

EMPLOYER HEALTH BENEFITS
2002 ANNUAL SURVEY

Prescription Drug
and Mental
Health Benefits

SECTION

9

PRESCRIPTION DRUG AND MENTAL HEALTH BENEFITS

OVER THE PAST FEW YEARS, EMPLOYERS HAVE GIVEN SIGNIFICANT ATTENTION TO WAYS TO CONTROL THE INCREASING COST OF PRESCRIPTION DRUG AND MENTAL HEALTH BENEFITS. EMPLOYERS HAVE UTILIZED A VARIETY OF STRATEGIES TO REDUCE THEIR EXPENSES, INCLUDING COST-SHARING ARRANGEMENTS UNDER WHICH THE WORKER IS GIVEN AN INCENTIVE TO SELECT LESS EXPENSIVE DRUGS, AND INCREASING DRUG COPAYMENTS (COPAYS), WHICH DIRECTLY SHIFTS COSTS TO WORKERS. THIS YEAR, MORE WORKERS FACE FINANCIAL INCENTIVES TO ELECT GENERIC DRUGS, AS WELL AS HIGHER PRESCRIPTION COPAYS, ESPECIALLY FOR NON-PREFERRED DRUGS.

PRESCRIPTION DRUG AND MENTAL HEALTH "CARVE OUTS," WHERE HEALTH PLANS PROVIDE SERVICES THROUGH SEPARATE ADMINISTRATIVE ARRANGEMENTS IN AN ATTEMPT TO BETTER CONTROL SPENDING, ARE OTHER COMMON FORMS OF COST MANAGEMENT.

PRESCRIPTION DRUG BENEFITS

► Prescription drugs continue to be a standard benefit provided to covered workers (EXHIBITS 8.3, 8.4). To combat rising prices, firms are doing more to encourage use of generic drugs and preferred brand name drugs.

- The use of three-tier cost-sharing arrangements, where a worker faces one copay for generic drugs, a higher one for preferred drugs (brand name drugs with no generic substitutes), and an even higher one for non-preferred drugs (brand name drugs with generic substitutes) has increased over the past two years, growing from 29% of covered workers in 2000 to 57% in 2002 (EXHIBIT 9.1).

Over the same timeframe, two-tier cost-sharing arrangements (different payment levels for generic and brand name drugs), declined from 49% to 28% of covered workers. The prevalence of plans that charge workers the same amount regardless of the type of drug purchased has also declined.

- The majority of workers in conventional, HMO, PPO, and POS plans have either a two-tier or three-tier cost-sharing formula for prescription drugs (EXHIBIT 9.2).
- The average copayment requirement for employees when buying a non-preferred drug (brand name drug when a generic is available) has risen from \$16 in 2000 to \$26 in 2002 (EXHIBIT 9.3).

- Copays average \$9 for generics, \$17 for preferred drugs, and \$26 for non-preferred drugs, with little variation by plan type. Average copays for non-preferred drugs have increased over the last year, especially in PPO plans, where the copay for such drugs increased from \$21 in 2001 to \$27 in 2002.

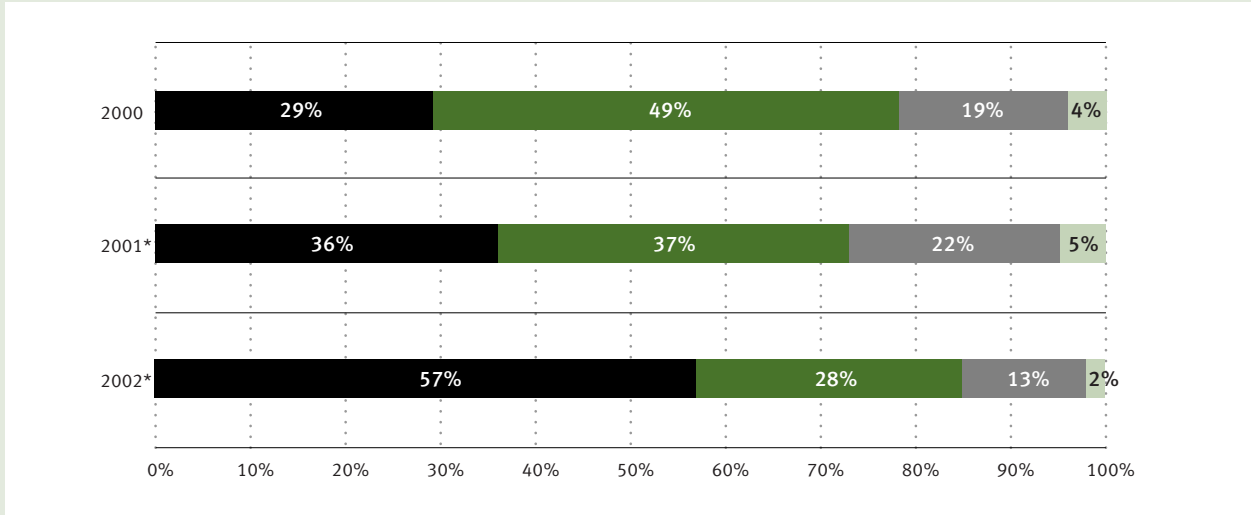
- For workers with coinsurance rather than copays, cost-sharing levels average 21% for generic drugs, 24% for preferred drugs, and 28% for non-preferred drugs (EXHIBIT 9.4).

