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What's New on the Rx Management Horizon?

by Jeff Schulte

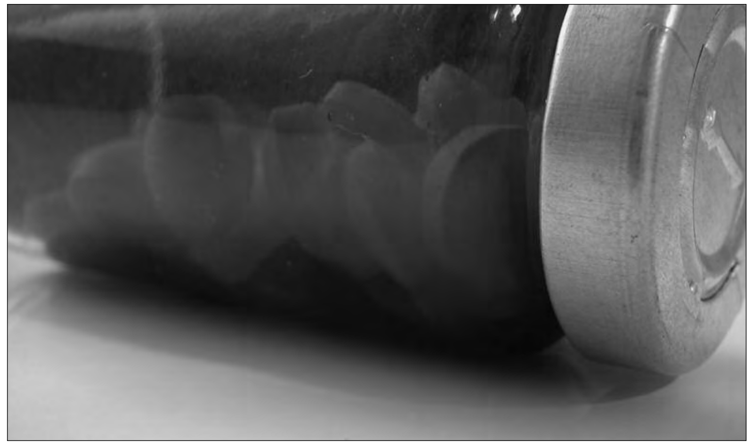
Today you can't really pick up any health care publication without being barraged by articles focusing on rising drug costs, Canadian and international drug importation regulatory issues, Attorney General pharmacy investigations and the ongoing Medicare Part D Rx Program implementation adventures. The effective management of prescription drug utilization and coverage continues to represent one of the biggest challenges facing insurers, managed care organizations, employers and consumers alike. As of October 2004, more than 200 new drugs are currently awaiting formal FDA approval and many of these represent very expensive, high-tech formulations and specialty injectables that will raise the pharmacy cost trend even higher into 2005 and beyond. Other notable recent drug trends are highlighted as follows:

- Rx utilization continues to increase at a dramatic rate. Today 46 percent of Americans take at least one Rx per day, and nearly one third of adults are on multiple Rx regimens.
- The average cost per brand drug has risen from $45 in 2000, to nearly $80 today.
- Consumer directed advertising has proven to dramatically shift the prescription utilization patterns in effect today. Studies have shown that approximately 40 percent of the time patients suggest a specific brand name drug to their physician (usually as a result of an ad seen on television) and as much as 75 percent of the time the physician actually prescribes the requested brand or similar medication.

Alternative Prescription Program Offerings

Today, carriers, managed care organizations, employers, associations and sponsoring organizations are exploring new prescription program options including:

- **Discount Rx Programs –** With this program, the actual funded Rx benefit is eliminated and is replaced with access to national retail and mail order pharmacy networks providing discounts on all medications with no reimbursement risk to the sponsoring organization. Most national pharmacy benefit managers provide this type of program at little to no cost to the sponsor. In addition, it is usually possible to create an arrangement whereby a small revenue stream is generated for the sponsor from program participation.



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- **Comprehensive Value-Added Discount Program Offering –** Many times the Rx discount program is combined with ancillary discounts on dental, vision, hearing, chiropractic, retail products and other benefits to create a more comprehensive, value-added package that can be offered at price points ranging from little or no cost up to levels that are comparable with funded benefits. Many of our clients have begun to offer these programs to their members in lieu of traditional health insurance packages. These discount programs typically utilize Rx discount offerings as the lead product and they can be private labeled for the client to increase and enhance customer loyalty and retention. The product offerings also frequently generate some consistent back-end revenue for the sponsoring organization.

- **Stand Alone/Carved out Rx Benefits –** Similar in evolution to the movement in the dental industry to carve out dental benefits and provide stand-alone offerings, many organizations are now looking to market a separate, stand-alone funded Rx benefit to their various points of distribution. As providers for these products continue to gain experience in managing adverse selection and Rx risk, programs are beginning to gain momentum in this market, including the following more popular benefit design configurations:

Jeff Schulte is senior partner at Axia Strategies in Hopkins, Minn. He can be reached at (952) 945-3535 or *JSchulte@axiastrategies. com.*

- º Generic co-pay, brand discount
- º Two- and three-tier co-pay programs with appropriate front-end deductibles, annual maximums, etc.
- º Mandatory generic programs

As with dental, the risk or "paper" for these programs can be held internally or can be secured through outside risk arrangements

- **Higher Member Cost Share Designs –** Taking on many different forms, benefit designs have been established with the consistent goal of making the member, employee or insured responsible for a greater portion of the overall Rx drug cost. From member cost share averages in the 10 to 25 percent range just a few years ago, many plans are now achieving shares of more than 50 percent by laying in:

  - º Higher front-end deductibles
  - º Combination co-pay and coinsurance benefit designs
  - º Mandatory or very aggressive generic incentive utilization programs
  - º Step therapy programs designed to direct first line therapy to the lowest possible priced Rx
  - º Plan stop losses on back side
  - º More defined formulary that limits brand drugs within selected therapeutic categories

- **Defined Contribution Programs –** These programs are pre-arranged pools or funding levels established for Rx expenditures that will redirect management of Rx "budgets" onto the shoulders of the consumer and away from the sponsor. Many of our clients and associates are beginning to promote these types of programs within their marketplace. Our prediction is that with prolonged uncertainty regarding potential governmental intervention into Rx coverage nationally, and with continued increases experienced in Rx cost, more organizations will look toward these types of new program offerings in their ongoing efforts to minimize their Rx risks and stay competitive in a very challenging marketplace. Many large payors are now actively developing programs that will be marketed to all levels of consumers, which in our opinion will also help drive the marketplace adoption.

With the prospect of continued rising pharmacy costs looming over the heads of providers throughout the country, many sponsoring organizations are actively exploring ways to provide competitive pharmacy benefits, while lowering or minimizing their ongoing pharmacy risk through alternative discount-only programs without funded benefits, increased cost sharing on funded benefits and defined contribution programs. We look for continued attention to growing concern over costs with the continued introduction of specialty injectable medications and high-tech treatments.