HEALTH WEALTH CAREER

# TAMING DRUG COSTS

## HOW TO MAXIMIZE THE COST BENEFITS OF SPECIALTY PHARMACEUTICALS

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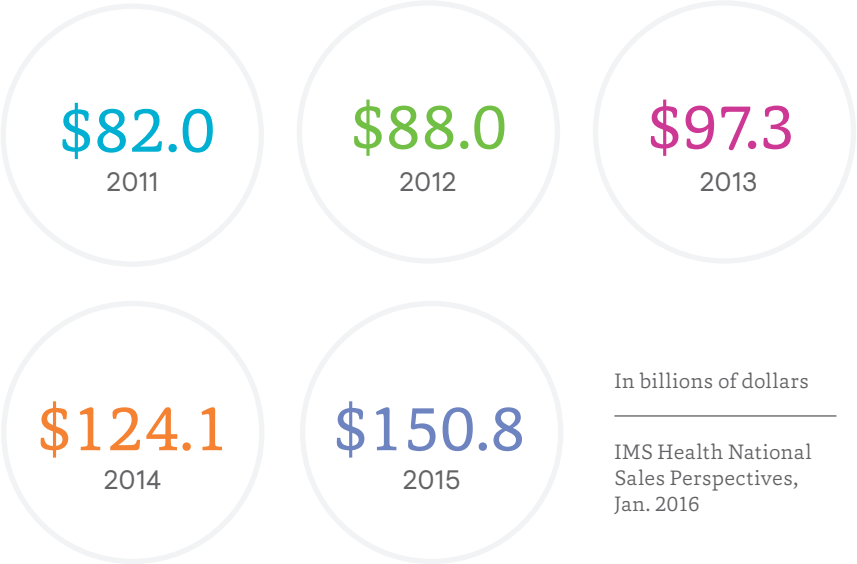
MAKE TOMORROW, TODAY MERCER

Specialty drugs continue to make an enormous impact on people's lives by improving health outcomes or shortening treatment durations for some of the most threatening diseases, such as diabetes, multiple sclerosis, viral hepatitis and cancer. But while some of these medicines bring life-changing results to some plan members, their price points are also viewed as unsustainable by employers and patients.

Prescription drugs — overwhelmingly led by specialty pharmaceuticals — are the top driver of cost increases within benefits today, and don't expect a retreat in the foreseeable future. In 2014, according to a 2015–2016 report by the Pharmacy Benefit Management Institute, pharmacy costs rose 10.2%, driven by a rapid growth in specialty pharmaceuticals of 19.2%.[1] The rate of growth increased even more the following year — by 21.5% — to a total of $150 billion.[2] In fact, the latter study pointed out that 70% of pharmacy cost growth from 2010 to 2015 was caused by specialty drugs.

## EXPLODING COST OF SPECIALTY DRUGS




In billions of dollars

IMS Health National Sales Perspectives, Jan. 2016

Specialty pharmaceuticals already have a huge cost impact, but surveys show that half of employers have a strategy regarding these medications. Plan sponsors need to move from acknowledgment of their impact to taking urgent action. Fortunately, there are recent innovative developments that can help plan sponsors maximize their return on investment in these clinical breakthroughs and help improve their employees' lives — without breaking their plan.

[1] Pharmacy Benefit Management Institute report, 2015–16

[2] IMS Health National Sales Perspective, 2016

# COST SHARING IS ONLY A START

Employers searching for cost savings have turned to tiered structures, along with larger co-pays, for medicines, averaging $11 for generic retail to $179 for specialty mail order. Yet with cost sharing and co-pays alone, organizations won't be able to contain the growing drug costs.

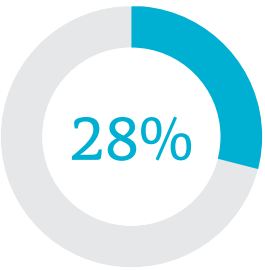
| COST-SHARING STRUCTURE — LARGE EMPLOYER PRIMARY PLANS | RETAIL | MAIL ORDER |
|---|---|---|
| Same level for all drugs | 8% | 9% |
| Two levels for generic, brand drugs | 6% | 8% |
| Three levels for generic, formulary, non-formulary | 57% | 62% |
| Four or more levels | 28% | 21% |

Source: Mercer National Survey of Employer-Sponsored Health Plans, 2016

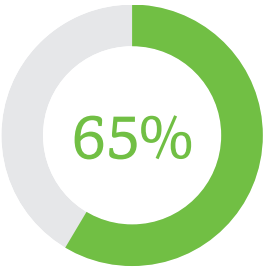
# SPECIALTY PHARMACIES CUT COSTS, ENHANCE HEALTH MANAGEMENT

Specialty pharmacies can offer substantial savings to both sponsors and members through competitive pricing, clinical management and patient assistance. Yet the adoption of these specialty pharmacy strategies is still low and some employers exclude specialty drugs from their medical benefits.

