THE EMPLOYER PRESCRIPTION DRUG DILEMMA

EMPLOYERS MUST ACT NOW TO GET AHEAD OF RISING COSTS

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If there is one area in which all organizations could benefit greatly by replicating the actions of the Fortune 500, it’s in moving fast to combat accelerating pharmacy costs. The problem is that most companies (maybe yours?) simply don’t have the people, funding or partnerships needed to get ahead of the painful pharmacy cost increases that show no signs of slowing down.

Prescription drugs are the top driver of cost increases within benefits today, and this is not going to change in the foreseeable future for any employer. Specialty drugs alone have contributed 70% of the overall growth in pharmacy costs over the last five years, reaching an all-time high of $160 billion in spend in 2016. In a recent report by the Pharmacy Benefit Management Institute, pharmacy costs increased 10.2%, driven by 19.2% growth in specialty pharmaceuticals.

Can you afford to wait any longer to act?

FOUR TIPS TO HELP EMPLOYERS CONTAIN PHARMACY COSTS

1. Act now.
2. Stay on top of the details.
4. Consider using an advocate.

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HARD ON THE FORTUNE 500, REALLY HARD FOR EVERYONE ELSE

The accelerating growth in drug costs has been felt among employers of all sizes. However, the rise creates greater challenges the fewer employees you have. The primary reason is that one or two employees who suddenly require high-cost specialty drugs can dramatically impact a plan’s annual cost profile.

Specialty Drugs
The leading drug-related costs stem from specialty drugs. New therapies introduced to treat cancer, hepatitis C and autoimmune disorders come with very steep price tags. In plans with fewer members, the use of these costly pharmaceutics by one or two members can severely strain the benefits plan. Larger firms can more easily absorb these increases and are far more likely to control these costs through specialty pharmacies.

Nonspecialty Drugs
Manufacturers of nonspecialty brand name drugs without generic alternatives are increasing their prices prior to losing their patent protection. At the same time, the pricing for generic drugs continues to climb.

Limited Internal Resources
Relative to their Fortune 500 counterparts, other employers typically have smaller benefits staffs, not just in numbers but in staff-to-employee ratios. This leaves HR staffs that are extremely taxed and have limited time to spend on a pharmacy plan.

In addition, legislative requirements also act as a pain point due to fixed administration costs and information-sharing requirements between medical and pharmacy for out-of-pocket maximums and deductibles.
EMPLOYER SOLUTIONS TO THE PRESCRIPTION DRUG DILEMMA

1. Act now.

Large employers with bigger staffs have more resources at their disposal for looking ahead, enabling them to identify trends that can raise costs while implementing tools to reverse the negative impact. For firms not among the largest, 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 drugs (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

Figure 1. Prescription Drug Plan Cost-Management Features

- **Step Therapy**: 60% for Employers with 500+ employees, 82% for Employers with 20,000+ employees
- **Mandatory Generics with or without Physician Override**: 35% for Employers with 500+ employees, 51% for Employers with 20,000+ employees
- **Mandatory Drug Exclusions**: 21% for Employers with 500+ employees, 47% for Employers with 20,000+ employees
- **Retail Penalty Program**: 17% for Employers with 500+ employees, 25% for Employers with 20,000+ employees
- **Members May Fill 90-Day Maintenance Drugs at a Specific Retail Pharmacy**: 16% for Employers with 500+ employees, 41% for Employers with 20,000+ employees
- **Mandatory Mail Order (After 2-4 Retail Fills)**: 13% for Employers with 500+ employees, 28% for Employers with 20,000+ employees

Mercer’s 2016 National Survey of Employer-Sponsored Health Plans.
2. Stay on top of the details.

Recently, a midsize employer 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 benefits 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 benefits strategy for opportunities to better manage future cost spikes, taking into consideration the need to provide an affordable prescription benefit to its members.


Legislative requirements have increased in complexity for most employer health plans, along with increased costs for some. Organizations that lack the resources and staff to comply with regulations and to plan ahead of any potential changes have been hit the hardest. 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.

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 trends. Larger companies are more likely to have the resources in house or to use an outside advisor. All firms, however, can receive a cost-effective, scalable solution from certain advisors.
Considerations for Selecting an Advisor

1. Offers brokerage and strategy.

2. Understands the business, tools, market and industry. Ask potential advisors for references.

3. Has in-house experts in pharmacy, medicine, administration, finance, actuary, law and other important areas.

4. Can provide the same level of thought-provoking information and transparency as larger plans.

5. Will offer proven communication techniques at enrollment and throughout the year.


7. Implements tools and choices that can help a firm select the most cost-effective therapies, plan management, supplier management, channel management and care management.

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 and complex regulations. What is clear, however, is that proactive companies — regardless of size — will be more competitive financially and in the struggle for top talent by thinking big when it comes to health and benefits.

MORE INFORMATION

As pharmacy costs continue to strain budgets of companies of all sizes, 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.

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