- Sixty-nine percent of covered workers are in plans that use a formulary that restricts which drugs will be covered, up from 58% in 2001 and 43% in 2000 (EXHIBITS 9.5, 9.6).

- ▶ Thirty percent of covered workers are in firms that “carve out” prescription drugs and provide them separately from their standard health plans, a similar percentage to last year (EXHIBITS 9.7, 9.8).
 - Among these firms, employers reported that prescription costs for family coverage increased 16% – an even faster rate of increase than overall premium growth.
- MENTAL HEALTH BENEFITS**
- ▶ Health plans continue to limit the use of mental health services.
 - Nearly one-third (32%) of covered workers have coverage which restricts benefits for outpatient mental health to 20 or fewer visits per year. Just 12% of covered workers have coverage which provides unlimited outpatient mental health visits (EXHIBIT 9.11).
 - About half of covered workers have coverage which limits inpatient mental health benefits to 30 or fewer days per year. Eighteen percent of covered workers have coverage for unlimited inpatient mental health days (EXHIBIT 9.12).
 - ▶ The percentage of covered workers whose mental health benefits are carved out – provided through administrative arrangements separate from the employer health plan – declined slightly this year, from 22% in 2001 to 16% in 2002. Mental health carve outs are the most common among workers covered by conventional plans and POS plans (34%) (EXHIBIT 9.9).
 - Covered workers in small firms (3-199 workers) are less likely to have mental health benefits carved out from their plan (8%) than those in large firms with 200 or more workers (20%) (EXHIBIT 9.10).

EXHIBIT 9.1

Percentage of Covered Workers Facing Different Cost-Sharing Formulas for Prescription Drug Benefits, 2000, 2001 and 2002



THREE-TIER = ONE PAYMENT FOR GENERIC DRUGS, ANOTHER FOR PREFERRED DRUGS, AND A THIRD FOR NON-PREFERRED DRUGS
 TWO-TIER = ONE PAYMENT FOR GENERIC DRUGS AND ONE FOR ALL NAME BRAND DRUGS
 PAYMENT THE SAME REGARDLESS OF TYPE OF DRUG
 OTHER/DON'T KNOW

SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002.

* Distribution is statistically different from the previous year shown: 2000-2001, 2001-2002.

Generic drugs: a drug product that is no longer covered by patent protection and thus may be produced and/or distributed by many firms.

