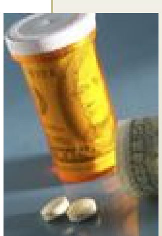
HR insider bulletin

FEBRUARY 2005

Specialty Drug Tsunami

Movement in Pharmacy Benefit Industry Helps Improve Care, Costs

PHARMACY Benefit Managers (PBMs) are integral players in the healthcare system, so it is not surprising that their role has come under scrutiny by those trying to determine the reasons for continued drug cost increases.



According to the Centers for Medicare and Medicaid Services, pharmaceutical costs represented 11% of healthcare costs ($185 billion) in 2003, and drug spending is expected to reach 15% of healthcare costs ($520 billion) by 2013.

Even though employers and other payers of healthcare continue to be frustrated by increasing prescription drug costs, some movements in the pharmaceutical industry stand to improve not only costs but also patient care over the next few years, accord-ing *to Employee Benefit News*:

Pricing transparency—This is a large topic looming in the PBM land-scape, according to Michael Deskin, president of the Pharmacy Benefit Management Institute, even though the jury is still out on the form that transparency will take. Deskin says that with transparency comes issues that employers have to deal with, even if they don't want to, such as increased administrative costs.

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Behavioral/Clinical Intervention

Prevention Promotes Wellness, $avings

EMPLOYERS often bear the direct (i.e., medical claims) and indirect (i.e., absenteeism, lowered productivity) costs from diseases, disorders, and conditions that could have been prevented or more effectively treated by services that focus on behavioral and/or clinical interventions. That's one reason why more than 80% of small employers and almost all large employers now offer their employees some form of health promotion or prevention program, according to the National Business Group on Health (NBGH).

For the past few years, employers have been boosting workers' premiums, copays, deductibles, and coinsurance levels in order to reduce their share of health benefits costs. However, these approaches can only do so much because they don't deal with the underlying cause of employees' health problems, according to Paul Fronstin, director of health research and education at the Employee Benefit Research Institute.

Preventive services are the cornerstone of these changes, according to Helen Darling, NBGH president. Research has clearly shown that high quality, evidence-based preventive care is key to helping people live healthier lives and to reaping better value for what we spend on healthcare services, according to Dr. Carolyn M. Clancy, Director, Agency for Healthcare Research and Quality (AHRQ). "Employers can and should play a leading role in supporting the health of their employees by supporting healthy worksite programs, educational programs, and health-conscious work environments."

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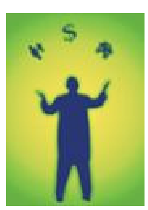
Balancing the Bite

Employers Spare Vision, Dental Benefits



FOR MANY employers, retaining or even adding dental and vision benefits has become a relatively inexpensive way to take the sting out of cutbacks in medical coverage. While general health costs have risen several times faster than the overall rate of inflation, prices for dental and eye care have increased at a more measured pace. However, the trend toward making employees pay for ancillary health benefits is gaining momentum.

VSP, the country's largest vision plan, estimates that if the trend continues, more than 50% of vision plans will be fully paid by employees in 2010. However, the shift is less pronounced in dental coverage. According to Delta Dental, employers are beginning to tinker with dental coverage by requiring employees to pay higher copayments, deductibles, and other costs.

Drug Tsunami . . .

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Even though pricing within the industry is in flux, most do agree that the trend toward pricing transparency has resulted in open business dealings that include "extensive reporting to clients," according to John Blauman, Systemed senior director of marketing and communications, a pattern he sees continuing.

More generics/mail order—Most plan sponsors are encouraging the greater use of less-expensive generic and mail order alternatives. George Van Antwerp, Express Scripts senior director of plan design and formulary, sees generic drugs getting a major boost during the next few years as some pharmaceuticals representing $4 billion to $5 billion in drug sales will lose their patent protection this year. Likewise, due to cost savings and convenience, many employers are implementing incentive- and mandatory- mail order programs.

Specialty drugs—Employers are looking to carve out specialty drugs, which are costly medications that treat rare, chronic diseases such as hemophilia. These diseases inflict a small percentage of the population yet account for at least 25% of total drug costs in a typical health plan, says Dr. Alan Lotvin, president of Medco Health Solutions' specialty pharmacy services. In addition, hundreds of drugs that are in the specialty pharmacy pipeline are to be released in the next few years, according to John Zevzavadjiian, vice president of account management for PharmaCare, a Rhode Island PBM. "Employers need to prepare now for the specialty drug tsunami that is sure to hit in the next few years." ■

Prevention Promotes . . .

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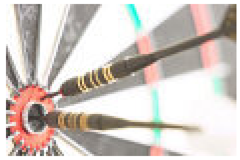

With nearly 60% of companies' after-tax profits spent on corporate health benefits and an estimated 25% to 30% of medical costs per year being spent on employees with excess health risk, experts believe that reducing employees' health risk levels and keeping low-risk workers at their current level could have the potential of reducing medical claims by a third, according to the NBGH.

As more employers promote prevention and healthy lifestyles to control spiraling health costs, *The Employer's Guide to Health Improvement and Preventive Services*, a free NBGH publication available at http://www.businessgrouphealth.org/services/index.cfm, tells employers how to structure benefit designs to help employees who face a wide range of health conditions, such as cancers, high blood pressure, pregnancy, and substance abuse. "Data show that employers find a potential three-to-one return on investment, or $300 for every $100 spent per employee, on implementing preventive services and health improvement programs," says Darling.■

. . . . Bulletin Briefs . . . .

♦ *Benefits Costs Represent 37.6% of Payroll in 2003*

Employers provided an average of $18,358 in employee benefits per employee in 2003, according to the U.S. Chamber of Commerce's recently released annual survey. The largest amount ($5,653) was spent on medical benefits, followed by paid time off ($4,932) and retirement and savings ($3,303). Employee benefits costs represent 37.6% of payroll among all companies, with manufacturing companies spending more on such benefits than non-manufacturing companies.

♦ *OSHA Requires Posting of Injury, Illness Numbers*

Effective February 1, most employers must post a summary of the total number of job-related injuries and illnesses that occurred in the previous year, according to new requirements of the U.S. Occupational Safety and Health Administration (OSHA). In addition, an employer must also provide employment information about the annual average number of employees and the total hours worked during the calendar year, which will allow an observer to calculate incidence rates. A company executive must certify each summary form (Form 300A) and display it in a common area wherever notices are posted. Employers with 10 or fewer employees and those in certain industry groups are exempt from the new requirements. A complete list of exempt employer groups is available at www.osha.gov.

♦ *Employers Struggle with Critical Issues*

Rising healthcare costs, employee retention, economic uncertainty, and the need to increase productivity top the list of trends that will affect U.S. businesses in 2005, according to the Society of Human Resource Management's (SHRM) *Workplace Forecast*. ■

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