Tackling runaway drug plan costs

Drug management solutions not as tough a pill for employees to swallow

Another ***Bright Paper*** brought to you by Sun Life Financial – Group Benefits.

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Foreword by Helen Stevenson.

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Sun Life Financial

Foreword

Drug prices have been rising steadily in Canada for decades, and are showing no sign of slowing down. Drugs are now the second largest health care expense after hospitals, and the fastest growing. The Canadian Institute for Health Information (CIHI) reports that from 1985 to 2008, total health spending grew at an average annual rate of 6.6 per cent. During this period, total drug expenditure increased at an average annual rate of 9.1 per cent.

The implications of this situation for both public and privately funded drug plans are clear, and they are deeply concerning. As matters stand, the steady and rapid increase in the cost of prescription drugs poses a real threat to the sustainability of drug plans on which most Canadians depend. I would go so far as to suggest that if the administrators of drug plans don't find a way to reduce costs, many more Canadians may soon be faced with paying for costly prescription drugs out-of-pocket, if in fact they can afford to do so at all.

In recent years, the provinces have made significant progress in bringing costs for publicly funded drug plans under control. They have leveraged their considerable purchasing power and law-making ability to impose a measure of restraint on the system. In the process, they have found savings for their drug plans that measure in the billions of dollars. This is a significant achievement, but there is still a very long way to go. And in the private sector, employer-funded drug plans have an even longer way to go.

The fact is that employers who sponsor group benefit plans face the same crushing cost pressures as do public plans, but have lagged behind the public sector in taking action. As I described in my May 2011 white paper, **An End to Blank Cheques: Getting More Value Out of Employer Drug Plans**, the lack of action in the private sector is due in large measure to the fact that employers are not as aware as they should be that they have the power and the means to bring the costs of their plans under control. The recent successes enjoyed by public sector plans provide an important guidepost for the private sector. In my paper, I make it clear to employers that there are solutions at their disposal, providing an eight-point plan for how they can begin to stem runaway drug plan costs.

The following paper by Sun Life addresses one of the issues that confounds many employers determined to enact cost control solutions: the fear of employee backlash. Sun Life's research indicates that with well-designed solutions; this worry may be overstated.

The insights in this paper strengthen my conviction that employers have a real opportunity to improve benefits for their employees, ensure the sustainability of their plans, and save themselves money in the process. My message to employers is loud and clear: cost control is indeed possible, programs to help employees manage their health conditions are essential, and the time to take action is now.

Helen Stevenson

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Former Executive Officer, Ontario Public Drug Programs and
Former Assistant Deputy Minister of Health, Province of Ontario

> *Drugs are now the second largest health care expense after hospitals, and the fastest growing.*
>
> **Helen Stevenson**

Stemming runaway drug costs

Prescription drug costs under employer group health plans in Canada are soaring. Canadian companies now spend about $200 million per week on prescription drugs, or an estimated $10.2 billion in 2010.[1] Against the backdrop of near double-digit annual growth,[1] maintaining the value of current employer-sponsored drug plans is fast becoming impossible.

There are many drivers behind the increasing costs, including:

- **An aging population** with an increase in chronic medical conditions
- **The earlier diagnosis and treatment of health problems** due to regular screening and diagnostics
- **The availability of new and more expensive drug treatments**, such as those using "biologic drugs" made from human or animal proteins
- **Patient-driven demand for prescription drugs** due to advertising and greater consumer information now available online

And it's clear that these cost pressures will continue.

The good news is that there are solutions available now to help employers stem these runaway costs. What's more, solutions can be designed to maintain the value of a drug benefit plan, such that they do not impact employees' access to highly effective treatments. Awareness among employers of the cost management solutions available to them has been low, but fortunately this is beginning to change.

AGAINST THE BACKDROP OF NEAR DOUBLE DIGIT ANNUAL GROWTH,[1] MAINTAINING THE VALUE OF CURRENT EMPLOYER-SPONSORED DRUG PLANS IS FAST BECOMING IMPOSSIBLE.