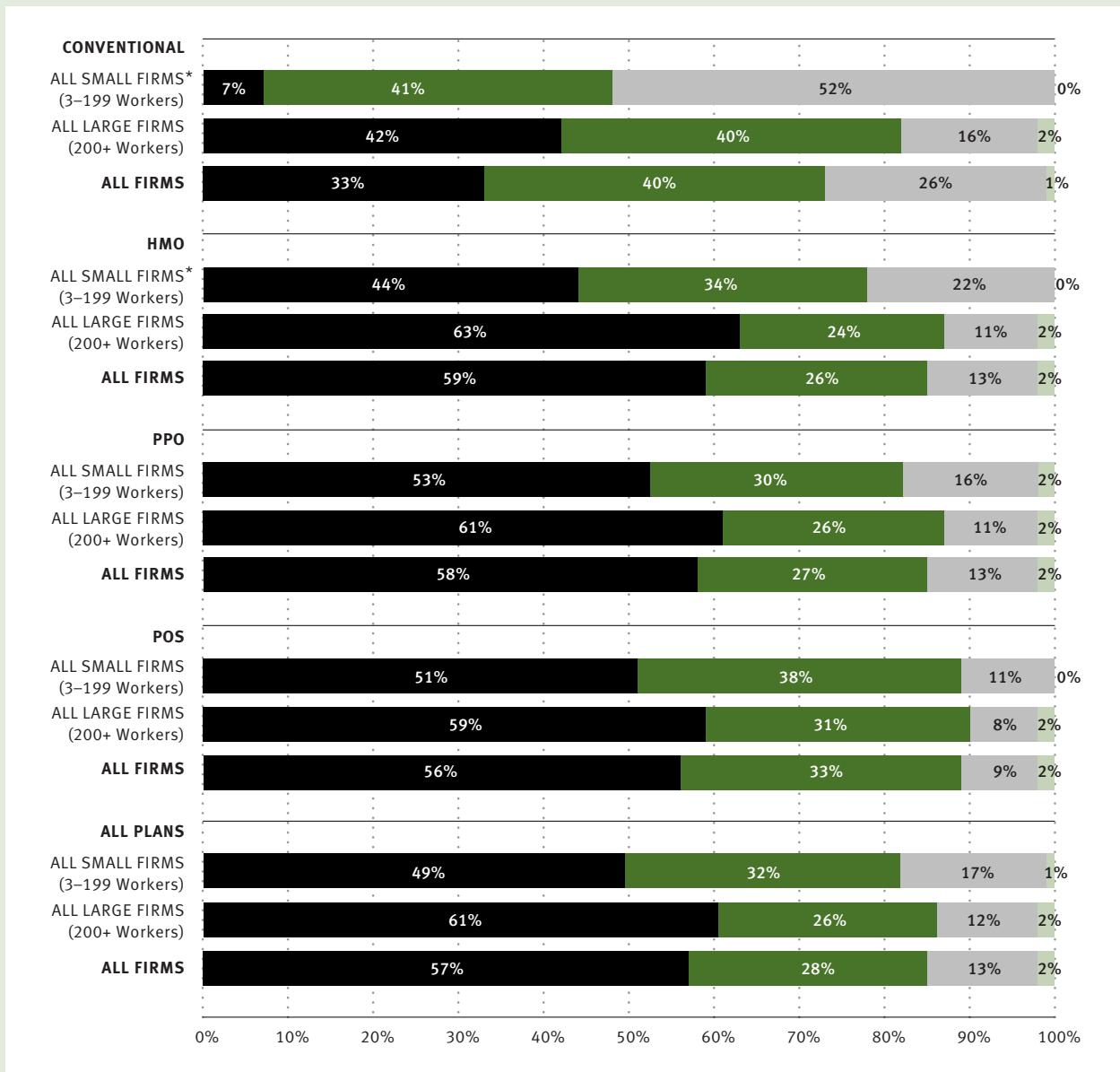
Preferred drugs: brand name drugs with no generic substitutes.

Non-preferred drugs: brand name drugs with generic substitutes.

Brand name drugs: generally, a drug product that is covered by a patent and is thus manufactured and sold exclusively by one firm. Cross licensing occasionally occurs, allowing an additional firm to market the drug. After the patent expires, multiple firms can produce the drug product, but the brand name or trademark remains with the original manufacturer's product.

EXHIBIT 9.2

Percentage of Covered Workers Facing Different Cost-Sharing Formulas for Prescription Drug Benefits in Conventional, HMO, PPO and POS Plans, by Firm Size, 2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

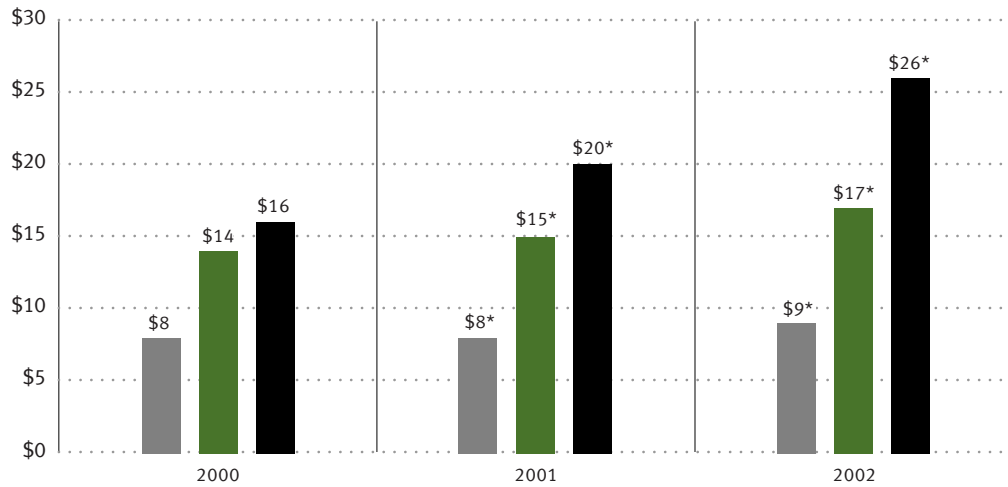
* Distribution is statistically different from All Firms by Plan Type.

Note: See definitions from Exhibit 9.1 on previous page.

