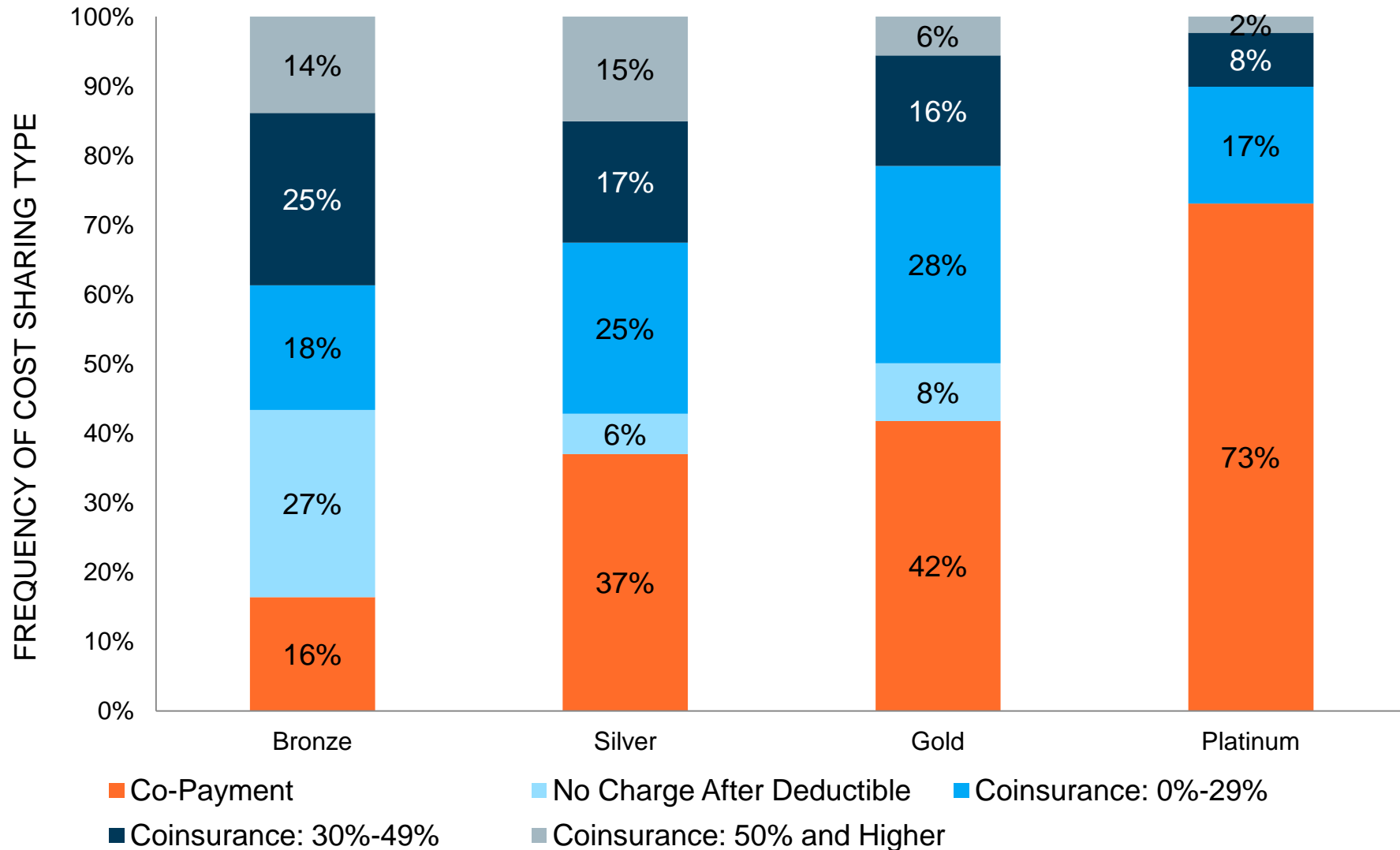


Source: Avalere *PlanScope*, Updated January 28, 2014. Avalere analysis HHS data file of all exchange plans in FFM states.



