

How to find a great Rx program without breaking the bank



U.S. drug spending **spiked** 12.6% in 2014.

It's expected to continue to climb by 7.3% through 2018, hitting upward of \$535 billion—accounting for nearly 17% of all personal health care spending.

WHY THIS MATTERS

DYNAMICS OF A HIGH-COST RX MARKET

The right medication can be a significant element of effective health care and health management, yet prescription drug costs continue to rise, posing challenges for employers and individuals. After several years of unusually slow growth, in 2014 U.S. drug spending **spiked** by 12.6%.¹ It is expected to continue to climb by 7.3% annually through to 2018, hitting upwards of \$535 billion in 2018, and accounting for nearly 17% of all personal health care spending.

This growth in drug costs is expensive for both employers and employees alike. Driving this increase, in large part, are higher-priced specialty medicines that continue to make their way to market, **according** to a report by the Department of Health and Human Services.² In addition, generic drugs have **offered** Americans a reprieve from higher health care costs for many years, but the cost savings on these particular drugs are starting to wane.³ According to a **report** released last year by the AARP Public Policy Institute,

- 1 ["U.S. Prescription Drug Spending Is on the Rise." *The Wall Street Journal*. \(2016\)](#)
- 2 ["Specialty Drugs a Focus at HHS Forum on High Drug Costs" *Medscape*. \(2015\)](#)
- 3 ["Prices Spike for Some Generic Drugs" *AARP*. \(2015\)](#)

the prices of generic drugs that have been around for years are spiking, a trend that has [surprised consumers and pharmacies alike](#).⁴

There are a [number of reasons](#) why pharmaceutical prices—generic, brand name, and specialty drugs—are trending upward.⁵ The cost of research and development and making the medications themselves is increasing in certain instances. Plus, the increased number of mergers and acquisitions in recent years within the generic drug manufacturing sector is reducing competition.

The challenge for many employers within this high-cost drug environment is that no two health plans offer exactly the same prescription drug coverage program.

This means that the costs to you as an employer, and out-of-pocket expenses for your employees, can [vary](#) depending on the plan.⁶ Even with the Affordable Care Act's cap on commercially insured patients' out-of-pocket costs for all care, including drugs (\$7,150 for individuals and \$14,300 for families in 2017), it could still result in a substantial financial hit for your employees. It's important that as an employer who is responsible for your employees' health coverage, you seek out a health plan with a good prescription drug program, one that provides value, choice, and accessibility. Your health plan should help you keep down costs within this era of higher drug prices, working strategically with your Pharmacy Benefit Manager (PBM).

THE BASICS

WHAT'S IN AN RX PROGRAM (PBMS AND FORMULARIES)

There are various components to a pharmacy program, and understanding how these fit together can help you determine what's essential and what's not. The result might be significant cost savings for you as an employer, which can then be passed on to your employees.

The first component of a prescription drug program is its PBM. This is typically a third-party administrator

of prescription drug programs that supports health plans and manages the pharmacy network. Some well-known PBMs include CVS/caremark, Express-Scripts (ESI), MedImpact, and Optum. While the PBM is a critical component of the overall pharmacy plan, the role of the insurer is imperative. An effective pharmacy plan includes both a standout PBM and a standout insurer that works for you. The insurer typically determines your formulary, plan designs, cost sharing, and clinical policies in collaboration with the PBM. For this reason, it's important to select an insurer that has a good relationship with a leading PBM who negotiates the best deals and policy designs on your behalf, and that suit your needs.

Sometimes large employers, often with more than 1,000 employees, consider "carving out" the pharmacy benefit, which means companies contract directly with PBMs. If considering this approach, employers should weigh any potential benefits of promised cost savings with the possible drawbacks such as additional time and resources required to manage another vendor and benefits program. Data integration issues also could affect care management, reporting, and other valuable programs that help control medical costs and improve member quality of care.

Understanding Formularies

At the heart of every prescription drug plan there is a formulary, which is a health plan's list of covered drugs. The most effective formularies are well thought-out and offer different tiers of drugs for added choice and cost sharing for employees. This is generally where one program will stand out from another.

Formularies will vary from one plan to the next and understanding the distinctions in drug tiers can make a difference when selecting the appropriate prescription drug program.

There are typically two types of formularies—open and closed—under which there are a number of tiered levels.

- Open formulary: Non-formulary drugs are available, typically at higher cost sharing and normally associated with a higher insurance premium.

