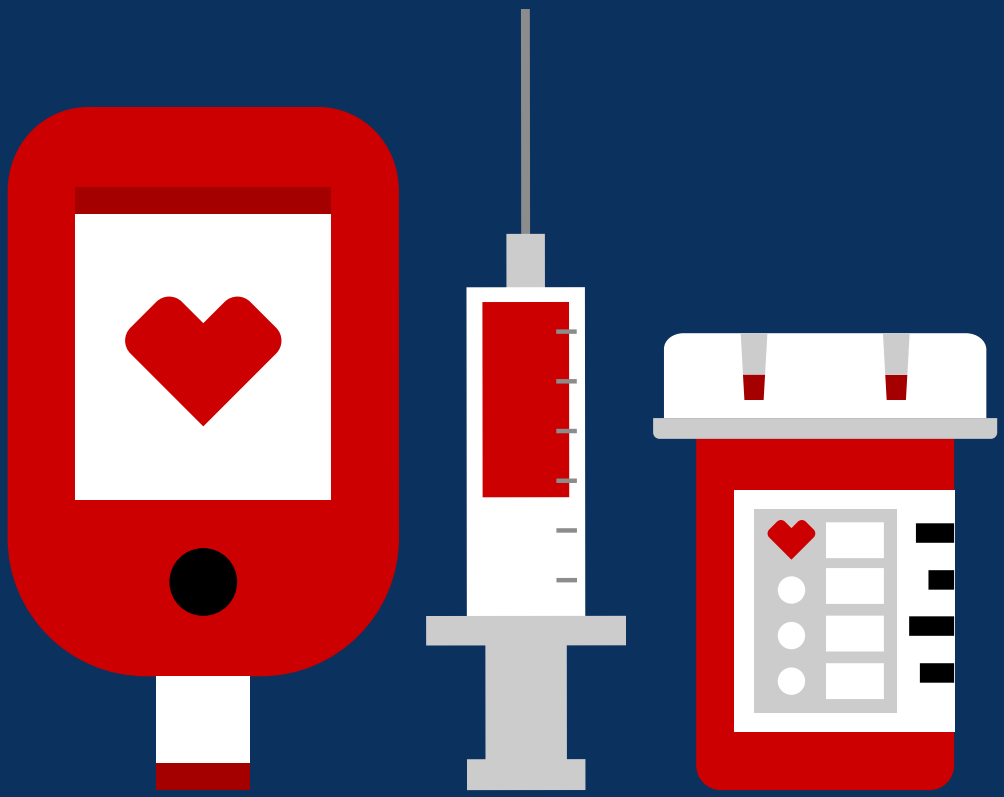
WHITE PAPER

A Prescription for Better Diabetes Management

RxZERO Plan Design Eliminates Member Out-of-Pocket Costs



CVSHealth

Diabetes is one of the most prevalent chronic conditions in the U.S. and accounts for a substantial portion of the health care costs for the nation.

Drug prices often make up a significant portion of the cost of treatment. Increasingly, as list prices and overall cost of care continue to rise, consumers are shouldering a greater portion in the form of out-of-pocket costs. For many, this poses an affordability — and therefore adherence — barrier. This can lead to poor outcomes and ultimately higher downstream costs.

In light of the continued threat that affordability poses to better health, CVS Health offers payors a unique solution that enables them to eliminate out-of-pocket costs for their plan members for most — if not all — diabetes drugs, while keeping their plan costs in check.

A zero out-of-pocket diabetes solution can eliminate cost as a barrier, encouraging people with diabetes to fill their prescriptions and be more adherent, improving health outcomes. Our analysis clearly shows such a solution will not raise, and may even help lower, overall costs for payors without the perceived trade-off with deductibles and premiums.

In this white paper, we explore the range of challenges that the diabetes epidemic creates for individuals and payors, and highlight some approaches and solutions that can help address this national crisis. We also explain how our new zero out-of-pocket diabetes plan design, RxZERO, would work for a range of plans and payors, and has the potential to significantly alleviate the human suffering from diabetes.