Over 50% of Bronze and Silver Plans, Expected to Have the Highest Enrollment, Use Coinsurance on Their Specialty Tiers

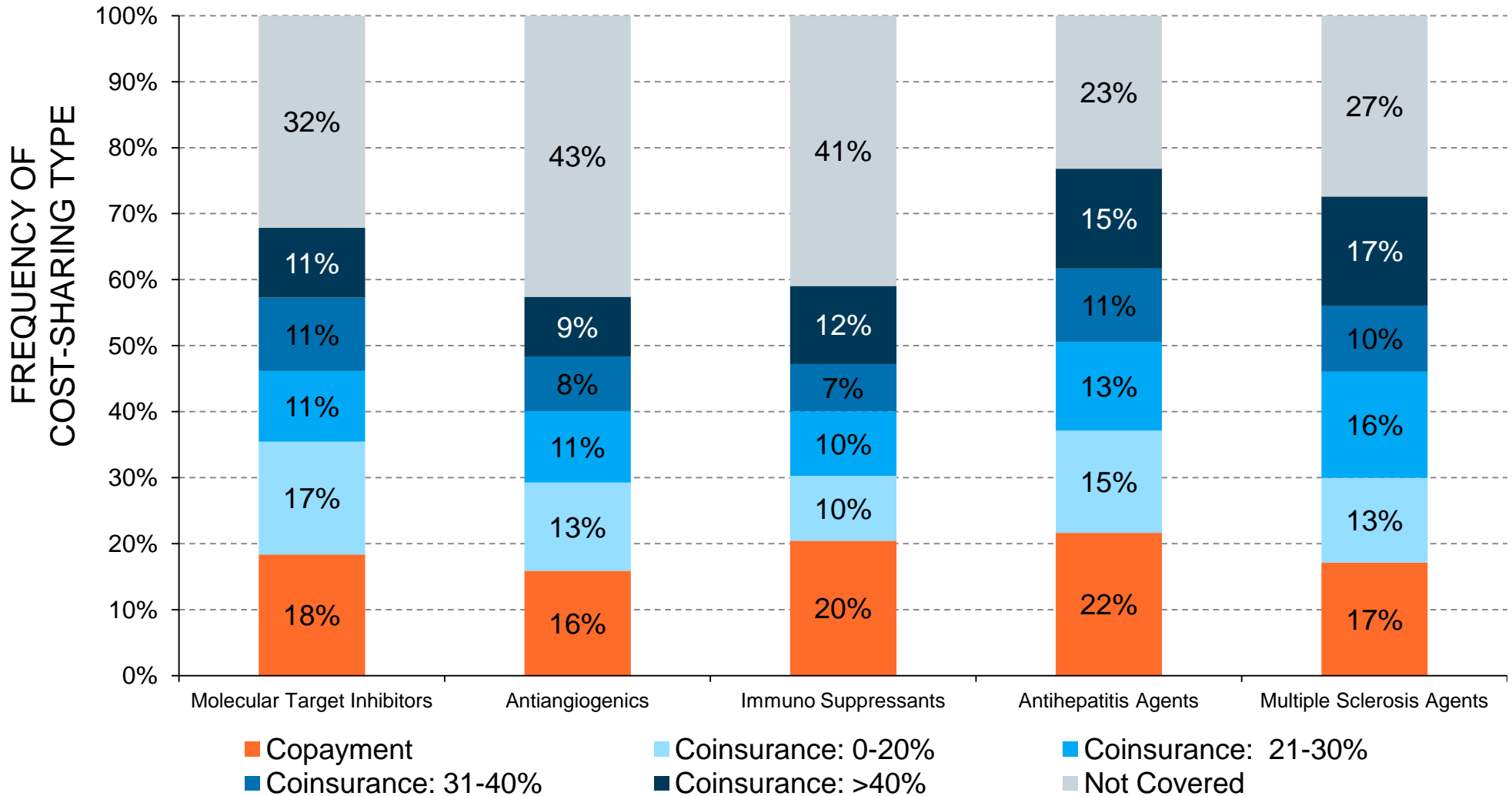
PLAN SPECIALTY TIER COST SHARING IN FFM STATES, BY METAL LEVEL



Source: Avalere *PlanScape*, Updated January 28, 2014. Avalere used a deduped version of the official HHS data file of all plans and benefit designs in FFM states to determine cost sharing.

