Background

- Who pays for majority of healthcare in the United States?
  - Employers
  - Government
  - Individuals

- Does employer size matter?
  - Small
  - Mid-size
  - Large
  - Jumbo
Cost Trends Employers Face

Employers are looking for relief from increasing costs and decreasing employee cost-sharing.

Percentage of Increase in Health Care Costs between 1994-2003

Source: Steve Cigch, Milliman USA, 2002
Intercompany Rate survey, Milliman USA

Percentage of a health care dollar paid for by a consumer between 1970-2000

Source: EBRI Brief #247; release July 2002
Annual Medical Costs

Annual Medical Cost for Family of Four

<table>
<thead>
<tr>
<th>Year</th>
<th>Medical Cost</th>
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<tbody>
<tr>
<td>2001</td>
<td>$8,414</td>
</tr>
<tr>
<td>2002</td>
<td>$9,235</td>
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<tr>
<td>2003</td>
<td>$10,168</td>
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<tr>
<td>2004</td>
<td>$11,192</td>
</tr>
<tr>
<td>2005</td>
<td>$12,214</td>
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Milliman Medical Index report WWW.milliman.com
Figure 1. National Health Expenditures from 1998 to 2008
Source: Centers for Medicaid Services (CMS), Office of the Actuary
Cost/Rx

4 Year Ingredient Cost/Rx

Brand Status

Generic Only
Multiple Source Brand
Single Source Brand
Average

$18.43
$69.54
$110.83
$63.03

Premera Blue Cross, Claims data 9/15/04
## Trend burden on Employers

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>trend %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg. Cost</td>
<td>$50</td>
<td>$55</td>
<td>10%</td>
</tr>
<tr>
<td>copay</td>
<td>$25</td>
<td>$25</td>
<td></td>
</tr>
<tr>
<td>net cost</td>
<td>$25</td>
<td>$30</td>
<td>20%</td>
</tr>
</tbody>
</table>
Lunch Plan

- $50/month pay all my lunch bills
- $250/month pay all my lunch bills
What is a benefit design?

- **Definition**
  - A set of rules & processes to determine what products will be covered and how they will be paid.

- **Purpose**
  - Define coverage
  - Control costs
Compare formulary & benefit design.

- A formulary is not a benefit design

- A formulary is one tool used within a benefit design to facilitate appropriate drug utilization and cost control.
Premera Blue Cross 3-Tier Formulary

**Tier 1: Generic Drugs**
- Many are highly effective
- No manufacturer promotional activity
- Usually lowest cost.

**Tier 2: Preferred Brands**
- Preferred brand name drugs
  - Clinically effective
  - Safe
  - Cost-effective

**Tier 3: Non-Preferred Brands**
- New drugs pending P&T review
- Drugs with Tier 2 alternatives
- Drugs without adequate evidence of effectiveness
- Drugs that yield little additional benefit per additional dollar spent
Formulary List Filtered by Benefit Language = Rx Benefit

Premera’s 3-Tier Formulary List

Contractual Terms & Exclusions

Rx Benefit as actually seen by Member
Review of tiered cost sharing

- Single tier
- Two-tier
- Three-tier
- Four tier
- Coinsurance vs. fixed copay
- Deductible
Tiered Copays

Distribution of covered workers facing different cost sharing formulas for prescription drug benefits, 2000-2004

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004
Other Pricing Designs

- **Reference Pricing**
  - Member pays cost above the least costly effective drug in the category.

- **Humana Rx Allowance Model**
  - Four allowance groups
    - Immediate medical need – avoid events within one year
    - Less immediate – avoid events after one year
    - May improve workplace productivity
    - Drugs for cosmetic or lifestyle

- **Consumer Directed Designs**
- **Medicare pharmacy benefit**
  - Donut model
- **Specialty pharmacy/Biotech carve-outs**
Influences?

External
- Employer needs
- Government impact
  - Mandates
  - Privacy regulations
Influences?

Internal

- Actuary – pricing
- Underwriting – claims experience, trends
- Sales & Marketing – current market demands
- Medical management – impact on pharmacy
- Pharmacy programs – impact on savings
- Product Strategy & Development
- Contracting
Build a pharmacy benefit design

- Who is the consumer client?
- What will be covered (or not covered)
- Closed or incentive formulary
- Tiered design – copay vs. coinsurance
- Deductible
- Prior authorizations
- Education programs
HSA Pharmacy Design

- Pharmacy deductibles
- Co-insurance - % copay
- Encourage consumerism
Clinical/DUR Program Examples

- Concurrent DUR
- Biotech Task Force
- Formulary Development
- Formulary Promotion
- Generics-Yes! A Smart Choice
- ePocrates
- Polypharmacy
- Physician-Based Pharmacy Management
- Specialty Pharmacy
Summary

- Organized process to distribute benefits
- Development of a new design is a collaborative effort
- Designs will continue to evolve
Easy Questions