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PER WEEK ON PRESCRIPTION DRUGS, OR AN ESTIMATED $10.2 BILLION IN 2010.[1]

Overcoming the fear of employee backlash

Many employers believe that plan changes will be met by great cynicism and resistance by employees. Despite being aware that there are cost management solutions available to them, many are paralyzed to act for fear of employee backlash.

But is employee backlash really the risk that employers perceive it to be? Sun Life undertook research to find out. The results indicate that employees are far more accepting of cost management solutions than employers may have thought. In fact, a majority of employees are already aware of the cost pressures that their plans are facing and show an openness to change when presented with well-designed solutions that maintain access to effective treatments.

… MANY ARE PARALYZED TO ACT FOR FEAR OF EMPLOYEE BACKLASH.

Employees understand the challenges

In March 2011, Sun Life Financial engaged Ipsos Reid to conduct a survey involving a random sample of over 800 Canadians covered by an employer-sponsored drug plan. Half the respondents were regular drug expense claimants (once a month or more) and half were non-regular claimants (with a longer interval between claims).[2]

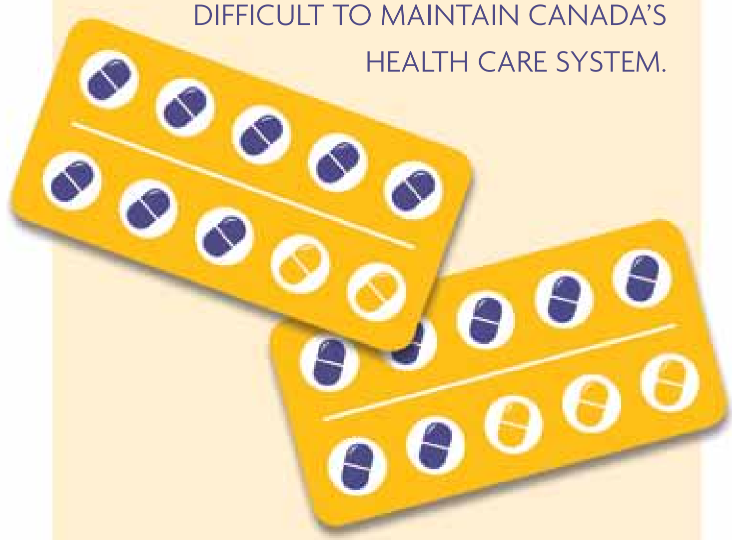
Respondents were asked about their awareness, attitudes and perceptions relating to health care costs, prescription drug benefit plans offered by employers, as well as strategies aimed at containing the costs of these plans.

In terms of general awareness, the survey revealed that employees are well aware of the cost pressures faced by the health care system and employer-sponsored drug plans. Eight out of 10 respondents agree that rising costs will make it difficult to maintain Canada's health care system. Seven out of 10 agree that rising costs and the growing use of prescription drugs will make it difficult for employers to maintain their current drug coverage.

These results indicate that the resistance to introducing plan changes may be lower than anticipated. Higher awareness of cost issues means employees will likely be more open to changes that are introduced to address them.