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Addressing the Diabetes Epidemic

The prevalence of diabetes in the United States continues to increase, spurred — in part — by an epidemic of obesity. Diabetes causes tremendous morbidity, mortality and suffering for the more than 30 million Americans diagnosed with the condition, and strains the ability of the health care system to shoulder the costs. It is estimated that the number of adults living with diabetes has doubled over the past two decades.[1]

To alleviate the disease burden of diabetes, our health care system needs to focus more attention on the entire diabetes spectrum, from counseling for those at-risk, prompt treatment for those in the early stages, and aggressive holistic therapy for those with diabetes in order to minimize development of complications. Insurers, pharmacy benefit managers (PBMs), doctors and hospitals all have a role to play in improving care.

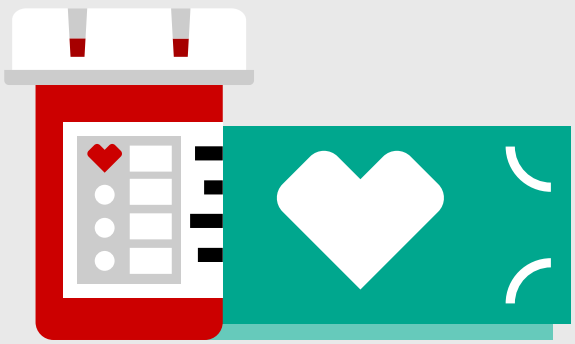
From a managed care standpoint, one critical element to improve outcomes for people with diabetes is making sure they can afford their medications.

While cost share can range substantially, members who use brand antidiabetic medication spent an average of $467 out-of-pocket annually.* Nearly 12 percent of members with diabetes who use brand antidiabetic medications spend $1,000 or more annually on all diabetes medications.*

It is increasingly clear that people with diabetes who have high out-of-pocket costs, either because they are covered by a high deductible health plan (HDHP) or because they have substantial copayment or coinsurance costs, struggle to afford the medications their doctors prescribe. As a result, their adherence to the care plan suffers, leading to the development of comorbidities and a worsening of their overall condition. Health services research has shown that in large populations of study subjects, higher out-of-pocket costs lead to lower adherence and poor health outcomes.[2]

Reducing or eliminating member out-of-pocket costs should be a central part of any plan to address the diabetes epidemic.

Such programs could also lead to cost savings for payors — insurers or self-insured employers — because better adherence improves health outcomes and therefore lowers overall medical costs.



$467 average annual out-of-pocket per member for those taking brand antidiabetic medications*

~12% of members who use brand antidiabetic medications spend more than $1,000 out-of-pocket a year on all diabetes medications*

A Progressive Approach to Diabetes Management

We recognize that affordability of medication is not the only solution to the diabetes epidemic. The first step should always be prevention and counseling, especially regarding diet, exercise, and a healthy lifestyle to help prevent individuals from advancing to diabetes and needing treatment.

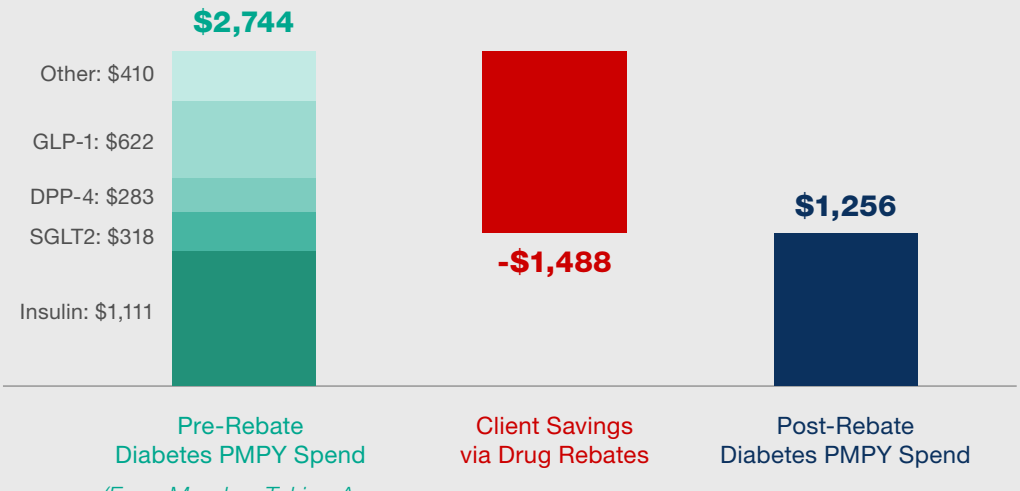
Once a person progresses to requiring medication therapy, it is important to ensure affordability and accessibility. In the past, the focus of the discussion around affordability for diabetes medication has been on insulin. While insulin is an important component, that is too narrow. Of all those diagnosed with diabetes, about 5 percent have type 1 diabetes, and for them, insulin is the cornerstone of therapy.[3] The remaining 95 percent of people with diabetes have type 2, and only about a quarter of those require insulin. Any discussion of affordability should include the entire range of diabetes treatments.