- THREE-TIER = ONE PAYMENT FOR GENERIC DRUGS, ANOTHER FOR PREFERRED DRUGS, AND A THIRD FOR NON-PREFERRED DRUGS
- TWO-TIER = ONE PAYMENT FOR GENERIC DRUGS AND ONE FOR ALL NAME BRAND DRUGS
- PAYMENT THE SAME REGARDLESS OF TYPE OF DRUG
- OTHER/DON'T KNOW

EXHIBIT 9.3

Average Copays for Generic Drugs, Preferred Drugs, and Non-Preferred Drugs, 2000, 2001 and 2002



GENERIC
 PREFERRED DRUGS
 NON-PREFERRED DRUGS

SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002.

* Estimate is statistically different from previous year by drug tier, 2000-2001, 2001-2002.

Generic drugs: a drug product that is no longer covered by patent protection and thus may be produced and/or distributed by many firms.

Preferred drugs: brand name drugs with no generic substitutes.

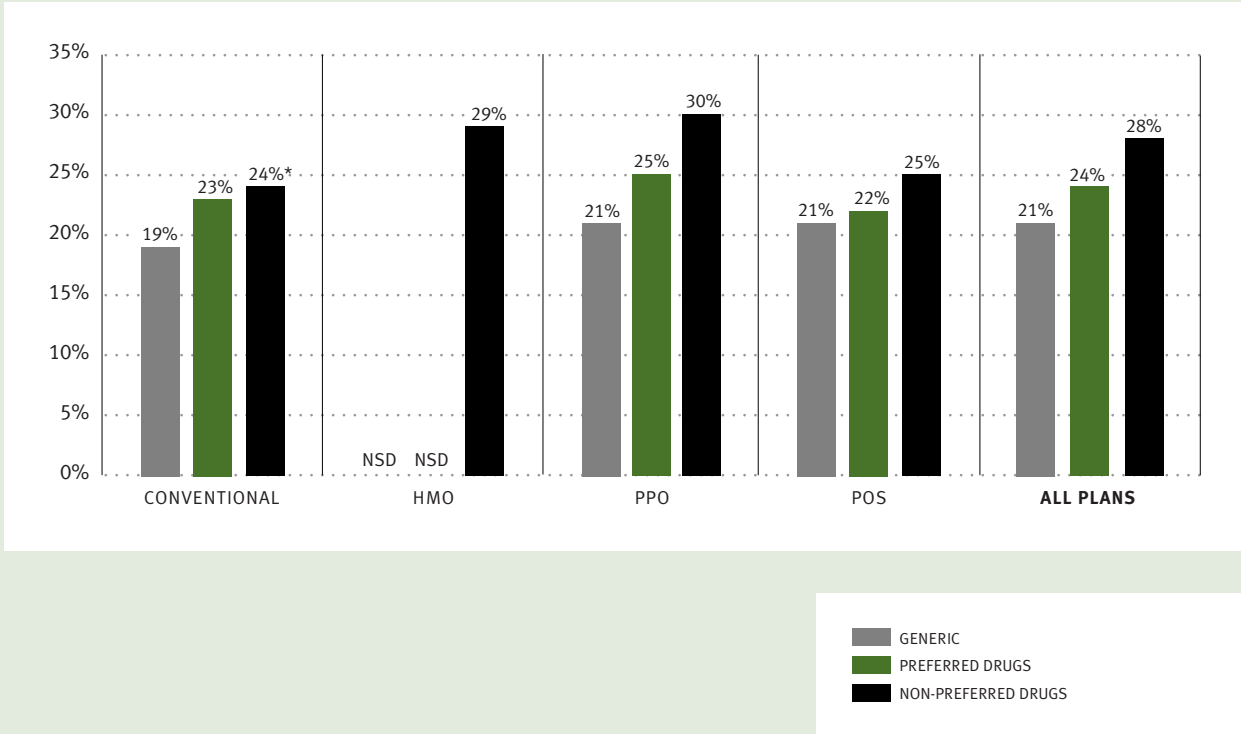
Non-preferred drugs: brand name drugs with generic substitutes.

Brand name drugs: generally, a drug product that is covered by a patent and is thus manufactured and sold exclusively by one firm. Cross licensing occasionally occurs, allowing an additional firm to market the drug. After the patent expires, multiple firms can produce the drug product, but the brand name or trademark remains with the original manufacturer's product.

Note: On average, generic drugs cost \$7.68 in 2000, \$8.19 in 2001, and \$8.80 in 2002.

EXHIBIT 9.4

Average Coinsurance Rate for Generic Drugs, Preferred Drugs, and Non-Preferred Drugs, in Conventional, HMO, PPO, and POS Plans, 2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

* Estimate is statistically different from All Plans by plan type.

NSD: Not sufficient data.

Generic drugs: a drug product that is no longer covered by patent protection and thus may be produced and/or distributed by many firms.