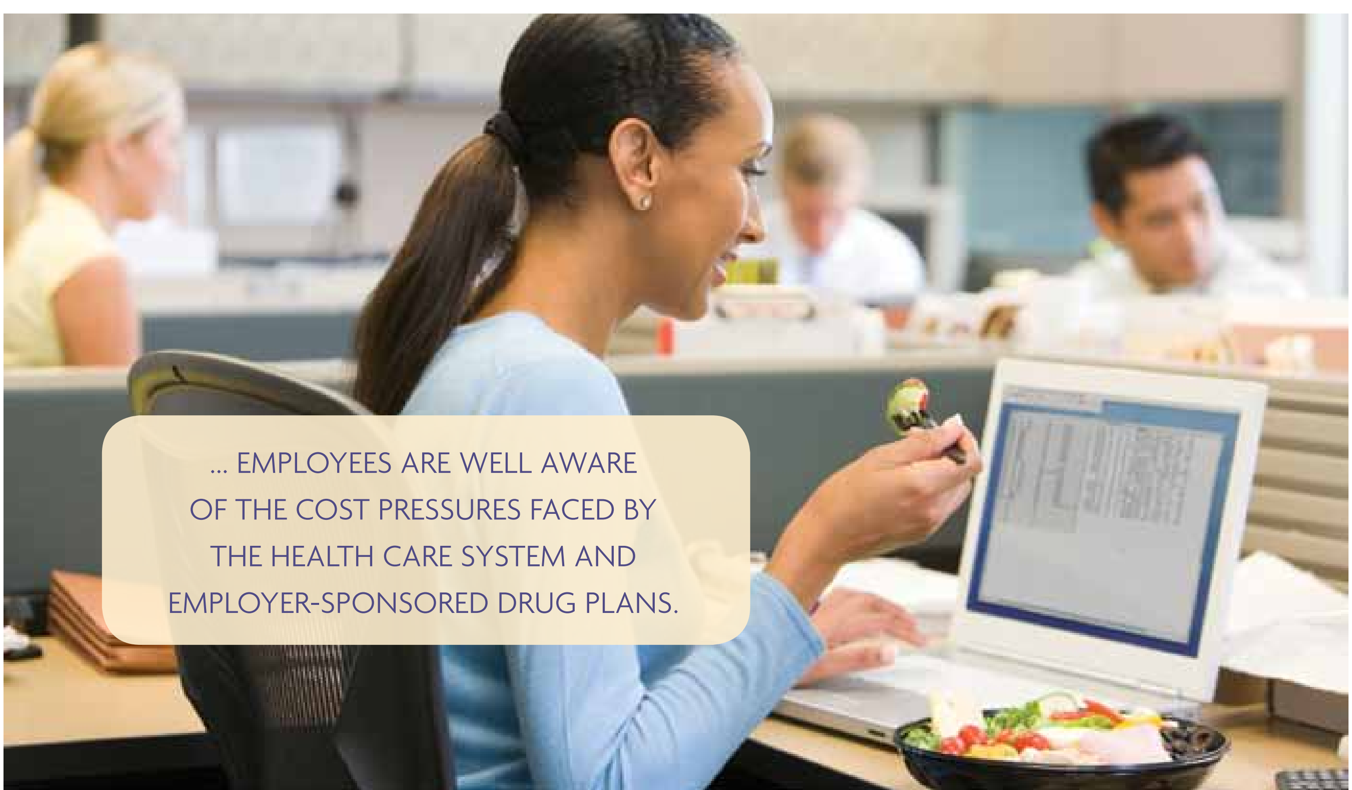
8 in 10 Agree …

… THAT RISING COSTS WILL MAKE IT DIFFICULT TO MAINTAIN CANADA'S HEALTH CARE SYSTEM.



7 in 10 Agree …

… THAT RISING COSTS AND THE GROWING USE OF PRESCRIPTION DRUGS WILL MAKE IT DIFFICULT FOR EMPLOYERS TO MAINTAIN THEIR CURRENT DRUG COVERAGE.



… EMPLOYEES ARE WELL AWARE OF THE COST PRESSURES FACED BY THE HEALTH CARE SYSTEM AND EMPLOYER-SPONSORED DRUG PLANS.

Change may not be a tough pill to swallow after all

The March 2011 survey also tested employee acceptance of several plan changes – three cost control tactics and four drug management solutions.

Because there is a great deal of complexity and terminology related to drug plan design, care was taken on the survey to explain the approaches in plain language and ensure that respondents understood exactly what was being asked of them.

Cost control tactics

The three tactics tested focus solely on the cost issue. The general acceptance of these tactics was measured by the survey. Specific restrictions or cost increase amounts were not included in the survey questions.

Option 1 – Capping the pharmacy dispensing fee for prescriptions: For example, limiting the dispensing fee covered to the amount charged by low cost pharmacies, such as those operated by large grocery store chain retailers.

Option 2 – Reducing coverage levels: Employees pay more for drugs out of their own pocket.

Option 3 – Increasing plan premiums: Employees have a higher amount deducted from their paycheque for their coverage.

