

JUNE 2005



# 2004 DRUG TREND REPORT

*featuring the pharmacy benefit guide*



EXPRESS SCRIPTS®

## Preface

Dear Reader,

This ninth publication of Express Scripts annual *Drug Trend Report* coincides with a significant milestone for the company. Barrett Toan and Fred Teitelbaum, the Report's two founders, are both retiring.

### How Can You Manage What You Cannot Measure ?

In the early 1990s, Barrett recognized that the pharmacy industry had a knowledge gap. The underlying drivers of drug trend were not clear. To address Barrett's concerns, Fred's research team developed a landmark methodology to help decision-makers understand factors that influence prescription-drug spend.

### Imitation Is the Sincerest Form of Flattery

Since we introduced our original Report at the first Outcomes Conference in 1997, virtually every major PBM and pharmaceutical policy-making organization has produced similar information. Our *Drug Trend Report* is quoted in hundreds of news sources and cited in national publications.

### The More Things Change ...

As the pharmacy benefit has evolved, our Report has adapted to industry changes. Committed to solid research, we added an extensive forecast section because we know that understanding where costs are going is just as important as identifying what factors affect them. We have incorporated the Pharmacy Benefit Guide and expanded the Therapy Class Review section. This year, we present a new approach for analyzing the drivers of specialty-drug trend.

### True To Our Heritage

The *Drug Trend Report* will carry on Barrett's and Fred's ground-breaking work not only in reporting drug trend, but in using that research to create solutions. We will also continue to provide the latest research on the effectiveness of trend-management tools, and their impact on members.

A special thanks to Barrett and Fred for their shared vision.

Sincerely,



Brenda Motheral, PhD, MBA, RPh  
Vice President, Product Development

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## Executive Summary

Beginning with the first *Drug Trend Report* in 1996, Express Scripts has analyzed yearly trends in prescription-drug use and cost. Based on this research, we customize evidence-based programs that help our clients offer safe, effective and affordable prescription-drug benefits for their members. The *2004 Drug Trend Report* presents our current recommendations and the evidence that supports them.

Although the situation in Iraq dominated the news in 2004, healthcare also made headlines. Issues ranged from the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) to medical liability reform. With the public share of healthcare expenses projected to reach \$1.8 trillion — almost 50% of total health expenditures — by 2014, federal concerns will center increasingly on cost containment.<sup>1</sup> State and local governments are also struggling to balance their budgets and still provide adequate healthcare benefits. According to projections from the Centers for Medicare & Medicaid Services (CMS), total national healthcare expenses are expected to top \$2 trillion in 2006.<sup>2</sup>

Employers are also being squeezed. A survey of more than 1,900 employers by the Henry J. Kaiser Family Foundation and the Health Research and Educational Trust found that the cost of employer-sponsored health coverage has risen more than 45% since 2000.<sup>3</sup> Anticipating an average healthcare cost increase of about 8% in 2005, employers may see their annual cost per employee exceed \$6,000.<sup>4</sup>

Of particular concern is the cost of prescription drugs, which continues to increase faster than most other components of healthcare, as shown in Exhibit 1. Although the growth of prescription spending slowed

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<sup>1</sup> Heffler S, Smith S, Keehan S, Borger C, Clemens MK, Truffer C. Trends: U.S. Health Spending Projections For 2004-2014. *Health Affairs (Millwood)*. Web exclusive. February 23, 2005. Available at: <http://content.healthaffairs.org/cgi/content/abstract/hlthaff.w5.74>. Accessed February 23, 2005.

<sup>2</sup> Centers for Medicare & Medicaid Services, Office of the Actuary: National Health Statistics Group. Table 2: National Health Expenditure Amounts and Average Annual Percent Change by Type of Expenditure: Selected Calendar Years 1980-2013. Last modified September 17, 2004. Available at: <http://www.cms.hhs.gov/statistics/nhe/hprojections-2003/t2.asp>. Accessed February 8, 2005.

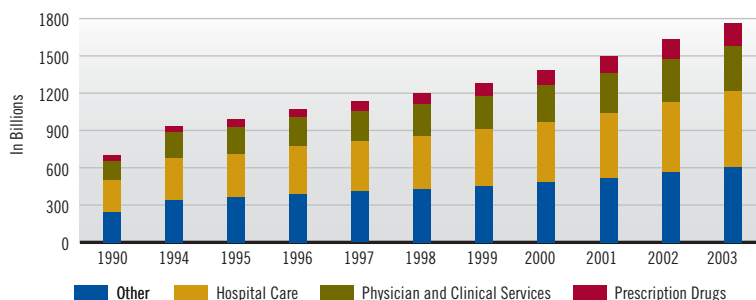
<sup>3</sup> Employer health benefits 2004 survey. Kaiser Family Foundation and the Health Education Trust. September 9, 2004. Available at: <http://www.kff.org/insurance/7148/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=46288>. Accessed February 8, 2005.