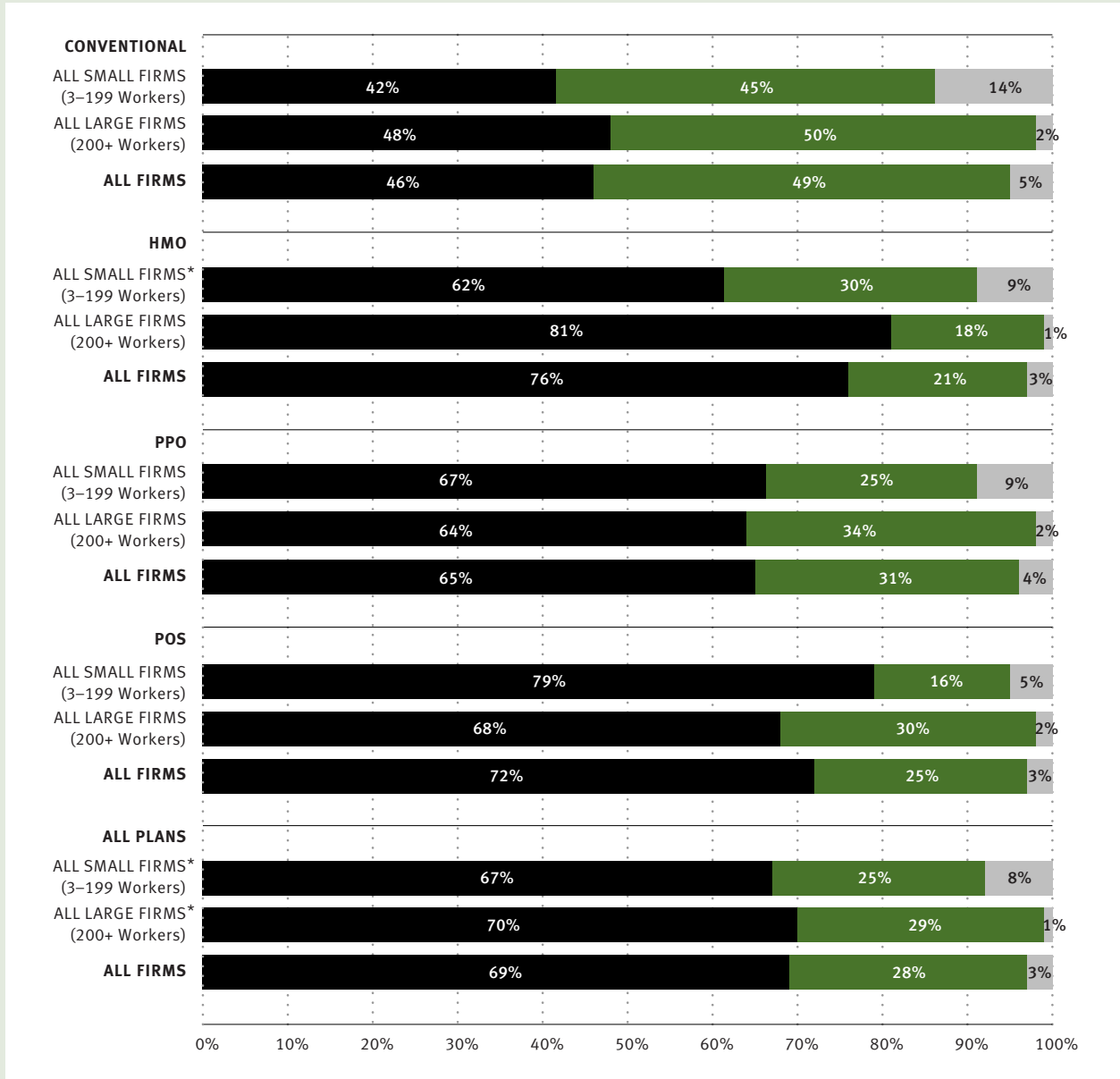
Preferred drugs: brand name drugs with no generic substitutes.

Non-preferred drugs: brand name drugs with generic substitutes.

Brand name drugs: generally, a drug product that is covered by a patent and is thus manufactured and sold exclusively by one firm. Cross licensing occasionally occurs, allowing an additional firm to market the drug. After the patent expires, multiple firms can produce the drug product, but the brand name or trademark remains with the original manufacturer's product.