Plans Disproportionately Use Coinsurance on Specialty Drugs

FREQUENCY OF COPAYMENT VS. COINSURANCE BY AMOUNT FOR SINGLE SOURCE BRANDED DRUGS IN SILVER PLANS

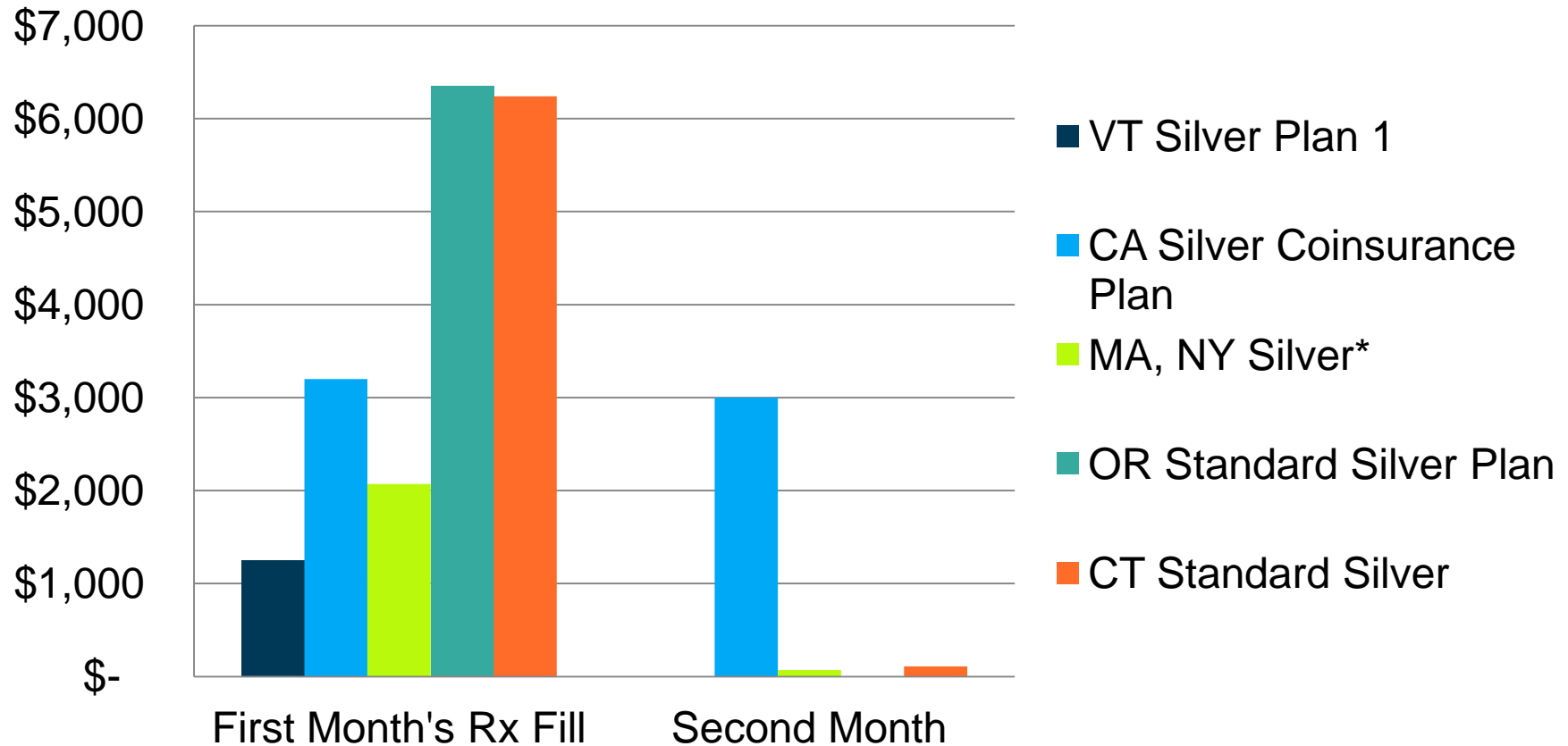


Source: Avalere Health PlanScape,™ a proprietary analysis of exchange plan features. Data as of October 31, 2013.

Despite the ACA's OOP Limit, Patients May Face High Initial Costs for Their Drugs

ESTIMATED SPENDING FOR VERY HIGH-COST DRUGS IN EXCHANGE COVERAGE

Assumes \$15,000 Monthly Drug Cost



Source: Avalere Health analysis based on states' 2014 standardized benefit designs for silver-level plans in their exchanges. Calculations are based on a prescription drug with a cost of \$15,000 per month that is placed on a plan's highest-cost formulary tier. Assumes no other drug or medical spending by the patient during the year.

* MA and NY each have a standard silver plan design with the same overall deductible amount, tier 3 cost sharing, and OOP maximum, although the benefit designs differ on cost sharing amounts for other services not included in this analysis.

An Avalere Case Study on Oncolytics Revealed that Higher Cost Sharing Increased the Risks of Abandonment

Avalere Research Found

10% of newly initiated oral agents were abandoned

Claims with cost-sharing over \$500 were 4 times more likely to be abandoned than claims with cost-sharing of \$100 or less

Patients with 5 or more prescriptions in the previous month had 50% higher likelihood to abandon than patients with no prescription burden

