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# Avalere Spotlight

Life Sciences



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## Life Sciences

**The 2014 market will be characterized by challenge and transformation across payers, providers, and patients which will create pressures for the pharmaceutical and medical device industries to:**

- Devise new selling strategies in anticipation of the bleed of new exchange products into commercial benefit designs.
- Adapt organizational and field capabilities to bring evidence-based solutions and new contracting arrangements to integrated providers who may play a more dominant role in regional markets.
  - Invest in and partner to generate real-world evidence, analytics, and tools that can support clinical decision-making.
- Revisit patient support strategies to be responsive to growing cost burdens on patients and new health plan messaging.

## Provider Sector: Rise of Integrated Systems, Economics of Quality

Health reform has accelerated the transformation of the provider market by **(1)** eliminating the ability of private payers to manage risk through underwriting based on health status and **(2)** stimulating greater interest to shift financial risk from payers to providers. We expect to see the proliferation of accountable care organizations (ACOs). However, public and private payers' testing of episode of care and bundled payment models, and continued integration of performance metrics into hospital and physician payment will have the greatest likelihood for long-term cost savings and changing physician practice patterns. In response to these trends, we anticipate that physicians and other providers will join or be acquired by integrated systems, particularly cardiology, orthopedic, and oncology practices.

## Implications

- Consolidation in the provider market will translate to greater leverage when positioning with patients, payers, and life sciences companies.
- Integrated providers are aligning with insurers; while more are taking risk, all are being required to focus on costs.
- Clinical pathways developers, health technology assessment (HTA) entities, measure developers, and clinical decision support vendors will become the new gatekeepers of value, as at-risk providers increasingly look to these resources to contain costs, achieve high quality care, and limit treatment variability.

## Payer Sector: New Lives, New Market Pressures

Avalere projects that exchanges and the Medicaid expansion will add nearly 23 million new consumers into the insurance system by 2016. Formularies will vary state to state but, on the whole, exchange plans will likely be less generous than employer-sponsored insurance and include a greater use of coinsurance and higher cost-sharing for preferred brands. In addition, exchange plans are likely to have more narrow provider and pharmacy networks and utilize relatively high cost sharing for specialist visits. We expect continued growth of private Medicaid managed care plans and their reliance on generic-heavy formularies to manage the cost of the new Medicaid enrollees. Finally, we are likely to see growth in the use of defined benefit schemes to manage the cost of retirees and employees who will need to select their coverage from private exchanges.

## Implications

- Narrow exchange benefits could have spillover effects into all other insurance markets, including large employers
- States—especially departments of insurance and state Medicaid agencies—will play a critical and expanded role in shaping regional markets due to their oversight of plans operating within the exchanges and fully-insured commercial plans, and administration of growing Medicaid programs.

The exchange markets will create new health plan winners and losers that may prompt further industry consolidation, new alliances, and new partnerships. This could impact the insurance products offered to other commercial customers, such as government employees and large employers.

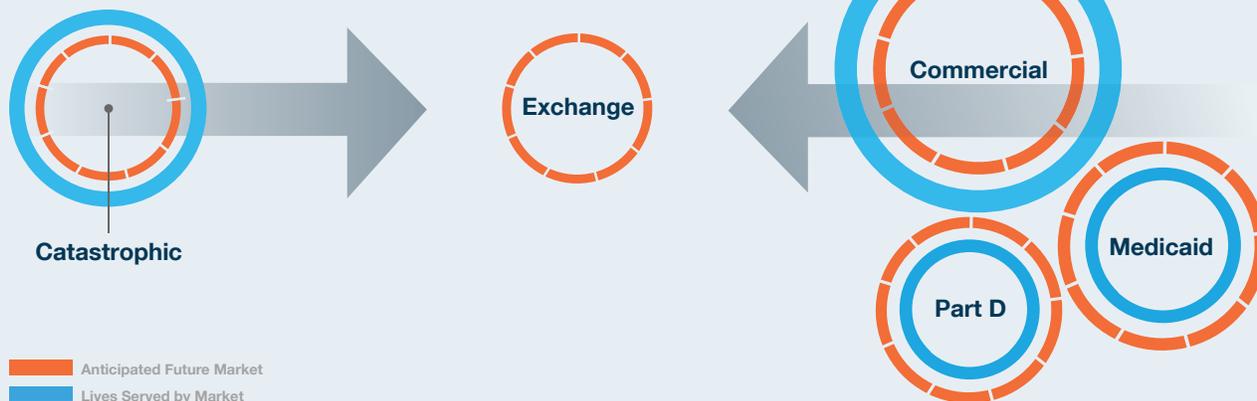
## New Lives, New Market Pressures

Less Generous

Benefit Design

More Generous

Exchange benefit designs may have spillover effects by setting a new standard for coverage generosity.



### Patient Sector: New Access Barriers, New Consumer Influencers

Patients will continue to shoulder more healthcare costs. While some patients will have new and greater health plan choices in exchanges, currently covered individuals are facing higher deductibles and cost sharing for medical services and prescription drugs. At the same time, payers are continuing efforts to restrict traditional industry approaches to offset patient cost sharing (e.g., copay cards). Competition to enroll individuals in exchange plans will also change the face of consumer advertising and how consumers view healthcare. Health insurers will advertise their products via web and commercial broadcasting, starting as soon as September 2013, and launch new tools to influence consumer behavior. Some providers also will find it necessary or advantageous to advertise because of the restrictive networks introduced by exchange products. This will affect the way that consumers view healthcare advertising and will compete with the efforts of life sciences companies.

### Implications

- Specialty products will continue to face high cost-sharing barriers. Cost-sharing for tier three and tier four drugs will pose significant access barriers, underscoring the need for patient support.
- Models for engaging patients in research and regulatory approval are needed to support market access efforts and create patient support solutions aligned with new market dynamics.

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## About Us

Avalere is a vibrant community of innovative thinkers dedicated to solving the challenges of the healthcare system. We deliver a comprehensive perspective, compelling substance, and creative solutions to help you make better business decisions. We partner with stakeholders from across healthcare to help improve care delivery through better data, insights, and strategies. For more information, please contact Reggie Williams at [RWilliams@avalerehealth.net](mailto:RWilliams@avalerehealth.net). You can also visit us at [www.avalerehealth.net](http://www.avalerehealth.net). We look forward to working with you.

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