HOW EMPLOYERS CAN BALANCE DRUG COSTS

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How Employers Can Balance Drug Costs

Canadian employers see the advantages of having an employee benefit program. However, increasing drug costs, the demands of keeping an aging workforce on the job, and having the ability to recruit the best new employees and retain valued employees is creating a new challenge – maximizing benefits without increasing costs.

Benefits and Pensions Monitor's Meetings & Events assembled a thought leadership expert panel to discuss new approaches to meet these challenges. It featured:

- Sarah Beech, president, Accompass
- Atul Goela, product director, pharmaceutical benefits, Sun Life Financial Canada
- Yafa Sakkejha, general manager, The Beneplan Co-operative

"When we look at benefits, we need to think about what benefits are and why we offer them," says Sarah Beech, president of Accompass.

The costs of benefits are going up at a significantly higher rate than pay or other items in the marketplace, she says. While an employer's average increase in 2016 salary budget is 2.75 per cent and 2015 consumer price index (CPI) inflation was 1.6 per cent, the 2016 insurers' health trend factor is 11.6 per cent.

This is not a new trend. Benefit costs have been rising at a high rate for many years. Beech worked with a company 22 years ago that saw benefit costs going up 15 per cent year over year. The CEO challenged the HR team to do something about it. Even though it wasn't common at that time, the company implemented tools and, to this day, its benefit plans have stayed at a lower cost than others have. So, not only have the challenges persisted for a long time, but so have the solutions.

WHY OFFER BENEFIT PLANS?

To start simply, we need to think about why we offer benefit plans, says Beech. "I don't believe there is one right answer. I believe each organization will have an answer that is correct for them."

A Sanofi-Aventis survey shows that 28 per cent of employers offer benefits to reward and support employees; 24 per cent want to be competitive; and 31 per cent do it to have healthy employees. "If we provide benefits to reward our employees, why are we offering the coverage we provide? If we are rewarding our employees, then maybe we should provide other benefits such as tuition reimbursement, additional time off, or other perks?"

If an employer is focused on health, then sustainability and keeping a benefit plan in place is going to be the most important thing.

"We also need to look at why employees need benefits. If they get $800 of value from the plan, some companies may decide to give them the $800 and let them do what they want with it. But then, what if the employee needs $28,000 for Remicade? For some employees, benefits are more valuable than a paycheque is.

"The point is: this isn't easy. We throw out lots of numbers and we assume people want one thing or the other, and you really have to decide as an organization what is important."

SPLITTING THE BILL

Who pays for coverage? Who shares in the responsibility? How are private benefit plans treated versus other insurance components and other things individuals pay for themselves?

"When we look at the share of the wallet of who's been paying the bill, private plans have been paying $1.3 billion for paramedical, and individuals have been paying $1.9 billion out of pocket. With vision care, the proportion is greater. With dental, benefit plans are paying a greater proportion, but there's still a sharing of cost. For prescription drugs, private plans pay the biggest share, but there's still an out-of-pocket expense," she says. "People are certainly willing to participate in the costs."

Beech wonders if costs can be viewed differently, perhaps in the way people consider automobile or home insurance costs. If the deductible is going to go up, they may consider not making a claim. If they are aware of the consequences, they may make better decisions.

It might be useful to consider whether all paramedical services need to be offered, and the nature of how they're covered. It's an opportunity for plan sponsors to look at things differently and see what else might work.

DUSTING OFF THE TOOLS

As mentioned, there are tools to help reduce benefit costs that have been around a long time. Maybe it's time to dust off the tools and try them, she says.

One tool is a managed formulary which is simply a list of drugs. For example, a two-tier formulary where one group of medications, mostly lower cost therapeutic alternatives, are covered at a higher level – say 90 per cent – and the rest of the medications in the market are covered at a lower level like 50 per cent. There are many variations to this theme.

A health coach could be another option. It might help if employees have someone to guide people in their health journey and to help make sure they are taking their medications. She noted that 70 per cent of individuals with chronic diseases do not fill their prescriptions.

Prior authorization and preferred pharmacies are two more tools.

PREVENTION IS KEY

Finally, there is prevention. "We talk about why health is important, but do we really understand the power of what can be done? One of our clients has really focused on health," says Beech. It launched a company-wide health challenge and communicated what was happening. They had a preferred pharmacy in place for 10 years. While the industry publishes 11.7 per cent increases, this company has seen a 0.9 per cent decrease in benefit costs. "We also did an analysis for them around obesity and chronic disease which went down seven per cent this year. Some of their other chronic disease costs went down 13 per cent.