Drug management solutions

The four solutions tested are designed to manage costs while maintaining the value of the plan, such that they preserve employee access to effective treatment.

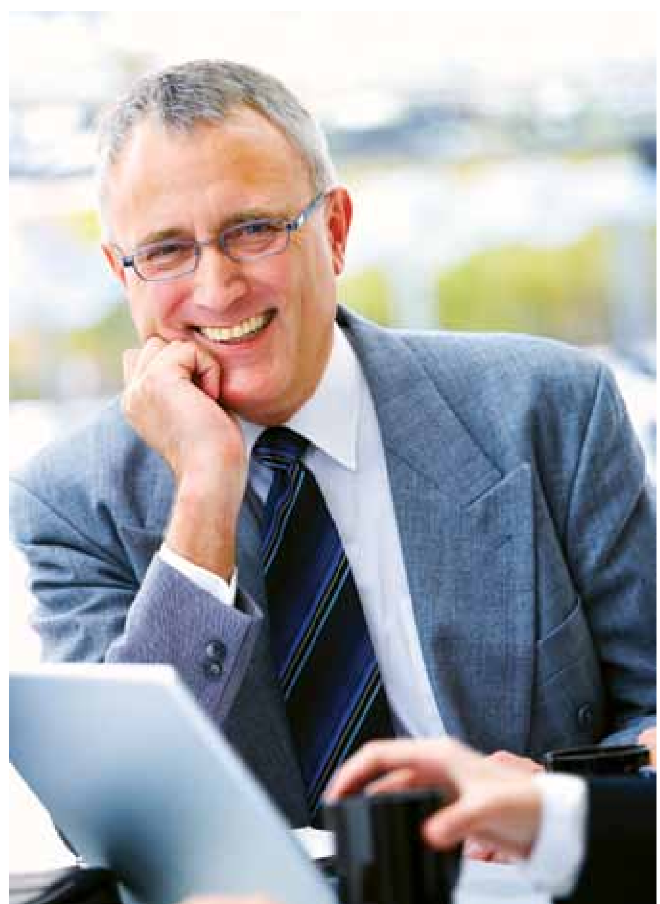
Option 1 – Generic substitution: The drug plan pays for a brand name drug only if there is not a suitable generic alternative available. If a generic is available, the drug plan pays only the amount equal to the price of the generic.

Option 2 – Prior authorization: If an employee is prescribed a high cost drug when a similarly effective but less expensive drug is available, a form would be submitted on the employee's behalf to provide the rationale for the prescription in order for the plan to provide reimbursement.

Option 3 – Maximum allowable cost (MAC) pricing: MAC pricing puts a ceiling on the price of drugs that are reimbursed in a particular class (group of drugs that treat the same condition). Under the MAC pricing scenario that was presented to survey respondents, the price was capped at the lowest priced drug that met a maximum level of effectiveness, beyond which no other drugs in its class were significantly more effective. If the employee wanted a more expensive drug in that class, they would have to pay the difference.

THE FOUR SOLUTIONS TESTED ARE DESIGNED TO MANAGE COSTS WHILE MAINTAINING THE VALUE OF THE PLAN.

Option 4 – Evidence based drug plan: There can be a number of drugs that work equally well for some medical conditions. Under the Evidence-Based Plan presented to survey respondents, some higher-priced drugs that do not show greater health benefits than others on the coverage list would be removed.



Traditional cost control tactics largely unacceptable

Not surprisingly, the three cost control tactics – which all represent additional costs to employees or cuts in coverage – were the least accepted. Sixty-nine per cent of respondents find raising premiums to be somewhat or very unacceptable, 68 per cent find reducing coverage levels unacceptable, and 40 per cent find it unacceptable to cap dispensing fees.