For people living with type 1 diabetes, treatment starts with insulin delivered either through multiple daily injections or continuously through an insulin pump. Individuals with type 2 diabetes should follow a treatment plan in line with the American Diabetes Association (ADA) guidelines, beginning with the oral drug metformin, which is available as an inexpensive generic medication. However, some people with diabetes cannot achieve their target glucose level, measured as hemoglobin A1C, on metformin alone.

The next therapy step varies depending on the person's clinical profile. For people with diabetes who also have cardiovascular disease, either a sodium-glucose cotransporter 2 (SGLT2) inhibitor or a glucagon-like peptide 1 (GLP-1) receptor agonist are generally appropriate treatments. Dipeptidyl peptidase 4 (DPP-4) inhibitors are considered second-line treatment for people who do not have cardiovascular complications. All three drug classes have several clinically equivalent alternatives that help treat elevated blood sugar levels, and can also prevent further development of heart disease, kidney disease, and congestive heart failure. As a PBM, CVS Caremark uses this therapeutic equivalence to negotiate discounts (also known as rebates) from the manufacturer on behalf of our clients, which helps lower costs for payors.

Our analysis reveals that client pre-rebate spend for members taking antidiabetic medications was just over $2,744 for 2018.** Note that although the majority of attention tends to be focused on insulin costs, the combined spend for the three other key categories of branded diabetes medications — SGLT2, GLP-1, and DPP-4 — was higher than that for insulin.**

Impact of Rebates Negotiated by CVS Caremark on Drug Costs



PMPY = Per Member Per Year

Solving the Issue of Out-of-Pocket Cost

Rebates alone cannot solve the affordability challenge for all people with diabetes. This is especially true for members who are covered by an HDHP. They are responsible for the full cost of the medication until their deductible is met, because rebates typically go back to the payor — employer or insurer — not the member.

CVS Caremark recommends, and gives clients the option of adopting point-of-sale (POS) rebates, which allows them to pass all, or a portion of, the rebate to members at the point of sale to help lower out-of-pocket costs. More than 80 clients covering 10.3 million members have adopted this program. However, a majority of clients opt to keep rebates at the plan level to help lower one of the several other key parameters of affordability for their employees or members: premiums, deductibles and coinsurance/copays.

HDHPs have long been seen as drivers of higher out-of-pocket costs, as a result of which some members may forgo therapy. The result of non-adherence is worse health outcomes for members with diabetes, and higher medical costs for the payor from avoidable downstream adverse events. The original federal legislation that allowed high deductibles and the use of health savings accounts (HSA) recognized this problem, and allowed "preventive care" to be available at no out-of-pocket cost before the deductible was met.

CVS Caremark has long recommended that all generic medications — and some key branded ones, like insulin — be included in a preventive drug list for HDHPs.

All medications used to treat diabetes, including all the medication categories discussed above, are on the template preventive drug list offered to CVS Caremark clients.

Most of our PBM clients are looking for additional approaches to reduce plan costs. Some choose to adopt higher deductibles in order to offer a lower overall premium. This benefits members who do not have a chronic condition and do not need ongoing medication treatment. But for those with a condition like diabetes — and possible comorbidities — it can lead to higher out-of-pocket costs. This is the central conundrum of plan design — the choice between higher premiums for everyone, or higher costs for a segment of the population.

Our solution can help lower out-of-pocket costs for members with diabetes without increasing other costs such as premiums or deductibles for all plan members.

How RxZERO Works

Research shows that improving adherence by removing the barrier posed by high deductibles can also enable payors to eliminate out-of-pocket costs across the range of treatments for diabetes, and still save money.