Which Showed

Abandonment of newly prescribed oral oncolytic therapy is not uncommon

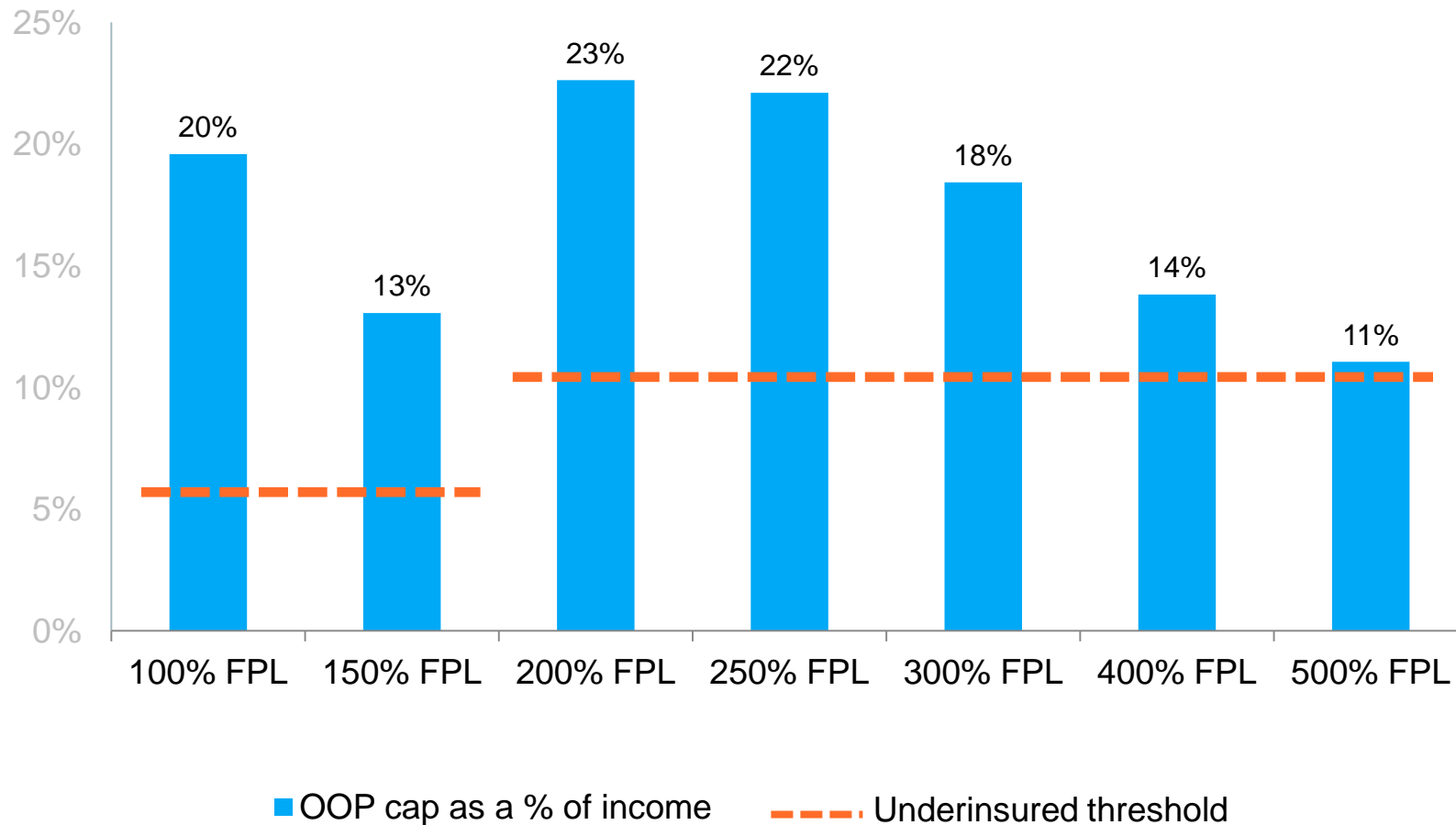
Abandonment increases for patients enrolled in plans with pharmacy benefit designs that require high cost-sharing

Higher prescription burden was also associated with a larger abandonment rate

Source: L. S. Schwartzberg, S. B. Streeter, N. Husain, M. Johnsrud; The West Clinic, Memphis, TN; Avalere Health, Washington, DC. "Abandoning oral oncolytic prescriptions at the pharmacy: Patient and health plan factors influencing adherence." *J Clin Oncol* 29: 2011 (suppl; abstr 6036)

Even with Subsidies and Cost Sharing Reductions, Most Chronically Ill Patients Will Be Underinsured in the Exchanges

OUT-OF-POCKET CAP AS A PERCENT OF INCOME¹



1. Based on CWF definition: out-of-pocket expenses equaled 10% or more of income; out-of-pocket expenses equaled 5% or more of income if low income (<200% of poverty); or deductibles equaled 5% or more of income. Available at: http://www.commonwealthfund.org/~media/Files/Publications/Fund%20Report/2013/Apr/1681_Collins_insuring_future_biennial_survey_2012_FINAL.pdf



Complex Balance of Formulary Transparency and Benefits in Exchanges

Formulary Transparency

In most states, enrollees do not have access to a plan formulary when selecting their plan.

Nevada, Colorado, and Vermont are notable exceptions that provide links to plan formularies and, in Nevada's case, a comprehensive formulary look up tool

Once enrollees receive their formulary and coinsurance information, lack of information about drug prices limits their ability to understand their true expected OOP expenses

As coinsurance grows in prominence, so does price transparency for manufacturers as enrollees learn the true price of their drugs