<sup>4</sup> 2005 Towers Perrin Health Care Cost Survey. Towers Perrin. 2004.

nationally from 2002 to 2003, prescription-drug expenses still represented 11% of total healthcare spending in the U.S. for 2003.<sup>5</sup> The share of prescription-drug cost paid by Medicare is expected to balloon from about 2% of total drug spend in 2005 to more than 25% of the total when the full-scale Medicare Part D gets under way in 2006.<sup>6</sup>

### Exhibit 1

#### National Health Expenditures for Selected Healthcare Accounts 1990 and 1994 to 2003



Source: Centers for Medicare & Medicaid Services, Office of the Actuary: National Health Statistics Group. Table 2: National Health Expenditure Amounts and Average Annual Percent Change, by Type of Expenditure: Selected Calendar Years 1980-2013. Last modified September 17, 2004. Available at: <http://www.cms.hhs.gov/statistics/nhe/projections-2003/t2.asp>. Accessed February 16, 2004.

In 2004, multiple factors interacted to increase prescription-drug cost. Direct-to-consumer (DTC) advertising, often identified as a driver in increased drug spending, may indeed have played a significant role. In addition, after the November 2004 elections, prices increased up to 11% for 31 of the 50 top-selling prescription drugs.<sup>7</sup> Pharmaceutical manufacturers cited anticipation of price controls from the new Medicare prescription-drug legislation and the impact of new and expected generics as reasons for the increases.

<sup>5</sup> Smith C, Cowan C, Sensenig A, Catlin A, and the Health Accounts Team. Health spending growth slows in 2003. *Health Affairs*. 2005;24(1):185-194.

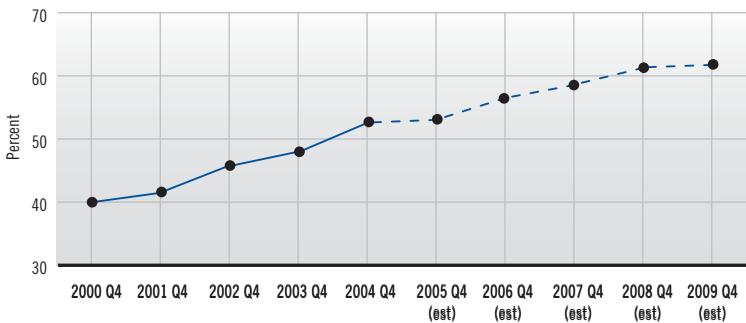
<sup>6</sup> Heffler S, Smith S, Keehan S, Borger C, Clemens MK, Truffer C. Trends: U.S. Health Spending Projections For 2004-2014. *Health Affairs (Millwood)*. Web exclusive. February 23, 2005. Available at: <http://content.healthaffairs.org/cgi/content/abstract/hlthaff.w5.74>. Accessed February 23, 2005.

<sup>7</sup> Won Tesoriero H, Hensley S. Prices increase on popular drugs. *The Wall Street Journal*. January 25, 2005.

Generic drugs, however, play a big part in keeping growth in spending for prescription drugs relatively low. A 1% increase in generic use results in nearly a 1% decrease in overall drug cost.<sup>8</sup> As shown in Exhibit 2, the generic fill rate among clients in the entire Express Scripts book of business increased from 48% in fourth quarter 2003 to 52.7% by the end of 2004. Recently, generics for several widely-used drugs were introduced, and several other important generics are expected in the next few years, so the use of generics is expected to remain high.

*Exhibit 2*

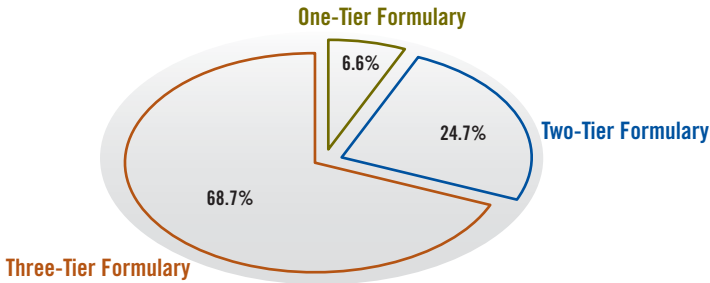
**Express Scripts Generic Fill Rate**  
**Fourth Quarter 2002 to Fourth Quarter 2009 (Estimated)**



To control the rate of increase in prescription-drug costs, employers continue to adopt a number of strategies. Nationally, for example, 65% of companies that used formularies in 2004 had a three-tiered formulary — more than twice as many as in 2000.<sup>9</sup> As shown in Exhibit 3, Express Scripts clients surpassed national levels, with more than 68% of their members covered by a three-tiered formulary.