⁴ "Rx Price Watch Report: Trends in Retail Prices of Prescription Drugs Widely Used by Older Americans: 2006 to 2013" AARP. (2016)

⁵ "Prices Spike for Some Generic Drugs" AARP. (2015)

⁶ U.S. Prescription Drug Spending Is on the Rise" *The Wall Street Journal*. (2016)

- Closed formulary: Coverage is not provided for non-formulary drugs, helping to mitigate costs and to work to keep lower insurance premiums.

An open formulary will include coverage for a drug, even if it is not on the formulary list, generally at a high cost-sharing tier. Under a closed formulary, a drug not on the list isn't covered, unless it is approved through a prior authorization process. Understanding the differences between an open and closed formulary can help you effectively manage the costs of your pharmacy program, while supporting the needs of your employees at the same time.

The obvious benefit to an open formulary is greater choice; however, greater choice can come with greater costs for both you and your employees. Depending on your company's needs, an open formulary may offer benefits that exceed your requirements—and this excess coverage will come at a cost to you and your employees.

A closed formulary can help you manage costs while still offering an effective selection of medications for your employees. A common misconception is that a closed formulary will mean fewer drugs are available. However, [according](#) to Mary Jo Carden, director of regulatory affairs for the Academy of Managed Care Pharmacy, this isn't necessarily the case.⁷ Rather, a closed formulary could include more drugs at a lower cost-sharing (e.g., copayments, deductibles, and coinsurance). Further, there is no one standard definition for a closed formulary, as each has unique provisions.

The most effective formulary for you is one that is not too big in that it creates excess costs, not too small that it restricts important medications; but rather it falls somewhere in between balancing cost and quality.

Formulary Tiers

In general, tiers are [groups of drugs](#) that fall within certain description and/or pricing groups.⁸ There are many types of formularies, including 3-tier, 4-tier and 5-tier, and there are also many flavors as to what is covered within each tier.

What you need to know is that a drug that may be listed under Tier 1 for one health plan, may be designated as a Tier 2 for another. A health plan's tier assignment for a particular drug depends on its negotiated cost. This is why a well-thought out formulary that addresses the cost effectiveness of the needs of your employee population can make a significant difference when exploring your health/pharmacy plan options. Take the time to examine formularies to ensure that drug assignments make sense for your needs. It's also important to determine how the health plan makes decisions regarding the formulary and how often it changes.

HOW INSURERS HELP

TOOLS OF THE TRADE

Beyond choosing to partner with a PBM and formulary designs, insurers have a variety of other mechanisms at their disposal to help ensure that your employees have access to a wide variety of safe and effective medications at a premium that delivers you the most value.

Cost Sharing

Establishing an appropriate cost-sharing strategy is the first step to ensuring that your prescription drug program will be effective. This starts with your health plan's ability to negotiate reasonable rates within your formulary. From there, it's a matter of determining

Example of a typical 5-tier formulary

- Tier 1** drugs typically include low-cost, generic drugs
- Tier 2** drugs typically include generics that are somewhat more expensive
- Tier 3** drugs typically include preferred brand name drugs
- Tier 4** drugs typically include non-preferred brand-name drugs
- Tier 5** drugs typically include the highest cost specialty drugs

⁷ "Closed formularies hold the line on costs." *Managed Healthcare Executive*. (2015)

⁸ "What is a Health Insurer's Drug Formulary and Tier Pricing?" *Very Well*. (2016)

Common Cost Containment Strategies

Prior Authorization	A strategy used by insurers to determine if a prescribed procedure, service or medication will be covered.
Step Therapy	A strategy used to control costs, this practice first uses the most cost-effective drug to treat a condition, and gradually moves up the cost-spectrum if necessary.
Quantity Limits	A strategy that limits the amount of drugs available at any given time based on the appropriate treatment guidelines, intended to ensure that drugs are used properly and costs are contained.

appropriate cost-sharing levels between your company and your employees. Most insurers have a variety of plan designs from which to choose; these include cost sharing that may feature copayments, coinsurance, or even deductibles. Finding a balance of appropriate cost sharing while ensuring adequate access is critical. In terms of developing health consumerism among employees, cost sharing for various tiers is a good place to start as most employees can understand the cost implications of their medication choices.