"These are just some tips to help companies look at things differently. Benefits matter and they're important, but let's figure out a different way of looking at them."

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"In Canada in 2014, we spent $34 billion on drugs. Of that, 85 per cent, or $29 billion, was spent on prescription drugs, not including hospital spending," says Atul Goela, product director, pharmaceutical benefits, at Sun Life Financial Canada.

The private sector represents 55 per cent of the costs – or $16.7 billion – which includes what is spent by carriers/employers, and the co-insurance of the individuals – what they pay out of pocket, says Goela. "It also represents those that pay and submit and, of course, individuals that just don't have a drug plan."

The other 45 per cent consists of government plans such as social assistance plans, Trillium in Ontario, and provincial pharmacare in some of the Western provinces.

In 2012, private plan costs were growing at double the rate as compared to public plans. From 1998 to about 2008, drug plan expenditures increased at 10 per cent year-over-year, despite generic drug reform.

Goela's first question is, why? He says the patent cliff, where a blockbuster drug loses its patent and becomes less expensive; generic drug reform, where the government started to independently negotiate pricing on generic drugs; and the Pan-Canadian Pricing Alliance have taken prices down by as much as 80 per cent on some products. In addition, public and government plans have had mandatory generic brands in place since the '90s. "Yet we still have some private plans that do not have mandatory generics in place."

On top of that, other pressures on costs include open formularies. An open formulary allows a drug to be added to the list of drugs that are eligible for coverage without any level of management. "Alternatively, a managed formulary, which can be a tiered formulary, would involve the drug going through evaluation of some sort and being placed on an appropriate tier. A closed formulary would be where the drug is not added, even after a thorough evaluation and clinical guidelines come out. Government plans have closed formularies."

Shifting demographics – the aging population – are also driving costs. As individuals age, they take more medications. As the bulk of claimants continue to age, the potential cost spend will increase. Today, these older demographics are also taking many more drugs than generations prior.

Three other cost drivers that should be noted are high-cost, biologics, and specialty products.

High cost is relative. Goela says, "At Sun Life, and the industry tends to be going this way as well, anything that costs $10,000 or greater on an annual basis for a claimant is classified as high cost."

Specialty products can basically be defined by one of three things:

- It requires special manufacturing requirements, involving more of a process than just mixing ingredients together into a tablet
- It requires special distribution and needs extra care such as refrigeration or freezing
- It requires special administration such as injection or infusion or any other administration than by mouth

The other aspect of specialty is that it typically has a high cost and is often prescribed by a specialist. The definition continues to evolve.

A biologic has a strict Health Canada definition: it's a product that is produced by using a living organism such as a virus or bacteria.

Goela argues that a managed formulary should examine the merits of each drug rather than broadly dismissing one category such as biologics. "As an example, Humalog is an insulin product and, depending on the dosing, it costs about $100 per month. That would be roughly $1,200 over the course of the year, so it is not a high cost. Yet it is a biologic. One could also argue that it's a specialty because it is injected and refrigerated. This is an example of a low-cost biologic product. If we were to exclude biologics from coverage, we would exclude insulin and some vaccines as well. This is probably not what we want to do.

"Once we define and understand these terms, then we can create effective solutions to manage the cost associated with them as opposed to simply excluding one type completely."

There has been a rapid evolution of specialty drugs. They are very expensive and used by a small portion of the population, yet they made up 17 per cent of the overall costs in drug plans in 2012. That 17 per cent was probably represented by less than one per cent of claimants, says Goela.

The specialty drug segment is rapidly evolving. In 2014, the specialty drug spend represented 24 per cent of total drug cost. It's expected that the cost of specialty products by 2020 will hit 50 per cent of overall drug spend

In the last four years, there has been a rapid evolution of drugs that are coming out into the marketplace that have an average annual cost of greater than $5,000, so a shift has occurred – drugs cost more year over year.

However, some of these drugs are very effective, Goela says. "How does an employer balance that cost? It's a combination of strategies and offerings that go into managing a health plan. It's health promotion, preventing the disease altogether. If the individual has a disease, how can you manage it effectively through lifestyle and diet changes?

"On the drug plan management side, what are the strategies that can be implemented by sponsors to help manage it? There's no silver bullet; it's really a combination of things."