EXHIBIT 9.5

Percentage of Covered Workers in Plans With a Formulary That Restricts Which Drugs Will Be Covered in Conventional, HMO, PPO, and POS Plans, by Firm Size, 2002



SOURCE :

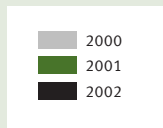
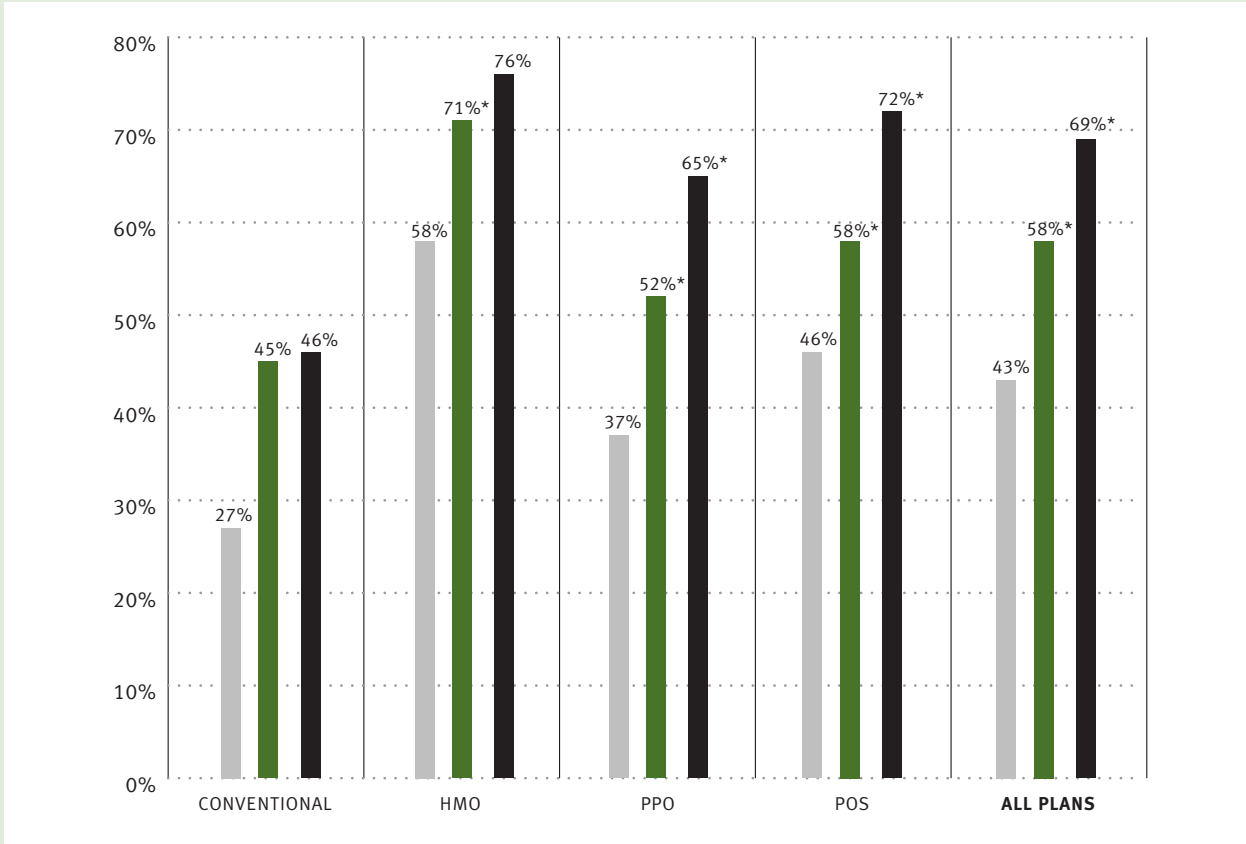
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

* Distribution is statistically different from All Firms within a plan type.

YES
 NO
 DON'T KNOW

EXHIBIT 9.6

Percentage of Covered Workers With A Formulary That Restricts Which Drugs Will Be Covered, by Plan Type, 2000, 2001 and 2002