% OF RESPONDENTS RATING TACTIC **"SOMEWHAT UNACCEPTABLE"** OR **"VERY UNACCEPTABLE"**

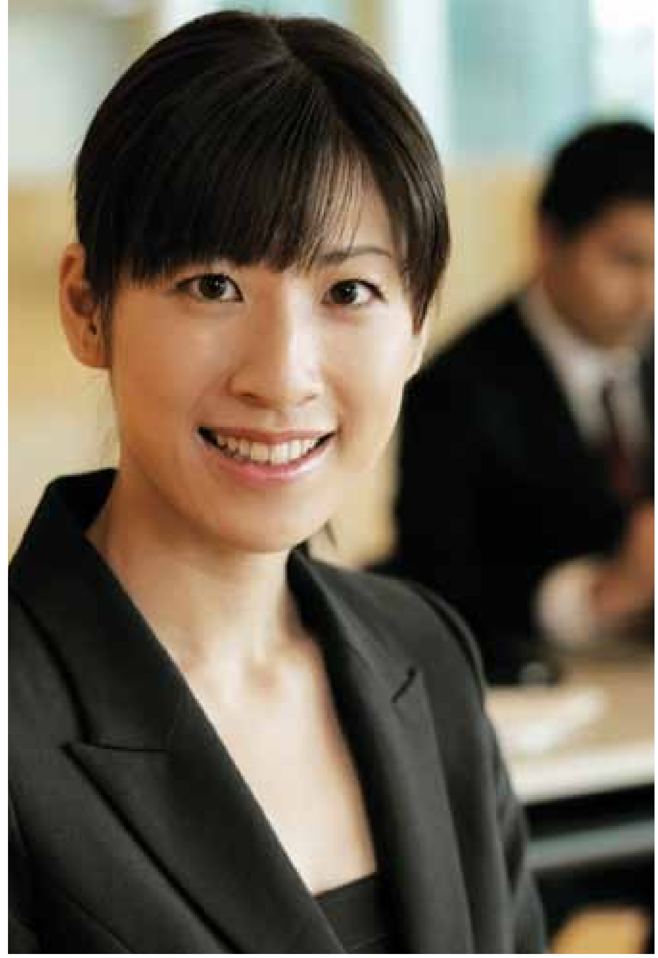
69%
Raise Premiums

68%
Reduce Coverage Levels

40%
Cap Dispensing Fees

Drug management solutions highly acceptable

What was surprising in the research was the high level of acceptance of the drug management solutions presented. Here is how each of the options fared.



Prior authorization scores highest acceptability

Prior authorization is somewhat acceptable or very acceptable to 82 per cent of respondents, making it the most accepted among the four solutions. That it would have the highest level of acceptability is not surprising, given that with physician approval, employees would still be able to have the same access they had previously. In other words, nothing is perceived to have been taken away – if you need a particular drug, the plan will cover it.

Most see generics as equivalent to brand name drugs

Reimbursement of generic drugs is somewhat acceptable or very acceptable to 79 per cent of respondents. Respondents expressed a high level of comfort with generic drugs, with most having used a generic drug before and half having done so on a regular basis. Four out of five respondents said that generics were equal to or better than brand name drugs and would opt for a generic drug rather than pay the difference to get the brand name equivalent. Here again, high acceptability of generic substitution seems to reflect most respondents' perception that they are not losing anything with this solution – they believe generics to be just as good as brand name drugs.

% of respondents rating solution "somewhat acceptable" or "very acceptable"

82% *Prior Authorization*

79% *Generic Substitution*

70% *MAC Pricing*

65% *Evidence-Based Drug Plan*

Majority say MAC pricing provides acceptable coverage

Maximum Allowable Cost (MAC) pricing is somewhat acceptable or very acceptable to 70 per cent of respondents. Further supporting the acceptability of this solution is the finding that 73 per cent of respondents said they would opt for the fully covered drug, rather than pay the difference for a more expensive drug, even if that difference in cost was not significant. However, the fact that there was the choice to pay the difference to obtain a more expensive drug likely contributed to this solution's high acceptability.

Evidence-Based drug plans seen as maintaining access to effective treatment

Evidence-Based drug plans are somewhat acceptable or very acceptable to 65 per cent of respondents. This indicates that many respondents understood that despite the reduction in available drugs, effective treatment would remain available for all conditions.