Managing Usage

In recent years, introducing strategies to manage the use of expensive drugs has become a prevalent practice for many insurers. These strategies can include prior authorization or limiting quantities based on clinical evidence. Specialty drug costs are expected to grow by 22.3% in 2016, [compared with 3.9% for traditional drugs.](#)⁹

It's not just specialty drugs that are being affected by these strategies (or rules). Certain compound medications are also starting to receive this treatment due to excessive cost increases and questions about safety. Outpacing their specialty drug counterparts, compound drug costs spiked by 128% in 2014. As a result, more insurance plans are offering the option to exclude certain compound medications, and 39% of employers have taken advantage of this, while another 24% are expected to do so by 2018.

Another emerging trend is the restriction of the [quantity and frequency](#) in which a prescription can be filled.¹⁰ More recently, this includes restrictions on the first fill of a prescription to ensure that a patient tolerates it. This

can help reduce waste and curb unnecessary costs.

Prior authorization and step-therapy (a [type](#) of prior authorization that attempts to first steer individuals towards a drug that has been proven effective, but is less expensive, before turning toward the more expensive options) have [become](#) more commonplace in the past five years.^{11, 12} These strategies typically include a case-by-case basis clinical review to ensure members are using the most effective and safe medications for their health conditions while also covering access to needed high-cost drugs.

WHAT A GOOD RX PROGRAM LOOKS LIKE

The greatest benefit of a prescription drug program is the ability to offer employees access to exceptional health care.

When a drug program is accessible and widely used by an employee population, it can [help substitute](#) for a more expensive medical service, reduce absenteeism and improve productivity.¹³

Apart from helping retain and support your existing workforce, a standout program also acts as a [powerful tool](#) for attracting qualified staff.¹⁴

9 "What is prior authorization, step therapy, and quantity limit?" eHealth Medicare. (Accessed July 21, 2016)

10 "Understanding your prescription coverage." *Westman Journal*. (2016)

11 "What is prior authorization, step therapy, and quantity limit?" eHealth Medicare. (Accessed July 21, 2016)

12, 14 "Employers Doubling Down on Pharmacy Costs." *Workforce*. (2016)

13 "2014 Prescription Drug Benefit Survey" Buck Consultants. (2014)

Benefits Broken Down

Beyond the formulary, there are other components of the pharmacy plan design that should be considered when choosing a plan that works best for you and your employees. Features such as mail order delivery with a savings incentive, over-the-counter drug benefits and discounts on health-related purchases, can quickly build additional cost savings, and increase satisfaction among your employees.

Mail-Order Service

According to [research](#) by the *American Journal of Managed Care*, there is a positive association between mail-order pharmacy programs and improved adherence, particularly for those patients with a chronic condition.¹⁶ It's been found that a patient's inability to access their pharmacy—whether that might be a lack of social support, time constraints or no access to transportation—is a leading cause of non-adherence. Additional benefits of a mail-order program include lower costs.

Bypassing the reliance on brick-and-mortar pharmacy services can allow for cost savings to be passed on to employees, and certain programs that allow for in-store pickup through these mail order services will generally allow patients to access their prescriptions at lower mail-order prices.

Convenience is another benefit of mail order services, as patients can make refill requests over the phone, or online, and they can have prescriptions automatically sent on the refill date, and receive alerts and health advice via digital channels.

Over the Counter (OTC) Drug Benefits

OTC drug coverage is a valuable employee benefit that is often overlooked and not offered by all health plans. This benefit typically covers many common over-the-counter drugs and products with a prescription at a participating pharmacy. These drugs are often placed in lower tiers of a formulary or covered in full so employees save money.

A Standout Plan— Creating cost savings for you and your employees



The best pharmacy benefit plan boils down to negotiated savings for you and your employees, ensuring the ability to access the drugs and support needed, while limiting unnecessary and/or excessive actions, which can drive up costs.

An effective pharmacy benefit program should include a formulary that provides a wide variety of covered medications so members and their providers have the options they need when finding the right drug. [According](#) to one health care consulting firm,¹⁵ an effective pharmacy benefit program should also:

1. Encourage the use of generics and affordable brands through appropriate formularies and tiered cost sharing, prior authorization and step-therapy and generic incentives.
2. Offer affordable pharmacy channels, such as mail-order fulfillment services.
3. Provide tools and resources that help support consumer education and physician outreach.
4. Offer the ability to reduce waste and improve medication adherence through initiatives such as polypharmacy (simultaneously prescribing more than one drug to treat a single ailment or condition) and patient adherence programs.
5. Provide access to specialty pharmacies that can properly store, handle and deliver complex medications that carry high-price tags, as well as offer specialized patient education, monitoring and support for complex conditions.
6. Offer high-touch member support such as 24/7 service, transition fills of medications for new members and affordable medications for treating chronic illness.