## SOME OR ALL SPECIALTY DRUGS ARE EXCLUDED FROM BENEFIT

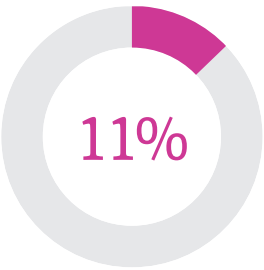



Large employers




Employers with 20,000 or more employees

## OFFER LOWER COST SHARING IF EMPLOYEES USE THE SPECIALTY PHARMACY

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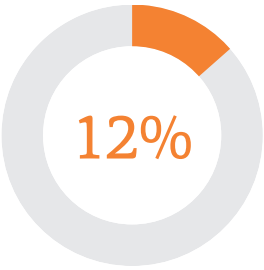



Employers with 20,000 or more employees

Source: Mercer National Survey of Employer-Sponsored Health Plans, 2016

# CUTTING COSTS IN THE COST-BENEFIT EQUATION

Mercer has partnered with hundreds of firms to provide health and benefits brokerage and strategy, and has discovered some universal solutions to issues for employers of all sizes.

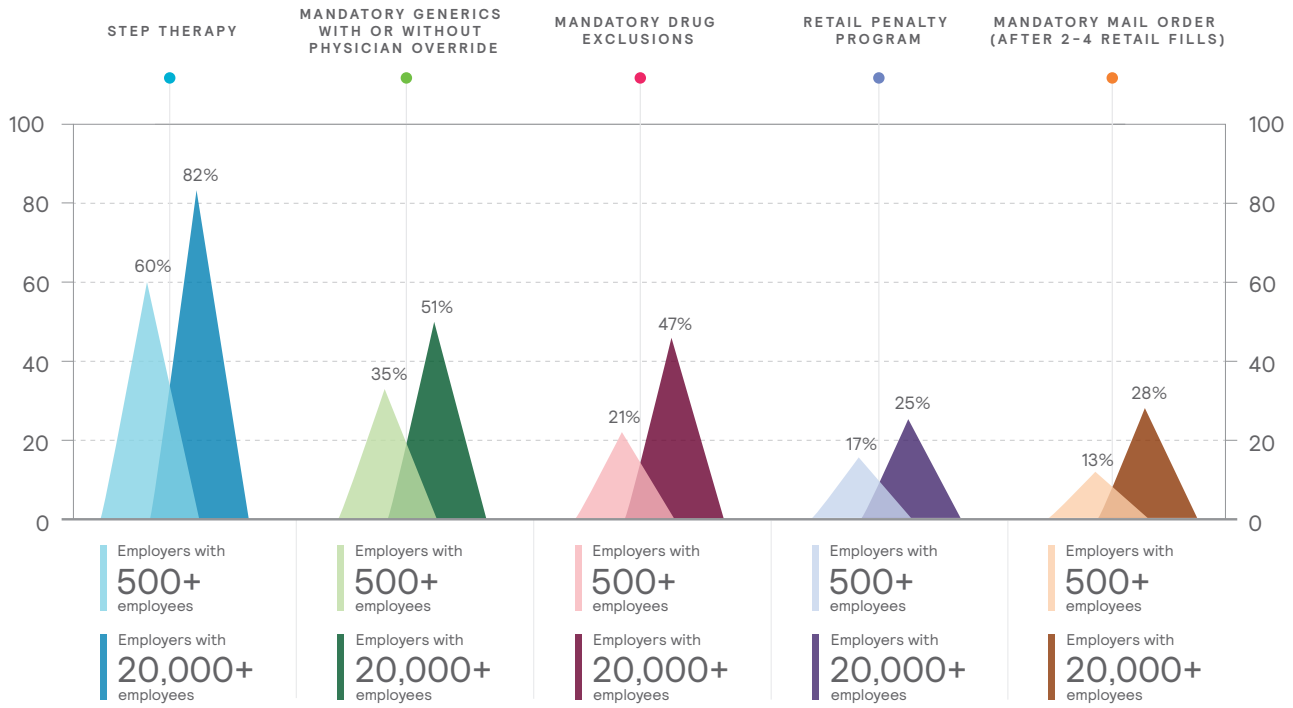
## 1. BE PROACTIVE

Although larger employers might have bigger staffs and more resources, all firms must look ahead. By conducting a specialty pharmacy diagnostic that includes both medical and pharmacy benefits, they can identify trends that raise costs and implement tools to reverse the negative impact. For companies of all sizes, the options are to increase HR staff or hire specialty experts (which would be cost prohibitive), or partner with health and benefits advisors who can take on the added load.