Although it was not tested, an Evidence-Based drug plan that keeps all drugs available but with varying levels of co-insurance is one that merits close consideration. It is reasonable to think that this type of plan would achieve even higher levels of acceptance among employees, given that it maintains full choice.

SAID THAT GENERICS WERE EQUAL TO OR BETTER THAN BRAND NAME DRUGS.

The devil is in the details

– proper support is critical to managing change

While employees may be open to drug plan changes, it doesn't mean their acceptance of the changes will be automatic. In fact, success will depend a great deal on how this change is managed. Here are three important change management strategies that employers should consider as part of their planning.

1. Transparency and communication

The reasoning behind any drug plan changes and the details of the changes must be transparent. Without transparency, there is the risk that employee cynicism will fill in the missing details.

Transparency begins with a solid communications plan that sets out your key messages well in advance of when the change takes place. Here are three elements that every plan should address:

- **Why the change.** Reasons for the plan change must be explained in a straightforward manner. For example, if plan sustainability and access to treatment are the main drivers, these should be clearly stated. In addition, the use of actual statistics from your plan, such as increases in your benefit costs and utilization rates for certain benefits, will build credibility and increase support for the change.

  It is also very important to point out how this change is in the interests of your employees, whether it be managing increases to member premium contributions, providing broader, more cost-effective coverage, or allowing reinvestment in other benefits like wellness programs.

- **What is changing.** The actual change to your plan should be explained as clearly and simply as possible. Some concepts, such as formularies and drug classes, may be unfamiliar to employees, so be sure your communication plan has the necessary plan member education built in.

- **How the change will affect coverage and the claims process.** Use examples to show how the change will affect employee benefits coverage and the claims process (if any). You can also reassure employees by highlighting the important areas of their plan that will not change so the scope of change remains in perspective.

2. Defining effective treatment: Rely on external experts

Fundamental to gaining employee support for drug management solutions is to ensure their access to treatment is based on clinical criteria that are independently evaluated by experts such as medical doctors and pharmacists.

Employees will have far more confidence that a change will not affect their access to effective treatment – and hence accept the change – if it has been designed and/or endorsed by the outside professional community, rather than just the employer or group benefits carrier.

3. Ensure a smooth transition for employees

Provide employees with access to the information and action tips they need to make the transition as smooth and hassle-free as possible. An example is when a specific drug will no longer be fully covered because of the plan change. Employees who take this drug should be advised of other similar drugs that are available to them at full coverage. With this information, they would be able to have a discussion with their physician about switching to another effective drug for which they would not have to pay additional money out of pocket.

Careful planning is also very important to ensure any new processes and procedures you introduce are as easy to follow as possible. For example, the introduction of "Prior Authorization" to a drug plan would be supported by a well-designed process that allows employees to obtain documentation from their physician as easily as possible.

