Actions

DRUG TREND

2002 *Report*

Actions to Mitigate Impact of Cost Trend

The annual growth in PMPY ingredient costs continued to rise in 2002, reaching an all-time high of 18.5 percent. Inflation and utilization rate increases were substantial, 7.5 percent and 6.3 percent, respectively. Over the next 5 years, Express Scripts anticipates that PMPY prescription drug costs will continue to increase at still substantial but somewhat lower annual rates of growth as more generic products are prescribed when brand products lose patent protection.

Employers, health plans and other plan sponsors confront numerous challenges as they strive to continue providing an affordable drug benefit to their employees and members in this environment of rising pharmacy costs. The various approaches plan sponsors can adopt in dealing with the challenges of rising drug costs are presented in the remainder of this section.

Take Advantage of Generics

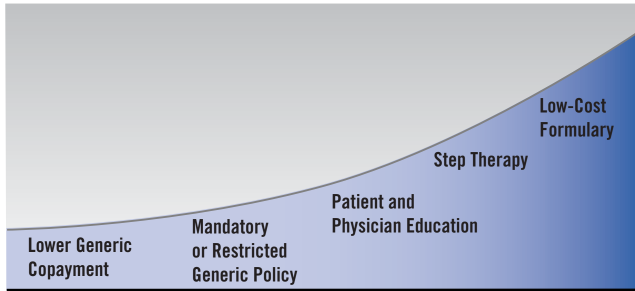
As noted in the introduction, a number of significant brands recently have lost or soon will lose patent protection. In turn, the cost-saving potential for the plan sponsor and member can be substantial. However, generic availability does not automatically translate into cost savings. Delays in patent expiration, the introduction of new strengths and dosage forms, the lack of generic product marketing relative to brands, and the development of new brand products can limit the cost-saving potential of generics.

As illustrated in last year's *Drug Trend Report,* the typical life cycle of a prescription chemical entity may mitigate the potential that generic product availability can have as a cost-management strategy. Market share begins to decline prior to generic availability. The market share erosion of these brand-name, soon-to-be generic products varies, depending on whether strong competition exists within the class and/or whether a new, innovative brand product is waiting to capture market share. Even after the generic becomes available, the market share of that chemical entity (now the brand and generic versions combined) continues to decline for two reasons. First, generic drug manufacturers are essentially in competition with themselves. One manufacturer may make the same product for several other companies to distribute, or several manufacturers could be producing and distributing the same generic product. Consequently, it is not in the interest of generic manufacturers to spend money to advertise their specific generic product, because the benefit will be shared by competing generics. Second, the economics of the generic industry leave it with far fewer dollars for product promotion than brand-name competitors. Market share typically levels off at a point significantly below the brand drug's peak market share level.

To optimize the cost-savings potential of generics, plan sponsors should counteract such tactics by effectively promoting the appropriate use of generics. Programs that promote generics can be depicted on a continuum of intensity as is shown in Figure 11. Each of these programs is reviewed on the following pages.

Figure 11

Continuum of Approaches to Maximizing Generic Opportunities



Lower Generic Copayment: One of the most important strategies for promoting generic use is to keep the generic copayment low — $5 to $7.50. Lower copayments provide members with a financial incentive to use generics rather than brands. In addition, based on Express Scripts' research, the brand copayment should be at least $8 to $10 higher than the generic copayment for members to have adequate incentive to use generics when appropriate. Plan sponsors that have increased generic copayments to $10 or more in recent years may want to consider decreasing the generic copayment and, correspondingly, increasing the brand copayment. Although consumers are somewhat insensitive to prescription copayment changes, offering them a substantially lower generic copayment will lead to increased generic use. Also, at a $10 copayment for generics, plan sponsors will be asking members to pay more than 50 percent of the cost of many generics.

Mandatory or Restrictive Generic Policy: A generic policy represents a sound way to optimize the use of generics. Under a mandatory generic program, the member pays the generic copayment plus the cost differential between the multi-source brand and its generic equivalent, regardless of whether the physician allows generic substitution. In a restrictive generic program, the member pays the generic copayment plus the difference between the cost of the multi-source brand and its generic only if the member insists on having the multi-source brand, despite the physician allowing generic substitution. Express Scripts' research indicates that a generic policy provides additional savings even if a plan already has a lower copayment for generics than for brands (i.e., a two-tier or three-tier copayment). As reported in the 2001 *Drug Trend Report,* about two-thirds of the consumers who were surveyed said that generics are as good as brands, suggesting that generics are acceptable to a substantial majority of consumers. More importantly, the minority of consumers who disagreed thereby indicated their willingness to pay more for the brand medication. Accordingly, a generic policy represents a sound benefit design approach. Indeed, three-fourths of Express Scripts clients have either a mandatory or restrictive generic policy.