15 "Pharmacy Benefit Management Tools Could Save Billions Over the Next Decade." *The American Journal of Pharmacy Benefits*. (2016)

16 "Consumer benefits of receiving medication through the mail." *The Washington Post*. (2014)

Additional Features and New Trends

Manageable and affordable health care for your employees is the ultimate goal of any benefit plan, including the pharmacy benefit component. Additional service offerings can help drive satisfaction and engage users of the program in a more meaningful way. Options like discounts on health-related items at pharmacies and access to apps may seem trivial in the grand scheme of the pharmacy program, but to the employee these can make a world of difference when seeking savings and convenience.

Value-based contracts between pharmaceutical manufacturers and health plans are another new development and may indicate the path formularies will take in the future. These contracts pay more for medications that have improved patient outcomes, as opposed to traditional contracts in which rebates are based on volume and the right placement on the formulary. Value-based contracts are gaining ground between insurers and providers, but are new between insurers and pharmaceutical companies. It is still too early to tell what, if any, impact this approach will have; although it is a development worth further evaluation.

Promoting and Monitoring Your Pharmacy Program

Working toward the right choice and usage of a pharmacy plan doesn't happen overnight; but is crucial to ensuring the plan is effective and that the intended results of the program are achieved. Your employees should understand the program and use it properly to reduce costs over the longer term. It also helps you to determine how the plan should be structured to be most effective, and support healthy behaviors that lead to additional savings.

Initiatives to develop employees as educated benefit consumers are becoming more [commonplace](#)—and for good reason.¹⁷ With health care costs continuing to rise and more of these costs being placed on employees, they are becoming more aware of what their plans can and should offer.

Luckily for employers, health plans and their PBM partners alike are rolling out promotional, educational and monitoring tools to ensure program awareness and effective program decision making.

FINDING THE RIGHT BALANCE

Overall, health benefits require a balance between cost and coverage—pharmacy benefits included. This is especially true when pharmacy costs [account](#) for nearly 20% of all health spending within employer health insurance plans, falling just shy of the cost of inpatient hospital care.¹⁸

An effective pharmacy program will include personalized support from your insurer who can work with you to determine the needs of your employees and provide the necessary support and tools to ensure usage and adherence.

In order to find a balance between cost and quality, you need to determine what constitutes a necessity for your employee base, and what falls under the “bells and whistles” category, which could drive unnecessary costs.

You'll want to seek out an insurer with low administrative costs, but one that can still offer a pharmacy program with a formulary approach and programmatic elements that are a good fit for your company's needs.

¹⁷ [“Effective communication to employees about benefits is more important than ever” NJBIZ. \(2016\)](#)

¹⁸ [“Prescription Drugs’ Sizable Share of Health Spending.” *The Wall Street Journal*. \(2015\)](#)

ABOUT NEIGHBORHOOD HEALTH PLAN

Neighborhood Health Plan (NHP) is one of the fastest growing commercial insurers in Massachusetts. A member of Partners HealthCare, Neighborhood has been exclusively serving the Massachusetts health care market for 30 years.

NHP members enjoy comprehensive benefits, access to nearly 18,000 primary care providers and specialists, and 74 hospital locations—including top hospitals like Beth Israel Deaconess Medical Center, Boston Children’s Hospital, Brigham and Women’s Hospital, Dana-Farber Cancer Institute, Lahey Hospital and Medical Center, Massachusetts General Hospital, Newton-Wellesley Hospital, South Shore Hospital, Tufts Medical Center, Beth Israel Deaconess Hospital-Plymouth, UMass Memorial Medical Center, and many more throughout the state.

NHP’s FlexRxSM offers employers a prescription drug program with unique features, including:

- Coverage for many common over-the-counter drugs
- Savings on a 90-day supply of certain maintenance medications at participating retail pharmacies
- Additional savings at CVS/pharmacy on health-related products

Plus, it includes many online tools through its leading pharmacy benefit manager CVS/caremark, to help members manage their plan and become more educated health care consumers.

