Benefit Design

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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 1978-2000

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

Annual Medical Cost for Family of Four

2001 2002 2003 2004 2005

Annual Medical Costs

National Health Expenditures

National Health Expenditures

Cost/Rx

Cost/Rx

4 Year Ingredient Cost/Rx

Cost/Rx
Pharmacy Cost Trend by Percent

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</thead>
<tbody>
<tr>
<td>Trend</td>
<td>0%</td>
<td>15%</td>
<td>14%</td>
<td>8%</td>
<td>9%</td>
<td>15%</td>
<td>15%</td>
<td>12%</td>
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Trend burden on Employers

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<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Trend %</th>
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<tbody>
<tr>
<td>Avg. Cost</td>
<td>$50</td>
<td>$55</td>
<td>10%</td>
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<tr>
<td>copay</td>
<td>$25</td>
<td>$25</td>
<td></td>
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<tr>
<td>net cost</td>
<td>$25</td>
<td>$30</td>
<td>20%</td>
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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: Best Value**
- 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
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
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

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