So how does RxZERO save money for both clients and members? As we discussed, the average post-rebate cost of diabetes to a plan is $1,256 per year for every member taking an antidiabetic medication.** Average member out-of-pocket cost for all diabetes medications was $244.** (This is for members taking any diabetes medication. Those taking a branded medication have higher costs — an average of $467 a year.) If we eliminate member out-of-pocket cost, the plan sponsor has to cover both the $1,256 in medication costs and the $244 in member cost they have forgone. Research shows that eliminating out-of-pocket costs for members, improves adherence. Based on published findings, this increase in adherence costs the client an additional $51 per member per year.

This incremental plan cost can be offset in two steps:

1. Clients can save $170 per member per year by adopting our most cost-conscious, generics-focused, Value Formulary. It covers choices in each drug category and fully adheres to the ADA standard. Value Formulary utilizes generics and preferred brand medications. It is the formulary CVS Health has adopted for its own employees, and many other large clients have as well.

2. Plan sponsors can also save money in overall medical costs because higher adherence — as a result of lower out-of-pocket costs — improves member health. Our Pharmacy Care Economic Model reveals that for each member with diabetes, who goes from non-adherent status to adherent, client health care costs drop by $2,202 per year. Applying these values to the entire member population, we estimate the value to the plan in improved adherence and lower medical costs is $156 per member per year.[4]

Put together, this lowers overall pharmacy costs for the client to $1,225. While this is not a huge amount of savings, it means clients can help their members better afford their medication and improve health outcomes without raising premiums or deductibles.

RxZERO Can Also Lower Overall Costs for Payors

Why it Matters to Members

That's looking at it from a client's perspective. What about the member? As we noted, average out-of-pocket cost for a member with at least one brand medication is $467 per year, and 12 percent of those spend more than $1,000 annually on all diabetes medication. That is a great deal of money for many individuals and families. And that's just the average. Many people have much higher out-of-pocket costs — into the thousands of dollars. Some of those people face the quiet desperation of not being able to afford the medications they know they need. Our zero out-of-pocket solution can help alleviate that.

One point that deserves reiteration is that this program covers all medications used to treat diabetes, not just insulin. For too long the focus has been on insulin only, ignoring the fact that members may face the same challenge with out-of-pocket costs for other brand diabetes medications.

Fewer Trade-Offs for Plans and Members

The critical difference between this program and other proposed solutions is its comprehensiveness: there are no member out-of-pocket costs for any diabetes medication, not just insulin.

Our solution takes away the need for members with diabetes to make difficult decisions about whether they can afford their medications. As our analysis demonstrates, it can also contain or even lower costs for payors, without the perceived trade-off they had to make before of deductibles and premiums.

Plan designs vary from client to client — there is no such thing as an "average" payor.

Our zero out-of-pocket solution will work somewhat differently for payors depending on their current plan design and member population. Our research suggests that payors with more lower-income members will see a greater positive impact from this program, simply because for those members out-of-pocket costs for medications are likely to represent a greater portion of their earnings and so pose a greater barrier. In addition, payors with members whose overall adherence is rather low will also see a higher benefit. Such payors will save money by eliminating member out-of-pocket costs. Alternatively, payors with higher-paid employees, and whose adherence is high, may see a small overall increase in costs. In general, leveraging formulary and plan design approaches from CVS Health can enable clients to eliminate member out-of-pocket costs for all categories of diabetes medications without raising costs for the plan sponsor, or increasing premiums or deductibles.

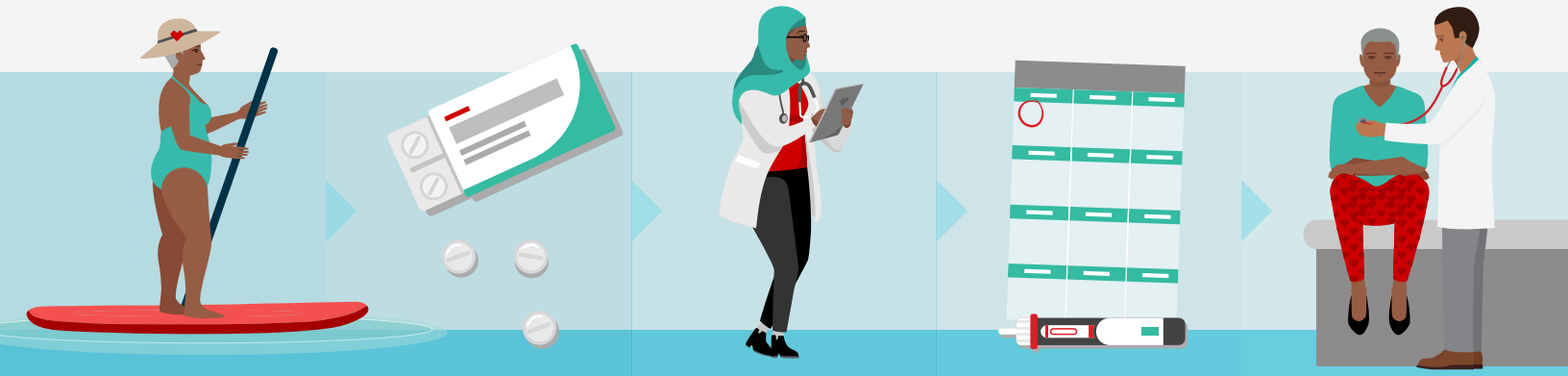
Ultimately, adopting this solution will be a matter of client choice. We anticipate that many of our clients will be interested in exploring and using it.