<sup>8</sup> Geographic variations in generic fill rate. Express Scripts. No date given. Available at: <http://www.express-scripts.com/ourcompany/news/outcomesresearch/onlinepublications/regionalgenericvariation/regionalgenericvariation.pdf>. Accessed February 28, 2005.

<sup>9</sup> Employer health benefits 2004 survey. Kaiser Family Foundation and the Health Education Trust. September 9, 2004. Available at: <http://www.kff.org/insurance/7148/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=46288>. Accessed February 8, 2005.

*Exhibit 3***Formulary Structure: Express Scripts Clients Fourth Quarter 2004**

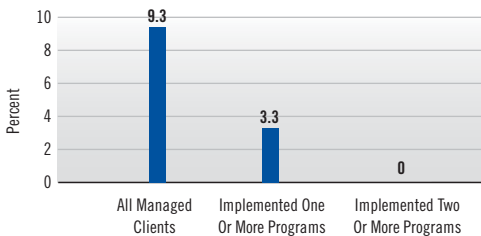
Additional measures taken by employers to control drug costs include:

- Point-of-service (POS) programs, such as step therapy and prior authorization (PA)
- Home delivery of prescriptions
- Specialty drug management
- Consumer-driven options, such as health savings accounts (HSAs)

Express Scripts consumer-driven healthcare (CDHC), POS and home-delivery programs are detailed in the Pharmacy Benefit Guide section of this Report.

**DRUG TREND**

Clients that managed trend aggressively by implementing two or more new programs in 2004 saw essentially no increase in drug spend for the year. Those implementing at least one additional trend-management program averaged a trend increase of 3.3%, compared with 9.3% among clients that did not add programs (Exhibit 4).

*Exhibit 4***Net Drug Trend From 2003 to 2004**

### THERAPY CLASS HIGHLIGHTS

Highly-publicized negative outcomes associated with the use of COX-2s, antidepressants and estrogens resulted in lower utilization in each of their respective therapy classes. In fact, declining use caused estrogens to fall out of the top 25 therapy classes for the first time since the *Drug Trend Report* began publication.

Antihyperlipidemics remained in the top spot, increasing by 21% per member per year (PMPY), accounting for 20.8% of overall cost growth and making up 11% of total overall drug spend for the year. Rounding out 2004's top five classes ranked by cost are gastrointestinals, antidepressants, antihypertensives and antidiabetics.

With trend increasing by only 4.5%, gastrointestinals continued to be affected by the September 2003 introduction of Prilosec OTC™. After rising 22.2% in 2003, trend for anti-rheumatics (NSAIDs) also increased by only 4.5%, mostly due to decreased use of COX-2s. The lowest trend increase among the top 10 was for antidepressants, which rose by only 3.8%. Slowed growth was due to the introduction of the generic for Celexa® as well as to the possible influence of negative press about SSRI-antidepressant use by children and teens.

Increased utilization of common drugs was only 2.9% in 2004, compared with 6.8% the previous year. Inflation contributed 6% to overall trend growth, the smallest increase due to inflation in three years. Therapeutic-mix trend rebounded slightly to 3.7%, while brand-generic mix continued to decline. The fall of 2.6% for brand-generic mix in 2004 was nearly identical to the drop seen in 2003.

### FORECAST

Between 2005 and 2009, unmanaged trend is expected to reach a low of 11.2% in 2008 after a high of 12% in 2006.

## BENEFIT DESIGN

To moderate or even negate the expected increases in unmanaged trend, plan sponsors can implement programs that optimize the use of the growing number of generic medications in key therapy classes. Proven programs for promoting the use of the most cost-effective brand and generic medications include:

- Tiered Copayments
- Step Therapy
- Express Choice<sup>SM</sup>

Three-tiered copayments are an industry standard because they align the interests of plan sponsors and members, provide financial incentives for members to use the most cost-effective alternatives, and still allow members a choice of medication. Express Scripts has done extensive research on three-tier copayments, finding that they can provide significant savings without negative effects on clinical outcomes, such as medication compliance or other medical costs. Nearly two-thirds of Express Scripts clients currently have a three-tier copayment design.

Step-therapy programs extend a generic policy to promote therapeutic substitution. With step therapy, the use of a first-line medication, typically a generic, is required before coverage is provided for a second-line drug, typically a more expensive brand medication. The number of therapy classes for which step therapy is appropriate has grown significantly in the past two years. Currently, multiple therapy classes — including all of the top five — have step-therapy programs available through Express Scripts. Additional step-therapy programs are in development for several other therapy classes.

Finally, Express Choice, the consumer-oriented plan design offered by Express Scripts, allows plan sponsors to offer multiple prescription-drug plans. Each member selects the plan that best meets his or her needs. By encouraging efficient use of the prescription-drug benefit through Express Choice, plan sponsors consistently have seen significant reductions in trend while still maintaining high member satisfaction.

## *Notes*