Patient and Physician Education: Efforts to encourage greater use of generics may be limited by physicians' unwillingness to prescribe them, as well as by consumers' reluctance to use them. While consumers are generally supportive of generics, a key challenge is that members often are not aware that a generic alternative is available, particularly when the generic is a different chemical entity — a therapeutic alternative — from the medication prescribed. This lack of awareness may seem surprising given the continued growth in consumerism. However, brand-name advertising messages, coupled with a lack of generic awareness among physicians, both contribute to a lack of generic awareness among consumers.

On the flip side, 85 percent of respondents to a February 2002 national survey conducted by Knowledge Networks for Express Scripts said they wanted information on ways to save money on prescription drugs. This percentage grows to 91 percent for respondents aged 55 to 64. When these higher utilization groups understand and respond to savings opportunities, the positive financial effect is even greater.

When addressing topics such as personal health and prescription drugs, messages from well-known sources have the greatest effectiveness. To get the most value from member education, PBMs and plan sponsors should collaborate so that members recognize the source of the information. Survey participants indicated that co-branded materials sent from familiar sources are more likely to gain their attention.

Patient education about generic medications can take many forms. Express Scripts offers an Internet tool that lets members view their out-of-pocket cost for a drug, as well as the cost of an available generic alternative when a brand-name drug is requested. This PriceCheck™ feature lets members see what they will pay for their prescriptions before having them filled at the pharmacy. It gives members the information needed to make cost-effective choices about their medication alternatives — choices that provide savings for both the member and the plan sponsor. Express Scripts' research shows the power of providing the right kind of information at the time the consumer is making a decision. Approximately 50 percent of members who had a mail benefit and who used PriceCheck™ to price maintenance medications began using mail service for these prescriptions.

For plan sponsors with a concentration of members in a given geographic region, physician outreach should be considered as part of a patient and physician education strategy to promote generics. Research has shown that physicians are not always receptive to prescribing generics. However, academic detailing with physicians can be effective at altering fundamental prescribing patterns. These programs are successful because they provide physician-specific prescribing profiles, use a clinician to discuss the merits of generics and provide rigorous clinical evidence that supports the appropriateness of the generic.

Beyond academic detailing, the next evolution in promoting optimal physician prescribing is RxHub, an independent venture formed by Express Scripts, AdvancePCS and Medco Health Solutions to advance the efficiency and safety of the prescription writing process. RxHub will address the information gap that exists among physicians, pharmacies, health plans and PBMs. The system created by RxHub allows physicians who use electronic prescribing devices

to connect directly to PBMs, access patient-specific coverage information (including the appropriate formulary) and receive real-time notification of potential drug interactions and side effects. The resulting prescription can be sent electronically to the patient's preferred pharmacy for fulfillment. Through RxHub technology, prescription use can become more cost-effective and safer.

Step Therapy: A step therapy program requires the member to try a less expensive drug, such as a generic, for a specified period of time before the plan sponsor will pay for the originally prescribed medication. The unprecedented availability of generics provides a wealth of clinically and financially appropriate step therapy opportunities. In addition to the immediate savings achieved, step therapy represents a longer-term strategy for encouraging generic use, because physicians' prescribing habits may change.

Low-Cost Formulary: The most aggressive strategy a plan sponsor can adopt to promote the use of generics is to implement a low-cost formulary — a closed formulary consisting primarily of generic products. As more branded products lose patents, it is possible to increase the use of generics through formulary design. The only branded products covered in the low-cost formulary are in therapy classes without a clinically equivalent generic. A low-cost formulary focused on generics will provide substantial savings to a plan sponsor because it represents the most effective strategy to promote generics.

Designing the Prescription Benefit Plan

Although the promotion of generics is a critical cost-management approach, an overall cost-management strategy must be more comprehensive. Four key steps are involved in designing an overall cost-management strategy.

Step 1: Formulary Development

Formularies, which are lists of covered or preferred drugs, are the backbone of pharmacy benefit design. Through an independent Pharmacy and Therapeutics Committee, Express Scripts offers a range of formularies to meet the varying needs of plan sponsors. In formulary development, a drug's clinical benefit, AWP, potential member and physician disruption and upcoming market dynamics (e.g., new generics) are all considered.