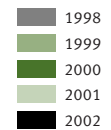
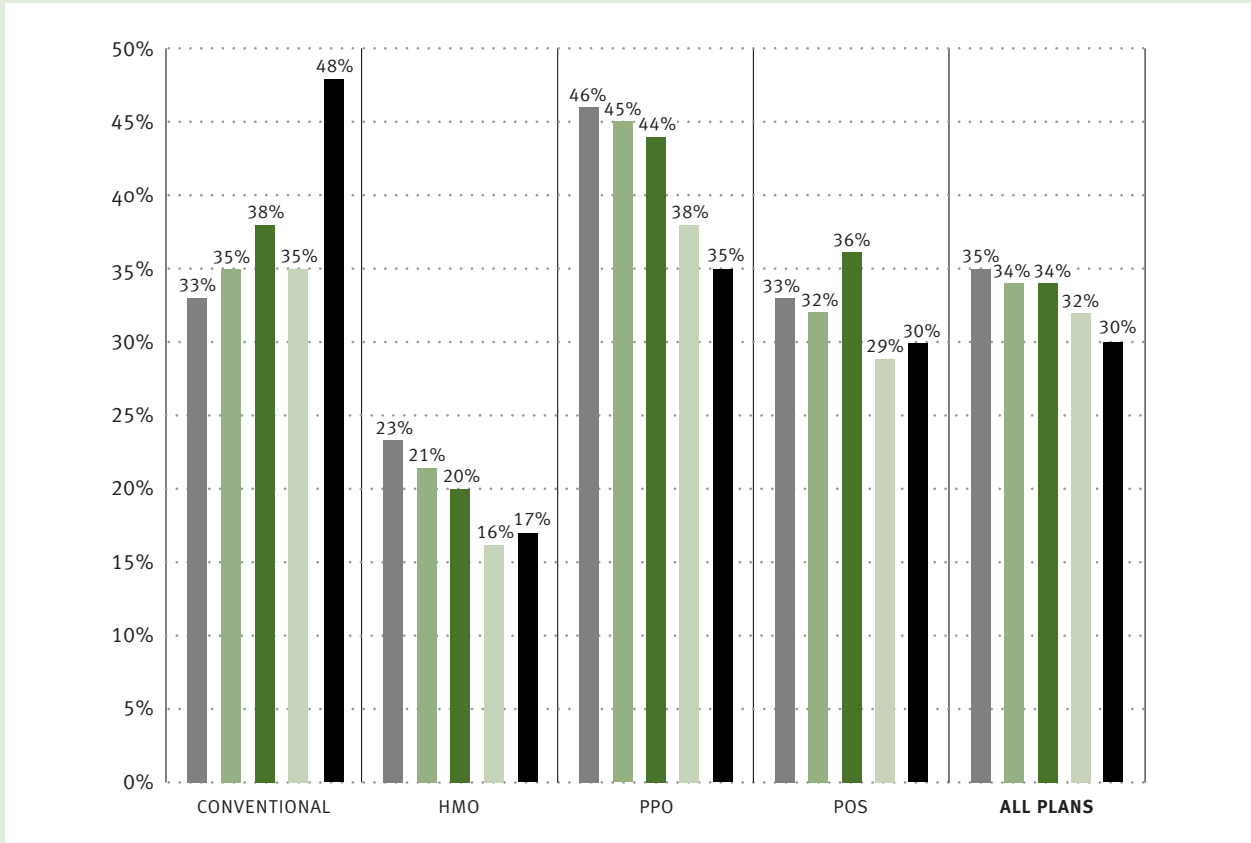
SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002.

* Estimate is statistically different from previous year for years 2000-2001, 2001-2002.

EXHIBIT 9.7

Percentage of Covered Workers With Prescription Drug Carve Outs, by Plan Type, 1998-2002*



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002;
KPMG Survey of Employer-Sponsored Health Benefits: 1998.

* Tests found no statistically different estimates from the previous year shown:
1998-1999, 1999-2000, 2000-2001, 2001-2002.

EXHIBIT 9.8

Percentage of Covered Workers in Firms That Carve Out Their Prescription Drug Benefits, by Firm Size and Region, 2002

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>	<i>All Plans</i>
FIRM SIZE					
All Small Firms (3-199 Workers)	8%*	13%	19%*	17%*	17%*
Midsize (200-999 Workers)	36	10	27*	24	23
Large (1,000-4,999 Workers)	26	15	35	40	30
Jumbo (5,000+ Workers)	84*	21	54*	42	44*
REGION					
Northeast	36%	19%	45%	32%	34%
Midwest	63	21	31	24	32
South	40	15	34	32	30
West	23	14	34	28	24
ALL REGIONS AND FIRM SIZES	48%	17%	35%	30%	30%