Goela says some of things plan sponsors can do include implementing a drug card, setting mandatory generics, using a preferred pharmacy network, and implementing a managed formulary.

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In order to maximize benefits without increasing costs, the first thing to think about is about where the waste is in the plan, says Yafa Sakkejha, general manager at The Beneplan Co-operative. "Where can you find new dollars in the plan that do not touch patient coverage and allow you to maintain the same philosophy?" These extra dollars can be used to improve the plan.

"What expenses does the plan have?", she asks. "After premium tax, administration fees, and commissions, how much profit is left on the table? How much are you spending to run claims through the system? Can you leverage volume?"

Sakkejha says she sees companies that have one business owner that might own three or four companies and they have more than one carrier for group benefits.

> "WHERE CAN YOU FIND NEW DOLLARS IN THE PLAN THAT DO NOT TOUCH PATIENT COVERAGE ..."

POWER IN WORKING TOGETHER

"Sometimes you can just consolidate your volume and get above those thresholds to obtain lower expense factors and preferential treatment. If you don't have the volume, we suggest you manufacture the volume in terms of the buying power. Get together with an association or some of your colleagues to start a buying group yourselves or look for ways where you can piggyback off some of the volume in order to obtain lower expense factors. There is power in working together in the community to maximize benefits."

The next step is to consider the funding method. Should it be a fully-insured plan, a self-insured plan, or a hybrid-type refund accounting plan, she asks.

Plan sponsors should ask their carriers to explain trend factors and reserves. Is a 12 per cent rate of inflation being used when the plan's inflation rate is a little different?

They should also take a look at their sales tax. Revenue Canada allows plans to choose between paying eight per cent of the premiums or eight per cent of the claims plus fees. Most often claims plus fees are not less than premiums, depending on the type of plan.

TAKE A CLOSE LOOK

Sakkejha recommends taking a close look at the plan and its offerings. Do people really need as much dental coverage as is being offered? If necessary, hire a consultant to find these types of loopholes in the plan.

Multi-tiered formularies are also important, she says. "There are many providers of multi-tiered formularies and many ways to structure them. We partnered with the Reformulary Group and it prioritizes medications that have the highest real-world clinical value – so those that are more effective, safest, and most affordable when appropriate. This group also looks at the cost of prescription drugs. It makes sure the employer is paying wholesale, for example."

Paramedical coverage is another area where plan sponsors can reduce costs. "I think we have a paramedical entitlement problem in Canada," says Sakkejha. "At some point, somebody has to say no." This is an area where employers should think about why they have a benefit plan and prioritize what they offer based on that strategy. In the U.S., sponsors require prior authorization for paramedical services. That extra step in the process can reduce claims.

Sponsors can also utilize government programs. "I'm very surprised at how little government programs are taken up by companies that have the ability to do so," says Sakkejha. "For example, synchronize the plan with the provincial drug plan or the Trillium drug program. The EI supplementary unemployment benefit is also underutilized. Companies may think they are benefitting from a reduced EI rate when they offer disability benefits, but what are you saving versus what you are spending?"

DETERMINING BEST RESPONSE

Finally, pharmacogenetics is another method that could potentially reduce benefit costs. Pharmacogenetics is the practice of determining a patient's best response to medications, based on their own personal genetics. It is like an allergy test for medications. It cannot tell if an individual has a predisposition to cancer or who their ancestors are. It basically looks at how a person metabolizes a category of drugs in their liver. Results are not required by insurance companies at this time. However, it can help reduce costs by finding the best, most effective medicine for each individual.

"When you pay for a drug benefit plan, you want to make sure that you're paying for a health benefit and not for something that could potentially lead to negative side effects. Pharmacogenetics can project negative side effects without waiting six or seven months for a patient to go through trial and error of many different drugs before they find the right one. Less side effects will also increase adherence. In addition, results could reduce the incidence of disability for those cases where the disability claims are due to the fact that it takes months to find the right medication. There are now new benefit plan tools, such as the one offered by the Personalized Prescribing Plan (P3), which can provide coverage for pharmacogenetic testing at a cost of a few dollars per employee, per month.

"Ultimately, sponsors want to prioritize the dollars for the people who need them most. There are many different ways to maximize benefits without increasing costs. However, I believe we are always more powerful as a group, so we should continue to use the power of community to make benefits stronger." BPM

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