Step 2: Cost-Sharing Structure

After establishing a formulary, one of the first questions a plan sponsor addresses is whether to institute copayments or coinsurance. Express Scripts' research shows similar drug use patterns among co-insurance and copayment plans. The only evident advantage of co-insurance is that cost-sharing automatically keeps up with drug cost increases, while copayment designs require copayment increases every few years. However, because of the unpredictability of out-of-pocket costs for members, about 13 percent of Express Scripts members with an integrated benefit have co-insurance. When selecting a copayment structure, a plan sponsor can institute one, two, three or more levels. Nearly 55 percent of members with an integrated retail and mail benefit are enrolled in a three-tier copayment plan in which the lowest copayment is for generics and the highest for non-formulary brands, with the middle tier reserved for formulary brands.

Three-tier copayments respond to growing consumerism by allowing members to save money through choosing the less expensive therapeutic alternative. In a study published in *Medical Care,*[33] Express Scripts found that the three-tier structure resulted in significant savings for plan sponsors while having no effect on emergency room use, inpatient hospital visits or physician office visits. Some plan sponsors, seeking even more trend management, are instituting a closed formulary that only covers generic and formulary brand medications. An Express Scripts' study found a substantial savings in drug expenditures for a plan that implemented a closed formulary relative to a matched comparison sample with an open formulary.[34]

Step 3: Copayment Amount

Regardless of whether a plan sponsor opts for a two- or three-tier copayment plan, it is important that the level of copayments be set appropriately. To align plan sponsor and member incentives, Express Scripts recommends cost-sharing targets by tier of about 20 percent for generics, 20 percent for formulary brand-name drugs and 40 percent for non-formulary brand-name drugs. In 2002, the typical three-tier plan for Express Scripts clients was under $10 for generics, almost $20 for formulary brand drugs and over $35 for non-formulary brand drugs.

Step 4: Point-of-Service (POS) Programs That Reinforce Benefit

Formulary and cost-sharing choices can be reinforced real-time through the POS system. Plan sponsors can easily implement benefit exclusions, quantity limits, step therapy, and mandatory and restrictive generic programs at the time the claim is submitted for adjudication. Prior authorization (PA) programs require a patient to meet certain age requirements or have a documented diagnosis to receive a prescription of a given medication. A recent unpublished Express Scripts' study found that PA provides significant plan sponsor savings.

Before deciding to implement plan design changes, many plan sponsors factor into their decision-making process the potential impact such changes could have on member satisfaction. For example, whenever a plan sponsor changes the copayment amount, the potential member impact is an important consideration. An unpublished Express Scripts' study found that copayment changes produced a temporary increase in call center volume, which returned relatively quickly to call levels prior to the change. For every additional call related to a plan design change, the plan sponsors studied saved between $116 and $698.

Injecting an element of member choice can be central to mitigating the negative effect of plan changes on member satisfaction. Member choice is an underlying characteristic in tiered copayment systems. In a two-tier copayment system, the member has the choice between paying a less expensive generic copayment or a higher brand copayment, assuming that the drugs are therapeutically equivalent. In a three-tier copayment system, the member potentially has even more choice — an inexpensive generic copayment, a higher formulary brand copayment and an even higher non-formulary brand copayment.

33 Motheral BR, Fairman KA. Effect of a three-tier prescription copay on pharmaceutical and other drug utilization. *Medical Care.* 2001;39(12):1293-1304.

34 Motheral BR, Henderson RR. The effect of closed formularies on prescription drug use and costs. *Inquiry.* 1999-2000 Winter;36(4):481-491.

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Express Scripts also helps plan sponsors enhance member satisfaction through a pharmacy benefit strategy called Express Choice™, which enables sponsors to offer multiple pharmacy plans from which members can choose. This approach responds to consumer choice and at the same time ties pharmacy use more directly to member financial responsibility. For example, an employer could provide one package for all drugs, regardless of the type of condition the drug treats, and another package that excludes coverage of drugs that have less expensive alternatives and of drugs used for cosmetic purposes. The employee selecting the richer benefit pays the incremental costs attached to the coverage of additional drugs. In addition to drug coverage, plan options can vary in the size of the retail pharmacy network and in the number and magnitude of copayments, as well as in other features such as the inclusion of a mandatory generic program. A member choice plan provides the employee open access to all drugs, but places part of the financial burden on the employee for his or her choices. One important consideration when adopting this strategy is whether to maintain some element of insurance in the pricing decision. A key assumption in insurance is that the price of the benefit should be spread across both the healthy and sick or, put another way, between low- and high-utilizers. This principle entails low-utilizers subsidizing the costs of high-utilizers. Calibrating the expected distribution of high- and low-utilizers across the various options for underwriting purposes is very difficult.

The specter of rising prescription drug costs will remain with us for the foreseeable future. As is evident from the discussion in this Report, there are a number of approaches that plan sponsors can take to manage these drug cost increases. Express Scripts works closely with clients to develop the specific approaches that best meet the needs of each client.