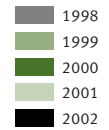
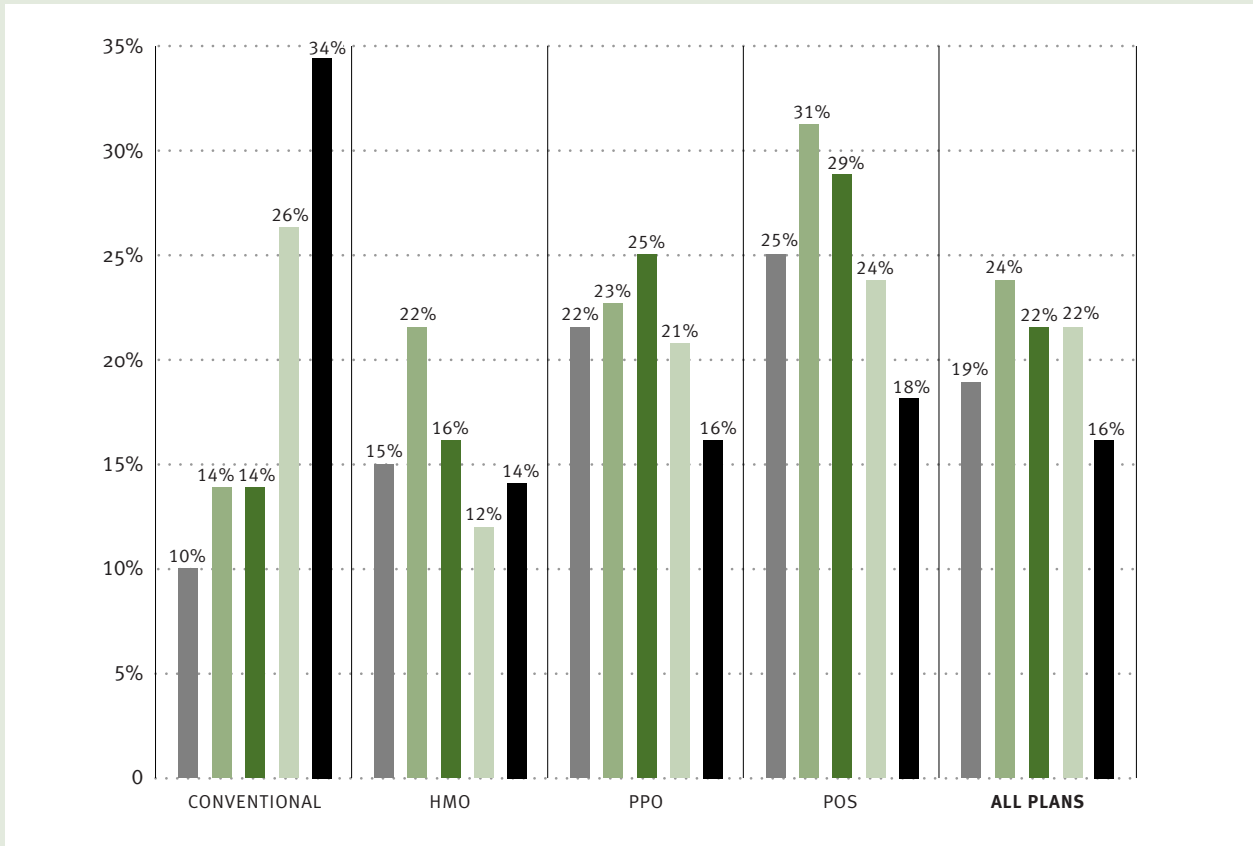
SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

* Estimate is statistically different from All Firms within a plan type.

EXHIBIT 9.9

Percentage of Covered Workers in Firms That Carve Out Mental Health Benefits, by Plan Type, 1998-2002*



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002;
KPMG Survey of Employer-Sponsored Health Benefits: 1998.

* Tests found no statistical difference from the previous year shown: 1998-1999, 1999-2000, 2000-2001, 2001-2002.

EXHIBIT 9.10

Percentage of Covered Workers in Firms That Carve Out Their Mental Health Benefits, by Firm Size and Region, 2002

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>	<i>All Plans</i>
FIRM SIZE					
All Small Firms (3-199 Workers)	6%*	5%*	9%*	8%*	8%*
Midsize (200-999 Workers)	2*	7	12	15	11
Large (1,000-4,999 Workers)	11	18	18	31	21
Jumbo (5,000+ Workers)	70	18	23	25	22
REGION					
Northeast	7%	8%	9%*	14%	10%
Midwest	58	30	18	15	24
South	6*	8	18	21	15
West	6*	14	17	23	16
ALL REGIONS AND FIRM SIZES	34%	14%	16%	18%	16%

SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

* Estimate is statistically different from All Firm Sizes.

EXHIBIT 9.11

Percentage of Covered Workers With Various Outpatient Mental Health Visit Annual Maximums, by Plan Type, 2002*

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>	<i>All Plans</i>
20 Visits or Less	26%	41%	26%	34%	32%
21 to 30 Visits	16	23	28	19	24
31 to 50 Visits	5	8	12	9	11
More than 50 Visits	5	5	7	9	7
Unlimited	30	10	15	14	12
Don't Know	18	14	10	15	14

SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

* Tests found no statistically different distributions from All Plans.

EXHIBIT 9.12

Percentage of Covered Workers With Various Inpatient Mental Health Day Annual Maximums, by Plan Type, 2002*

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>	<i>All Plans</i>
10 Days or Less	3%	8%	5%	6%	7%
11 to 20 Days	4	5	8	6	7
21 to 30 Days	11	39	37	38	36
31 or More Days	17	16	14	15	15
Unlimited	36	14	19	15	18
Don't Know	29	18	16	20	17

SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

* Tests found no statistically different distributions from All Plans.