Prescription for Better Diabetes Care

Zero out-of-pocket costs for diabetes is a critical component of comprehensive diabetes care, but it is only one part of the overall strategy. At CVS Health, we are committed to helping members and payors overcome the human suffering, as well as financial impact caused by diabetes. To do this, in addition to ensuring members can afford their medications, we also provide holistic clinical support to help members effectively manage their condition.

CVS Health's Comprehensive Approach to Managing Diabetes

We have a five-step program to support members living with diabetes on their path to better health.



1. Prevent diabetes among those at risk and reduce progression among those with diabetes
2. Increase utilization of metformin as first-line therapy
3. Optimize diabetes treatment regimen
4. Encourage earlier initiation of insulin treatment and better titration
5. Prevent and manage diabetes-related complications and comorbidities

With our integrated assets, CVS Health can influence every step of the member journey. Through our growing number of HealthHUB locations — 1,500 by the end of 2021 — we provide services that complement the quality care consumers receive from their primary care providers. Our HealthHUB interventions are modeled on the treatment practice guidelines developed by the ADA. HealthHUB clinicians can recommend healthy lifestyle changes to help delay progression to diabetes for those diagnosed as being at-risk or having pre-diabetes. They can also help people living with diabetes — especially type 2 — get started on the appropriate pharmacological regimen, either metformin or insulin, as applicable. Our clinicians have access to electronic health record systems with clinical decision support to assist in diabetes management. We also use electronic medical records connectivity to integrate care with an individual's primary care doctor so that we can coordinate treatment. Pharmacists at CVS Pharmacy retail locations can also provide adherence counseling to help people with diabetes stay on therapy.

Our clinicians can also monitor for potential complications or adverse events, offer annual health check-ups for people with diabetes, including screening for diabetic retinopathy, nephropathy and peripheral neuropathy, and provide targeted support and interventions. They can help people with diabetes better manage their condition with connected blood glucose monitors and interpret the results in partnership with their primary care providers, and train them on how to administer insulin. We can provide support targeted to each person's specific needs, and interventions that can help greatly reduce disease progression and lower overall health care costs.

Our holistic care model combined with our zero out-of-pocket solution for diabetes medications, which ensures affordability and improves adherence, can lower costs and, more importantly, keep members on their path to better health.

1. https://www.cdc.gov/diabetes/basics/diabetes.html.
2. Eaddy et al. How Patient Cost-Sharing Trends Affect Adherence and Outcomes: A Literature Review. PT. 2012 Jan;37(1):45-55.
3. https://www.cdc.gov/diabetes/basics/type1.html.
4. Roebuck MC et al. Medication adherence leads to lower health care use and costs despite increased drug spending. Health Aff (Millwood). 2011 Jan;30(1):91-9.

*CVS Health Analytics, 2020. CVS Health Internal Analysis, commercial book of business client cohort. P1003420120.

**CVS Health Analytics, 2020. Based on 2018 claims for a representative group of 330 commercial clients who have not adopted a preventive drug list. P1003430120.

The source for data in this document is CVS Health Enterprise Analytics, unless otherwise noted.

Adherence results may vary based upon a variety of factors such as plan design, demographics and programs adopted by the plan. Client-specific modeling available upon request.

Savings will vary based upon a variety of factors including things such as plan design, demographics and programs implemented by the plan.

CVS Health uses and shares data as allowed by applicable law, and by our agreements and our information firewall.

CVSHealth®