To become more proactive, firms must do a better job of managing all four pharmacy benefit attributes, which include drug selection (what drugs are available at the lowest cost), channel (from where patients receive their drugs and how they best leverage the lowest-cost channels), supplier (maximizing the relationship with the prescription benefit manager) and care (realizing that drug therapy is only one aspect of a patient's care).

### LARGER FIRMS ARE MORE PROACTIVE ABOUT COST MANAGEMENT

Prescription drug plan cost-management features




Source: Mercer National Survey of Employer-Sponsored Health Plans, 2016

## 2. DIG INTO THE DETAILS

Recently, a plan sponsor received a tremendous shock that is unfortunately becoming more common today — its pharmacy plan costs had increased 30%. Lacking the time or resources to investigate, the company turned to Mercer's pharmacy practice and health benefit advisors to analyze its data to determine the underlying factors that were driving the increase. Next, the company worked with Mercer to reassess its previous benefit strategy for opportunities to better manage future cost spikes, taking into consideration the need to provide an affordable prescription benefit to its members.

### OPTIONS FOR SOLVING THE SPECIALTY PHARMACY DILEMMA

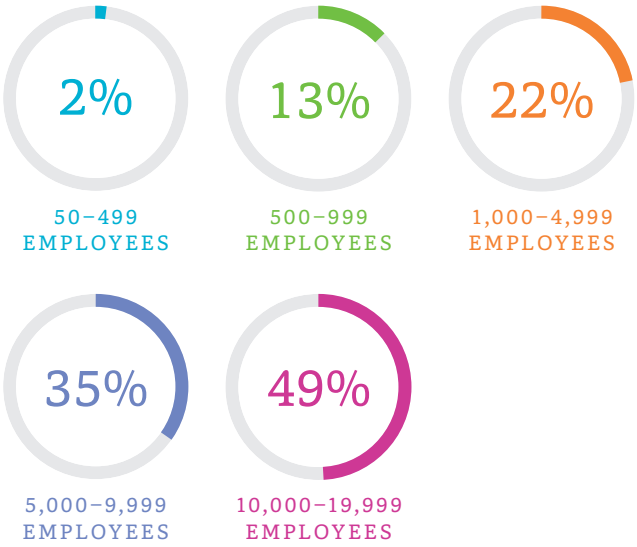
1. Investigate savings through deep-dive diagnostic across care, medical payments, clinical management and benefit design.
2. Capture unclaimed rebates under the medical benefit.
3. Drive distribution for certain therapeutic classes to lower-cost specialty pharmacies.
4. Fully carve out specialty drug management.

## 3. GET AHEAD OF COMPLIANCE

The Affordable Care Act (ACA) — and whatever new forms it may take on in Washington — has brought increased complexity for most employer health plans, along with increased costs for some. This is a universal challenge for all health plans. Under the ACA's pharmacy oversight, employers are required to consider both medical and prescription drug expenses in order to keep employee out-of-pocket expenses under a set limit — which is easier to do when the pharmacy benefit is provided through the medical plan or when pharmacy is carved out to a pharmacy benefit manager.

### LARGER FIRMS ARE MORE LIKELY TO CARVE OUT PHARMACY BENEFITS

Percentage of employers with:




Source: Mercer National Survey of Employer-Sponsored Health Plans, 2016

## 4. LINE UP SOME PHARMACY ADVOCACY

One of the most effective ways to get a better handle on cost management is to work with a health and benefits advisor who has the experience, expertise and tools to keep burdened benefits staffs ahead of negative trends. Larger companies are more likely to have the resources in house or to use an outside advisor. Many smaller firms, however, do not realize that they can receive a cost-effective, scalable solution from certain advisors. There's a solution available for plans of all sizes.

# LOOKING FORWARD

No one can reliably predict the future when it comes to drug costs, but few prognosticators would hold an overly optimistic outlook considering the still unsettled issues of specialty drugs, complex regulations and costs rising out of control. What is clear, however, is that proactive companies — regardless of size — will be more competitive financially and in the struggle for top talent by rebalancing the cost-benefit aspect of an important employee valuation proposition element.

# MORE INFORMATION

As pharmacy costs continue to strain budgets, it is more important than ever to ensure that you have a partner who can help navigate the complexities of the market and ensure that you are getting the best solution based on your unique goals and objectives. Mercer has the experience, expertise and tools to do this and to ensure that your best-laid plans succeed. To learn more about our innovative, strategic approach to pharmacy benefits, contact your local Mercer representative today.

www.mercer.com

Don't be caught by surprise. Your company, regardless of its size, will be more competitive in the long run if you develop a proactive strategy to deal with these costs. In just eight to 12 weeks, Mercer's Managed Pharmacy Practice could identify initial savings of up to 10% of your specialty spend. Contact your Mercer consultant for a specialty pharmacy diagnostic today.

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