Take action now to protect the value of your drug plan for tomorrow

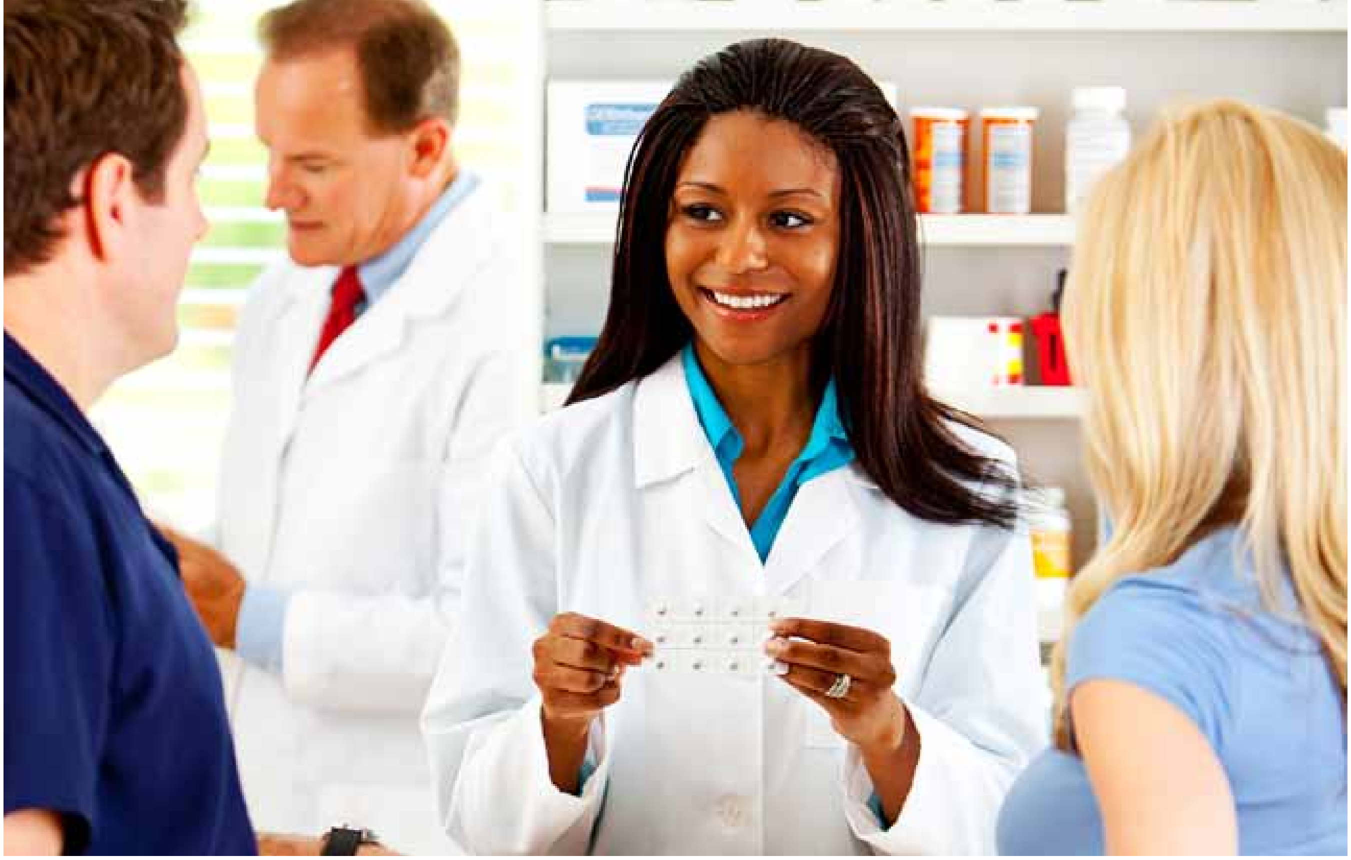
Soaring prescription drug costs are putting the sustainability of employer-sponsored drug benefit plans at risk. The good news is that there are a number of drug management solutions for employers that maintain the value of drug benefit plans for employees while protecting plan sustainability.

The research presented in this Bright Paper demonstrates that employees are far more aware of the cost pressures faced by employer-sponsored plans and, more importantly, much more accepting of drug management solutions than was thought. With well-designed solutions, employers can tackle rising drug plan costs head on without the fear of employee backlash – there is no better time to take action.

The public sector has paved the way with bold measures and many successes. Now it's time for private plans to act. By taking a long-term view towards plan sustainability and working with a carrier that can help design and implement the right solutions, the value of employer-sponsored drug plans can be maintained for years to come.

Notes

Notes



About Sun Life

A market leader in group benefits, Sun Life Financial serves more than 1 in 6 Canadians, in over 12,000 corporate, association, affinity and creditor groups across Canada.

Our core values – integrity, service excellence, customer focus and building value – are at the heart of who we are and how we do business.

Sun Life Financial and its partners have operations in 22 key markets worldwide including Canada, the United States, the United Kingdom, Hong Kong, the Philippines, Japan, Indonesia, India, China and Bermuda.

1 Canadian Institute for Health Information, Drug Expenditure in Canada, 1985-2009

2 Survey is accurate to within +or- 3.4 percent, 19 times out of 20

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