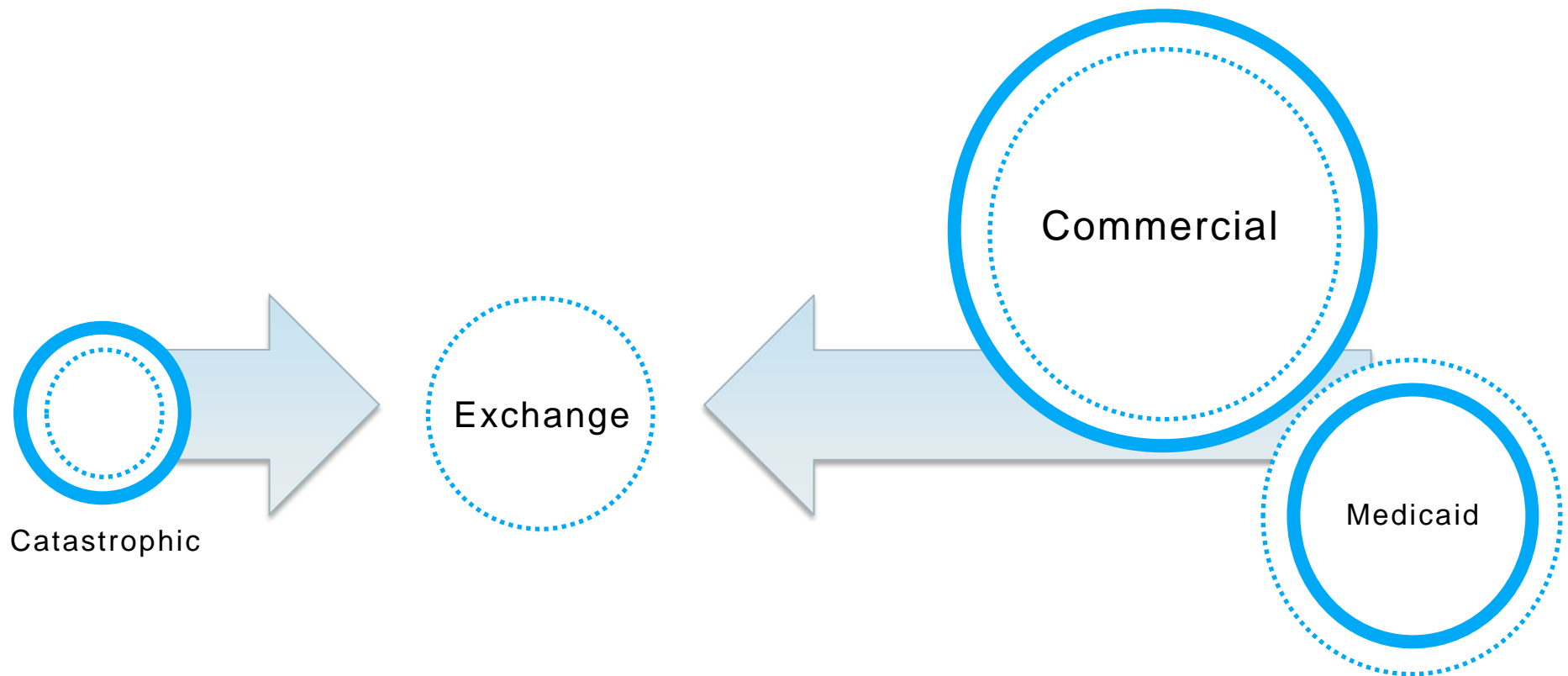
Exchange Benefit Design May Accelerate Shift to Narrower Commercial Coverage by Employers

EXCHANGE BENEFIT DESIGNS MAY HAVE SPILLOVER EFFECTS BY SETTING A NEW STANDARD FOR COVERAGE GENEROSITY

Benefit Design Generosity

Less Generous

More Generous



— Lives Served by Market Today
..... Anticipated Future Market



Potential Patient Access Issues in Exchanges

Formulary Breadth

Plans are applying more utilization management controls that limit access to patients' medications

High Cost-Sharing

High deductibles and coinsurance for specialty drugs could increase rates of abandonment

Premium Affordability

Premiums could increase for plan year 2015, depending on the risk-pool in the first year

Co-Pay Assistance

Manufacturers ability to provide exchange enrollees with co-pay assistance is still an open issue

